ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1557 SCOMM 59. JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1354

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Tommy M. Butler
Signature of Camera Operator

3/17/92
Date

SCOMM 59: JOINT COMMITTEE ON ECONOMIC RECOVERY, 1988

MEMBERSHIP:

SENATOR ARLISS STURGULEWSKI, CO-CHAIR
SENATOR LLOYD JONES, CO-CHAIR
SENATOR JACK COGHILL
SENATOR DICK ELIASON
SENATOR JAN FAIKS
SENATOR RICK HALFORD
SENATOR JOE JOSEPHSON

REPRESENTATIVE MAX GRUENBERG, CHAIR
REPRESENTATIVE AL ADAMS
REPRESENTATIVE RED BOUCHER
REPRESENTATIVE KAY BROWN
REPRESENTATIVE NIILO KOPONEN
REPRESENTATIVE MIKE MILLER
REPRESENTATIVE MIKE NAVARRE
REPRESENTATIVE STEVE RIEGER
REPRESENTATIVE FRAN ULMER

Established by Legislative Resolve No. 44, 1988 which began as HCR 32, 1988. House members and Senate members were authorized to meet separately and also to meet jointly from time to time.

Contents: 1 and 1/2 boxes (16") of files and minutes total from the Joint Committee, the Senate portion, the House portion, and the House Housing and Banking Subcommittee.

LIST OF FILES (PAGE 1) MICROFICHE #

0. TAPE AND MINUTES INDEX

1. MINUTES OF JOINT COMMITTEE

SENATE

2. MINUTES - SENATE ONLY

3. ECONOMIC RECOVERY - NEWSPAPER ARTICLES

4. ECONOMIC STUDIES, REPORTS

Dittman Research Corp. Railbelt Economic Assessment Survey, Jan., 1988

5. LEGISLATION

SCOMM 59: JOINT COMMITTEE ON ECONOMIC RECOVERY, 1988

LIST OF FILES (PAGE 2) MICROFICHE #

6. MEMOS

7. SUGGESTIONS BY PUBLIC

7a. MISCELLANEOUS INFORMATION (FILE 1)
INCLUDES INDEX TO THIS FILE

7b. MISCELLANEOUS INFORMATION (FILE 2)

7c. MISCELLANEOUS INFORMATION (FILE 3)

HOUSE

8. MINUTES - HOUSE ONLY

9. DRAFTS, REPORTS OF SUBCOMMITTEES, EXECUTIVE SUMMARY, A.L.E.R.T.'S FINAL REPORT, MEMOS

HOUSE - HOUSING & BANKING SUBCOMMITTEE

10. MINUTES - H. HOUSING & BANKING SUBCOMMITTEE

11. ALASKA HOUSING FINANCE CORPORATION

12. CONDOMINIUM MARKET

13. FORECLOSURES - SUPREME COURT CASES (HB 599/SB 515)

14. GENERAL INFORMATION

15. PROPOSALS (BRIDGE BANK)

LIST OF PUBLICATIONS

This is a list of publications which came with the files, but which are available elsewhere, and therefore were not retained in SCOMM #59:

Goldsmith, O. Scott and others. Alaska's Economy and Housing Market, Final Report. Published by Institute of Social and Economic Research, University of Alaska, Anchorage, Oct. 1987.

SCOMM 59: JOINT COMMITTEE ON ECONOMIC RECOVERY, 1988

LIST OF FILES (PAGE 3) MICROFICHE #

Victor Fischer Associates and others. Anchorage Recovery Program: Review of Economic Factors. Prepared for Municipality of Anchorage, Feb., 1988.

Housing Task Force Report, Stabilization of the Housing Market. Prepared for Governor Cowper and the Alaska State Legislature by the Housing Task Force of the Alaska Housing Market Council, March, 1988.

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3/17/92
Date

Tape and Minutes Index

JOINT COMMITTEE ON ECONOMIC RECOVERY
Sen. Sturgulewski, Chair
Rep. Gruenberg, Chair

Minutes and Tapes Inventory
....1988....

TAPE#	DATE		BILL NUMBER AND SIGNIFICANT INFORMATION
1	1/18		House organizational meeting
2	1/29	3:30 p.m.	(Joint meeting) Discussion of economic recession; Address by Commissioner Smith, Commerce & Economic Development and as Chairman of the Alaska Housing Finance Corporation, Chairman of State Bond Committee and Chairman of Alaska Industrial Development and Export Authority; Lee Gorsuch, Director, Institute of Social and Economic Research, University of Alaska, Anchorage; and David Rose, Executive Director, Alaska, Permanent Fund Corporation
3	1/29	1:30 p.m.	Senate oragnizational meeting, discussion of the banking system in Alaska
4 5	2/01 "		(Joint meeting) Testimony of Commissioner Tony Smith on residential market and Alaska Housing Finance Corporation; discussion of AIDA (number of bank failures); loan guarantee program; FDIC; "vulture funds" in-state as opposed to out-of-state
6	2/08		(House meeting) Economic overview of AK
7	2/09		(Joint meeting) FDIC housing issues
#	2/10	*	(House meeting) Committee organizational meeting
8	2/15		(House meeting) Economic overview of AK. Regional perspectives
9	2/17		(Senate meeting) Draft SB, dated 2/23/88, "providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by AHFC..." draft SB, dated 1/29/88, "a moratorium on judicial and nonjudicial foreclosures ..."

No tape received
* No committee minutes available

TAPE#	DATE		BILL NUMBER AND SIGNIFICANT INFORMATION
10 11	2/22 "		(House meeting) Report of the Housing and Banking Subcommittee regarding the AEDC proposal to assess the FDIC portfolio. Collection of Disputed Assessments.
12 13	2/24 "		(Senate meeting) Testimony by Jan 8 2/24/88 Sieberts, Sr. Vice President, National Bank of Alaska; and Bert Wagnon, Exec. Director, AK Industrial Development and Export Authority
14 15	2/29 "		(House meeting) Economic overview of Alaska review of the Fisher Report
16	3/01		(Senate meeting) Testimony by Lamarr Kelly, Regional Director, and Larry Schannault, Deputy Regional Director of FDIC; Bernie Karl of K&K Recycling
17	3/02	*	(House meeting) Reports of the Resources Development, Transportation, Employment and Industry and Small Business Subcommittees. Also discussion of Willow Park Resolution, Homeporting, and recyclable products.
18	3/03		(Senate meeting) Testimony of Jim Barnett, Assemblyman, Municipality of Anchorage, Vice President, Anchorage Economic Development Corporation; and Remington Low, President and Chairman of the Board, B.M. Behrends Bank
19	3/07	5:00 p.m.	(Joint meeting) Dr. Ryan Amacher, Economist, Clemson University, South Carolina
20	3/07	6:00 p.m.	(Senate meeting) Guest speaker was James Cairn, Hallwood Group, proposal for establishment of the Hallwood Alaskan Real Estate Stabilization Trust
21	3/08	*	(House meeting) Reports of the Rural, Interior and Southeast Subcommittees
22	3/09		(House meeting) Presentation by Commonwealth North: Using the Permanent Fund as a Positive Counter-Cyclical Force in the Alaska Economy
23	3/11	*	(House meeting) Subcommittee reports. Continued action on reports, review of all subcommittees and draft reports.

No tape received
* No committee minutes available

TAPE#	DATE	BILL NUMBER AND SIGNIFICANT INFORMATION
24	3/16	(House meeting) Subcommittee reports. Continued discussion of the Resource Development etc., Samll Business and Housing and Banking reports. "Southwest Plan", Residential real estate (HJR 72) and Alaska Economic Index (HCR 52) resolutions discussed. The last two were approved for introduction.
25	3/16	(Senate meeting) Tony Gambier, Chairman, The Hallwood Group; Nancy Gross, City Manager, Unalaska; Dennis Robinson, Ounalashka Corporation, Unalaska; Frank Cox, District Director, Small Business Administration, Anchorage; and Gary Daily, Port Director, Unalaska
26	3/18	(House meeting) Consideration of Senate recommendations. Housing and Banking progress was discussed. Senate Bill were referred to subcommittees. Addendum of the Interior Report was adopted "Southwest Plan" resolution was discussed.
27	3/22	(Senate meeting) SCR 32, SB 333, SB 392, SB 408, SB 409
28	3/23	(House meeting) Report on Senate actions, the Housing and Banking Subcommittee interim report and review and approval of the Executive Summary by the House members
29	3/25	(House meeting) Subcommittee reports
30	3/28	(Senate meeting) HJR 72, SCR 32, HB 432, HB 549, draft SB by Josephson dated 3/28/88, 5-2103A, HB 550
#	3/30	(House meeting) Review of Senate recommendations, status report of House members' legislation before Senate committee members and discussion of future committee activities
31	4/07	(House meeting) Overview of multistate insurance antitrust suit
32	4/08	(House meeting) Anchorage, Public testimony on activities of the Committee and long term plan.
33	4/09	(House meeting) Anchorage, Public testimony

No tape received
* No committee minutes available

TAPE#	DATE		BILL NUMBER AND SIGNIFICANT INFORMATION
34 35	4/11 "		(House meeting) Continuation of the overview of the multistate insurance antitrust suit.
36	4/15		(House meeting) Continuation of the overview of the multistate insurance antitrust suit.
37	4/22		(House meeting) Status of Committee introduced and supported legislation. This also included a discussion of HB 432 and HB 555. Update on the insurance issues and discussion of final report. Also discussion of interim activity.
38	4/28		(Joint meeting - teleconference) Presentation by Dr. Lester Thurow, Dean, School of Business, MIT, Boston
39	4/29	*	(House meeting) Final meeting. Status of Committee introduced and supported legislation. Resolution urging state involvement in the multistate insurance antitrust suit is approved. HERC committee resolution is approved for introduction by Rules (HR 14).

*PLEASE NOTE: None of the House meetings are on STAIRS, but there are minutes available in hard copy in the Legislative Reference Library and on microfiche SCOMM 59.

This committee originated in 1988.

No tape received
* No committee minutes available

HOUSING AND BANKING SUBCOMMITTEE
of the House portion of the Joint Committee on Economic Recovery

Reps. Reiger/Brown, Co-Chairs

Minutes and Tapes Inventory
1988

TAPE #	DATE		BILL NUMBER AND SIGNIFICANT INFORMATION
1	2/11		General Housing Problems Alaska Housing Marketing Council Anchorage Neighborhood Housing
2	2/13		General Housing Problems
3	"		Teleconference on Condo Market
4	"		
5	"		
6	2/18	8:00 a.m.	Willow Park/Hollywood Vista
7	"		Alaska State Building Authority Alaska Housing Financing Authority
8	2/18	1:00 p.m.	State of the Economy
9	"		Greg Erickson, OMB Dave Rose, AK Perm. Fund Connie Yoshimura, Buzz Hoffman, AK Contintental Bank
10	2/19	*	AEDC - $250,000 FDIC review proposal
11	"		
12	2/20	*	Work Session
13	"		
14	2/25	8:00 a.m.	AIDEA - Bert Wagnon
15	2/25	5:00 p.m.	FDIC - Willis Kirkpatrick
#	2/27		Work Session
16	3/03		Supreme Court Cases re: foreclosure
17	"		
#	3/5		HJR 72 - Residential Real Estate Market
18	3/10		Foreclosures
19	"		
20	3/12		Work session of Draft Committee Report
21	"		

No tape received
* No committee minutes available

TAPE#	DATE		BILL NUMBER AND SIGNIFICANT INFORMATION
22	3/16		AHFC, Mobile Home Situation
23	"		
24	3/17	*	Draft committee Report
25	3/24	*	General Review of Final Report
26	"		
27	3/31		Judicial/Non-judicial foreclosures
28	4/06		Bridge Bank
29	"		

No tape received
* No committee minutes available

INTERIOR SUBCOMMITTEE
of the House portion of the Joint
Committee on Economic Recovery

TAPE #	DATE	BILL NUMBER AND SIGNIFICANT INFORMATION
1	3/12/88	Committee report
2	"	

No tape received
* No committee minutes available

Minutes of Joint Committee

JOINT COMMITTEE ON ECONOMIC RECOVERY
January 29, 1988
3:30 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jack Coghill
Senator Jan Faiks
Senator Rick Halford
Representative Max Gruenberg, Jr., Chairman
Representative Kay Brown
Representative Red Boucher
Representative Steve Rieger
Representative Frank Ulmer

MEMBERS ABSENT

Senator Dick Eliason
Senator Joe Josephson
Senator Fred Zharoff
Representative Al Adams
Representative Niilo Koponen
Representative Mike Miller
Representative Mike Navarre

WITNESS REGISTER

J. Anthony Smith, Commissioner
Department of Commerce and Economic Development
P. O. Box D
Juneau, Alaska 99811

Lee Gorsuch, Director
Institute of Social and Economic Research
University of Alaska, Anchorage
3211 Providence Drive
Anchorage, Alaska 99508

David A. Rose, Executive Director
Alaska Permanent Fund Corporation
Department of Revenue
P. O. Box 4-1000
Juneau, Alaska 99811

ACTION NARRATIVE

Tape One, Side One
Number 002

Representative Gruenberg, Chairman, called the meeting to order at 3:38 p.m. He noted that Representatives Fritz Pettyjohn and Mike Davis were also in attendance.

Senator Sturgulewski advised the committee that the Senate members had an organizational meeting and will be in communication with the House regarding its work. Senator Jones commented on the statewide need for economic recovery and stressed the importance of appropriate management of the state's natural resources.

Representative Gruenberg provided opening remarks on the existing economic recession. He stated that Alaskan wage and salary employment over the last year has decreased 4.7% from this time last year. It represents a loss of approximately 10,000 jobs and that decline has effected nearly every employment sector of our economy without exception. The drop-off in housing starts to virtually zero in the urban regions of the state; the 3.5% decline of number of persons in the government workforce which is a loss of about 2,500 jobs, and the weak and erratic price of oil in the preceding year have all combined to bring us face-to-face with a severe economic recession. The annual income generated by the Alaskan non-agricultural wage and salary workforce between 1985-86 declined by almost 4.5% from $6.48 billion to $6.15 billion. By all indications, the figures for 1987 will be worse and this reduction of cash to our economy has had a significant impact.

He continued that our banking institutions have also felt the impact as we witnessed last year with the closure of the Bank of the North and the necessary merger of Alaska Mutual Bank and United Bank of Alaska into Alliance Bank. Our local economies have felt the impact as 1,300 businesses filed for bankruptcy this past year which was the highest rate ever recorded in this state. Many others have begun the new year teetering on the edge of financial insolvency. And our home owners have also felt the impact as defaults on home mortgages rose to the highest point in our state's history. By June of last year (the latest figures available in 1987) over 11,900 residential loans were delinquent or in default. Most Alaskans have seen a decrease in property values, in some cases up to 50%, a terrible personal tragedy for those who have invested their futures in this state.

In reference to the state's resources, he added that the picture is not entirely bleak as we have seen gradual increases in stabilization of our natural resource

industries. According to recent state and private research studies, both mining and southeast timber have recovered somewhat. According to Alaska's Department of Labor, our bottomfish industry was the premier growth industry of 1987. This industry posted a 41% gain in employment over last year's level. This was an increase of 1,700 jobs. Further efforts to diversify our economy where feasible can only continue these trends. These must be accomplished in concert with effective research management policies.

Representative Gruenberg then introduced the guest speakers for the meeting. The first to come before the committee was Commissioner J. Anthony (Tony) Smith, Department of Commerce and Economic Development.

Number 172

Commissioner Smith addressed the committee not only in the capacity of Commissioner, but also as Chairman, Alaska Housing Finance Corporation, Chairman of State Bond Committee, and Chairman of the Alaska Industrial Development and Export Authority. He felt that the future is bright and the ultimate solution to our problem is industrial development and creation of real jobs. He provided the following statistics.

Hardrock mining is up 30% this year. We were, in 1986, 42nd in the nation and are on our way to a billion dollar industry. Timber is up -- the low point was $213 million gross state product. We're at $300 million this year and heading towards a historical high and have a tremendous opportunity for expansion in southcentral and the interior. Oil and gas -- we have surpassed Texas as the number one U.S. producer and, by the time that ANWR is finally brought on stream, we will have 45% of the domestic oil reserves. We have much room for expansion in the fishing industry. Tourism has much potential over the next five years. The federal government is expanding in Alaska and has growth potential.

Number 263

Commissioner Smith continued that he has been advised by the oil industry that they have squeezed 40% out of their cost system. They do not expect that 40% to return to the system, since they have been able to reduce the cost of oil production. He met with Juneau Mayor Polley and discussed the increase in mining activity in southeast -- we are looking at $10-15/hour for labor. We are now looking at a different economic structure. Whatever economic remedies we employ must be sustainable through the year 2000 in terms of state revenues and state options. He then discussed the difficulties the financial industry has incurred. The FDIC now holds $250 million in assets as a

result of the closure and merger of the four banks and it is working with him on options of dealing with the assets. MGIC and Fannie Mae are also deeply involved in solving the financial problems.

Number 355

Commissioner Smith commented that we "went off the precipice last December" and his view of the economy differs somewhat from others. He looks at the problem more in terms of cash flow than in negative or loss in equity. By 1990-92, he feels that owners of Class A buildings will be back in the $2.00 range where most banks made their loans in the early 1980's; the problem is getting there from here. The other problem he sees is that the professionals are draining the equity from the business in an effort to keep the real estate on the positive side of the ledger. The write-down itself is not necessarily negative if the businesses can continue to work out their loans. One option is to work the assets back into the economy but it is not easy. He sees little hope for commercial owners of Class B buildings, that are not well situated or, if built after 1980 and financed under the normal debt structure, to make a comeback -- and no future for owners of Class C buildings unless owner-occupied in some fashion.

Number 480

The FDIC holds about 3700 separate assets that need to be evaluated, and many of them do not impact the market. His goal has been to facilitate a private sector response. In discussing the situation with John Williams, Deputy Commissioner, Mr. Williams described it as creating a situation where the management of these assets is a market-taker not a market-maker, and distinguished the motives of outside versus in-state interests. As an example, Sealaska has hired Peter McDowell and is putting together a project team to work with the FDIC and looking at creating a private sector response to the problem. In conclusion, he stated that he felt we need a number of small initiatives rather than finding one solution to the problem.

Number 544

Senator Faiks asked for clarification of his statement on recovery of commercial Class A structures. The Commissioner explained the significance of good location as well as quality of structure (elevators, steel frame, etc.) in evaluating the marketability of a building. Senator Faiks pointed out that the hardest-hit group is the small business and that efforts should be aimed as assisting them, as well as the large investors.

Number 630

Senator Coghill asked if the marketing groups were coordinating the effort. The Commissioner answered that all the groups are working together. The AIDA policy is work-outs, and the banks are working at managing the problem. Further, there are some statutory changes that will be necessary and a bill will be coming in on the 2% rule of AIDA and other recommended changes. The AIDA bill is with the Department of law and should be out shortly. Senator Sturgulewski added that the Senate side has identified some areas that they will pursue and requested that information be provided to them as soon as possible so that independent analyses can be made.

Number 677

Representative Boucher asked if the Department is doing everything it can to get everyone involved sitting at the table to work things out, and referred to the aggressive action taken by the Minnesota legislature in dealing with the farm crisis. Commissioner Smith said that the problems have consumed all of their time and explained the wholistic approach to the problem as well as the separate work done with MGIC and Fannie Mae.

Number 743

Senator Jones inquired what the Department is doing to create new wealth: value-added products, new industries, etc. Commissioner Smith answered that Governor Cowper directed the department to stop using regulations against mining and timber industries; and that the administration has taken a pro-active role moving these industries, as well as tourism, ahead; and hopes to get the marketing program moving which met with funding problems last year.

Number 789

Lee Gorsuch, Director, Institute of Social and Economic Research, University of Alaska, Anchorage, and currently serving as Interim Dean of the School of Economics and Public Policy, was next to testify. Dr Gorsuch referenced the following report that was distributed to the members: "Alaska Review of Social and Economic Conditions", December 1987, published by the Institute. He urged the committee to support additional funding to the Department and the Governor's Office in support of economic information; specifically, state government has less economic capability and produces less economic information today than it did in the mid-late 1970's and the department is sorely lacking in its ability to respond to requests from individuals and businesses looking for investment opportunities in Alaska.

He commented that prospects for the 1990's are optimistic and stated that the recession is part of the economic recovery. The consequences of the reduced state spending were population loss, employment and income loss, and less demand for housing and building. He felt that the employment rate will continue to decelerate to the end of 1988, and then start on a modest recovery. The President of ARCO indicated that the oil and gas industry are optimistic about the future of oil and gas development in the state; they are increasing their exploration activities, and estimated reserves of recoverable oil have increased substantially and now the peak production years will be 1990-91. Also, the Alaska Permanent Fund created a new industry in the state. Although wages and prices have declined, Alaska businesses are now more competitive.

Tape One, Side Two
Number 881

The bad news is that the economic recovery has taken its toll. Those who enjoyed the prosperity of the rapid growth of the early 1980's are now experiencing the pain, agony and loss associated with the decline. The industry that has been hardest hit is construction -- it grew to about 22,000 workers at the peak in 1984-85 and now stands around 9,000 workers. They have absorbed over half of the employment loss since the peak. The regions of the state that have experienced the greatest population and employment growth are the same regions that now experience the greatest loss -- Anchorage, Mat-su and Kenai. Correspondingly, investors who were most active during this period, a majority being in real estate, are now experiencing the most serious dislocation. Those, who before the boom were already disadvantaged (mainly the bush) also felt the greatest impact. Rural parts of the state were unable to convert the windfall of state spending into any sustainable source of economic growth in general.

Number 952

Dr. Gorsuch indicated that all the signs for Alaskan industries are now positive. Mining activity has increased; tourism is showing opportunities for growth; fisheries continue to be a robust industry; military has increased its activities, federal government's presence continues to be stable and timber prices have rebounded. If we can stabilize state government spending, the basic industries will drive the moderate growth of the economy and will provide opportunities for economic development.

Number 987

In summary, Dr. Gorsuch reiterated that the economic recovery is in place and working. There is economic

hardship and the need for relief; and opportunities for growth and economic development. He recommended that the committee, during its deliberations, distinguish it's efforts directed at: (1) overall design of the economic recovery plan, strategic in nature; (2) economic relief, not necessarily related to recovery, and (3) economic development and growth of the state. With regard to the recovery plan, the implication is that state spending has to achieve some level of sustainability -- to pump up state spending only to have it decline in the future years will simply destabilize the private economy again. Referencing economic relief, he commented specific targeted initiatives that minimize the adverse economic consequences but maximize the economic relief are in order. With economic development, he felt that there are several instances where these basic industries afford the state opportunities for additional capital investment incentives, promotion, and development of information to support capital investment expansion.

Number 010

Dr. Gorsuch commented on his previous discussion with Governor Cowper. He thought that state spending, per se, would not aid in the recovery. If their projections are correct, the recession will end this year and recovery will start in 1989. In 1989, we could see an additional 2,000-3,000 jobs added to the labor force, an infusion of about $100 million added to the economy. Question: If $100 million in personal income were to be picked up in 1989, and if you could find $100 million for 1988, couldn't you offset the pain associated with dislocation by having accelerated spending. Answer: Yes.

He offered some general criteria that he thought would maximize the net economic benefit such as, target individuals that are unemployed as they are more inclined to spend incomes in the local economy (i.e., youth or chronically unemployed, extending unemployment benefits to those who continue to be unemployed); capital projects that have the effect of lowering future operation-maintenance expenses, and in the process also create employment opportunities for resident Alaskans; sources of refinancing for small businesses; challenge funds available for the university or non-profit organizations that aggressively pursue federal and out-of-state money that augments their financial base. He felt the major policy issue are the problems associated with residential housing market. There is concern that AHFC continues to operate at the same level of staff support and capability they had when they were building and financing houses, and now we are looking at managing a large surplus inventory of homes. They could use additional technical expertise to help them manage these problems.

Number 127

Senator Sturgulewski requested specific information prepared by the Institute on value-added cr areas that might be utilized in stimulating basic industries be provided to the committee for review.

Number 150

Senator Halford asked what percentage of the total employment occurs in oil, gas, mineral, military, fisheries and tourism; and how will the recovery affect various areas. Dr. Gorsuch estimated 20%-25%. Of that remaining, the largest element is in the support industry -- more than twice the size of the basic industries. Dr. Gorsuch identified a couple of projects that individually will add 200-300 jobs, but cumulatively (10-15 projects) there will be a positive impact. When he refers to positive outlook for the 1990's, he means moderate growth of 1%-2%, which equates to 2,000-3,000 jobs a year. Responding to another question from Senator Halford who questioned the validity of the market indicators, Dr. Gorsuch clarified that, in taking the real estate market as an example, the large surplus supply of residential housing has had the effect of depreciating the value of everyone's home -- not just those who made large transactions. We need to get the financial industries to actively cooperate with the state to bring some stability to the market so that prices don't erode futher and result in a collapse. In short, everyone who had anything to do with real estate has been hurt, whether you were a land owner, builder, furnisher of building supplies, interior design, mortgage insurance companies, etc. He said that the ISER studies are based on specific oil price and state revenue assumptions and if those assumptions change, the results would have to be modified accordingly. The most reliable recovery is in employment and total personal income which represents aggregate consumer demand, the best signals of what is happening in the Alaskan economy.

Number 348

Representative Boucher asked for more details on the psychological impact on consumer spending and savings; and asked if the press' overall attitude has had a significant effect on consumer spending. In response to the first question, Dr. Gorsuch said that this information is not readily available since the state does not have uniform sales taxes, personal income tax, etc. The information could be obtained in a survey. In reference to the actions of the press, Dr. Gorsuch guessed it did, and cautioned the legislature to avoid increasing the level of spending or assistance if it cannot be sustained.

Number 409

David Rose, Executive Director, Alaska Permanent Fund Corporation, came before the committee. He has been in contact with many people in the past weeks: bankers, real estate people, investors, financiers, etc. He talked with Mayor Fink, who advanced his proposal with respect to the Permanent Fund investing in some of the surplus property in terms of buying and holding it. It is his feeling that because there were some bad investments, they wouldn't suddenly become good ones if the permanent fund invested in them. There are standards: legislated through statutes, constitutional, or standards imposed by the trustees which all property and investment would have to meet. It was not the trustees' intent to lessen or weaken the standards nor had they communicated to him any desire for legislative change.

Number 457

Mr. Rose continued that a white paper was issued which detailed some options. He referred to the Analysis Sheet that was prepared on the banks and distributed to the committee. The Permanent Fund has $218 million invested in the Alaskan economy and, of this money, $165 million are in Alaskan banks. The Fund's policy with respect to deposits in the Alaskan banks are to create stability. Despite the bank failures, the Fund has not lost any money, nor do they add to a failure by removal of the deposits. Concerning the FDIC, he indicated that it will not dump on the economy a tremendous amount of property and cheapen the collateral of other banks. That action would devalue collateral held by existing banks, much of that collateral is against the $165 million that the Fund holds as collateral against its loans. The FDIC would not negatively effect their member banks.

Number 520

He questioned whether action should be taken to move the supply and demand curves of the market economy -- that is a fundamental question as you will have to carefully evaluate who will be served. He noted that the current market has benefited some individuals such as people being able to go into business as the rent for office space is more affordable; and the huge migration from low cost housing to better housing.

Assuming you make an affirmative decision on the above. Any action will have to be well planned. For example, you cannot stabilize housing by taking some of it and keeping it off the market if you aren't going to have the control that prevents the addition of new supply -- you will have to shut down new construction, with few exceptions. It

will need the cooperation from state, local, and in some instances federal, governments so that all actions are in concert.

Number 593

Representative Boucher commented on a previous point regarding the shift in housing, from low to moderate, and noted the increase in population in Anchorage south of Tudor Road.

Number 600

Commissioner Smith returned to the table to expand on Mr. Rose's comments. Referring to the condominium problem, he stated that 34,694 (73.6%) of the active loans are single family housing which all the commentators contend is firming up and moving forward. Only 6,400 were condominiums, and 5,900 duplexes, triplexes and fourplexes.

Representative Gruenberg announced the next meeting of the Joint Committee to be February 1, 3:30 p.m., House Finance Committee Room. There being no further business to come before the committee, the meeting was adjourned at 5:04 p.m.

JOINT COMMITTEE ON ECONOMIC RECOVERY
February 1, 1988
3:30 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Joe Josephson
Representative Max Gruenberg, Jr., Chair
Representative Red Boucher
Representative Kay Brown
Representative Niilo Koponen
Representative Mike Miller
Representative Mike Navarre
Representative Steve Rieger
Representative Fran Ulmer

MEMBERS ABSENT

Senator Lloyd Jones, Co-Chair
Senator Jack Coghill
Senator Dick Eliason
Senator Jan Faiks
Senator Rick Halford
Senator Fred Zharoff
Representative Al Adams

WITNESS REGISTER

J. Anthony Smith, Commissioner
Department of Commerce and Economic Development
P. O. Box D
Juneau, Alaska 99811

ACTION NARRATIVE

Tape One, Side One
Number 001

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 3:35 p.m. Also present were Representatives Virginia Collins, Adelheid Herrmann and Henry Springer.

Representative Gruenberg noted the receipt of advanced copies of the Directory of Projects and Proposals with Direct Economic Impact from the Division of Policy, Office of the Governor.

Number 050

Commissioner Smith was the only witness to testify before the Joint Committee. He started his overview by commenting on the residential market and Alaska Housing Finance Corporation (AHFC). The major opportunity of AHFC is to manage the portfolio including the properties that has been foreclosed or returned to the corporation.

Number 075

Senator Sturgulewski asked the Commissioner to explain briefly how the insurer fits into the picture of residential loans. Commissioner Smith stated that AHFC is a secondary market, it buys loans from banks, and for the period 1980-86, it had 80+ percent of the market. AHFC has other markets such as federal programs like Fannie Mae and Freddie Mac that take AHFC's loans. MGIC, a primary mortgage insurer, protects the financial institutions, not the home owner, by protecting the buyers of bonds which finance the transactions. He then detailed other actions taken by AHFC to determine the amount of exposure of the groups. Basically, AHFC has been insured for the losses and insures that the bondholders are paid. The overall approach of dealing with the housing situation is wholistic in nature, to soften the impact and not drive people out of their homes.

In June, 1987, AHFC had approximately 52,000 out of 84,000 total loans in the state. 34,694 (73.6%) of those loans were single-family detached residences and that market, generally speaking, has firmed up. Condominiums made up 6,480 (13.7%) of AHFC's portfolio. 5,966 (12.7%) were duplexes, triplexes or fourplexes; and roughly 3,000 mobile homes which were basically a direct appropriation.

Number 294

Representative Gruenberg asked if these figures are relative percentages to that of a few years ago. Commissioner Smith answered they are relatively the same. Although the condominiums make up a small percentage of the overall market, they make up a large percentage of the problem. AHFC has taken back 3,700 properties and 1,000 of those are mobile homes. It may have a many as 5,000 units come back as they work through the HOPE program.

Number 357

Representative Rieger requested clarification on the 5,000 figure being additional or total units. Commissioner Smith responded "total", an increase of 1,300 properties. He then provided the inventory as follows: In 1987, 1,100 mobile homes and 2,500 other. He will provide a more detailed breakdown to the committee.

Number 378

Senator Josephson asked how the 5,000 figure was derived. Commissioner Smith said that figures he uses are vacant units and he will have more information available in March as they are awaiting responses from the mailout. In responding to Senator Josephson's question as to whether we have seen the worst, the Commissioner feels that we have reached a point where the situation has stabilized.

Number 437

Representatives Boucher, Navarre and Ulmer requested specific information be provided on the breakdown as referenced, the HOPE program, and a geographic breakdown.

Number 484

Commissioner Smith continued that the Board has recently requested AHFC to provide financial statements at monthly meetings. This is a $5.8 billion corporation that does not have the capabilities, at present, to provide financial statements. It's because they are shorthanded and overwhelmed by the magnitude of what hit, and they don't have a workout specialist. He urged support for additional staff to handle the new and difficult responsibilities.

Number 517

Representative Gruenberg asked that the Commissioner provide in writing a summary of the various programs, the department's recommendations, and requests for additional staff.

Representative Collins stressed the problems associated with negative equity which prohitits movement in the market, and asked that the situation be addressed. The Commissioner discussed the possibility of positive red-lining, identifying projects that can be traded into, to help get the market moving.

Number 561

Representative Koponen inquired about proposed long-term changes. Commissioner Smith commented that there have been discussions of taking trades in certain areas -- a form or urban renewal -- where you can trade out of housing that is no longer economically justified and then take the property down because it cost too much to maintain an empty unit. Representative Koponen asked about changing the construction standards. Senator Sturgulewski said that the Community and Regional Affairs Committee is carrying out the legislative directive and have developed thermal standards. One difficulty is that we only have building codes in a few

areas and many of the problems are in the areas that do not have building codes. There has been a nine month postponement of regulations but it will create a problem with AHFC, which is not a regulatory agency.

Number 606

Representative Boucher said that Marriott has proposed building a hotel in Anchorage for $28 million, resulting in 170 construction jobs and it would employ 150 full-time employees. What has happened to the project. Commissioner Smith responded that he has been in touch with the people, almost every 30 days, and there is a proposal that the administration is introducing on AIDA which will increase the limit to $25 million and this project would roughly fit the perimeters of AIDA as proposed.

Number 630

Senator Sturgulewski said that there are suggestions to limit AHFC from making additional loans; and limit AIDA with regard to the 2% rule and asked that he provide an update. The Commissioner said that AIDA's portfolio is no better than that of banks, it is doing workouts, and the department is not concerned about the solvency of AIDA. Estimated costs for new construction is $2.30-2.50/square foot; and Class A space is now available for $.80-1.20/square foot so it will be a long time before there is a rush to AIDA to construct office buildings in today's market. The problem with moratoriums in statutes is that you have a problem of reacting to the other side of it -- 2% rule is case in point. He then detailed the 2% rule: if a financial instutition has more than 2% of its portfolio with AIDA delinquent over 90 days, it is not allowed to generate any more AIDA loans, including refinancing and workouts. Basically, there is not a secondary market for commercial loans in Alaska as we had a situation where none of the banks in the state qualified to originate an AIDA loan. The administration will be introducing a bill that allows you to deal with the rule by regulation.

Tape One, Side Two
Number 001

Commissioner Smith continued his discussion of AIDA. There was discussion, with the number of bank failures and mergers, about changing the regulations so that a non-resident bank could originate a loan if the project was in Alaska, and that change has been made. He then discussed some other regulatory changes.

Number 123

Representative Koponen asked for current statistics on the vacancy rate in Anchorage. The Commissioner did not have that data but rather the department focussed on the square footage rate, etc. Senator Josephson asked if any assistance might be available to the University to acquire surplus property for its housing needs. Commissioner Smith responded that it is one of the areas that needs exploration and dealt with on an identifiable project basis.

Number 170

The Commissioner referred to the state loan guarantee program similar to the SBA program. The problem with that type of program is that the state cannot print money and the federal government can. They will continue to work on it but there are many problems. To have such a program would be a major step forward for the economy of the state.

Number 235

Senator Sturgulewski requested that a paper be prepared on it, and asked who should be contacted for expertise in this area. Commissioner Smith provided the following list of individuals: Frank Cox, SBA; John Shackelford, Key Bank; Jan Sieberts, NBA; Ron Bosi and Jerry Weaver, Rainier Bank; Bert Wagnon, AIDA; and Jack Jessee, ComRim Systems, Inc., who is also a member of the AIDA Board.

With regard to the guarantee program, the Commissioner said that SBA has a $500,000 program which isn't enough and it also has areas that they cannot participate in; so if we did this type of program AIDA would pick up above $500,000 in areas where SBA did not serve to make the credit possible. The problem in creating the program is that you are looking at a liability in the future that you can't quantify now.

Number 297

In discussing the banking situation with Senator Josephson, the Commissioner said that the biggest problem the banks are having is finding earning assets -- they are looking for loans, and there isn't much velocity in the market now. Senator Josephson asked that in this economic climate, is it possible to require credit reporting agencies to note that in a situation where a person has a good credit history until 1985-87 that there may be systemic circumstances that led to the problem. The Commissioner responded that he would have problems with it and detailed his concerns.

Further, if we are going to do pro-active economic development, we need AIDA. If we take AIDA's assets to take care of the problems, we will have bigger problems. The

ultimate solution is more people and more economic activity; and how you manage your way to that day.

Number 406

Representative Gruenberg asked if AIDA has the necessary statutory flexibility to meet the crisis. If it doesn't, the Commissioner said, he will advise the committee. Representative Gruenberg stated that there might be a better overall approach to the slow process of project-by-project and loan-by-loan review by AIDA, as solutions need to be found quickly.

Number 432

Senator Josephson said that people in Anchorage have commented that AIDA created part of the problem as it contributed to the over-supply of office space. The Commissioner responded that you could not lay blame on AIDA or AHFC -- they were just merely part of the problem. Some banks were using broker deposits to excess. By that, you pay more than the market by making loans at higher rates of interest than the more conservative lender; and people that couldn't get loans at the more conservative lower rates ended in higher delinquencies. He generally discussed the different factors that led to our situation.

Number 490

Commissioner Smith then discussed the FDIC. There are 3,700 assets, 602 parcels of real estate out of the four banks. 1,275 assets with a book value of $170,165,000; 602 parcels with a book value of $28,077,000. There are 15 charge-off's with a book value of $36 million; and bank premises of $22,400,000. It is anticipated that 1,000 loans will be put back under the deal with NBA, with an estimated value of $90 million. They would like for management of the assets to remain in-state versus FDIC setting up a liquidation office in Anchorage. The problem is that not all of the assets impact the market and it is difficult to determine how the state can step in and decide what should be done and how it should be managed.

One idea that has been discussed is: the private real estate investment trust which Sealaska, with some other native corporations and private investors, is reviewing with the FDIC.

Number 535

Senator Sturgulewski asked about the bridge bank. The Commissioner responded that creation of the bridge bank will necessitate amendment to Title 06.01 to give the Director of the Division of Banking and Securities the

authority to regulate an entity that would be a non-depository financial institution with powers of receiving and managing banking assets. She asked if it is different than what is required for a REIT (real estate investment trust), and what is the difference between the REIT and a bridge bank. He said that REIT's are already provided for in the administrative code, and regulated in the sense of its offering; a bridge bank is regulated more like a banking institution. The flexibility depends on the creativity of the people that put it together. The difficulties associated with managing the assets is why he advocates a private sector response.

Number 608

Senator Josephson commented on the approach of exemption from local property taxation that if the acquirer of the distressed parcel kept it vacant and participated in this pooling concept, there would be immunity or exemption from local tax. The state could be involved in it either by changing the municipal code to authorize it, or by conceivably payment to the municipality in lieu of those taxes. The Commissioner said that he has discussed this with Mayor Fink and others and it will be a very complex decision, if made. His direction has been to facilitate a private sector response in-state.

Number 637

Representative Gruenberg talked about the constitutional problems associated with out-of-state versus in-state "vulture funds". He asked that the department review property takeovers. The Commissioner agreed. The committee discussed the opportunities created for others when the economy falls.

He spoke about extending the right of redemption to three years, which Minnesota did. It means when someone is going to go through judicial foreclosure, they have got to look to three years instead of one year. Representative Boucher said that he had a copy of the Minnesota proposal for review. The Commissioner indicated that it will impact outside financial institutions. It isn't going to make it easier at a point when we are having trouble attracting capital in the state.

Tape Two, Side One
Number 001

Senator Josephson asked about what FDIC is planning. The Commissioner stated that FDIC will aggressively market the properties, which may deflate values, and it has the flexibility to sell and finance. We see an opportunity of

a big discount such as a person buying at $.25 on the dollar and get it back into the market.

Number 009

Representative Rieger questioned that in the state's position as facilitator, is it going to attach strings to market placement. The Commissioner answered that if you require a period of "hold" in Alaska, it will mean substantial dollars.

There being no further business to come before the Committee, the meeting was adjourned at 5:10 p.m.

JOINT COMMITTEE ON ECONOMIC RECOVERY
February 9, 1988
12:00 NOON

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jack Coghill
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Fred Zharoff
Representative Max Gruenberg, Jr., Chairman
Representative Kay Brown
Representative Red Boucher
Representative Steve Rieger
Representative Niilo Koponen
Representative Mike Miller
Representative Mike Navarre

MEMBERS ABSENT

Senator Dick Eliason
Representative Al Adams
Representative Fran Ulmer

WITNESS REGISTER

Larry Schannault, Deputy Regional Director
Division of Liquidation
Jay Hone, Asset Marketing Specialist
Martha Hicks, Attorney, Legal Division
Federal Deposit Insurance Corporation
25 Ecker Street, Suite 1900
San Francisco, California 94105

ACTION NARRATIVE

Tape One, Side One
Number 002

Representative Gruenberg, Chairman, called the meeting to order at 12:07 p.m. He noted the following legislators were also in attendance: Senator Rick Uehling, Representatives Pat Pourchot, Dave Donley, Virginia Collins, Fritz Pettyjohn, Ramona Barnes, Steve Frank and Drue Pearce.

Number 053

Larry Schannault, FDIC, provided opening comments on the FDIC's role in its handling of assets received from three bank closures in the state. They are currently in the process of determining the value of its assets through analysis by conducting appraisals of real property and reviewing financial and other data. He estimated that the FDIC has acquired a total of $250 million in various types of assets secured by real estate mortgages (REM), commercial property, automobiles and property owned individually as owned real estate.

Number 105

Concerning owned real estate (ORE) which is property foreclosed on, or the person(s) accepted a deed in lieu of foreclosure prior to the bank failure, which was owned property by the bank. FDIC has approximately 650 such individual properties representing $30 million in various types of property (commercial and single-family homes) and $20 million in bank premises that are in the process of being appraised by certified independent appraisers. They have payment notes that are secured by various types of collateral i.e., car, REM, commercial-type properties, and they are reviewing financial data to determine the recovery and length of time it will take for FDIC to collect the loans.

He discussed the responsibilities the receivor has versus the insurer. FDIC is the insurer of bank deposits up to $100,000 per account. When a bank fails, the FDIC has several mechanisms to assure that depositors get reimbursed: (1) payoff of the funds back to the depositors; or (2) insured portion of the deposit was transferred to an assuming bank and the uninsured portion is retained by the receivor and becomes a creditor of the estate of the receivor; or (3) all deposits were transferred to an assuming bank. FDIC has completed its responsibility as insurer; now it has to maximize recovery of the loans and assure a timely liquidation so there is a maximum return to the estate of the receivorship. He did not know how long it would take to complete the receivor responsibilities. Once they complete the rewrite of the instruments and modify the terms, it is in a payout status, the FDIC then has a performing obligation which it can sell to another institution or investor. The goal of liquidation is to turn the assets into cash as rapidly as possible.

Number 242

Representative Boucher questioned whether the FDIC has contacted the debtors for workouts and the timeframe involved in the process. Mr. Schannault responded that

there has been limited contact unless the debtor has voluntarily come in for assistance. Approximately 90 days have transpired since FDIC took over the loans. He would estimate another 90 days following the initial contact before workouts begin.

Number 276

Senator Faiks asked Mr. Schannault to explain the various departments and their inter-relationships. He clarified the insurance and receivorship operations and said that the bank examination is part of the insurance function which does not relate to activities of the Division of Liquidation. The information is not shared information concerning what action the liquidator may take with regard to the receivorship estate; or how it would impact operating banks that may be under examination.

She asked if they allowed real estate speculation to determine their decision-making on liquidation. Mr. Schannault responded that the Division has never held property for speculative purposes.

Number 323

In responding to a question from Senator Josephson, Mr. Schannault said that the average (2-10 years) is the amount of time it would hold the assets if it cannot complete a sale. If there is a market to buy at a fair price, it would not take as long.

Senator Josephson asked if the FDIC Board has the authority to say that certain action by the FDIC in an area might impact the remaining members of the FDIC. Mr. Schannault said he was not aware of any such directive in the past. The FDIC does not have a mandate that they have to be in and out of a liquidation in a specific amount of time. The first effort goes toward selling the performing loans; then correct the delinquencies on the non-performing loans and put them in a paying status, then sell those. If successful, they don't have any remaining assets.

Senator Josephson commented that if they cannot sell an asset, it would reflect either a substandard asset or, in context, difficult to market.

Number 400

Representative Brown asked about the FDIC's policy on liquidating via auction. Mr. Schannault answered that it would not make sense to have an auction at this point in time, as it would not bring back the highest returns. She asked if the FDIC could make a commitment to hold action until the state makes a proposal. He was advised by the

legal department that the FDIC cannot put themselves in that position -- the door is open -- and they can't exclude any person or group from buying if it is a fair offer.

Number 437

Representative Rieger asked for clarification of their role in restructuring the debt. Mr. Schannault indicated that packages of loans have already been prepared on loans from the Alaska Bank of the North, and they hope to complete work on First Interstate's loans within 90 days. He said that Representative Rieger was correct in that some work-outs are included in these packages.

Number 472

Senator Sturgulewski asked if the FDIC is required to consider the impact that dumping property on the market would have on healthy banks. Mr. Schannault said not in the receivorship actions, and it has been his experience that this action has not had an impact on other banks in a community, but could not guarantee the same result in the Alaska situation.

Senator Sturgulewski continued that should the Legislature create a stabilization entity which pooled the assets of various institutions and held them for stabilization and eventual liquidation, could the FDIC enter into agreements with it or other agencies. Mr. Schannault said that he has never been approached on this proposal, nor to his knowledge has the Board of Directors, so he did not know the answer. Further, the statutory guidelines may allow for such action.

Number 554

Senator Uehling referred to the Uniform Appraisal Instruction to Appraisers for FDIC Real Estate Properties (not required for residential single family properties) which stated that "The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition", and expressed concern that large purchases will be made by outside interests. Mr. Schannault said that they have not been approached by any entity to purchase owned real estate in Alaska. They do have a mailing list of investors which are interested in buying individual properties such as shopping centers, apartment complexes, office buildings, etc., which would be contacted. Properties will be turned over to real estate brokers in the area.

Number 595

Representative Koponen inquired how long the FDIC would hold property until it determines to sell at a much reduced price, due to the depressed market. Mr. Schannault responded that the properties are being appraised at today's market and they do not hold property to speculate in hope that the market will improve at some later date. If they get offers that are consistently lower than the appraised values, they will go back to the appraiser and request a re-evaluation.

Number 626

Senator Halford provided a scenario whereby the FDIC's action will have an negative impact on existing commercial property owners. Mr. Schannault described how they would proceed in working with persons in modifying terms of a workout. In the case of ORE, just because they have taken possession of the property does not mean that the debt was alleviated. The person could have worked out in a debt in lieu of foreclosure, or if the FDIC has the property, it would still be working with the debtor for any deficiencies remaining. He agreed with Senator Halford that if the FDIC can show that the person can repay the deficiency on the loan, it would go through a judicial process to foreclose. If the FDIC determines that the person does not have the ability to repay a deficiency, it would not be practical for them to go through a judicial foreclosure.

Number 678

Senator Jones asked for clarification of what offers would be accepted. Mr. Schannault said that they would not take any offer, but would take offers in line with the appraisals. He felt that the state, like other individuals and investors, may want to appraise the property separately for comparison purposes.

Number 738

Representative Boucher asked if they were aware of any measures taken in other states, such as Texas, that encountered similar problems; and should the legislature be involved in the situation. Mr. Schannault was not aware of any similar program as that discussed in any other state. Further, the FDIC would not recommend any action by the state. He was not aware of any outside "vulture funds" waiting to take action.

Number 788

Senator Faiks discussed the proposal of the Legislature requesting appraisals on various properties. Mr. Schannault said that when FDIC acquires the assets, it is at the book value at the time the bank failed and have not

been adjusted to value in today's market. FDIC looks at the properties, has them appraised, and reviews the contracts to determine the actual value in today's market. They have contracts for REM's, commercial buildings and operations, fishing contractors, resorts, condominiums, cars and personal loans. With regard to appraisals, they recommend appraisals by others to assure similar value ratings.

Tape One, Side Two
Number 856

Senator Josephson asked what percentage of the appraisal has been accepted for subsequent sale. Mr. Schannault said that they have taken as low as 80-90% of appraised value on individual properties, not aggregate sales. Senator Josephson then inquired about a proposed buyer taking points instead. The FDIC would also consider such a proposal. Senator Josephson commented on the social and economic involvement of outside versus in-state interests.

Number 941

Representative Rieger discussed the state's focus on the situation whereby the state should be more concerned with the next purchaser of property versus FDIC's actions.

Number 998

Senator Jones asked who did the appraisals, and Mr. Schannault responded they were prepared in-house and described their procedures which he said are similar to normal business formulas in calculating the values. Mr. Hone clarified that there are two types of appraisals: real estate is done by outside appraisers; and loans which they are qualified to do.

Number 028

Senator Sturgulewski wanted to know how the FDIC is handling the small business loans. Mr. Schannault said that an analysis is prepared and approximately 95% of them are referred to another lending institution. With regard to a construction loan that is at the end of its term, they would make an advance as the loan would then be ready for take-out by another institution. The other institution would take over the line and have the secured interests in the property used as collateral.

Number 095

Representative Navarre inquired about FDIC procedures once the portfolio has been taken over. Mr. Schannault said that they evaluate it, offer the loans to other banks,

businesses or investors that are interested. If they are not interested, the FDIC works out the past-due and problem loans to get them in current status and market them. The process includes inventorying the assets, analyzing individual files, appraising if necessary, then establishing a reasonable value and offering them for sale. If they have a buyer, the loans are gone.

Number 124

Senator Halford asked, absent any consideration of state action, when would the FDIC establish a liquidation office in the state. Mr. Schannault responded that it is not just the state action that they would predicate that decision on -- it would be the fact that they could not dispose of the assets in any other manner, and if they make the determination that there is no market or the market will not pay what they think it is worth, the FDIC would establish an office in a short period of time, no more than a week or 30 days. Senator Halford then asked when outside investors normally buy property. In our case, is it possible that we have not heard from them as their perception may be that the market has not yet bottomed-out. Mr. Schannault said that could well be the situation.

Senator Halford then commented on the observation that FDIC may have facilitated the continued downturn of the market in Oklahoma's situation which is similar to ours. Mr. Schannault said he had no knowledge of that occurrence.

Number 224

In reference to property being dumped in the market, Representative Gruenberg questioned whether there is any national policy, or whether the FDIC's regional office has autonomous authority. Mr. Schannault said that they have national policy with regard to liquidation of assets and the holding of properties for fair market value. Representative Gruenberg asked about the appeal process. Mr. Schannault said that while there is not a formal appeal process, there is an informal process which they could contact the Board and outline the concerns and direct it to the Chairman of the FDIC. Further, if you take this action -- appeal to the Board -- the party is excluded from any decision process with regard to the complaint as the Board would then have heard the issues from your view. He would recommend that they go through the normal process of contacting his office which, in turn, is forwarded to the national office. He did not think that the appeal would stay their action in the interim.

Number 353

Senator Zharoff asked how best to slow FDIC's action in liquidating the assets. Mr. Schannault did not think that property would be sold immediately in that the "snowball has not started".

Number 375

In response to the line of questioning, Ms. Hicks stated that it appeared that everyone is referring to the separation of powers problem. The FDIC, as a receivor, is appointed by a state administered agency; and the receivorship is supervised by the courts, either national or state depending on the charter of the bank. In order to effect the mandate of the receivor, she did not think you could do it by legislation, but rather you would through the court, if you have standing to do so. The legal question is whether the legislature would have standing to effect the rights of the creditors and shareholders of the failed bank by way of intercession. She felt that unless there was a policy decision made by the national office to comply with whatever pace was established by the legislature, the only alternative would be to go through the receivorship court.

Number 415

Senator Zharoff asked for clarification of the appraisal process in regard to low offers; and how long will they continue to solicit investors to take over the properties. Mr. Schannault said that if a number of low bids come in for properties which leads them to believe that there may be something wrong with the appraisals, they may ask for another appraisal. The offers remain available on a continuous basis.

Number 460

The fire alarm sounded, so the meeting was adjourned at 1:25 p.m.

JOINT COMMITTEE ON ECONOMIC RECOVERY
March 7, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Lloyd Jones, Co-Chair
Senator Arliss Sturgulewski, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Pat Rodey
Representative Max Gruenberg, Jr., Chairman
Representative Kay Brown
Representative Steve Rieger
Representative Niilo Koponen
Representative Mike Miller

MEMBERS ABSENT

Senator Dick Eliason
Senator Jack Coghill
Senator Fred Zharoff
Representative Al Adams
Representative Fran Ulmer
Representative Red Boucher
Representative Mike Navarre

WITNESS REGISTER

Dr. Ryan Amacher, Economist
Clemson University
Clemson, South Carolina 29631

ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Jones, Senate Co-Chair, called the meeting to order at 5:15 p.m., and introduced Dr. Ryan Amacher as the guest speaker. He noted that Senator Fanning was also in attendance.

Number 017

Dr. Amacher said, in terms of his personal biases, he followed theories advanced by economists George Stiegler and Milton Friedman. In discussion the housing situation in Anchorage, there is less demand than in the past and an oversupply has resulted. There is only an oversupply if

the price is held up at artificial levels. What will happen is the price will fall, the market will adjust, and at some price it will be sold. The price has to fall as long as those needs exist unless they are taken off the market in some way. The situation is analogous to farm policy. The well-meaning legislation will have unintended consequences.

In all the legislation, the most attractive is the interest rate buydown proposal. Any proposal that benefits some people is welfare but no one likes to label it as such, and he recommended adding a sunset provision. What he felt would be most efficient, and would do the least harm, is the interest buydown so people and businesses would not have their houses or businesses foreclosed on, in the time estimated for the economic recovery to take place. The bottom line is that it will not happen unless one of two things occur: supply diminishes or demand increases.

Dr. Amacher then addressed the positive effects on the market: it's good for people that are renting, buying, or want to start a business. The worst possible action is to have the state stockpile the houses, because at some point you will have to unload it. The state would then be the evil person as it would be the drag in increasing property values. The legislature needs to design something that allows the market forces to work the the greatest extent possible, and be based on need.

Although the problems exist in other states, as well, it is a bigger problem here due to the overbuilding created by state government. However, even if the state created the problem, it does not mean it can solve the problem.

Number 273

Representative Gruenberg asked Dr. Amacher to define the interest buydown proposal. Dr. Amacher described the situation whereby people bought property during the peak, now their income has fallen or they are unemployed, and a straight subsidy to them or the banks would alleviate the cash-flow problem -- something to lower their payments.

Number 299

Senator Josephson asked if Dr. Amacher felt we have reached bottom or whether there are factors that will perpetuate a downward spiral. Dr. Amacher did not believe in upward/downward spirals but that economies reach equilibrium; and could not say if the state is at the bottom of the equilibrium. In discussing the economic analysis of Lester Thurow as it relates to government spending, he said that the analysis works to a certain point and stops. While government actions are well-intended, government solutions

don't work and further, the private sector can forecast better than government. Senator Josephson commented that some reports indicated we can expect more crises in the banking industry. Dr. Amacher felt there was nothing wrong with banks going bankrupt and we cannot compare our situation with the Great Depression. The state can't do fiscal policy, public work projects, etc., since the economy is now internationalized. The only way the spending contributes to the multiplier effect is to the extent that it is spent on products made here. As few products are made here, the money dissipates into the U.S./world economy in the first round of spending.

Number 415

Senator Faiks addressed the comparison of our situation to the Great Depression. She asked "when an enormous amount of money was pumped into the economy in a variety of programs, did it stimulate the recovery?" Dr. Amacher responded it was the Keynesian argument as it relates to government spending; the Great Depression happened at a time when only 3% of our GNP (gross national product) was exported or imported, and explained the multiplier effect of the Keynesian theory. She asked if the state could control spending within its borders, would the analogy apply. Dr. Amacher said "yes" if you could do that; however, you can't do it and commented on overriding laws pertaining to interstate commerce. In responding to another question from Senator Faiks about increasing consumer spending by issuing another permanent fund check, Dr. Amacher reiterated the comments about the lack of products being made here, so the money would be gone immediately.

Number 487

Senator Sturgulewski asked him to respond to the bridge bank concept whereby properties would be pooled and managed by AIDEA or an outside entity. Dr. Amacher said the concept would pool the risks of the owners but did not think it would stabilize the prices. What concerns him about the trust or bridge bank concepts is "if it makes sense, why isn't it being done?" The reason it isn't being done is because it needs the state's $15 million. He compared the situations in Houston and Dallas' markets and said foreign investors are keeping those markets alive.

Number 535

Senator Josephson referred to the banking situation, and the impact on shareholders and customers. He asked if we should be concerned about the assets becoming concentrated in a couple of banks, or FDIC's involvement. Dr. Amacher said it would trouble him more if the state did welfare for

banks than to have a monopoly bank. We need to help the people that need it the most.

Number 591

Representative Koponen asked if he recommended the state use state income to fund the traditional functions of government such as education, police, etc., as a first priority before going into other programs. Dr. Amacher responded in the affirmative.

Number 598

Representative Rieger generally discussed the supply/demand forces and the rationality/irrationality of the market, and asked that he address the erratic market actions. Dr. Amacher answered that when markets don't act rationally, it's usually because there is some government impediment, and related the story of the price of trailers being more expensive in-state from a state agency than purchasing outside. Markets that have problems usually have information problems. He felt it might be productive for the state to pursue involvement of foreign investors.

Number 684

Representative Gruenberg commented that the discussion has focussed on macro economics, and thought we should address the impact on the individuals. Also, he asked for his reaction to the state's economy being based mainly on service industries (excluding resources), and the Jobs Bill that passed was intended to benefit small service companies to keep the money in the state. Dr. Amacher thought we might get another round of spending but states cannot control fiscal policy because the economy is open.

Number 722

Senator Halford asked about the effect of reduced government spending and public employment on the overall economy. Dr. Amacher said its difficult in a political setting as people forget that every dollar spent to create public jobs, the state is taking the dollar away from someone -- the dilemma of the political arena. Senator Halford asked what if a majority of the tax base is foreign to the state. Dr. Amacher said if the state gets all its money from outside and spends it inside, there would be a positive effect. The alternative to spending money on public works programs would be to give it to the people and let them direct the spending.

Senator Halford commented on the statement that economic activity has to come down to match the existing level; that no one is sure how to create a thrust in the short-term,

but there is interest in helping people survive the fall. Dr. Amacher reflected on the state economy 14 months ago compared to now. There's less public concern now than then; adjustments are taking place. No matter how hard the state tries, the equilibrium is going to occur.

Number 787

Senator Rodey asked if a market analysis was appropriate to Alaska -- federal, state and local government employees represent the majority of employment; and oil companies and banks are highly regulated. Dr. Amacher said "not entirely"; a market analogy is appropriate when looking at a planned economy such as the Soviet Union or PRC (Peoples Republic of China). The best way to look at what needs to be done in that situation is to use market analysis. The reforms that take place in terms of promoting economic growth are reforms, whether they are planned reforms or introduction of the market that move it in that direction. Maybe what we need is "perestroika" (Russian for restructuring). Using the market mechanism to analyze things is valid in all economies. Of the three markets that impact the state: federal and state governments and the oil industry, oil companies are driven by a different market and indications are the federal government will decrease spending.

Number 825

Senator Faiks reviewed the proposal which would do the least damage -- reduce interest rates for a set period of time on a needs basis for residential/commercial mortgages. Dr. Amacher said this would help relieve the cash-flow problems and could be handled through the buydown or direct payment. Senator Faiks asked his views on guaranteed business loans where the line of credit would be extended and guaranteed by a state agency. Dr. Amacher did not like the proposal but understands it. If a viable business is looking for help, the banks should be glad to help.

Tape One, Side Two
Number 864

Senator Jones asked if Dr. Amacher agreed with including a sunset provision in legislation. Dr. Amacher said "yes", especially a bill concerning a subsidy program.

There being no further business to come before the Joint Committee, Senator Jones adjourned the meeting at 6:03 p.m.

JOINT COMMITTEE ON ECONOMIC RECOVERY
April 28, 1988
12:00 P.M.

MEMBERS PRESENT

Senator Lloyd Jones, Co-Chair
Senator Arliss Sturgulewski, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Fred Zharoff

MEMBERS ABSENT

Senator Dick Eliason
Senator Pat Rodey
Senator Jack Coghill
Representative Max Gruenberg, Jr., Chairman
Representative Kay Brown
Representative Steve Rieger
Representative Niilo Koponen
Representative Mike Miller
Representative Al Adams
Representative Fran Ulmer
Representative Red Boucher
Representative Mike Navarre

WITNESS REGISTER

Presentation by: (teleconference) Dr. Lester Thurow, Dean
School of Business
Massachusetts Institute of Technology
Boston, Massachusetts

ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Jones, Senate Co-Chair, called the meeting to order at 12:11 p.m. He noted the House members were absent due to the House being in session; and Senator Johne Binkley was also in attendance.

He turned the meeting over the Senator Josephson, who was instrumental in contacting Dr. Lester Thurow for his comments. Senator Josephson introduced Dr. Thurow and said identified some of the issues being considered by the committee. Specifically, the state has real estate problems; and has experienced a loss in the property tax base

in the Railbelt area, particularly Anchorage. Various proposals have been advanced for the state to assist small state chartered banks, either directly or through a public corporation of the state. Another concern is the overriding problem of a declining oil price; the source of 85% of state revenues.

Number 072

Dr. Thurow indicated he had received the materials. The material argued the problem began because the state started out with an oil accelerator boom which was compounded by a government spending accelerator boom, and he felt this was the right analysis. The desirable thing would have been, if the state had an oil accelerator boom, the government spending boom be held back and used in a counter-cyclical way. Even though this was probably known ahead of time; it is human nature that nobody does it. It didn't happen in Wyoming, with the oil and coal boom; and it didn't happen in Houston. When reviewing the Alaska problem, it should be remembered that everybody in the oil belt -- Calgary, Houston, Denver, Casper -- has the same problem.

He felt the state should consider how it can make sure the cutback in property tax revenue does not devastate local government services. Local government services end up being critical on two dimensions: If there is a deficiency in local government services, in terms of the basics of education, sanitation, etc., new industries will not be attracted to an area. The number one aim should be maintaining a viable infrastructure; part of it being the education of the citizens.

Another important thing Alaska does is export people. He then discussed his personal situation of leaving his state, Montana, which does not make him a Montana failure but rather a Montana success. One of the jobs of a state is to make a person a good export product. He claimed the state should not let the school system deteriorate because it would not only hurt the direct Alaskan economy, but also effect people who pass through the state. Again, this should be the state's prime goal.

Number 156

Dr. Thurow continued if you look at the more narrow effects that are occurring in the state; he agreed with the basic diagnosis of the problem being a combination of an oil and accelerator boom. However, he disagrees with some of the papers which implied if we move our wealth in Alaska, the rebound in the economy would automatically follow, because wages and things like that will fall and that will lead businesses to come in. The fall in wealth and the consequent fall in housing values and wages puts a floor on how

far the economy can go; it doesn't cause an automatic recovery. Prices and wages falling, etc., may ease the fall, but it does not cause a rebound in the economy.

He felt it was important to understand what has happened in Alaska and Houston, etc., is not the equivalent to the stock market crash on October 19th, which had very little effect on the American economy. The reason is the stock market crash wasn't really a crash. On January 1, 1988, stock market prices were higher than they were on January 1, 1987. If you look at what happened to the stock market prices from the first to the end of October; then there was a loss of wealth. But from the beginning to the end of the year, wealth was made.

He stated if you have a real wealth decline, as Alaska has had, it has very different effects from the national situation. There is nothing in the situation that causes an automatic rebound. The result of falling prices and wages keep the economy from falling even farther than it would, and slows the rate of decline.

Number 212

In discussing an economic recovery, he said the basic thing, from the point of view of a private investor, is to determine the level of uncertainty and the expected change in price. He has reviewed the articles about the state considering schemes about supporting housing prices by shipping trailers out of the state, or buying certain types of houses and keeping them off the market. He informed the committee if the state really has substandard housing that needs to be torn down -- if they are really that substandard -- they should be torn down and taken out of the supply. But if you think about housing that is reasonable housing, the basic problem is: suppose you take it off the market; it will create a tremendous uncertainty as to when it will be placed back on the market and whether the future price economy will be down or up. The desirable end is to have everybody understand that the prices are as low as they can possible go and, therefore, the expectation is a capital gain. Not being here, he did not know where current prices are in terms of the equilibrium.

Number 239

There were two arguments that were made in the paper about supporting housing prices. One argument was if the prices fall below 80% of the purchase price, there would a significant number of defaults. It is true, but simply buying houses and holding them off the market does not solve the problem. People would then know you are holding a big supply of houses and they could not resell their houses at a value that's above 80% of what they paid for it. Also,

there would be reason to believe that some future capital losses are ahead of them. That idea is much more negative when it comes to economic development than knowing the prices have already hit bottom. People would prefer to think that they can look forward to capital gains, not losses. While buying and holding houses might help certain individuals in Alaska, it would hurt others. In general, this is not something that would make the state economy more prosperous.

Another article asked, where do you store trailers -- in the trailer park or design a special lot? He felt this was a perfect illustration of the problem. As far as the people who own the trailer park, obviously they want the trailers next to them as it adds rent to them. Other people were saying they should be stored elsewhere at a slightly lower cost. He thought the state was actually getting arguments on how you distribute the income among Alaskans versus how you make Alaska richer. Although the state is suffering enormous losses, he did not think state government should get into the business of cushioning the losses for one group while making the losses for another group bigger. In this situation, everything the state does to hold the prices in one area will push the prices down in another. What that does is distribute income in the state without making it a wealthier place.

Number 291

Dr. Thurow stated it is possible for the market to have overshoots, where a market goes right through equilibrium and housing prices go below the norm, in terms of economic analysis. He did not see much evidence of this happening, judging by the papers he received. It should be remembered that when you think of an economy based on oil, you are essentially working in a world where the price of oil is not an economic choice, but a political price.

It is expected that by the mid-1990's, the price of oil should pick up because little exploration is being done at current prices, and existing fields will be pumped out. If there is a reasonable rate of growth to that period, there would be supply and demand factors that push oil prices up. The state's problem could be a 7-8 year problem, at the most; so the question is what is the sensible thing to do to get people through that time. However, it should be recognized there is some uncertainty because of situations in the Mideast. The key thing should be how to maintain the state doing a good job, based on the things the state is supposed to do.

Number 336

He commented the state should keep in mind it is a capitalist economy, and some small capitalists will take economic losses. If the state tries to get in and change the economic losses, it will not change the total losses, it moves the losses around to different citizens. Maybe citizens of the state know to whom some of the losses should be allocated, but allowing interest groups to make those choices should be avoided.

Number 354

Senator Josephson said several banks have failed, and several small banks advise them that their hold is very tenuous, unless the state helps them with some capitalization problems that the regulators require of them. There are various schemes involving the state buying debentures or the state taking some type of preferred position by injecting capital. The banks argue they are very active in lending to real estate and small business; the large banks are more conservative, and a trend is developing in concentrating banking power in 2-3 institutions. He asked what Dr. Thurow thought about the concentration of banking activity in a state like this.

Dr. Thurow said, first, there is a factual question: Have these banks in the past made more local loans than the bigger banks?" Usually when you get into it, you find they haven't done so. Secondly; even if they have, if the bank is under that kind of financial constraint, what the state is doing is giving them money to tide them over the old loans and they will not have any money -- even if you give them money -- to make new loans in the state or anywhere else. He felt is was a perfect example where people who own the banks are taking a loss; and using the tax revenue of the state to bail the shareholders out takes away from some other Alaskans. The state would be shifting losses from one Alaskan to another.

He added that even small banks are not owned by local people, and the state would need to ask who owns them. The U.S. is alone, among major industrial countries, in having many small banks. That is a world which is disappearing very rapidly, and would disappear rapidly even if you didn't have a financial collapse. If you look at Massachusetts which is booming economy, their small banks are probably disappearing faster than those in Alaska because big banks buy them up. If the small banks were profitable in Alaska and therefore, had value, the owners of the small banks would be voluntarily selling their banks to big banks just like small banks are selling out all over America.

He stated even if you gave a subsidy to the banks, and in turn made them profitable banks, they would still become big banks because that is the trend. It's happening in

America because it has already happened in the rest of the industrial world. Even a bank like Citibank, by worldwide standards, is a small bank. The entire banking industry, worldwide, is going to become much more concentrated. For every state, the era of small banks is simply over. What the state would be doing, if they succeeded, is turning a small bank into a profitable bank so the owners of the bank could sell it to a bigger bank. He did not think that is what the legislation wanted to do.

Number 433

Senator Josephson said a lot of the portfolios of the failed banks ended with the FDIC. One of the anxieties felt by the committee has been the FDIC might begin a policy of dumping the collateral at distressed prices, which would further depress the real estate market. He asked if that is likely; and if so, what would be the effect.

Dr. Thurow responded it was highly unlikely because the FDIC, and the savings bank equivalent of it, has got a very severe cash flow problem of its own. If it were to actually sell those properties at distressed prices, then paper losses become real losses. They don't have enough funds to take real losses without going to Congress and getting multi-billion dollar appropriations to pay for real losses. From their point of view, as long as they can keep those losses as paper losses, as opposed to real losses, they are better off in terms of their own bookkeeping and finance.

If you look at what those institutions are doing in Texas, where over half the banks are going broke, they have in-house incentives and are not dumping property. If they did dump property, it becomes a question of how much do they own and how far will they force the price down. It partly depends on the liquidity in the world, because if you think somebody is throwing property on the market at a point where it is below equilibrium, people should have an incentive to buy from the FDIC, hold them for a brief period of time until the dumping is over, and resell the property for a profit. He felt there were plenty of people in the world who specialize in this business; and if the FDIC, in any systematic way, were to start that kind of policy, there would be many very wealthy people who would be glad to play that game and buy them up. Once somebody convinces their forces to crash below equilibrium, there's real money to be made by buying, waiting and reselling. He felt the likelihood of this happening is precisely zero.

Number 483

Senator Sturgulewski commented on his statement on the need for the public to become convinced that the economy has

reached the floor, and residential housing. She said the committee has a proposal for a bridge bank which would allow organizations (i.e., FDIC, banks, Hallwood group) to come together and manage commercial properties that have already gone through the foreclosure process and now are with an agency. The properties would be put on the market in some orderly fashion. She asked if he distinguished between the residential and commercial concerns.

Dr. Thurow answered "not really" because it is something where there are companies in that business, and it should not need a subsidy to be done. If you take a company that specializes in this, the question to ask is "why do they need a state subsidy?" If the answer to that question is they are having a cash flow problem, he said the moral of the story, that the Japanese and all of American history teaches, is anytime a state or federal government gets into an enterprise like this, it should get equity participation in return. It should get a certain percentage of the profits, and the percentage of the profits and losses is the same. Such as, if it agrees to take potentially 30% of the losses, then it gets 30% of the profits, etc.

The key thing is not to set up a world where it is profitable for the private company to make the money, and if it loses money, the state government takes the loss. Often, when you look at these deals as they are structured, all the risks are on the side of the government and all the gains are on the topside of the private entrepreneur. If it is a real sharing, where the private entrepreneur is saying he doesn't have enough cash to manage it, but s/he would put up 70% of the money and take 70% of the risks, and 70% of the loss; and the state puts up 30% of the money, and take 30% of the losses, if any; then it would be a sensible thing to review. If the private company wants to parameterize it so they get all the gains, if it is profitable; the state takes all the losses, if any, the answer is the state is being "conned".

Number 534

Senator Sturgulewski referred to Lenin socialism and said Alaska is similar in the sense it is an "owner" state -- an owner of royalty oil and land -- so there has been a great deal of intervention by the state in terms of development. She referred to Dr. Thorow's comments on the public's attitude of the economy, and said there was a great amount of expectation by the public that the state will make things right. She asked if he had any suggestions for the committee to pursue specific actions which might be appropriate to gain the positive public perception.

Dr. Thurow answered one of the problems is certainty or uncertainty whether the state government will do anything.

Clean decisions made quickly, in many ways, is more important than whether you make a decision "yes" or "no". It is important not to take an oil downturn and turn it into a huge government downturn. The place where state government should focus, if it has money to do anything, should be the category of making sure that local government services do not collapse. After reading the papers, he was not sure how much of a risk of that was real. Some of the articles sounded like with the decline in property values, the normal sources of funding for those local government activities would completely cease.

He had no objection to a state government playing "entrepreneur" and relayed the story of the building of the Eerie Canal, and the benefits that resulted from its construction in terms of providing cheaper transportation from New York to the Midwest than from Boston or Philadelphia. If the state gets involved in this type of thing, it needs to have a good project and not be the entity that buys all the bad projects. He felt the idea of the state buying all the trailers and shipping them back to the Lower 48 was a loser.

Number 591

Senator Halford referred to the concern about maintaining services in local governments. He said the state has an amazing capacity for Lenin socialism because our Constitution gives the state the biggest winner in the state -- owner of the oil. Dr. Thurow added if it owns the biggest winner, it doesn't mean it should buy all the losers. Senator Halford referred, again, to the support for basic governmental services; and asked if that would be a positive step in dealing with the attitude of people on the economy.

Dr. Thurow said "absolutely", and what people have learned from all economic development in the last 20 years, is there is one key thing: the skills and educational qualifications of your workforce. That's all the Japanese and Israelis have got. In some ways, the same applies to Massachusetts as it does not have oil or any natural resources, but it has a good workforce. If you think of what a lot of local government does, it provides the infrastructure without which you can't do business. If you let it collapse, it's difficult to recover. The best thing local and state governments can do is provide the basics in terms of producing a high quality workforce. With the fundamentals of a high quality workforce, you go into two dimensions: attract outsiders interested in doing economic activity in Alaska; and a workforce that is good.

To the extent that economic activity does not happen in Alaska, it provides Alaskan citizens the opportunity, if

they need to, of going somewhere else and earning a good living. He reiterated the idea that having someone leave Alaska should not be considered an Alaska failure, but it represents an exportable product. However, if you have people who are unskilled and cannot get jobs elsewhere, that is the ultimate Alaskan failure; because not only has it failed in terms of the local economy, but it has also failed in terms of its export market. The purpose of state government in the long run is to benefit the citizens of Alaska; some of those citizens will live here and some will not. One of the papers said the state government, itself, was partly responsible for this problem because it also had a big construction boom at about the same time as the oil industry was having a big construction boom. The state does not control the oil industry, but it should do things that help it and the citizens who live here.

Number 654

Senator Jones said he hoped Dr. Thurow was not advancing the concept that "the last one to leave turns out the lights." Dr. Thurow did not think it was the case. He reiterated the idea that he, personally, should not be considered a Montana failure. Senator Jones added there had to be a job for him to go to. Dr. Thurow responded there were two ways to get jobs: (1) Having a natural resource based economy. By 1995, that resource base of the Alaskan economy will be picking up because of the fundamentals of supply and demand on oil. Companies will be making investments and explorations again. (2) If you can offer companies a higher quality workforce.

He stated Massachusetts is successful not due to the efforts of Governor Dukakis, but because it is a relatively cheap place to buy high skilled workers, not low skilled workers. Having a high quality workforce is one of the few things that can guarantee that you don't shut out the lights. One way to shut out the lights is to run out of natural resources -- such was the case of the old mining communities which have died out all across America. If you have an environment where you have a high quality workforce and people like to live there, that's one of the ways to general economic activity.

The only other way to generate economic activity, is if the area is fortunate enough to be a transportation hub for movement of goods around the world. He then discussed the geographic advantage of Singapore. He did not think the situation applied to Alaska due to its location.

Number 701

Senator Faiks referred to Dr. Thorow's comments on the small bank bail out situation. She stated the state has

three small state chartered banks which are capital poor, whom have said if they get $3 million each minimum, the money will be loaned out to qualified businesses and the money will roll over throughout the state. It would allow them and the businesses to last longer, and everyone would be happy because a recovery will occur. She asked that he address how the money will not necessarily get into the economy in that method.

Dr. Thurow said, if the state were to do that, the only way the state should do it is to calculate the net worth of the bank today, as an example: $10 million. And, if the state gives that bank $3 million, the state should get a 30% of its shares. It's the only way something like that makes sense, because the state would be taking a risk of losing its money; and it shouldn't take risks in this environment unless, if it works, it gets the gains. The problem is if the state gets banks in very weak circumstances, what the banks are probably doing is not asking for money to make loans in Alaska, but asking for money which allows them to survive and service their own interest payments to other people where they have borrowed money. Giving the banks money will not lead them to make more loans in the local economy; it will allow them to pay their bills to others. Another consideration is the national trend of small banks being bought out.

If the state bailed out the small banks, and succeeded, the state would create a small bank which would invariably sell to the big bank, so any benefit would quickly disappear. If a small or big bank has the money, it would put it in the most profitable investments it can find. If the most profitable investment is in Alaska, the bank will put it there; however, if it is not in Alaska, the investment would not be made there, regardless of it being a small bank.

Number 748

If the state were to take a bank's proposal seriously, he would recommend the following. He would calculate the net worth; if it is negative, he wouldn't touch it; if it is positive, and he gives them a certain amount of money, he gets that fraction of the shares. If they leave the room, he would know that they really wanted him to take some of the losses as opposed to helping them.

Senator Halford asked if the net worth is zero, he would get 100% of the shares. Dr. Thurow said "absolutely" because they don't have anything to offer. If a bank has a negative net worth, it is worthless. If the state wants to help the state economy, the state could set up its own bank. It does not make sense to buy into a bank with negative net worth. To him, that really would be Lenin

socialism. He added lots of states have had state banks by setting up a bank without buying a bank. If the state is worried about out of state banks, they could consider this approach.

Number 764

Senator Faiks asked if the test would be, if the bank wanted $3 million, their net worth was $10 million and they were willing to give the state 30% of the shares or 30% of the potential profit, the state could say the bank legitimately wanted to make the loans in the state and help the small businessmen and their offer was legitimate. If the bank says "no", the state needs to question the whole scheme. Dr. Thurow said it still would not guarantee the bank would make a lot of local loans, but it would indicate they believe it could be turned around without the state taking some of their losses. If you don't do that, the state is a loser. He suggested if the state wants to practice socialism, it should practice real socialism. Real socialists believe in making money, they don't believe in taking losses, and he provided an example of the Japanese government.

Senator Faiks said the banks indicate it's the state's social conscience to help support them over this rough area. They are state chartered, etc. Dr. Thurow said one way is to take an ownership position only on an equity basis.

Number 789

Senator Josephson added, if the state did that, the state or state investment corporation could elect 30% of the directors of the bank and make sure the public policy was being implemented. Dr. Thurow referred to the situation whereby everybody who is a taxpayer of the U.S., owns one of the eleventh largest banks in the country, Continental Illinois. It got into a negative net equity position and we, the taxpayers, ended up having to take over the bank. We, the taxpayers, threw out the board of directors, fired the executives, and elected a new board of directors and manager. The federal government did not just give Continental Illinois money; it took the equity, which was zero, but it didn't leave the shareholders with anything either.

Number 802

Senator Sturgulewski referred to the three methods of developing economic activity: establishment of a transportation hub, development of resources, and the highly educated workforce. She submitted, with regard to the transportation hub, the state has one of the finest examples in the world at Dutch Harbor. Referring to the state

being an "owner" of its resources, she asked how the state could do something in a counter-cyclical way so it is not adding to the problem.

Dr. Thurow responded there are a lot of things the state could do; however, the question is how it can discipline itself to do them. When the state hits the oil boom, and the oil companies are doing a lot of construction, etc., the state should import money. When the oil boom stops, the state should hit its infrastructure boom, and state spending should be used for the economy's fall in a counter-cyclical way. It would generate revenue when the private economy is booming, and spend revenue when the private economy is sagging. The time to plan it is now. Supposing there is another boom in the late 1990's, would the state do the same thing as before. He thought it was probable. He asked if there was any way the state could box itself in so that if another oil boom came, it would not, once again, have the public spending boom followed by a sagging oil business and at the same time, a sagging public spending.

Senator Sturgulewski said if the permanent fund had not been inspired from that situation, the state would have had another $8-9 billion problem.

Number 842

Dr. Thurow said the fishing harbor is natural resource development, and to the extent that Alaska has fish, the resource should be developed. The transportation hub, which he talked about, is not just a geographical facility for ships but has to be in a location where they want to pass. If Rotterdam (Holland) harbor, the transportation hub for Europe, were located in southern Argentina, it would not be worth much because there aren't many ships that want to go to southern Argentina. Senator Sturgulewski said Dutch Harbor is located on the trade route to Japan and the continental U.S.

Number 862

Senator Josephson stated that most of the home mortgages are financed through a state created corporation which was developed at the peak of the oil boom. There are proposals to decrease interest rates on these loans as a way of helping them through the troubled economy and reduce default rates. He asked Dr. Thurow if had a chance to review the proposal.

Tape One, Side Two
Number 870

Dr. Thurow said it was similar to Third World debt problems. He provided the following scenario as an option in cases where people have a temporary cash flow problem, assuming the person has $100,000 owing on principal, the interest rate was 10%, making the interest payment for that year $10,000. The person would only pay $5,000 on interest but the other $5,000 would be capitalized into the principal so at the end of the year s/he owes $105,000. This situation defers the income for the state but it would not lose income. The problem with the proposal is that those taxpayers in Alaska which don't have the subsidized loans would have to give up some of their money to subsidize the people who do have the subsidized loans. All the state would be doing is moving the losses from one Alaskan to another; it is not reducing the full amount of losses of all Alaskans. It would be a political decision whether moving losses around from one group to another is sensible.

In general, the people that have these loans are probably as wealthy, or wealthier, than the people who would be subsidizing them, so there is no argument that it is a subsidy from the rich to the poor. If anything, it may be a subsidy the other way around. It would depend on the income of the average taxpayer versus the income of the average person who has one of these mortgages.

Number 930

Senator Josephson commented that being a rich natural resource state creates a trap, in a sense, because it can make the leaders lazy about developing the human resource. Dr. Thurow said, in international literature, it is referred to as the "Dutch Disease" because Holland, shortly after World War II, discovered fabulous fields of natural gas owned by the state. Because of it, they could afford a lot of things, in some sense, without having to work for them. It led to a certain number of problems in Holland that are similar to those in Alaska.

Number 953

Senator Sturgulewski said there was a request, from the economic development agency from the area hardest hit, to change the state statute dealing with property taxes so local communities could allow property tax reductions to attract industry to the area. The major revenue source to that area is property taxes. She asked if he had any comment on this type of tax incentive.

Dr. Thurow responded it could not be judged in the abstract, such as, if you give a tax incentive, what do you get back as a quid pro quo. Sometimes the deals make sense from the point of view of the local government, but they have to be dealt with on a case-by-case basis. He has seen

places where this type of action did get enough economic development that it clearly paid for itself. There are other cases where the local government got "skinned"; it gave tax advantages away which didn't buy them anything in terms of economic development.

Number 999

Senator Josephson again thanked Dr. Thurow, on behalf of the Legislature, for his participation and said Dr. Lee Gorsuch, University of Alaska, wanted to convey a standing invitation for him to visit Anchorage and appear before interested groups.

Dr. Thurow added he was one of the growing number of people from the Lower 48 that have been on top of Alaska's highest mountain.

There being no further business to come before the committee, Senator Jones, Senate Co-Chair, adjourned the meeting at 1:04 p.m.

Minutes -

Senate Only

SENATE MEETING OF JOINT COMMITTEE ON ECONOMIC RECOVERY
January 29, 1988
1:30 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Jack Coghill

MEMBERS ABSENT

Senator Dick Eliason
Senator Joe Josephson
Senator Fred Zharoff

COMMITTEE CALENDAR

Overview of activities of Joint Committee on Economic Development

ACTION NARRATIVE

Tape One, Side One
Number 002

Co-Chair Sturgulewski called the meeting to order at 1:30 p.m. It was the decision of the Co-Chairs that they would alternate chairing the meetings.

The first topic of discussion was the activities of the full committee. In referencing the schedule of activities for the House, Senator Sturgulewski outlined their main areas of focus to be: (1) prioritize existing legislation; (2) identify and introduce new legislation; and (3) develop long-term issues for further deliberation. She then identified the Senate staffers that are committed to the effort: Jim Lottsfeldt - Senator Jones; Frank Homan, Aide, and Rod Morant, Intern - both with her office. Material compiled by the Senate members will be shared with House members for further review.

Number 066

In response to a question from Senator Jones about dividing into subcommittees, Senator Faiks recommended they not do so but rather review previous work and start taking action.

Senators Halford and Faiks provided overviews of action taken in previous meetings; in particular, meetings with financial institutions and governmental entities involved in loans.

Number 082

Senator Halford provided detailed comments on what resulted from his discussions with property managers, property owners, bankers and others. He discussed the economic outlook with the Anchorage Chamber of Commerce, and explained how he arrived at his figures. He took the valuation of the Municipality of Anchorage for Anchorage for 1985, added new construction and came up with a total of approximately $15 billion. In talking with commercial and residential property owners, he stated what they estimated the debt to be based on that value. The debt-to-value (DTV) ratios were about 90% DTV for a majority of residential; 75%-80% DTV for commercial, a collective estimate of $13 billion of debt on $10 billion of collateral. He then reviewed what other financial entities had done.

Number 195

In response to a question from Senator Coghill about the Alliance bank, Senator Halford commented that the Alliance went back at least twice to the FDIC for help and will probably do so again. The meetings held in November and December did not provide proposed solutions, as hoped. Senator Sturgulewski asked Senator Halford to provide the committee with copies of his comments. She asked for specific information on the 2% rule of AIDA, and the bridge bank.

Number 210

Senator Faiks addressed another issue for immediate attention: guaranteed loan program based on SBA criteria. Her office will be providing proposed legislation along with information on the federal program.

Number 272

Senator Coghill stressed that the committee not overlook the problems of the private sector and carefully evaluate the ramifications of any proposal. He then discussed the proposal that the Fairbanks military base commissary and PX may be opened to civilians -- in direct competition with private businesses -- and questioned the federal government's actions. He will provide further details.

Number 317

Senator Sturgulewski specifically asked about projects such as Hollywood Vista, now owned by HUD, and Willow Park. Senator Faiks indicated that U.S. Senators Stevens and Murkowski are now aware of the situation and are working on it. She further recommended that Resolutions directing action or offering support be sent to the Congressional delegation.

Number 371

It was clarified that the committee can introduce bills but will not be a committee of referral. The immeditate task at hand will be to compile existing information for review, including pending bills, and determine which to examine further and provide periodic updates on the Floor.

Number 410

Senator Halford detailed actions taken by some financial institutions concerning troubled loans. As an example, of comparable portfolios, AIDA had only worked out 16% of delinquent loans as of December 1; whereby First National had worked out 2/3 of their bad loans. He found that banking people were working hard to find solutions to their problems.

Number 455

The committee discussed their outreach efforts. It was decided that individuals with expertise in identified areas will be brought before the committee, and to obtain input from industrial development people on specific issues.

Number 565

The committee then discussed the bridge bank concept. Senator Halford indicated that we have a model to follow: the Alliance bank. The FDIC created the bridge bank and secured investors, in addition to its investment. Senator Faiks then quoted Larry Rose's comments regarding the formation and activities of a bridge bank.

Number 609

Senators Halford and Faiks explained the 2% rule of AIDA. Senator Sturgulewski asked that specific language be presented to the committee.

Tape One, Side Two

The committee continued its discussion of the 2% rule of AIDA.

The committee divided the areas of responsibility for the next meeting as follows. As discussed, they agreed that experts would be called in to provide comments.

Senator Halford	- delinquency caps of AIDA (2% rule) and banks
Senator Faiks	- draft legislation on guaranteed loans, and bridge bank information
Senator Coghill	- impact of federal government opening facilities to public
Senator Jones and Senator Sturgulewski	- list of legislation for short-term and long-term efforts

Senator Sturgulewski outlined the agenda for the meeting of the Joint Committee on Economic Recovery scheduled for 3:30 p.m. There being no further business to come before the committee, the meeting was adjourned at 2:34 p.m.

SENATE COMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
February 17, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Lloyd Jones, Co-Chair
Senator Arliss Sturgulewski, Co-Chair
Senator Joe Josephson
Senator Fred Zharoff
Senator Dick Eliason
Senator Jan Faiks
Senator Rick Halford
Senator Jack Coghill

MEMBERS ABSENT

None

ACTION NARRATIVE

Tape One, Side One
Number 001

Senator Jones, Senate Co-Chair, called the meeting to order at 5:10 p.m. The Chairman indicated that the committee would go into Executive Session following review of draft legislation. Senator Josephson commented that the Executive Session would be called due to the proprietary information to be discussed.

Number 050

Senator Faiks referenced the draft senate bill dated February 3, 1988, "providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; and providing for an effective date." She indicated that the bill reduces the interest rate by 2% on outstanding mortgage loans by AHFC for two years (July 1, 1988 through June 30, 1990).

Number 080

Senator Josephson asked if there would be an instance whereby the money from the reduced amount is added to the loan as an extension. Senator Faiks said "no"; that the money is considered forgiveness.

Senator 089

Senator Halford addressed another version of the concept. It would retain the 2% forgiveness; however, it contains a qualifying provision that the person(s) would have had to experience involuntary reduction in income, and still meet the eligibility criteria such as the monthly income percentage requirement.

Number 125

Senator Halford explained the draft senate bill, dated Janaury 29, 1988, which establishes "a moratorium on judicial and nonjudicial foreclosures; and providing for an effective date." In short, it suspends nonjudicial foreclosure by extending the redemption period and allowing the person(s) to continue possession of the property; and in judicial foreclosure, the owner would have exclusive right to redeem the property and is entitled to possession of the property for a two year period following the effective date of the Act. A companion bill was introduced in the other body.

Number 150

Senator Faiks discussed similar actions that were taken during the Great Depression which were upheld by the U. S. Supreme Court.

Number 169

Senator Josephson commented on more recent actions taken in the Midwest regarding anti-foreclosure and moratoria measures which were also upheld by the courts. He felt it is a policy decision whether you create a holiday for debtors which would result in injuring the banks.

Number 181

Senator Halford said that it represents a radical approach to the situation and needs to be carefully considered due to the ramifications to the banking industry. Further, his staff will be providing legal opinions on it.

Number 208

Senators Faiks and Halford referred to the draft senate concurrent resolutions on the following: (1) urging state agencies that make loans to withhold approval of loans for new construction in areas in which availablility of business and commercial facilities and residences substantially exceeds demand (draft dated February 3, 1988); (2) relating to opportunities offered by the present crisis in residential housing (draft dated February 5, 1988); (3) relating to the Alaska Industrial Development and Export Authority (draft dated February 3, 1988), and (4) establishing a

program in the Alaska Industrial Development and Export Authority to guarantee business loans and to refinance debt, e.d. (draft dated February 10, 1988).

Senator Faiks indicated that these bills would provide policy direction to state agencies prior to making regulatory changes.

Number 245

Responding to a question from Senator Zharoff about the feasibility of selling mobile homes out of state, Senator Faiks said that the cost of the mobile homes, in addition to shipping them South, presents a real problem. Also, mobile homes can be purchased out of state and shipped to Alaska cheaper than what can be purchase in the state.

Number 292

The committee briefly discussed the draft resolutions but took no action.

Number 373

Senator Sturgulewski moved and asked unanimous consent that the committe go into Executive Session to hear confidential testimony which might have an adverse effect on person(s) or businesses. Hearing no objections, it was so ordered. The committee went into Executive Session at 5:32 p.m.

No action was taken as a result of the Executive Session. There being no further business to come before the committee, the meeting was adjourned at 6:35 p.m.

SENATE COMMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
February 24, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jack Coghill
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Fred Zharoff

MEMBERS ABSENT

Senator Dick Eliason

WITNESS REGISTER

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ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 5:10 p.m. She noted the presence of Senator Tim Kelly, and briefly reviewed the compilation of materials which were distributed to the members.

Number 050

Senator Faiks advised the committee that the Western Regional Director of the Federal Deposit Insurance Corporation (FDIC) will be coming next week and suggested that members begin preparing questions for discussion. Senator Sturgulewski requested the questions be given to Senators Faiks, Jones or herself before the week is out.

Number 071

Jan Sieberts was first to testify before the committee. In addition to his position with the National Bank of Alaska (NBA), he is Chairman of the Anchorage Chamber of Commerce Economic Recovery Task Force.

In response to Senator Jones' request that he address SB 471, Mr. Sieberts said that the bill would give the banking community flexibility in dealing with existing and ongoing problems. In dealing with real estate throughout the state, there are specific problems in each regional area. The bill will provide a tool to restructure existing debt and provide competitive financing of new projects. In discussing the history of the rise and fall of interest rates; he pointed to the success rate of the SBA program and its continued involvement in the state since the earthquake.

Number 190

Senator Jones asked whether the legislature would be hurting some existing businesses by providing assistance to troubled businesses and funding for new ones. Mr. Siebert explained what was happening in the banking industry with the decline of the prime rate; specifically, pressure from customers to restructure loans at lower interest rate, and instances where the customer's ability to refinance has been extinguished. As a result, some loans have been restructured below the market interest rate as the bank does not want the responsibility of managing the properties.

Number 237

Referring to the bill, Senator Josephson inquired whether private lenders might involve AIDEA for loan guarantees to businesses that are not truly viable. Mr. Siebert said he agreed with representatives from Rainier Bank, in communication to AIDEA, that recommended AIDEA get a staff person experienced in commercial lending techniques rather than real estate. In refinancing a loan, sound lending judgment is necessary in determining the business' viability.

Number 278

Senator Josephson asked, if SB 471 were law, would NBA still use the SBA in the same manner; and commented on the state's involvement with loan guarantees. Mr. Siebert said that SBA meets certain needs of businesses. He could see using both programs as the dollar amounts are different and Frank Cox mentioned using the programs together so they could increase the dollar amount of the guarantee. Further, he felt that AIDEA has to be responsible, ultimately, for either issuing/denying the loans.

Number 309

Senator Kelly asked for more details on the possibility of shifting losses from banks to AIDEA. Mr. Siebert did not think it would be the result and outlined the purposes of the bill, as he saw them to be: (1) The primary purpose is AIDEA providing long-term capital to the business community; and banks could more efficiently and economically provide capital to the consumer rather than using the bond market which increases the risk exposure to the state. (2) It will provide liquidity within a faultering banking system by providing an agency guarantee on a long-term basis. (3) The risk of failing small businesses will be shared. All banks are negatively impacted with bad loans. When lending money to a business in Alaska, they will think twice if there are negative trends or a reason to believe it is a marginal enterprise. The issuance of a guarantee will give the banking industry confidence to deal with this group. NBA does not recommend a delegated underwriting system, like the federal government. He noted there is less trust between the banking industry and state agencies than the banking industry and federal government programs.

Number 378

Senator Jones wanted to know how equality could be built in the program so businesses could maintain the competitive level. Mr. Siebert stated that lending money is a discriminating business and discussed the problems resulting from the bank failures.

Number 405

Senator Halford, referring to the equality issue, said it would be much fairer to provide a loan guarantee program to everyone not just those who went to AIDEA. He then discussed SBA's involvement in the state since the mid-60's. Currently, the state uses AIDEA to sell bonds in the market to gather outside money for lending in-state. Under the guarantee program, the bank's are able to sell the loans outside to bring in money for the same purpose. In referring to the applicant qualifications and conditions of loan guarantees in the legislation, he did not know how you could save all the businesses. The benefit is the ability to bring in outside money rather than going to the bond market.

Number 455

Mr. Siebert said that, under the guarantee loan program, the losses to the state will be less than what AIDEA is faced with now. Senator Josephson asked, if a loan met the criteria as established in the bill, why would the bank need a guarantee. Mr. Siebert said a majority of their

deposits are on the demand basis; the guarantee provides the bank with some liquidity, as it can sell the asset to raise cash to meet that demand. That is the primary reason that NBA and other banks are interested in the program.

Number 521

Senator Stugulewski commented that the bill calls for a AIDEA guarantee of $1 million versus $500,000 and asked for his thoughts on the matter. Mr. Siebert thought the old $500,000 limit was not satisfactory for Alaska with the higher cost of doing business. She then asked what the long-term impact would be on AIDEA if businesses continue to fail. Mr. Siebert commented that real estate values have eroded, some by 50%. Setting a criteria to lend at 75% of value with it being at the bottom of the market is better than lending at 75% when the market was at its crest. There is a significant amount of fear in the banking industry about investing money in Alaska, and the guarantee program will help stabilize the banking environment. He felt that the bill will help to save and create new jobs.

Number 561

Senator Sturgulewski asked if the Anchorage Chamber of Commerce has taken a position on the bill. Mr. Sieberts said that the Chamber of Commerce Board of Directors voted in favor of the proposal.

Number 564

Senator Zharoff questioned the statement about outside banks being hesitant to invest in Alaska. Mr. Siebert reiterated his previous comment and provided details of outside banks' responses to requests for in-state investments.

Number 579

Senator Faiks described how the bill is one piece of a package; and the bill, by itself, will not cure all the problems.

Number 585

Senator Kelly asked that with the state, military and oil companies spending more money in the state, wouldn't the consumers spend more, thus boosting the economy. Mr. Siebert said if that comes to pass, spending will increase, however, there has been no sign that the current recession has hit bottom. He anticipates there will be further closures of businesses and job layoffs.

Number 624

Senator Halford clarified the program's scope to include refinancing and new financing. Mr. Siebert said there is more concern of abuse that the banking system can pass on to AIDEA in a refinancing program; the drafting of the bill directs AIDEA not be, strictly, a bail-out program. Senator Halford said that AIDEA would still have to approve the issuance of the guarantee under the conditions set out in the bill.

Number 640

Senator Josephson commented that it is his hope that the politicians will refrain from putting pressure on AIDEA regarding specific loans.

Tape One, Side Two
Number 645

Senator Faiks discussed her feelings that AIDEA did a disservice to Anchorage in lending to commercial builders, that were denied by banks, at a high interest rate when the market was already saturated. Mr. Sieberts said that AIDEA disapproved loans that NBA made anyway, and a majority of the loans by NBA were made without AIDEA participation. In discussing loan proposals with AIDEA, NBA pointed to their track record of low delinquincies as an example of sound lending practices.

Number 700

Senator Jones stated he would like to see the program sunsetted and asked Mr. Sieberts' thoughts on it. Mr. Sieberts felt that AIDEA should allocate, out of the $355 million, a specific amount for a reserve account for the guarantees as there will be some losses -- maybe $25 million for reserves -- and say it can't issue guarantees exceeding five times that dollar amount ($125 million); a 20% reserve factor on the guarantees should be sufficient. On an annual or semi-annual basis, the Board of Directors for AIDEA should evaluate the reserve requirement for possible increase/decrease.

In closing, he talked about the demand to save and create jobs. In order to retain the status quo, new jobs have to be provided in the future. To his knowledge, every bank in Alaska supports the bill -- it will give banks confidence to go forward.

Number 846

Bert Wagnon addressed the committee and explained the information contained in materials that were distributed on

AIDEA. He discussed the chart on delinquencies and commented on the fluctuation caused by the closure of the Bank of the North and subsequent lack of payments from the FDIC.

Number 846

Concerning Other Real Estate Owned (OREO) which was reflected on the same chart with the delinquencies, Senator Halford asked about the differential. Mr. Wagnon said that OREO always shows a lag due to the collection process. He then explained that OREO does not represent loans but property owned by the agency. The next chart represented the geographical distribution of loans and the following chart reflected the distribution of the delinquent loans. When viewed together an example would be: Anchorage received 54% of the total portfolio loans and 82.42% are delinquent. Examples of the types of delinquencies were office space-26% and warehouse-18%.

In responding to a question from Senator Kelly, Mr. Wagnon said that AIDEA, with direction from its Board, got out of the five-plex plus loans last year.

Mr. Wagnon addressed the workout reports: Bond sales totals about 32 loans for $30 million. Appropriated/Red Dog represents 32-33 loans totalling about $7.9 million that were originated by the state which he inherited. When AIDA was originally formed, the state transferred about $166 million in loans during 1979-80 that had been held by the Department of Commerce and Economic Development and the Department of Revenue that were used to capitalize AIDA. Also, some funds came through transportation projects.

Number 938

Senator Halford commented on the observation that some loans made in 1979-80 were having problems. Mr. Wagnon said that it is common practice to pyramid debt on a loan.

Number 950

Senator Sturgulewski asked about the number of outstanding loans. Mr. Wagnon responded that AIDEA's total portfolio is $300 million in loans (approximately 1,000 loans); $51 million in delinquencies (30 days or more), and $12 million in foreclosures.

Number 969

Senator Coghill asked for clarification of expenses and maintenance of OREO property. Mr. Wagnon said that the bank that originated the loan is responsible for managing, selling and maintaining the property. The exception is when a bank closes and AIDEA inherits the responsibility.

AIDEA is negotiating with a bank to service the loans that they got through bank closures.

Number 006

Senator Faiks asked Mr. Wagnon to provide the details of the Dimond Mall rental situation, and commented on the negative impact the action caused on vacant building space in the area. He said that the space was rented at $.30/sq. ft. Alliance Bank hired HRT, a real estate firm in Anchorage, to manage the Mall and it was recommended that AIDEA enter into the agreement to provide an anchor tenant that would draw other tenants. The lease has an escalator clause for the next couple years which, he thought, ended at $.65-.70/sq. ft., and contains a purchase option at market value.

Number 068

Senator Sturgulewski asked what about AIDEA's responsibility in keeping the spiral from going down, and still maintain accountability with the Board of Directors. Mr. Wagnon used the Dimond Mall as the example. Negotiations lasted for 90 days, and the first proposal was declined. They carefully considered the impact of the $.30/sq. ft. offer based upon the carrying cost of the building, etc., and what they would get in terms of a draw for more tenants. They elected to proceed with the lease. Alliance which presented the agreement, owns 20% of the loan, and AIDEA tightened it up.

Number 126

Senator Josephson read part of the statutes concerning AIDA's activities; specifically AIDEA's impact on the social, economic and business climate; and asked if the Legislature should provide more detailed directives to the agency. Mr. Wagnon said that AIDEA does a balancing test, although some may disagree with the result; such as what happened in the above situation.

Number 145

Senator Faiks referred to a letter that was received from AIDEA which stated it was not a social service agency. She asked for more details on the AIDEA-FDIC situation concerning loan payments. Mr. Wagnon said that FDIC has collected and is withholding money in the form of loan payments which are due AIDEA. Senator Faiks continued, if AIDEA sues the FDIC for the money, and if the money is not there, it might force FDIC to facilitate liquidation of property thereby further devaluating property values.

Number 180

Senator Halford suggested it may be necessary to pass a temporary law to prevent AIDEA from selling, renting or leasing property for two years.

Number 191

Senator Josephson refered to AIDEA's responsibility to bond holders via covenants; and asked what the covenants stipulated. Mr. Wagnon responded that the bond covenents require AIDEA to act in a commercially prudent manner, whatever that may be -- it's not fully defined. In the way it conducts its affairs, social considerations are on one side, financial concerns on the other. AIDEA probably leans more responding to financial concerns. The magnitude of the problem dwarfs the capabilities of AIDEA to correct or improve the situation. There is no action that could be taken by AIDEA to solve the problem. The trouble with looking to AIDEA for solutions, is that the commercial real estate properties are controlled by many different holders, and AIDEA does not control much of it.

Number 247

Senator Stugulewski asked Mr. Wagnon to address the bill, bridge bank concept, Hallwood working paper and whether there has been any interest in the concept of pooling properties, for management purposes. Mr. Wagnon said he was not sure what the full impact of a bridge bank would be; it appears to be a trade-off of risking $15 million against the hope of stabilizing the market. The committee discussed the $3 million/year for five years proposal. Senator Kelly pointed out that not all loans in the pool would be non-performing.

Tape Two, Side One
Number 003

Mr. Wagnon questioned the financial analysis of the lenders in terms of which loans to place in the pool. Senator Kelly said the Hallwood group would be willing to act as the trustees and have invited other institutions to join them.

Number 027

Senator Faiks suggested that inquiry be made to the FDIC concerning the terms and conditions of the last Hallwood agreement, as it may not be a long-term commitment.

Number 044

Mr. Wagnon stated he had not thoroughly reviewed SB 471 and he is presently preparing an analysis of it. Generally, a guarantee is a form of risk transfer; a contingent

liability similar to a letter of credit. It would move the risk from the private banking community to AIDEA/State of Alaska. The subject of state guarantee programs through AIDEA is currently before the Board and the Board is split on whether to move forward with it. Removing the risk to private banks makes it attractive to them, as they have a marketable commodity, increases their yield, and reduces their loan loss. AIDEA's concerns are the money (internal appropriation of AIDEA's assets or external appropriation), and how does it honor the guarantee. He disagrees with previous testimony that SBA has not been hurt through the economic downturn, and is attempting to get the information from the SBA. He then discussed AIDEA's loan loss figures. He assumed that, with SBA's lending limit of $500,000, that AIDEA is to cover the portion of the loan exceeding that amount up to $1 million. He is concerned that people will discontinue utilizing the federal program and use the state program instead, creating a future contingent liability on the state.

Number 154

Senator Josephson stated that similar action happened to the student loan program; that the state program was so good that students did not fully utilize the federal program. We should make the federal government the lender of first resort, and have the state cover the balance. Mr. Wagnon agreed that we should not supplant federal money with state dollars and recommended further conditions. In commenting on SBA loan conditions, Mr. Wagnon said that SBA allows both new loans and refinancing of existing loans with disbursement of new money.

Senator Halford clarified SBA loan conditions that exclude loans involving lease or rental property; it has to be the business and property. Mr. Wagnon asked for clarification that the bill would provide assistance to investors -- to whom the SBA will not lend -- and small businesses.

Number 234

Jan Sieberts added that AIDEA now lends to groups that the SBA denies. Senator Halford stressed that AIDEA's loan policy of lending to various groups not eligible for other programs, in part, got us into the existing problem. The committee discussed the types of loans to be financed under the proposed program. Senator Faiks stated that the bill is to help both groups: those that went to government for loans and those that went to banks.

Number 316

Senator Halford asked if the bill provided adequate tools to prevent banks from dumping negative-equity or poor loans

on AIDEA. Mr. Wagnon felt it did; but he is working on some technical amendments to the bill, such as the requirement for an economic benefit analysis which would be a burden for the small borrower to meet. In referring to the intent of the bill, he commented that it appears the state is moving out of direct lending and felt there should be exclusions, i.e., student loans and residential housing.

Number 356

Senator Halford requested that, if the Board is considering a loan guarantee program, Mr. Wagnon come back to the committee with a proposed committee substitute. Mr. Wagnon indicated it was his intent to do that through proposed amendments which he will submit.

Number 370

Senator Sturgulewski informed the committee that Frank Cox, FDIC representatives, and the Hallwood group would meet with them at the next meeting(s). There being no further business to come before the committee, Senator Sturgulewski adjourned the meeting at 7:05 p.m.

SENATE COMMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 1, 1988
5:00 P.M.

MEMBERS PRESENT

✓Senator Lloyd Jones, Co-Chair
✓Senator Arliss Sturgulewski, Co-Chair
✓Senator Dick Eliason
✓Senator Jan Faiks
✓Senator Rick Halford
✓Senator Joe Josephson
✓Senator Fred Zharoff
✓Senator Pat Rodey

MEMBERS ABSENT

Senator Jack Coghill

WITNESS REGISTER

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ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Jones, Senate Co-Chair, called the meeting to order at 5:10 p.m. Senator Rodey has been added to the Committee membership. Representatives Max Gruenberg, Jr., House Chair, and Representative Red Boucher, Member, of the Joint Committee were also in attendance.

Number 052

Lamarr Kelly, FDIC, commented that the purpose of the visit is to develop a sense of the Legislature's direction on purchasing FDIC's assets or participating with it in the liquidation process. He will take the results of this

meeting to Washington, D.C. for further discussion with his superiors. The FDIC is now at the point where no tangible movement has been identified, and it may be time for it to start the liquidation process.

The total size of the three bank closures in Alaska was $546 million; the FDIC ended with approximately $300 million, while it expects to acquire about $325 million in assets. In funding the deposit structure and selling certain assets to the assuming institution, it advanced $277 million, excluding the $295 million of financial assistance granted initially to the Alliance Bank group.

Number 107

The net result is FDIC took loans out of the failed banks that had rate structure problems, or were not assets the assuming banks wished to purchase; and placed cash in the assuming banks to enable them to make new loans and carry on normal banking activities. The questions becomes: what does the FDIC do with the assets? The FDIC fully recognizes it can't sell or liquidate the assets at full book value; and he estimated the loss on the $325 million to be $125-175 million. The FDIC would be willing to discount the assets to current market price -- the net of book value down to market value. Mr. Kelly continued that it would not be considered a "bail out" if the state or another institution buys an asset at market value. The assets will be valued back to today's market so that the risk of loss for a purchaser should be minimal; that market value will be net of reasonable liquidation expenses, costs of carrying the assets, and administrative costs.

Number 152

Mr. Kelly continued the central issue is whether the state wants to control or have input into the liquidation process. It is the FDIC's opinion that these assets are best liquidated by a local entity as that entity could work better with financial institutions in attempting to rehabilitate debtors, establish long-term contracts and similar reasons. The FDIC remains open to proposals, and is willing to finance the purchase of its assets. Lacking that, it would recommend to the Board in Washington, D.C. that they move forward with some type of bid process to sell its position in the state.

Number 201

Senator Sturgulewski asked for clarification of the FDIC's expectation of financing the purchase of assets. Mr. Kelly responded that if it sells them in a block, not many institutions have the ability to back the loan.

Number 225

Senator Halford, in referencing the figures, asked if it resulted in the FDIC getting forty cents to the dollar. Mr. Kelly said a historical percentage would be about 50% with the 10% discount. After discussing the book value, Senator Halford said after all the equity was gone, $325 million remained in loaned-out value; that is worth 40% of what was borrowed. Mr. Kelly said that would be a rough guess. They have hesitated to discuss this publicly as it would be a disservice to some financial institutions and debtors to know they could compromise their individual debts accordingly -- each loan needs to be evaluated separately to determine the value.

Senator Halford continued if the state were interested in buying the entire portfolio, what kind of cash is required. Mr. Kelly responded the FDIC would like to get as much cash as possible up-front, such as 25% down, but would consider any realistic proposal.

Number 277

Senator Halford asked, for example, if the state were to propose purchasing the entire package from its reserve account and came up with $20-30 million, would it be possible. Mr. Kelly said "absolutely" and the remaining amount could be financed over an estimate of four years at a reasonable rate.

Senator Halford asked the FDIC to provide an overview of the Hallwood package. Mr. Kelly said the Hallwood assistance package is not analogous to the above scenario; it is a management group that developed an assistance package which includes other ongoing contingent costs, such as book and carrying c ts. In referring to the group having $65 million to invest, it was his understanding the group borrowed the money for purchase of stock interests.

Senator Halford asked how much the Hallwood group has at risk. Mr. Kelly quoted the press release: "The FDIC has granted Hallwood Securities International a put option whereby up to 18 months Hallwood Securities International sell to the FDIC all or a portion of the Alliance Bank Corporation shares it purchased, pursuant to the restructuring plan and not previously resold, at Hallwood Securities International's original cost plus 90% of the carrying cost of the shares provided that, after giving effect to such sale, Hallwood Securities International retains shares equal to at least 9.9% of the total shares presently outstanding." This transaction does not reflect a direct percentage relationship of it risking 10% of $65 million.

Number 352

Senator Sturgulewski referred to correspondence from Hallwood Securities International dealing with a bridge bank. Legislation has been introduced on the bridge bank which would be under the Alaska Industrial Development and Export Authority (AIDEA) as recommended by Dave Rose, Executive Direcor Alaska Permanent Fund Corporation. She asked what options if any, other than those discussed, are available. Mr. Kelly felt, in the absence of movement to seek other options, the proposal that he discussed was a logical alternative -- its simple and could be done.

Senator Sturgulewski asked specifically if AIDEA would meet the FDIC's competency criteria in buying and managing the portfolio. Mr. Kelly said if the state wants to buy their assets, the FDIC would be willing to finance; the state would need to provide some guarantee to the amount outstanding of that advanced by the FDIC. The FDIC would leave the competency issue to the state.

Number 385

Senator Sturgulewski discussed the question of whether there was adequate capital infusion into the Alliance Bank to assure its success. Mr. Kelly said, legally, he cannot discuss open and operating banks. She asked if the market fluctuations impact their portfolio. Mr. Kelly said "yes." One issue, in trying to stabilize the market by pulling those properties off the market, is carrying cost. The FDIC is willing to discount its assets to current market price. But, if the Legislature is asking FDIC to take properties off the market just to prop up market values, that is a policy decision. If the state, in conjunction with a private institution, could administer the assets with minimal risk of loss; it would enable them to grant concessions where needed, with the understanding that there is a cost of carrying associated with doing it.

Number 455

Senator Josephson asked how the FDIC's request for a statutory mandate interrelates with the Congressional mandate that it dispose of the assets in a timely manner. Mr. Kelly said they are not operating under a Congressional mandate but under established standards providing that receivorship courts determine actions on behalf of creditors and stockholders of the failed banks. Future FDIC actions which may impact the market will depend on agreements. He referred to the conflicting testimony about letting the market free-fall to its true market level, etc., which are public policy decisions for the state to make.

Senator Josephson questioned whether the individual creditors would benefit from working with the state versus the

FDIC. Mr. Kelly responded, if the state would give a limited guarantee to the purchasing entity, the state could establish broad guidelines in disposition of the properties.

Number 544

Senator Halford asked for clarification of how long it would take to sell three-quarters of the assets that the FDIC holds. Mr. Kelly thought it could take up to four years to dispose of the assets; it could possibly turn 75% of the portfolio in three years. If the properties were sold to a group as a package, it would be the FDIC's decision.

Number 581

Senator Sturgulewski commented that the financial community has not presented a consensus of opinion on resolving the problems. Mr. Kelly said that he has not thoroughly studied the Hallwood proposal but, like the Legislature, has technical questions about it. The FDIC will have ongoing concerns as any entity servicing the assets would be acting as the FDIC's agent.

Number 618

In response to a question from Senator Rodey, Mr. Kelly indicated that a detailed portfolio has been provided; however, borrowers names are not identified for confidential reasons. Senator Rodey requested a more detailed breakdown which provides information on numbers of small businesses, service industries, etc. Mr. Kelly said they would do so.

Number 630

Representative Boucher asked if it was the FDIC's intention of advising the Washington, D.C. office that it appears the Legislature has not taken action. Mr. Kelly agreed, and said the FDIC has been in a holding pattern -- it has tried to service the assets it has acquired and it has not moved forward with staffing the office or initiating aggressive sales.

Tape One, Side Two
Number 001

Mr. Kelly said the FDIC did not intend to imply a threat, rather to convey they have held off as long as possible and must move forward. While there has been much discussion, the FDIC has not seen any tangible movement.

Number 033

Senator Josephson addressed the Legislature's proposal to appropriate $250,000 for appraisal of the portfolio. Subsequently, an Anchorage banker commented it could be done for $25,000; and asked if the FDIC could offer guidelines in this matter. Mr. Kelly stated he was disappointed that some type of appropriation was not approved, regardless of the cost estimates. It would have provided the Legislature the contents of the portfolio on which they could base other decisions. The FDIC could then negotiate the prices on individual loans.

Number 109

Representative Gruenberg said a list of the foreclosed properties of FDIC appeared in the Anchorage paper, and asked if it was still accurate. Mr. Schannault answered "yes," and added that the list contains properties that had already been foreclosed by the banks prior to FDIC's appointment. Further, there are many properties, such as commercial and real estate pledged for other loans, that are not contained in the list, and some are performing assets.

Number 139

Senator Eliason asked if anything has been learned from other state's problems. Mr. Kelly said, to his knowledge, there has been no direct involvement by the State in the Texas or Oklahoma situations. The States of Maryland and California got involved in specific concerns but he was not sure of the details. He did not think that an analogy could be made between Alaska and some other state's problem due to distinct differences.

Number 197

Senator Sturgulewski asked if the FDIC is holding cash payments that belong to AIDEA or other state agencies, could he explain what is happening. Mr. Schannault said the FDIC has approximately 113 loans involving state agencies; a majority being with AIDEA (47 loans) and the Teachers Retirement System (TRS) (46 loans). The FDIC has a problem in disbursing to AIDEA and hopes to comply with the five-day turnaround requirment by the middle of March; they are making delayed payments now.

Number 230

Senator Sturgulewski asked Representative Gruenberg if the House took action on the $250,000 proposal by AEDC. Representative Gruenberg said the full House committee report that was adopted and published in the House Journal recommended against the appropriation to AEDC for the FDIC portfolio assessment.

Number 253

Senator Josephson said he would support a $25,000-30,000 proposal to evaluate the portfolio. Senator Jones commented that we don't have the money.

Senator Sturgulewski suggested that a meeting be scheduled to review information requested by Senator Rodey and other matters. Representative Gruenberg asked, on behalf of the House committee, that information be distributed to the House members, as well. Senator Jones agreed.

Number 298

Senator Jones asked Mr. Kelly how soon the portfolio breakdown would be available. Mr. Kelly responsed by March 7, 1988.

Number 305

Senator Sturgulewski discussed the number of loans with AIDEA and TRS, and asked if it should be specifically addressed. Mr. Schannault said there is concern regarding the participation aspect, but did not know if the state could alter its involvement.

Number 324

Senator Halford asked if FDIC has ever been involved with a governmental entity in a joint workout. Mr. Kelly answered, to his knowledge, the closest it has come was with the Farmers Home Administration and Small Business Administration.

This concluded the presentation by Mesrs. Kelly and Schannault, FDIC.

Number 350

Bernie Karl, K & K Recycling, North Pole, testified before the committee about his business which involves resource recovery through recycling. He has 22 employees that recycle municipal waste. It was a nonexistent field up to a year ago. They are able to recover 90% of municipal waste and turn it into other products, such as fuel pellets, and are holding plastics waiting to convert it into new products, as well. No government money is involved, strictly free enterprise. He does not feel that government should finance private businesses. He is here to request, not money, but legislation to enable them to compete in the market.

The work is labor-intensive and they have not had any problems in finding applicants. They had 300 applications

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1558 SCOMM 59. JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1355

for 22 positions and pay $7-15/hour. He then described the recycling process and benefits of the products. The duration of the Fairbanks' landfill has been extended for an additional 75 years minimum without burying anything harmful; and saves the citizens $980,000/year excluding the cost of building a new landfill. By comparison, the Anchorage landfill cost was $100 million with an estimated life of 40 years.

In addition to legislation on recycling waste, they request preference be given to the products if state money is involved in a project.

Number 422

Senator Josephson asked what types of products are produced. Mr. Karl described the fence posts, carstops, and fuel.

Senator Sturgulewski asked about the status of the legislation. Mr. Karl said that Representative Frank has introduced it. Currently, his interest is caught between the larger industries of oil, coal and timber, which are strong lobbying groups.

Number 468

In responding to a question of fencepost costs, Mr. Karl said the 4"x4"x6' is more expensive than spruce, but cheaper than allweather wood or redwood. Iowa enacted a law which requires the use of recycled products in state projects. The carstops are $25 per, possibly $1.50/foot with a 100 year guarantee.

Senator Eliason asked what they were doing with other waste products, such as aluminum or ordinary garbage. Mr. Karl responded that garbage is segregated when received. Hazardous material and aluminum are separated by hand and magnets pick out metals for bailing. He has a contract with Seattle Steel for the iron. With regard to organic waste, it ends in compost which they intend to sell as fertilizer. He described the process for making fuel pellets and outlined the process and costs of handling waste from the Fairbanks landfill.

There being no further business to come before the committee, it was adjourned at 6:37 p.m.

SENATE COMMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 3, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Dick Eliason
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Fred Zharoff
Senator Pat Rodey

MEMBERS ABSENT

Senator Jack Coghill

WITNESS REGISTER

Jim Barnett, Assemblyman, Municipality of Anchorage
Vice President, Anchorage Economic Development Corp.
10050 Prospect Drive
Anchorage, Alaska

Remington Low, President and
Chairman of the Board
B M Behrends Bank
234 Seward Street
Juneau, Alaska 99801

ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 5:10 p.m. The following legislators were also in attendance: Senators Jay Kerttula, Tim Kelly and Paul Fischer; Representatives Red Boucher, Kay Brown and Dave Donley.

Senator Sturgulewski opened the meeting with a status report on action taken by the House side of the Joint Committee. It has: (1) turned down the Anchorage Economic Recovery Corporation's (AEDC) request for $250,000 to evaluate FDIC's portfolio; and (2) passed a Resolution relating to the residential real estate market involving

Alaska State Building Authority's (ASBA) proposal on the Willow Park housing project.

She updated the committee on forthcoming meetings and scheduled witnesses. She advised the committee that she has spoken with George Cannelos, who is working on a 20-year master plan of Elmendorf and Fort Richardson. He will be recommending specific elimination of World War II housing, to be replaced with off-base housing. The project will take 5-10 years. She will assure that appropriate officials are notified of the action.

Number 092

Three bills have passed the Senate and pending in the House. Senator Sturgulewski recommended the bills be considered part of the committee's package that will be presented to the full Joint Committee. Senator Halford outlined the provisions of SB 333 relating to priority wage claims in bank liquidations, and SB 392 concerning purchase of loans by the Alaska Industrial Development and Export Authority (AIDEA). Senator Halford moved and asked unanimous consent that the bills be adopted by the committee. Hearing no objections, it was so ordered.

Number 120

Senator Sturgulewski referred to SCR 32 urging flexibility by lenders and collectors, which has also passed the Senate. Senator Fischer, sponsor of the Resolution, commented that it requests financial institutions to go the extra distance in working out problem loans and establish more flexibility in their loan policies. Senator Josephson moved and asked unanimous consent that SCR 32 be adopted by the committee. Hearing no objections, it was so ordered.

Number 147

Jim Barnett, AEDC, addressed the committee about the the Corporation's proposal, as previously referenced. It is currently negotiating with the Federal Deposit Insurance Corporation (FDIC) to do the evaluation. It is their expection that they can complete the project without any state support if the agreement is approved.

Number 184

Senator Faiks requested that the committee get comments from the Assembly and AEDC on SB 471 relating to business loan guarantee/refinance program under AIDEA; SB 476 which provides municipal assistance for railbelt communities, and SB 477 making appropriation for assistance to railbelt communities. She also requested their comments on a bill to reduce all home mortgages by 2% for three years. Mr.

Barnett, referring to the latter request, said he did not feel there would be support from the Assembly as it is not interested in government subsidies across-the-board.

Number 214

Senator Kerttula asked the scope of the committee in determining which bills it will review. Senator Sturgulewski said discussion has focussed on many bills relating to economic development. Senator Kerttula asked that the Senate not fund the fish hatcheries so that the non-profit organizations can continue to operate; and support the bill to restructure the dairy farm debts. Senator Sturgulewski said that they would be added to the committee's list for review.

Number 270

Representative Kay Brown came before the committee and discussed the Resolution pertaining the the Willow Park housing project, on Ninth Avenue in Anchorage. The project has many code problems and it would be more expensive to bring the project into compliance than to demolish and relocate the tenants. The U. S. Department of Housing and Urban Development through CIAP/MROP would grant $9 million to purchase alternative housing for tenant relocation, contingent upon securing state funding for the asbestos abatement program ($1.5-2.0 million) and funding from the Municipality of Anchorage for demolition and site restoration ($2.2 million). The issue was also raised with the Directors of the Alaska Housing Finance Corporation (AHFC) to see if it would be in its best interest to participate. The members thought it would be appropriate to use the AHFC's reserves for this purpose as AHFC owns a large part of the problem.

Number 319

In response to a question from Senator Sturgulewski about ASBA taking the proposal to Washington, D.C., Representative Brown said the Director of ASBA will be meeting with federal officials, she thought, on March 12, 1988. The proposal represents a statement that the project is moving.

Number 352

Senator Josephson commented on the meeting he and Senator Sturgulewski had with Wes Coyner, Alaska Bankers Association; Remington Low, President and Chairman of B M Behrends Bank; Ed VanPatten, Alaska Federal Savings & Loan; and Craig Dahl, B M Behrends Bank. It was indicated that there are statewide effects to the problems of the banking community and the state being "redlined" by potential outside participants. He distributed the briefing sheet which

contains recommendations that would need approval from the Legislature, AIDEA, and negotiation with FDIC.

Number 385

Remington Low addressed the committee about the proposal. He commented that, after observing the meeting with FDIC officials, he felt there was a sense or urgency, and not much progress has been made in dealing with the economic problems. He and Wes Coyner discussed the situation and they drafted some ideas for deliberation. These proposals do not reflect support or opposition by the Alaska Bankers Association. Three specific concerns which need to be reviewed are: (1) property overhang of FDIC and Alliance Bank; (2) viewing the economy as a whole, such as impacts on small businesses, and (3) problems of the banks. The proposal is as follows:

FDIC sells troubled loans to AIDEA for $.25 (not firm figure) on the dollar with no recourse to FDIC. Fund assets until resold up to maximum of 12 months.

AIDEA to sell to banks at $.30 (not firm figure) on the dollar. AIDEA to pay carrying costs, taxes, repairs, etc., but not collection costs.

AIDEA to buy back uncollectable loans up to five years. It could resell them at any price to anyone with no recourse.

Banks be allowed to buy loans up to a given percent of capital if a branch is in the area of the loan on the first round. After the first round, any bank could purchase, including outside institutions.

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

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

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

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

Number 517

Senator Josephson asked what happens if nothing happens. Mr. Low commented on the seriousness of the situation when property values go down, the value of the loans decrease as well and force people out of business.

He spoke about the FDIC proceeding with liquidating their assets; that it does not conduct auctions effectively as it does not have experience in the area.

Number 541

In response to a question from Senator Josephson regarding the impact on the remaining banks, Mr. Low said that the FDIC or OCC (Office of the Comptroller of the Currency) will continue to examine loans. When examining real property used as collateral, they will force the banks to write down the loan according to the market, thus impacting its capital position. It would not be easy for any bank to raise capital.

Number 558

Senator Rodey explained the "ratchet" theory in banking. Assuming you have four banks with $1.5 billion in loans. The theory was if one bank fails, it will drop property values, and each succeeding bank below it would fail as property values go down. We have had two bank failures and property values have gone down as much as 50%. The doomsday scenario is every bank ratchets as property values go down. After you get through the four troubled banks, you reach the healthy ones. If their portfolio is only worth $.40 on the dollar, they are in jeopardy as the OCC can close the banks since they are illiquid. The remaining banks are those that are ratchets of outside banks.

Number 572

Senator Josephson inquired whether the proposal was not detrimental to one bank as opposed to another. Mr. Low said "yes." Senator Josephson asked, if the Legislature decided to pursue the proposal, was he looking is for legislation, or a catalyst to bring the groups together. Mr. Low affirmed the latter suggestion.

Number 581

Representative Boucher relayed the problems a man had with FDIC concerning a performing loan. Mr. Low said the FDIC doesn't come in by itself; it would turn the loan over to another bank. If the FDIC was liquidating, it's another matter as they're not in the loaning business. If the loan had been turned over to another bank and the customer had a line of credit with the failed bank, the assuming bank may not make lines of credit. Further, the FDIC has a $13

billion fund and just broke even last year. To maintain that level, it has to liquidate; and it doesn't have the flexibility of making allowances.

Number 620

Senator Faiks asked if it were true that all banks could participate equally in the purchase of FDIC's assets; and how banks that are cash-poor could compete. Mr. Low said presently banks' loan-to-deposit (LTD) ratios are fairly low, so there is capital available. He discussed the LTD's seasonal fluctuations and said that there is money available in Southeast. The question is whether the bank's decide to lend, or invest in federal funds or securities.

Tape One, Side Two
Number 644

In discussing the low cash positions, Representative Boucher said in his talk with someone from the Employees Credit Union, the person indicated that loans were down and they did not have a strong cash position. People are cautious; savings are at the highest, and consumer confidence had dropped -- which takes money from lending. If people would save 1% less around the state, it would mean an influx of $85 million. Mr. Low commented that a 30 year Treasury bond is paying about 8.32% interest and that certainly is not as good as making a loan at 12-13%.

Number 689

Senator Josephson said he had another question of Jim Barnett and asked for clarification of the request before FDIC. Mr. Barnett said the structure of the transaction is FDIC would fund the $250,000 on a non-recourse basis, nothing is returned to AEDC if is doesn't work. There are various ways of funding the project and none, including bonds, would require the full faith and credit or obligation of the state.

Number 767

Senator Sturgulewski commented that the FDIC could be negotiating with a number of parties. Mr. Barnett said that different responses are received from FDIC, depending on whether it's said publicly versus privately. Senator Josephson asked whether the Legislature should be involved at all. Mr. Barnett said the AEDC proposal was not meant to be mutually exclusive -- to eliminate any other proposal. One problem with the AEDC proposal is that it will create an entity similar to a bank and receive requests for better than existing loan terms. The plan is to establish a non-profit corporation independent of AEDC managed by

bankers and accountants. The corporation would not be lending money, rather conducting workouts on the portfolio.

Number 822

Representative Boucher spoke about his discussion with David Cuddy, Senior Vice President, First National Bank of Anchorage, on the $250,000 proposal. Mr. Cuddy said that the loans have been picked over; they had immediately rejected 1,000 loans. He thought the evaluation could be done for approximately $25,000, and bankers agreed that it could be done under $250,000. Mr. Barnett said that if the entire amount is not necessary, the remainder would be returned.

Number 865

Senator Rodey thought it might not be reasonable to assume that anyone can get the FDIC portfolio without money. They are trustees of public money. While they expressed a willingness to finance, they probably will not finance the entire amount. The Legislature needs to make a decision on whether it is willing to spend any money on the FDIC package; if not, is it willing to provide a state guarantee and have private investors take the package; or do nothing, and be up front with everyone as soon as possible.

Mr. Barnett said another alternative is to wait for the results of the AEDC and FDIC negotiations. He stated that while $250,000 is high, they're not sure what's in the portfolio or what problems might arise. AEDC has spoken with Sealaska officials about the proposal, and they hope to get the banks involved.

Number 940

Senator Sturgulewski outlined the agenda for the next meeting: (1) Willow Park housing project; (2) status report of actions by FDIC; (3) bill providing for a guarantee program (Senator Halford); (4) responses to Senator Faiks' requests; (5) "smaller banks" request for money ($18 million to bring 3-4 institutions' capital back to their 1985 level), and (6) "Southwest Plan", a proposal introduced in Texas aimed at assisting Savings & Loans institutions and Savings Bank; and federal legislation of which other resource states have not received benefits.

Number 004

Senator Jones requested the sponsors of the bills to consider incorporating sunset provisions (3-4 years) so they can be reviewed.

Senator Eliason commented the Senate needs to get responses from the House on the proposals. Representative Boucher agreed.

There being no further business to come before the committee, Senator Sturgulewski adjourned the meeting at 6:20 p.m.

SENATE COMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 7, 1988
6:00 P.M.

MEMBERS PRESENT

Senator Lloyd Jones, Co-Chair
Senator Arliss Sturgulewski, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Pat Rodey

MEMBERS ABSENT

Senator Jack Coghill
Senator Dick Eliason
Senator Fred Zharoff

WITNESS REGISTER

James Cairn, Chairman
The Hallwood Group
767 Third Avenue
New York, New York 10017
(212) 319-2360

ACTION NARRATIVE

Tape Two, Side Two
Number 913

Senator Jones, Senate Co-Chair, called the meeting to order at 6:04 p.m. Senator Tim Kelly was also in attendance.

James Cairn, Hallwood Group, was the guest speaker for the meeting. He advised the committee of his background in the banking industry which, among other things, included serving as President of the American Bankers Association (ABA) and the history of the Hallwood Group. The proposal for the establishment of the Hallwood Alaskan Real Estate Stabilization Trust (Trust) was distributed to the committee. The FDIC asked the Group to look at the Alaska Mutual Bank (Anchorage) and they reported they did not think they could reorganize the bank for the reasons tgat it was economically viable and concern about the overall state economy. They advised the FDIC that if the group had a larger size and better distribution they might be able to assist -- thus came the merger of UBA, UBA-SE and Alaska Mutual into the Alliance Bank of Alaska. Before the

restructure was completed, they were not financially obligated to complete the transaction but, by that time (October 19, 1987), they had done a lot of work and knew more about the state. Working with the FDIC they were able to buy some time and on January 28, 1988, they closed the transaction which includes an investment from the Group.

Number 095

Mr. Cairn paraphrased from the prepared text (Proposal) on the background of the proposal which set out the existing economic climate of the state and the negative impact that dumping of property would have on the local market: collapse of the fragile price structure and ensure the continuation of the current recession. The objective of the Trust is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of part of the Trust assets in a manner that would protect the citizens and financial institutions that would be participants in the program.

He commented that the banking system in the state is fragile. The theory provides that if banks fail, others will come in; however, we are a long distance from the Lower 48 and there are differences in our economy. He noted that First Interstate of Anchorage was taken over by a local bank and not by the interstate chain.

Number 250

He addressed the proposal and said Hallwood recommended the establishment of the Trust for the purpose of liquidating the property as promptly as shall be economically feasible. They anticipate that the property will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers, parcels of raw and improved land, and non-performing or partly performing mortgage loans. It is their intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988 (not set date). The fair market value of real estate should be based on independent outside appraisals, in accordance with accepted appraisal methods, etc.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for an initial ten-year period; and do not think this is a short-term problem. It is intended that a Procedures Agreement be drafted to establish a minimum sales price for each of the transferred assets (what the Trust could sell them for), approved by the Trust Board and that minimum sales prices will be based upon appriased values, but changed from time to time. The Procedures Agreement will also establish restrictions on financing by the Trust although it is

intended that the Trust will offer financing to purchasers of properties. The Trustee's powers and duties would be governed by the Trust but the Agreement would generally authorize the Trustee to preserve and manage, but not to develop the assets. The Trustee would have the discretion, for marketing purposes, to obtain necessary appraisals, feasibility and engineering studies or marketing surveys. It does not see properties being transferred under the Trust to require large amounts of cash flow -- it's a holding trust and a marketing trust not a construction or new development trust.

Number 258

Mr. Cairn continued that as to borrowing funds, the Trust Agreement would 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, and those borrowings must be secured by any profit which might result from future sales of the assets. Under such borrowings, they would expect the State to rollover interest payments to the extent that such payments were not available out of the Trust's 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 $15 million cash as requested, would be sufficient.

Under the terms of the Distribution Agreement, the Trustee would first satisfy itself that sufficient working capital is available to the Trustee to continue to operate, and only after you have done that would funds be distributed to beneficiary institutions. The Trustee would be empowered to sell off blocks of property to other trusts or corporations dedicated to long-term holdings. They think there are very good opportunities for that.

Insofar as the assistance from the State of Alaska, in order to ensure that the trust if funded with sufficient working capital, they are requesting that the State, 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 proportional interest in the Trust. So, as the assets are liquidated, the State will receive their proportion back based on that subscription. That would ensure that, if the property is held off the market or managed more effectively than anticipated, the State would benefit the same as anyone else. It is anticipated that the $15 million plus the proceeds of the sale of Trust assets would 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. But if it isn't, they would ask the State to enter into a standby

credit agreement with the Trust whereby the State would agree to advance to the Trust up to 10% of the Trust assets secured by a first lien on the profits that may be realized by the Trustee from future sales of the Trust assets. 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 made to beneficiaries of the Trust.

Mr. Cairn felt the key to this, after you stablilize it, is that the property that has been placed in the Trust is free and clear of a lien, because the person who put it there has taken back an interest in the Trust for their contribution or property. The $15 million is used to pay the carrying costs, and the amount necessary to hold properties off the market so you can manage them and evaluate the loans, the marketing process. He discussed the advantages of working out loans versus foreclosure. Banks do have money to lend at this time.

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, leases, taxes, etc. Both real estate owned and real estate loans deemed appropriate for foreclosure 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, they believe, needs to be to foreign investors, and in most cases, non-American. He discussed Hallwood's international network and its experience in the liquidation process. The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million. 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 economy.

Number 445

In short, anywhere there's a local investment market and no exchange controls, they will find and motivate an experienced local agent to offer Alaskan real estate. Buyers will also be offered a management service where their local managers will, for a small fee to be cash flow to the Trust, manage the local investment portfolios on behalf of these non-resident investors. They 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 them will be buying on a long-term hold with a view to

capital gains sometime in the future. They will also be organizing regular marketing trips to Alaska by foreign investors, many of whom will also be interested in other Alaskan commercial development projects, they think.

For this they do not expect to receive any fee. They have invested in the Alliance Bank and they are trying to protect that investment. They do not want to put the Bank back to the FDIC at the end of 18 months. They would like to be reimbursed by the Trust for out-of-pocket expenses and if there is a special distribution, as described, there would be a small fee. This concluded his opening remarks.

Number 484

Senator Sturgulewski asked that he provide a brief explanation of Hallwood's involvement in the Alliance Bank. Mr. Cairn said the original proposal was that Hallwood would raise $65 million and FDIC would add $295 million for injection of capital into the bank totalling $360 million. Hallwood does not invest its own money rather, it attracts institutional investors that it has around the world. The result of the offering is that Hallwood put $57,300,000 plus into the Bank so they have made a cash contribution of that amount. The balance of the money was put up primarily by the Fidelity group and a few other institutional investors. The FDIC did put up the remainder and the capital was used to do three things: (1) it brought the deficit net worth of the organization up to a net worth of $110 million; (2) it allowed the Bank to writedown all of its real estate by creating reserves; now there is a reserve of approximately $130 million against $220 million of non-performing loans; and (3) it allowed all the real estate that was owned to be written down to its fair market value, so that the $80 million was originally approximately $180 million. Of that $80 million, about one-third of it has been sold. The Bank is strong from a capital point.

The transaction occurred so that at the end of 18 months, if Hallwood feels that the Bank is not going to be economically viable, it can go to the FDIC and say "pay us back the money we have put in", and the FDIC will not only pay back the $57.3 million but will also pay 90% of the cost of that money while they had it in the Bank.

Number 545

Senator Kelly asked if structuring the Trust would allow them to be more economically viable in 18 months and encourage them to stay in Alliance Bank, and how soon could the program be operable. Mr. Cairn thought it could be operating immediately. They have already hired an attorney experienced in banking law in the Alliance Bank, and brought in systems to account for and manage the

properties. They could take on other personnel as soon as they are available. In terms of assisting Hallwood, he felt that they only need assurance that the Bank will be profitable at some point in the future, and they would like to think they have control of the property overhang and not create more problems.

Number 588

Senator Kelly asked how do they get other institutions to join in their Trust. Mr. Cairn answered that the group has people in place to do the job. The proposal buys everyone some time and carries the cost. The loss is already there and they have accordingly created their reserves. Concerning the question why should institutions join he said if they put in their assets, they get the time to recover and the management of the properties. The FDIC has not yet responded to this same proposal.

In responding to Senator Kelly's question about what happened in the Alaska Mutual Bank's situation. Mr. Cairn said they got all of its accounts, including UBA and UBA-SE, none of that went to the FDIC. In the formation of Alliance Bank, the FDIC put in $295 million and $100 million plus was written off. Reserves were set at $130 million and the rest put in capital, and he explained the shareholders interest and their investment. In discussing the FDIC's involvement, Senator Halford said it had contributed $570 million. Mr. Cairn said it was an unprecedented effort on behalf of FDIC and the Hallwood group is also focusing all its efforts in bringing capital to the state.

Number 696

Mr. Cairn continued that capitalization of the Trust would be the value of all the assets contributed plus the $15 million. For those contributions or money, people who gave up the assets or cash would receive an interest in the Trust. The $15 million would be used to pay for ongoing operations and to that cash would be added rental income and other income from the properties; taking away from that would be salaries, taxes, maintenance expenses, etc. To the extent the $15 million plus income from properties is insufficient, they would then ask to draw down a loan to keep the Trust alive.

Tape Two, Side One
Number 002

Mr. Cairn said the idea would be to market the property and there would be cash involved. They don't want to see properties put in that require very much cash to hold. An example would be an office building that requires tenant

improvements; they would not want to fund the improvements out of the cash, rather lease it without the improvements and make the lease/sales price lower so that additional cash would not be invested. Or, sell it to a developer and finance the purchase out of one of the financial institutions, including their own. There's no shortage of money to finance, but shortages in money come from operating and carrying costs. The Trust would be available to those that fit the criteria of the agreement. It appears there might be as much as $800 million worth of real estate classified as eligible for the program.

Number 118

Senator Josephson asked about how they market in foreign countries. Mr. Cairn described how they take the existing market value and offer to sell for 60% of what it would cost to construct, the person could buy it for 20% down, no recourse loan, to be financed over ten years with interest. The value of the dollar could be half of his/her currency, such as the Japanese yen. In this instance, the person stands to make ten times his/her investment if successful; if not, he/she looses it.

Senator Josephson asked how any further instability in the Alaska banking industry would affect the Alliance Bank and Hallwood. Mr. Cairn said that Alaska's economy is different from the rest of the country. It's a special consideration to stabilize the banking environment here, especially concerning Alliance Bank.

Number 249

Senator Sturgulewski asked for information on the non real estate loans in the FDIC portfolio. Mr. Cairn said he has not had a chance to review the loans; but if the loans are viable, they would be willing to take over the loans. She commented that in material from FDIC that as many as 5,000 jobs could be involved in non real estate loans. Mr. Cairn said they would help with restructuring a loan, if necessary.

Number 291

Senator Sturgulewski asked if all that was necessary to create the bridge bank other than Hallwood creating the structure; and the state's $15 million and potential loan of 10%. Mr. Cairn affirmed the comment and said they would work with state agencies to accomplish it. They are in the process of doing all the documentation which was described. One important element is how they market the properties. It's not just the $15 million, it's their reputation and their ability to say there is an organized process in place to handle the problem.

Number 339

Senator Faiks asked what types of property and under what circumstances are properties placed in the Trust. Mr. Cairn said the first decision is with the bank that has the loan now. If turned over to the Trust and a determination is made that it is economically better not to foreclose, they will not do so. Under that scenario, it would not be sold to a foreign investor. However, in the reverse situation where the businessman cannot afford the property, it might be packaged and the seller might be the businessman who leases it back.

Number 413

Senator Kelly commented the Hallwood proposal considers the $15 million a beneficial interest in proportion to the subscription; and a loan to be paid back to the State of Alaska. The proposal the legislature introduced does not address the 10% loan or guarantee or advance of trust assets.

Number 427

Senator Josephson said there was some confusion. Mr. Cairn commented that concerning the $15 million, the state would stand with everyone else, for example: If the banks contributes $85 million of current value property and the state puts in $15 million so there is $100 million in capital; everyone gets one share for every million dollars. As the property is liquidated, you get your proportion as 15% of anything liquidated back. If they have to go for a loan because they ran out of the $15 million and need cash, that would be secured by the properties of the sales. Then, you would have a first lien on all assets to the extent of the cost of the sale.

Senator Josephson commented that the purpose is not to have the state be the guarantor of anyone's profit or loss but only to provide a hedge for administrative overhead.

There being no further business to come before the committee, Senator Jones adjourned the meeting at 7:10 p.m.

SENATE COMMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 16, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Jack Coghill
Senator Pat Rodey

MEMBERS ABSENT

Senator Dick Eliason
Senator Fred Zharoff

WITNESS REGISTER

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Frank Cox, District Director
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Dennis Robinson
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ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 5:10 p.m. Senator Tim Kelly was also in attendance.

Tony Gambiner, Hallwood Group, addressed the committee on the Hallwood Alaskan Real Estate Stabilization Trust (trust), or bridge bank, proposal. He said that Jim Cairns previously discussed the risk to Alaska's banking system

that would be caused if Alliance Bank would fail and the resulting decline of real estate values. They feel the state should take action to alleviate the problem. When they made the original proposal, they asked for an equity investment from the state of $15 million with allowance for further borrowings. They are now asking for an appropriation limited to $15 million, but it will only allow them to run the trust for one year. If, during that year, they are able to generate sufficient income from sales of the trust, without collapsing the local market, they will come back with a progress report. Then, if necessary, they will request the state to lend money to the trust.

They feel any action by the state should be conditional upon the FDIC agreeing to participate in the program. Otherwise, the FDIC might be expecting other opportunities for it to sell to third parties, which will be funded by some state agency. In responding to expressed concern that Hallwood, after its 18 month trust commitment, might put its shares in Alliance Bank back to the FDIC, Mr. Gambiner said Hallwood would be contractually obligated to run the trust for the ten year life of the trust. It is in their interest to run the trust because of their large investment in Alliance Bank. If they no longer have that investment, they would propose they pay a fee based on the negotiated pricing structure laid down between FDIC and the 27 beneficiary banks in the 27th Trust. They would then be compensated for the work they were doing, and would continue with their contractual obligation, unless it was felt they should be replaced.

Number 136

Senator Sturgulewski asked about their interest in Alaska Housing Finance Corporation (AHFC). Mr. Gambiner said they were not suggesting that the proposal be conditional upon AHFC joining in, since the state controls AHFC through its own authority. They have talked with Commissioner Tony Smith, Department of Commerce and Economic Development (DCED), and Mr. Gambiner thought the Commissioner was in favor of the project and he is to advise the Governor of his recommendation.

Number 158

Senator Josephson commented he had drafts of CSSB 408 () and CSSB 409 () for committee review. Mr. Gambiner had proposed amendments to the drafts as follows: CSSB 408 (), page 1, line 27, delete "corporations that have interests in" which would give them the power to take over failing banks rather than real estate portfolios.

They discussed whether the appropriation amount should be $15 million or $45 million in CSSB 409 () page 1, line 10.

Mr. Gambiner said the cost of the operation will depend on how much property is managed in the trust. If they assume the trust is limited to Alliance Bank, FDIC and AHFC's portfolios, they think the cost will be $15 million a year to run it. Until such time as the marketing efforts in the trust have produced an income stream that takes up the slack, they would look to the state to fund it. They intend to come back to the legislature after the first year, provide a status report, advise how much money will be needed for the following year, and make application to borrow that money in a manner similar to that laid down in the original proposal. The $45 million is their best worst guess of how much money they would need: $15 million equity investment and a drawdown facility of up to $30 million. Senator Josephson referred to page 1, lines 10-11, and said the source is not referenced because it will be a judgment call as to what it will be.

Number 226

Senator Josephson asked about reimbursement to the state. Mr. Gambiner said the $15 million would be invested in equity, the same way as any other participant (i.e., Alliance Bank or FDIC) will contribute property. That property will be valued at current market value and they will receive units or shares or partnership interest in the trust, which entitle them for distributions as these units are sold in the liquidations process. They are asking the state to provide liquidity in the form of cash and asking the beneficiary participants to put in their various properties. The state's money will be used to pay operating costs (management expenses) until such time as income is generated from marketing the assets. He explained the method by which the state would get reimbursed.

Number 275

Senator Sturgulewski commented that U.S. Senator Frank Murkowski informed her that they have requested the Federal Home Loan Bank Board in Seattle, Washington, to take an independent look at our situation and the report will be sent to his office on March 14, 1988.

Number 295

Frank Cox, Small Business Administration (SBA), came to the table. Senator Halford said the bill, SSSB 471, represents the re-write of the original bill with input from AIDEA and Mr. Cox. The bill establishes a program in AIDEA to guarantee business loans and to refinance debt. In response to a question from Senator Coghill, Senator Halford said the business assistance fund will be established with the existing funds in AIDEA.

Mr. Cox said that the legislature may be seeing a little paranoia on the part of AIDEA and they are being careful because they are afraid the banks will rip them off. He has been doing loans for 18 years and the SBA guarantees 90%.

Number 336

Senator Sturgulewski commented that it has been mentioned that this is a bank bailout approach and asked him to answer several questions pertaining the SBA loans. Mr. Cox said there would not be any advantage to a person, who qualifies for his program, to use AIDEA. SBA would guarantee 85%; and get an answer in five days whereas it takes the state 5-6 months to respond. Concerning SBA's delinquency rates, he stated the matter is difficult to address as FDIC has possession of approximately 35% of his portfolio. Before FDIC took some loans, the delinquency rate was 12% (60 plus days); his charge-off rate is 3.2% (loan losses on ten year continuum). AIDEA's 75-80% rule would not change.

Senator Halford said a question was raised about whether they should apply to new loans as well as refinanced. AIDEA was interested that they not apply to refinance. Mr. Cox favored the inclusion of the refinance, not to allow people to pull all the equity from the loans and run, but to help someone by restructuring their payments. Those are the loans, limited to 20 years, that help residents; new loans help those that stepped off the plane last year. SBA does refinance, but only to the benefit of the borrower and not to the bank. Many SBA loans are not real estate based; but working capital. It's much easier to collateralize real estate than working capital.

Number 407

Senator Jones asked whether the banks will take advantage of AIDEA. Mr. Cox responded that it is up to AIDEA to say "we're not interested in doing this deal." If they are credit-worthy, AIDEA should be helping them. Senator Halford explained why it is to the advantage of the bank to refinance good loans: they can take the AIDEA guarantee and sell the loan to someone else, which gives them the capital to operate and make loans.

In response to Senator Coghill's comment about the need to refinance soft assets (working capital, inventory), Mr. Cox said AIDEA could only make loans on hard assets in the past. Senator Halford outlined the method for which AIDEA expands its capital base.

Number 454

Senator Faiks made two points: (1) the bill expands the number of players that can go to outside markets to bring money into the state; and (2) recommended language inserted, if the committee agreed, to include consideration of what's been called soft assets. Would this expand AIDEA's statutory authority and create a major re-write of the bill. Senator Rodey said those actions would expand its authority. Mr. Cox added it could be addressed on a percentage level such as ability to withdraw 10% (or whatever) of equity to be used as working capital.

Senator Halford said the reason AIDEA doesn't allow loans on soft assets is they are dealing with the bond market; it doesn't make sense to go through the bonding process for a short-term working capital loan. Likewise, it doesn't make sense to go through the guarantee process for a loan that is based on short-term asset. He raised the question of what happens during foreclosure: AIDEA felt that during foreclosure, the principal should be paid first. The banks disagree with it and said, essentially, the attorneys' fees and cost of the foreclosure should be paid first, and then the principal. Mr. Cox said SBA gives the bank 90 days, and if they choose, SBA will buy it. At that point, SBA gives the bank the choice to liquidate; if not, SBA will do it. If the bank liquidates, SBA takes some responsibility for controlling the attorneys' fees and other cost. They have not had trouble in telling the bank that SBA will allow $10,000 in attorneys' fees and that's it. SBA's regulations address the process.

Number 494

Senator Josephson said the 90% figure has been criticized on the basis of it being a bank bailout and the state would be better to reduce the percentage. Mr. Cox said it depends on who is running the program and what type of credit judgments are being made. SBA is dropping its percentage from 90% to 85%.

Senator Coghill asked what percentage of SBA loans are for inventory and accounts receivables. Mr. Cox answered about 30% of loans are specifically for operating capital.

Senator Faiks asked, if possible, could Mr. Cox address the differences in their working relationship with banks than that of AIDEA. Mr. Cox said they assume the banks will act legally with them and normally everything is handled in the documentation.

Number 540

Senator Rodey addressed the inclusion of soft assets for purposes of AIDEA loans. He stated AIDEA was set up as a secondary market, not to deal directly with anyone, due to

the state's delinquency rate (about 40%). When you move into the area of relatively unsecured loans, it has to be carefully considered, as AIDEA was not set up for that purpose. Responding to a question from Senator Coghill, Senator Rodey said the AIDEA bond program does have a restriction on soft asset loans. Mr. Cox added there is equity there that can be recaptured for working capital.

Senator Sturgulewski asked if the SBA had a debt ceiling. Mr. Cox said there was a national limit, maybe $6.5 billion, that has only been reached twice. She asked if there was any flexibility for SBA to service the market rather than our creation of a loan program. Mr. Cox said the SBA is responding; part of the problem is that AIDEA has much of the collateral, which leaves little collateral for anyone to base a loan. Senator Rodey added that bond covenants are involved.

Number 580

In responding to a inquiry from Senator Sturgulewski about appropriating funds for capital reserves, Mr. Cox stated AIDEA has about $300 million, with profits of almost $20 million last year and $30 million the year before, maybe they should use that.

In discussing SBA's strict guidelines, Mr. Cox said their decline rate is about 5-6 times as high; it used to be less than 1%, and they have had months where they have declined up to 30%.

Senator Sturgulewski said they've heard charges the state program has been subject to political pressure and asked if that was a problem in SBA. Mr. Cox stated it is only a problem if the person that is running the program responds to it.

Number 600

Senator Josephson said, in a situation where the originating bank fails, does it create special problems. Mr. Cox answered that it does if FDIC takes the loans. They have several hundred loans now in the hands of FDIC and they know they are current; but the FDIC, as trustee for the debtor, has them in an account. Because they are in the secondary market, SBA will end up repurchasing the loans. In particular, if you send a payment on a loan, the FDIC puts it into a holding account and doesn't remit the payment to the purchaser in the secondary market. The secondary market wants to get payment on the guarantee. The FDIC doesn't care if they fail; they want money.

Senator Halford recommended the committee support the bill as part of its legislative package.

Tape One, Side Two
Number 652

The committee generally discussed the shifting of responsibilities from banks to AIDEA. Senator Rodey commented that banks are only servicing agencies; they get a fee from AIDEA. The bill does not shift the burden; it remains on AIDEA.

Senator Halford said the banks would probably like to shift the burden to AIDEA, if they could. The major benefit is drawing capital into the state. The bank may sell some of its good loans which they would not have been able to sell without the guarantee; then take the money from the sale and make more good loans. The banks are trying to bail out their bad loans with their good loans and good business. If we can expand their capacity on the positive side, we can help them carry their negative side.

The committee discussed Senator Coghill's concerns about inclusion of soft assets in the bill. Senator Faiks recommended that the bill be considered part of the package as is, since she has another bill which allows AIDEA to take up to 25% equity in refinancing loans.
That bill would be a better vehicle for this issue.

Senator Rodey moved and asked unanimous consent that the bill be considered as part of the package. Hearing no objections, it was so ordered.

Number 820

At the request of Senator Zharoff, the committee heard from Nancy Gross, City Manager; Gary Daily, Port Director; and Dennis Robinson, City Council Member and Ounalashka Corporation Board member, of Unalaska, Alaska, concerning a fisheries proposal.

Mr. Daily explained home porting for the American factory troller, the Alaskanization of this industry and what it means to the state and residents. Currently, there are 41 Alaska factory trollers, mostly from Seattle. A factory troller is a vessel approximately 200-300 plus feet in length, the retrofits and costs range from $17-35 million. To show the significance of the value in terms of jobs and income, the Port of Seattle recently appropriated $200 million to upgrade its maritime moorage facilities to ensure they retain the factory trollers there. The 41 factory trollers give 240 persons/per troller with jobs which equates to just over 9,800 jobs. In 3-4 years, they are going to double the amount of trollers, resulting in excess of 22,400 jobs.

He continued to provide a history of the bottomfish industry in the state, and explained the chart detailing the fisheries' resources. U.S. Customs and Immigration are located in Dutch Harbor. He then noted the values of state and international fisheries, specifically 1.2 million metric tons of bottomfish, per exvessel value, exceeds $2 billion; and the impact the industry has on jobs and support services. He felt the key to unlocking the Seattle monopoly was to provide a shore-based facility; they have $60 million worth of business in a 10,000 foot area in Dutch Harbor which involves relations with 14 nations.

Number 988

Senator Sturgulewski asked about the monetary request. Ms. Gross pointed out that fisheries of the Bering Sea, particularly the bottomfish, per every 5% of revenue from the industry, can attract $100 million into the state.

Senator Faiks asked how that money arrives in the state. Mr. Daily responded it includes shops, cold storage, processing, cargo, trans-shipment, jobs, fueling, etc. Cold storage in Japan is eight times as expensive than Alaska, and there are three requests for construction for facilities in Unalaska. He said fishing crews are hired out of Anchorage.

Senator Faiks commented if the state could capture 5% of the market, there would be a spin-off of $100 million in both capital and salary investments, but it would not be every year.

Number 072

Senator Josephson referred to the proposal and commented it did not include the specifics for project description #2, and asked what is necessary to make Anchorage the service center they discussed. Ms. Gross answered that that section of the proposal represents the research Anchorage needs to do to get marketing plans.

Senator Halford asked the total budget of Unalaska and how much is spent on debt service. Ms. Gross said the total general fund budget is about $4.0-4.5 million annually; they are maximized out on bonds which is one of their problems. They have been carrying, on the books, a population of 1,922 for several years, and this year, C&RA decided their population was 1,331. The Bond Bank will not talk to her; and she looked at an assessment district and was told that 35% of the land is not assessable because it is undeveloped land granted to the village corporation under the ANCSA.

In response to a question from Senator Halford about using revenue bonds for the dock, Ms. Gross responded the problem is the users have said when the city gets the facility, they will sign long-term leases for use; however, the city can't get the revenue bonds until they have the agreements.

Number 123

Senator Jones referred to the renewable resource aspect of fishing and asked how a sustained yield could be guaranteed. Ms. Gross said federal enforcement was necessary, such as the Coast Guard patrolling the area. However, the biological aspects of the waters make it so nutrient rich along the coast and shelf that the Japanese, who have fished the area for 20 years, have not impacted the yield.

Senator Sturgulewski compared the ports of Southeast (120-122 tourship stops/year) and this port which gets over five times that amount. She said the committee would not be able to take any action on the request.

Ms. Gross said there was a House Bill that addresses the request. In response to a question from Senator Halford, Ms. Gross commented their annual budget does not include the school budget; simply operating the electric, water, sewer, utility, port, airport and terminal, etc. that are general operations.

Number 163

The committee decided the next meeting would be a work session on bills and proposals already presented for discussion. There being no further business to come before the committee, Senator Sturgulewski adjourned the meeting at 6:31 p.m.

SENATE COMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 22, 1988
5:15 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jan Faiks
Senator Joe Josephson
Senator Jack Coghill
Senator Pat Rodey
Senator Fred Zharoff

MEMBERS ABSENT

Senator Dick Eliason
Senator Rick Halford

ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Jones, Senate Co-Chair, called the meeting to order at 5:26 p.m. The committee generally discussed actions by the Joint Committee and Senator Sturgulewski commented that it is felt that support from the committee on specific bills will give the bills an extra boost.

Number 091

Senator Jones commented that the first three bills listed on the agenda, SCR 32, SB 333 and SB 392, were already adopted by the committee and pending in the House so further action was not necessary.

The next order of business was consideration of SB 408, CSSB 408 () and CSSB 409 () pertaining to the Alaska stabilization assistance program, and funding for that program. Senator Faiks commented that the committee substitute would support the Hallwood proposal. Senator Sturgulewski talked about the need to firm up the administration's support as it related to real estate, banks and bridge bank proposals.

Number 183

Senator Josephson commented about the drafting of the committee substitute and the intent to get the concept of

the proposal on paper for review. The question is whether something like the Hallwood proposal should be considered, and messages from the administration have been mixed. Senator Coghill felt a new funding base needed to be dealt with and, perhaps, it could come from AIDEA. He is opposed to raiding the Railbelt Energy Fund.

Senator Sturgulewski said it was possible to support the concept of the bridge bank but not support the funding mechanism. The Commissioner of the Department of Commerce and Economic Development (DCED) has proposed taking the outstanding loans being repaid to DCED and transfer them to the Alaska Industrial Development and Export Authority (AIDEA) as a potential source of money for the guarantee program, so the reserves of AIDEA would not be used.

Number 269

Senator Faiks moved that the CSSB 408 () be adopted. The committee discussed the bill at great length. Senator Rodey pointed out it would be possible for the state to provide a guarantee to seek private investors; that mechanism has not been discussed and it would be ultimate form for privatization for a bridge bank or other measures.

In discussing the funding source, Senator Josephson said CSSB 409 () provides that the sum of $15 million be appropriated; however, the funding source was left blank, as it is yet to be determined.

He moved that the motion be amended to include the concept expressed in Senator Sturgulewski's memo, page 2, paragraph 4A, and change the reference to CSSB 408 ().

Number 335

Senator Faiks amended the motion to say the concept should be forwarded to the standing committee for further study and processing (See Number 645).

Senator Coghill asked for clarification about the reference to troubled financial institutions and state agencies. Senator Faiks responded it said the potential for relieving the pressure of property management for private financial institutions and some state agencies would mean the OREO (Other Real Estate Owned) file of AIDEA, the mobile home and condo portfolio of AHFC, etc. She did not think it would include mining or agriculture loans.

Senator Sturgulewski added the bridge bank concept allows participants to have the assets managed collectively. She did not think there was a limitation, but some loans probably would not fit into that management scheme.

Number 413

Senator Zharoff asked why the effective date was changed from 1992 to 1998. Senator Josephson thought it was to fit into the Hallwood Group's marketing scenario. Senator Faiks stated it was consistent with testimony from ISER and other economic recovery reports that indicated the period for recovery and stabilization of real estate values could possibly take that long.

In response to a question from Senator Coghill, Senator Josephson said the bill addressed loans that are collateralized by real estate. Senator Sturgulewski stated the bill addressed property in the hands of an agency, approximately $800 million in value; another element, which is not dealt with is the $200 million in loans on businesses -- loans that need a banking relationship for ongoing credit. Senator Rodey added that AHFC property is insured, so the public investment is covered. Their portfolio could be viewed at 90% real estate plus commercial.

Number 536

To address Senator Coghill's concern about loans secured by inventory, etc. (soft assets), Senator Josephson stated that language could be included to say this chapter does not apply to loans made under the authority of -- (list statute reference).

Senator Jones asked if money would be left to take care of good loans. Senator Rodey said if you stabilize the bad loans, it might enhance the market enough for AIDEA to sell bonds and finance new construction. Senator Josephson added that a $15 million contribution would not significantly affect AIDEA's lending ability, but it raises a larger question in the different approaches to handling the surplus market.

Senator Sturgulewski said that the state should build a floor for the proposal but limit its involvement; we do not have enough information to say we should commit $15 million this year and so much next year, etc. She wanted to make sure it is structured so the state gets its money back.

Number 645

Senator Faiks reiterated the motion that the concept should be forwarded to the standing committees for further study and processing. Senator Josephson requested the added language to deal with Senator Coghill's concerns (See Number 536). Senator Jones said there was consensus from the committee on taking this action. The committee took no action on SB 409/CS SB 409 ().

Number 670

Senator Sturgulewski addressed item B, page 2 of memo, concerning SSSB 471 which the committee has previously endorsed. She requested the Senate Finance Committee review setting a cap or maximum limit to the total amount of loans funds that can be guaranteed by AIDEA, and guidelines for private financial institutions to offer refinance debt packages and guidelines for new business loans. The committee thought a sunset clause was already contained in the proposal.

Senator Sturgulewski moved and asked unanimous consent that the above action be taken. Hearing no objections, it was so ordered.

Number 699

Senator Faiks moved that the committee adopt SB 474 and recommend it be amended to remove the section which increases the housing exemption in bankruptcy to $54,000 in equity to exemption of the home from bankruptcy. (This amendment was later dropped.) Senator Josephson said this is the policy in Texas; the result was risk-takers and entrepreneurs are encouraged to make Texas their home, the "John Connelly" provision. Maybe Alaska could derive some social benefits from it. Senator Rodey said he could see some practical banking problems with it, it is quite complex.

Frank Homan, Aide to Senator Sturgulewski, asked if you exempt the home, how would it work for security on a loan, as the bank would be unable to foreclose on it. Senator Josephson was not sure if you could exempt it from unsecured creditors but not the secured creditors.

Number 781

Senator Coghill raised the issue of mining claims and fishing boats being considered peoples' principal residences. The committee discussed the state and federal exemption laws.

Senator Josephson provided the following example: if you have a mortgage on your house and you file for bankruptcy, the property can be foreclosed on and sold and the value you get from auction goes back to you. So, if the creditor puts your house up for sale, and the exemption is $27,000, you get the first $27,000 and the creditor gets the rest. Under this amendment, you get the first $54,000 and the creditor gets the rest. Senator Rodey added: if you have $26,000 in equity, you keep the house.

Senator Faiks said the bill doubles the value of each category of exemptions, but does not change other provisions.

Tape One, Side Two
Number 885

It was determined that the chart reviewed by the committee was prepared by the Senate Advisory Committee at the request of Senator Halford's office, which requested information on federal and state exemptions. Senators Josephson and Rodey commented that federal law looks to the states for exemption laws, and only in the absence of a state law does the federal exemptions apply.

The committee discussed the provisions of existing law compared to the bill, and Senator Faiks provided a current list of exemptions. Senator Josephson commented if the bill is passed, it might become more attractive to file bankruptcy since you can keep more of your assets.

Number 015

Senator Sturgulewski stated that since Senator Faiks removed her amendment to the bill involving total exclusion of the home, she did not have a problem with the bill as proposed.

Senator Zharoff added, if adopted, it would limit the creditor's ability for relief. Senator Josephson said when a credit judgment is made, the thrust of the issue is whether the borrower has the ability to pay - not the fine tuning of lending policies. Senator Rodey said the bill is remedial in nature, our state exemptions are too low, regardless of the bad economic situation.

Number 114

Senator Jones said there was consensus that the committee adopt SB 474 and recommend it to the standing committee.

The next order of business was consideration of SB 476 creating the supplemental assistance fund for Railbelt Communities, and SB 477, special appropriation to the Department of Community and Regional Affairs for the above Fund.

Senator Sturgulewski expressed some concerns about the bill, due to the assistance being focussed on a particular geographical area.

Senator Faiks spoke in favor of the bill and detailed the background on the establishment of the Railbelt Energy fund. She said "the money in the general fund is only

there because the state Constitution says we cannot dedicate funds; and in the legislation setting up the Railbelt Energy Fund, it says that the Legislature may appropriate the interest generated by the Fund into the Fund." It was anticipated that the interest kept in the Fund would generate additional money; and she felt the $31 million belongs to the Railbelt communities.

Number 197

The committee discussed, at length, action on large state projects that are not yet completed, and income generated from other regional sources that are not returned to those specific areas. Senator Coghill said he would support the first bill but wants the appropriation reduced by $4.9 million for construction of the power line between Cantwell and McKinley Park. Senator Zharoff expressed concern of self-interest legislation; and Senator Sturgulewski commented on the urban-rural split.

Senator Faiks reiterated the Legislative Intent which provided that the money be returned to the Railbelt area; and said that 27 communities in that area have asked for additional assistance. Further, last year $50 million was taken out of the Railbelt Energy Fund and put into the general fund for everyone to use; this $31 million belongs to that Fund. Senator Jones said he would prefer money for an identified project be spent on that project.

Senator Rodey moved for adoption of the bill. It was adopted by a vote of 5 yeas and 2 nays (show of hands).

Number 381

Senator Coghill moved that the appropriation contained in SB 477 be amended by reducing the amount by $5 million, as discussed (See Number 197). Hearing no objections, it was so ordered.

Senator Jones moved for adopted of the bill, as amended. It was adopted by a vote of 5 yeas to 2 nays (show of hands).

Due to the lateness of the hour and conflicts in schedules, Senator Jones adjourned the meeting at 6:44 p.m.

SENATE COMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 28, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Jack Coghill
Senator Pat Rodey

MEMBERS ABSENT

Senator Dick Eliason
Senator Fred Zharoff

ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 5:11 p.m. She advised the committee that staff is still attempting to reach Commissioner Tony Smith (DCED), regarding the Department's recommendations to the Governor; and Willis Kirkpatrick, who is out of town. She provided a status report on the House and Senate bills.

Representative Steve Rieger, Co-Chair of the House Economic Recovery Subcommittee on Housing and Banking, began his overview of the House's legislative proposals.

With regard to HJR 72 relating to the residential real estate market, Representative Rieger said, in testimony they received from AHFC and Ron Lehr, it was clear that, with all the repossessions or possible repossessions, the decision-making was not focussed in one state agency. Many of the loans had been resold in the secondary market or guaranteed by some other party, so the state agencies did not have unilateral flexibility to work with the borrower. In using AHFC as an example, he said it would negotiate with MGIC or second lender in an attempt to get an agreement for restructuring or moving people from one condominium unit to another to bring the owner occupancy ratio up to a level where it's bankable again. The Resolution is an expression of support from the Legislature in their efforts.

Number 135

Senator Sturgulewski said it was comparable to a Statement of Intent; and Representative Rieger agreed. The House has already approved the Resolution.

Senator Josephson commented the Senate had a bill dealing with interest rates. Senator Sturgulewski said SCR 32 was similar to it and that it has been adopted on the House side. Senator Josephson referenced Senator Halford's bill that dropped the interest rates and said, assuming the agency was responsive to a policy, we would not need to enact legislation. There has been the perception that AHFC has been reluctant to take action. Representative Rieger said they generally had the impression that AHFC was operating in a spirit of cooperation, but the agency does not have experience in working with distressed borrowers and managing repossessed properties, etc. The House has recommended AHFC be given the authority, out of program receipts, to hire people to take care of these types of problems.

Number 200

Senator Rodey felt that AHFC was more than willing to cooperate as they have a large part of the market, and it is in their best interest to work with the other lenders. The House reduced seven positions last year, and these are the positions that would have handled the workouts. Also, there are legal difficulties with the state's anti-trust law; it is unclear as to whether AHFC's efforts in marketing could be viewed as being in restraint of trade. We need to exempt AHFC from the anti-trust act to allow for marketing stabilization efforts.

Senator Jack Coghill moved and asked unanimous consent that the Senate Committee endorse the concept contained in HCR 72. Hearing no objections, it was so ordered.

Number 432

The next item on the agenda was review of CSHB 432 (L&C) authorizing the Alaska Housing Finance Corporation to accept trades in certain cases. Representative Rieger said the bill was under active consideration; however, the Housing and Banking Subcommittee recommended that there needed to be a trading mechanism in properties involving negative equity and did not specifically endorse the bill. The Subcommittee has provided its draft to the House Judiciary Committee which may incorporate provisions from both measures. The first part of the bill provides direction for AHFC to allow trade into a different mortgage. In referencing the language (page 2, lines 3-5) which states: "Subject to appropriations, the AHFC may use up to one

percent of its total fund equity to achieve the purposes of this section," Representative Rieger said it could be as much as $15 million. The Housing and Banking Subcommittee left it with a statement of concern that it be applied in an equitable fashion. He then described the difficulty in establishing equal treatment in negative equity situations. The bill also suggests a specific legal instrument in allowing the trades--a negative equity certificate which becomes a lien on the old property. They are awaiting response from Ron Lehr as to whether it will help the situation.

Senator Josephson asked how the negative equity certificate works, in detail. Representative Rieger provided the following scenario: you bought a housing unit for $100,000 and put 20% down, leaving $80,000 outstanding; but now it is worth $60,000--leaving you with $20,000 "under water". You would like to buy a new unit that now cost $90,000, so you go to AHFC (which will have some units in their repossessed loans) and indicate your preference to trade for a specific unit. The AHFC would establish your existing unit as worth $60,000, and you would get a certificate of $20,000 representing the difference. You negotiate a new loan for the new unit, with $10,000 down, leaving $80,000 borrowed. You now have two liens: $80,000 first mortgage and a $20,000 negative equity certificate, both secured by the new $90,000 unit. You are starting out "under water" again. Representative Rieger added there are attorneys in Anchorage working on whether there are other recourses available, but the answers are not back yet. They also want to determine if this process could have more participants, such as PMI (private mortgage insurance).

Number 349

Senator Josephson commented that people thought when they had PMI, that it was similar to a guarantor; but the insurance company said that perception is incorrect. The PMI is to protect against disasters.

In response to comments made by Senator Coghill, Representative Rieger said it was their intent that AHFC would still use some reasonable underwriting guidelines in the property trades. Senator Sturgulewski stated there has been a lot of interest in this bill but it was premature for the committee to act.

Number 407

HB 549, relating to notice requirements on the use of a deed of trust, was considered next. Representative Rieger said the bill had just been introduced that day. It was a partial response to the Supreme Court decision and testimony about persons who did not know they were personally

liable when signing a note secured by a Deed of Trust; or, if they knew it, they expected the lender to go against the Deed of Trust first before they went for personal liability. The bill provides that if a note is secured by a Deed of Trust; it is only secured by the Deed of Trust. If secured by a personal guaranty, it must indicate that and provide the procedures the lender will follow. The procedure is what is in existing law for a non-judicial foreclosure.

Senator Josephson addressed the bill he had drafted (dated 3/28/88, 5-2103A) to reverse the Supreme Court decision. He said the House bill provides that, if you want to retain all the remedies available, it must be set out in disclosure form. The Senate draft provides that, if you conduct a non-judicial sale, there is no deficiency judgment; and if you go through a judicial proceeding, there is sale of the property but no Deed of Trust.

Senator Rodey indicated in order to achieve the desired results, it must be done through election of remedies which is the only constitutional way to do it. The House approach is prospective and the Senate proposal is retrospective. In discussing the situation, he said you can't prohibit people from suing on the note because of impairment of contract. The two bills are not incompatible.

Number 491

Representative Rieger added that some House members were not comfortable with the House bill; they felt it did not go far enough.

Senator Josephson moved and asked unanimous consent that the Senate draft bill be presented as a Senate Judiciary Committee bill. Hearing no objections, it was so ordered.

In discussing action on HB 549, Senator Rodey felt the Senate draft was superior as it forces the election of remedies and effects past, present and future actions. Senator Sturgulewski suggested that the House consider the Senate bill.

Senator Josephson moved and asked unanimous consent that the committee endorse the concept and when the Legislature has reviewed the remedies available to beneficiaries and trustees, under Trust Deeds, it require better disclosure as intended by HB 549. Senator Rodey added it would be most efficient to draft a letter from the committee signed by the Co-Chairs to the committee of jurisdiction. Hearing no objections, it was so ordered.

Number 555

The next order of business was consideration of HB 550 authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans. Representative Rieger stated all of state agencies that make mortgage loans, except DCRA, have catch-all language which addresses "acting to preserve the best financial interest of the corporation". It was Jack Chenoweth's opinion that the language was broad enough to allow restructuring, when necessary, except for the HALF (Housing Assistance Loan Fund) and HAF (Homeownership Assistance Funds) loans under DCRA. The bill says, in part, that you can reschedule payments if the loan modification would be in the best financial interest of the department and the state, and considered prudent by private lending standards (page 2, lines 6-9).

Senator Sturgulewski asked if the magnitude of their problem was known. Representative Rieger said the problem is a lot less in this program; they only had a 2-3% delinquency rate. The bill picks up 40-50 loans in the state that might benefit the borrower and the state, if payments could be restructured, rather than straight foreclosure. Senator Rodey said it represents loans outside the area that has been hit the hardest by declining property values.

Number 594

Senator Coghill asked what happened to the accrued interest that is delinquent now. Representative Rieger responded you can renegotiate an interest rate up to a period of five years, and that renegotiation is considered a forgiveness; it does not deal with the amount in arrears. Senator Rodey added a number of farm dwellings are financed under this program. The program differs from AHFC in its ability to modify the terms of the loan. We are protecting the public portfolio over the long run.

Representative Rieger said the House Committee will have a meeting with bankers about foreclosures on Thursday at 8:00 a.m.; and he asked if the House could have them address the Senate bill. Senator Josephson, sponsor, had no objections.

Senator Rodey moved and asked unanimous consent that the committee, by letter, inform the committee of jurisdiction that it recommends they examine the concept embodied in HB 550. Hearing no objections, it was so ordered.

Tape One, Side Two
Number 647

Senator Sturgulewski asked for an update on the HOPE program. Representative Rieger answered that it was going

better; in the way they are getting to people that are just now having trouble but not yet in default.

Senator Rodey noted the program is accelerating and getting better. We set up AHFC as a secondary financial institution with a servicer (private enterprise) between the government bank and the lender to do some of the workout programs. Some servicers are not happy with working out problems with the lenders, as it is not to their advantage.

Senator Sturgulewski and Senator Jones agreed that the committee will notify the appropriate committees of action as it happens, and not wait for a large final report. She noted that Rod Mourant and Jim Lottsfeldt have been attending the House meetings.

There being no further business to come before the committee, Senator Sturgulewski adjourned the meeting at 6:00 p.m.

State expert: Economy

FBKS 11/30/88

By LARRY PERSILY
Associated Press Writer

JUNEAU—Alaskans must expect a different economy in the future, without oil money as the answer and with lower wages as the reality, says Commerce and Economic Development Commissioner Tony Smith.

"The ultimate solution to the problem is industrial development," Smith told a dozen senators and representatives Friday. Industry creates jobs, he said.

Oil money is not the answer to Alaska's sour economy, he said in testimony before the first meeting of the joint legislative committee on economic recovery.

Smith reported that hard rock mining in Alaska is up 30 percent this year. Tourism, timber and military spending also are on the rise.

"Ultimately, we need a number of small initiatives to allow us to manage our way through the situation," Smith said.

"The oil industry tells me that they squeezed 40 percent out of their cost system," he told legislators. As the oil industry reduces its cost of doing business in Alaska, he said, it "squeezes the cream" out of the state's economy.

Jobs that paid $4,000 a month for cooks on the North Slope will be replaced with ones that pay $1,200 a month on the ski slopes, he said.

Smith said he met this week with Juneau's mayor and talked about new mining jobs in the area that will pay $10 to $15 an hour.

"We're looking at a different economy," he said. "We spent our way

will never be same

into the problem. We can't spend our way out of the problem."

In giving a lesson on realism, he said Alaskans can no longer afford to "perpetuate the bubble" of a wealthy economy.

Senate co-chairman of the committee, Lloyd Jones, opened the session with a statement that caught no one by surprise: "We're at a time when the state certainly needs some economic recovery."

The Ketchikan Republican said the state's wealth is in its natural resources. "They're laying out there on the ground, in the ground and in the ocean."

House chairman of the committee, Max Gruenberg, followed with a report on everything bad about the economy.

The Anchorage Democrat said bankruptcies and home loan defaults are at their highest levels and thousands of jobs have been lost. He said the committee wants to hear from people who know where the economy has been, where it is going and what can be done to help it get better.

A proposed solution to the real estate recession

G. HAYDEN GREEN

COMPASS
POINTS OF VIEW FROM OUR COMMUNITY

Alaska has been besieged by a plague — it is called a real-estate recession and it is going to infect even more people before it's over. Unless the state intervenes and stops the value spiral that the market is in, prices will continue to deteriorate.

This is not a problem that can be passed off as only affecting investors who "paid their money and took their chances." It is a social problem that affects thousands of Alaskans.

The hundreds of millions lost in the recession does not include the decline in appraised values. Declining market values are for many people only paper losses; that is, inflation giveth and recession taketh away. But the real costs being borne in Alaska today are mostly hidden costs, ones that are seldom mentioned.

For example, it has been estimated that 60 percent of the homes in Alaska have a negative equity. What that means is that a portion of the debt service being paid on these homes goes to pay for value that no longer exists. Every month millions of dollars flow out of the state to pay for this negative equity.

A second social cost that is accumulating is in the form of deferred maintenance. Thousands of condos, single family homes, apartment and commercial buildings in both the private and public sector are not being properly maintained.

A recent study released by economists at UAA is giving many people unwarranted optimism. The economists have stated, and rightly so, that the economy will bottom out in mid-1988. This projection is based on an estimate of the number of jobs lost in the work force.

This does not, however, mean that the purchasing power of the typical family in Alaska will increase or that real estate markets will turn around.

The "HOAP" program introduced by AHFC is not going to resolve this problem either. It will, in fact, make the problem worse for many individuals and prolong the agony for AHFC.

Lenders don't want all of this property so they have devised a way to keep the property in the hands of the borrowers by increasing their loan obligation. A person who already has a negative equity and cannot make his payments is being encouraged to borrow more money. Then he will end up with a larger negative equity and an even greater incentive to default in the future. Some solution!

Only two solutions will cure the real estate problem; that is, increasing the population or reducing the supply of housing or some combination of both. Increasing the population while reducing the supply is the answer.

The least expensive means of removing some property from the market would be to create a "distressed real estate holding company." This would be a quasi-governmental/private corporation similar to AHFC.

It would need to be funded by seed money to form the entity and to guarantee interest payments on bonds for the first five years. Its primary source of money would be through the sale of 15-year bonds on the world market. Banks and secondary lenders, working in concert with mortgage insurers, could sell distressed real estate holdings to this company in exchange for stock in the corporation.

Of course the holding company would expect to purchase the property at favorable rates, including a reduction for mortgage insurance settlements. This would help resolve some of the asset to liability ratio difficulties facing banks by converting debt for stock (an asset) and it would help get some Alaskans out of housing they cannot afford without bankruptcy being their only remedy.

Using the money raised through bonding, the holding company would manage this inventory of property while, at the same time, taking it off the market. This would reduce the supply and help restore some of the lost value in all our homes.

As prices recover, the property would be returned to the market place over a 5- to 10-year holding period, being sold at future market prices and the holding company using this profit to repay the interest and principle on the bonds and to pay back the stock issued to the banks. The holding company would create jobs for property managers, maintenance people, real estate agents, and contractors hired to bring deficient property up to code.

This plan will not remove some of the real marginal property from the market. The holding cost of some properties is greater than any economic benefit that will ever be derived from them; therefore, the holding company should not be obligated to purchase just any property. The worst case examples should be removed from the market through demolition.

□ G. Hayden Green is a professor of real estate at University of Alaska Anchorage.

U.S. Department of Labor seeks to pay off back wages

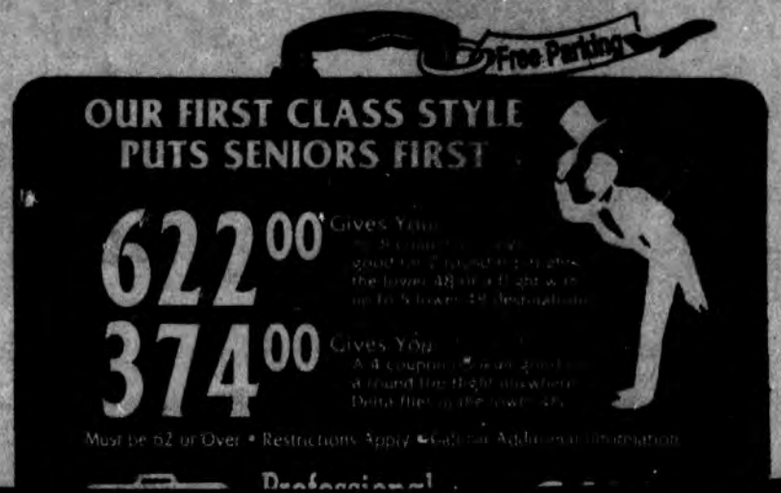
SEATTLE — The U.S. Department of Labor has $48,831 in back wages for 67 people whose last known addresses were in Alaska.

Jim Valin, regional administrator for the Employment Standards Administration, said the money represents back wages owed workers under the provisions of the federal Fair Labor Standards Act, the Service Contract Act and the Davis-Bacon and related acts.

After collecting the back wages, Valin said, the Wage Hour Division was unable to find the following individuals:

Thomas Alaup, College
William Andrew, McGrath
Rudy Ayson, McGrath
Annie Bates, Fort Greely
William Black, Fairbanks
Yong Blankenship, Fort Wainwright
Gonzalez Blythe, Anchorage
Phillip Bolles, Fairbanks
Ronnie Britt, Fairbanks
Kevin H. Brown, Anchorage
Mun Suk Choi, Anchorage
Terry Christian, Fort Greely
John Copeland, McGrath
Gary Corle, Fairbanks
Daniel Curry, Fairbanks
Fred Don, city unknown
Douglas Easter, Fairbanks
Joseph Edwards, city unknown
Phillip Edwards, city unknown
Delmo Geiger, Fairbanks
Gerald Gregson, Fairbanks
Sandy Harrell, Delta Junction
James Hunt, city unknown
Tae Myong Jaques, Fort Wainwright
Brian Johnson, Anchorage
Douglas Johnson, North Pole
Kyung Keun Kim, Fairbanks
Song Ae Kim, Fairbanks
Steven Krller, Anchorage
Steven Krogut, Fairbanks
James LaCourt, Fairbanks
Donald Mack, city unknown
Leonardo Maroulakis, Anchorage
Alex Mayer, Delta Junction
Kenny Maxwell, city unknown
Ralph Mold, Fairbanks
Ben Palanuk, Anchorage
Gerald Paluck, Fairbanks
Robert Paluck, Fairbanks
John A. Paul, McGrath
Kirk Payne, city unknown
Robert Probert Jr., city unknown
Richard Rathel, Elelson Air Force Base
Donald Raymond, city unknown
Marlise Redmon, Fort Sill
Daniel Rosenberg, city unknown
Theodore Roger, city unknown
Keith Shaughnessy, Fairbanks
Donald Smith, Fairbanks
Robert Smith, Fairbanks
Paul Sonny, city unknown
James Stopp, Elelson Air Force Base
Jeffery Sturgeon, Anchorage
William Swiderowski, North Pole
Paul Taylor, Fairbanks
Mike Tearth, city unknown
Terry Thompson, Fairbanks
Gerlon Vedder, Fairbanks
Timothy Wells, Elelson Air Force Base
David L. Wilson, Palmer
Steven L. Wilson, McGrath
John Wright, Anchorage

Anyone who believes they may be owed back wages should contact the Seattle Regional Office of the Wage-Hour Division, Room 3032 Federal Office Building, 909 First Avenue, Seattle, Wash. 98174. Phone (206) 442-1914.



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- Specialized crating
- Professional packing and moving
- Local, office, commercial and international
- Door to Door Service
- Containerized Loads
- Bush Services
- Moving aides – boxes, etc.

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For Self-

Economic chances not all bad — you just have to look for them



chris stephens

The problems and opportunities of real estate markets like ours have become popular topics of discussion on the national real estate scene. Such markets are most often categorized as severely distressed. Others in similar condition are Houston, Dallas, Tulsa and Oklahoma City. We are not unique. This type of market will be with us for a while. We must learn how to cope with it, but even more important, how to take advantage of it and prosper.

The current debate about what the state should do, if anything, to alleviate adjustments in both the residential and commercial sectors illustrates the magnitude of the problem in our economy.

Unfortunately, only a few are taking advantage of the opportunities for solid investment. Many people think that depressed prices and distressed owners are signs that they should stay out of real estate. They reason that the market is going to get a lot worse before it gets better.

This kind of thinking is wrong. It assumes that in a distressed market, all properties are distressed. Nothing could be further from the truth. They assume the current situation accurately portrays the future. That kind of thinking during the recent boom is what got us into this mess in the first place. And it implies that the time to step in is after the market has improved when prices have gone up, not now when they are low.

The entire market is not depressed. Some excellent properties are doing very well in this market. There are, however, distressed owners with excellent properties who must sell. This puts good properties on the market at bargain prices. Because investors are few, opportunities is out there to make sound investments in excellent properties.

We need to remember that every situation and opportunity is unique. As our past can teach us, the future of Alaska will be shaped by events totally different than our current situation. Change is inevitable. Alaska still has tremendous natural resource wealth and a very small population, which will continue to create healthy market opportunities and wealth-generating investments.

Finally, we must rely on our own perceptions and be willing to invest when others are fearful. We all want to avoid risk. But most avoid risk by waiting until the market is proven safe, because so many others are investing and making money at it.

What is happening instead is that people are selling because the price is high. They are the people who bought when the market was down, and no one else would buy. Though everyone knows you buy low and sell high, most people buy high and sell low. They are afraid to buy when the price is low because no one else is buying. So they wait, and sure enough, prices do go up.

Distressed real estate markets offer the opportunity of a lifetime, much better than during the boom. Quality properties can be purchased at a price far below replacement value, often with easy financing. When the market recovers, those who invest now will be selling to those who wait until the market is proven safe and prices are higher.

☐ Chris Stephens, CCIM, is a local associate broker specializing in investment and commercial real estate.

ANCH DAILY NEWS 2/21/88

Exempt

ATONIe txFr	38	4.14	— .01
ActvAsstTxFr	38	4.33	— — .01
AllianceTaxEx	38	4.34	— — .01
AllianceTE NY	38	3.98	— — .01
BenhamCalTxFre	18	3.78	— — .01
BenhamNtlTaxFr	26	4.31	+ — .02
BostonCo	48	4.27	— — .02
CIGNA TxEx	61	4.16	— — .21
CalTxFree c	38	4.13	— — .01
CalTxFree	38	4.13	— — .01
CalTxFree	38	4.13	— — .01
CalTxFree

Legislator proposes a plan to attack economic ills

By SEN. ARLISS STURGULEWSKI

Of all of the economic booms and busts Alaska has experienced, this bust is affecting more of us more severely than any other. Consequently, it's time for the legislature to address fiscal policy issues so that future booms and busts won't affect us so dramatically. During the coming session, we must create some long overdue financial tools.

Billions of dollars rolled into state coffers from the most recent oil boom and then rolled right out again. We spent money on experiments in agriculture, in renewable resource development, in housing, in industrial development, and on quality of life improvements.

There's no denying there were some resounding successes and some equally resounding failures. Our successes have been in areas in which government should be successful. We spent money on school programs and have a good school system statewide.

We improved the health of our citizens through water and sewer projects and through grants to health care providers.

Some successes were cooperative efforts with the private sector. Alaska Industrial Development Authority funded projects that were able to stand on their own merits. The partnerships formed by the Alaska Seafood Marketing Institute with the fishing industry and by the Division of Tourism with the visitor industry paid off in expanded markets for our fish and a steadily increasing stream of visitors to Alaska.

Experiments in which we attempted to directly accelerate private development were less successful, however. The Alaska Renewable Resources Corporation only lasted a few years. Agriculture is badly limping and the effort to start a red meat industry was far from successful.

It has become increasingly clear that the private sector must be on its toes to find the competitive and profitable edge and that government's role is to assist through reasonable regulation, responsible resource management and the elimination of roadblocks.

More specifically:

• Now is the time to devise a spending limit that works. The current constitutional spending limit bears absolutely no relationship to the amount of our annual budgets. The constitutional spending limit must be rewritten to tie it to the prior year's budget, and also outline how to dispose of excess revenue when we have it.

• Excess revenue should be at least partially dedicated to a constitutionally mandated budget reserve fund. Rather than frantically casting about for dollars just to keep the state running when revenues plummet as they did in 1985, we will know there is a source of funds for basic costs of government.

• It is critical that we devise and adopt criteria for the funding of capital projects. Life, health, and safety projects should be first in line for funding. Education and transportation both are the responsibility of government and should be funded based on need. Projects that will lead to real economic development should receive priority. Included in the criteria for all of the above must be operations and maintenance costs and a maintenance plan.

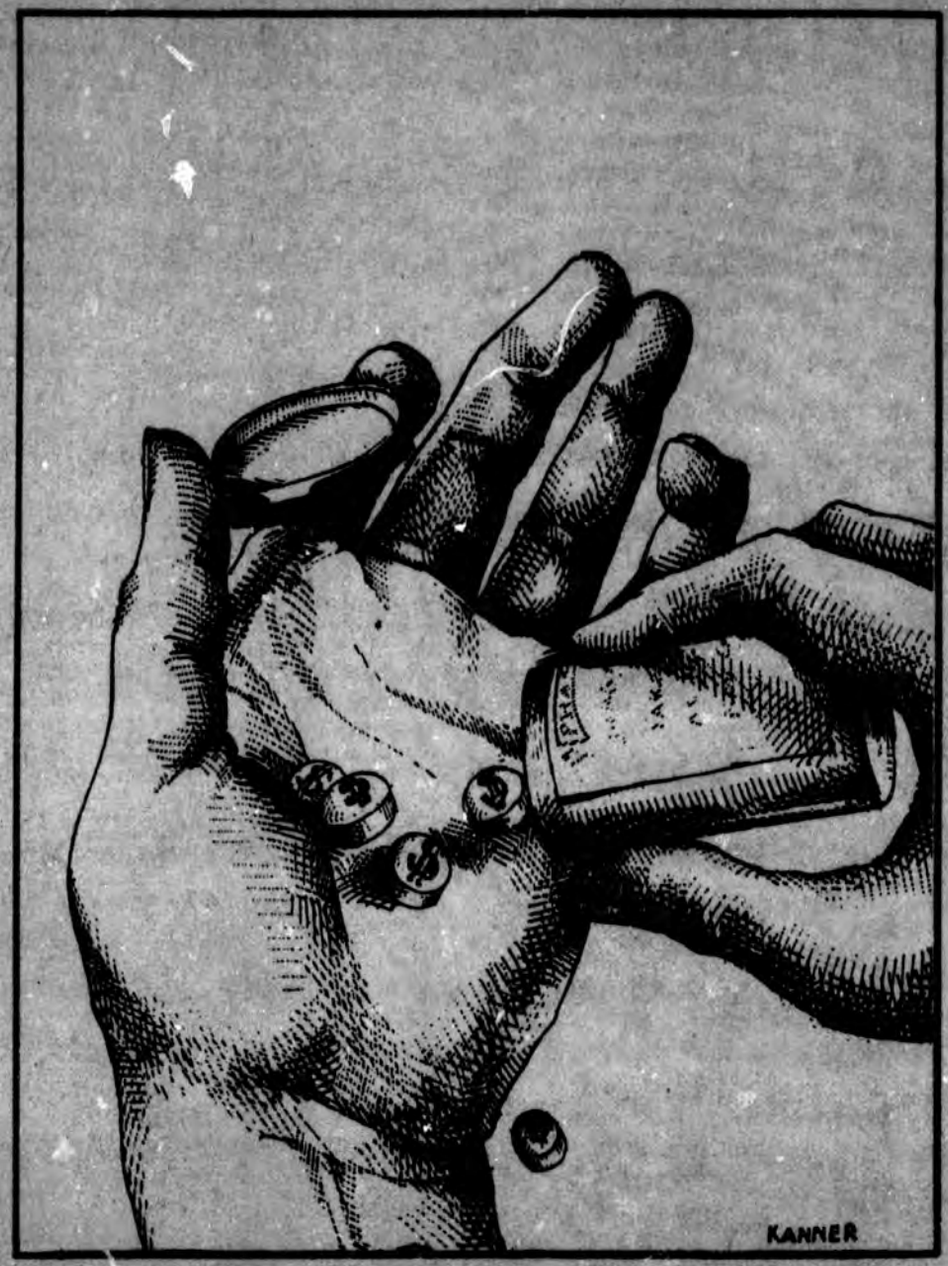
• Although it may seem like closing the barn door after the horse has run away, we need to set standards of accountability for municipal grants, and for grants to non-profit corporations that deliver government services.

• School capital funding has turned into a monster. With the promise of 80 percent reimbursement by the state, municipalities sold $300 million worth of bonds in one recent year. The debt service on those bonds has become a burden on the state and a source of anxiety for municipalities as they watch to see if the state will budget for the full entitlement. The state should fund for basic schools; extras should be paid for by communities.

• The Alaska Permanent Fund is an excellent counter-cyclical tool for us. It has meant the maintenance of our excellent credit rating in the face of a down economy. It also means that we have a source of income about which the legislature needs to make some decisions — and then go to the voters to confirm those decisions. I personally support using the income of the fund for continuation of the dividends, inflation-proofing, and partial funding for a constitutionally established budget reserve fund.

These are all decisions that can and must be made now. Without the proper tools in place, the next boom could find us allowing history to repeat itself. We can do better.

□ Sen. Arliss Sturgulewski is chairman of the Senate Community and Regional Affairs Committee and the Senate Special Committee on Local and Regional Economic Opportunity.



Funds from National Park Service resurrect plans for Denali resort

The Associated Press

Planning efforts for a resort in Denali State Park have been resurrected with $100,000 from the National Park Service, state officials say.

A combination of public opposition and the legislature's refusals to ante up $200,000 for further study and preparation of a concession contract halted the planning 18 months ago.

But with the $100,000 from the park service, the state over the next 10 months will revise the Denali State Park master plan. The revisions will provide site selection criteria for a visitor complex and assess the effects of increased public use and recommend park amenities such as trails, campgrounds and parking areas, officials say.

"One of the elements will be the concept of a resort complex and a National Park Service visitor center," said Neil Johannsen, director of state parks.

The state Department of Natural Resources and federal government hope to increase tourism at the 324,240-acre state park and relieve overcrowding at Denali National Park about 100 miles to the north.

"Things are getting worse up there," Johannsen said of the national park. "We're hitting the point where arguably the top visitor attraction in the state has hit the saturation point."

The Department of Natural Resources also will try again for $200,000 grant when the legislature convenes in January. The money would allow the state to look more closely at the economics of a visitor complex in the state park.

The idea of a resort at Denali State Park has been kicked around for nearly 20 years.

ANWR: Congressional, state critics say land swap proposal could cost taxpayers billions

Continued from Page C-1

ets of valuable, privately owned land in the seven refuges without spending federal money.

But at least two of the Native groups have received offers from oil companies for higher rent and royalty payments than the Interior Department generally gets on its oil leases.

Under the plan, the Old Harbor Native corporation would receive rights to 55,000 acres in the Arctic refuge. The Interior Department says these oil rights are worth $45.7 million, including the value of royalty payments if recoverable oil is discovered on the land.

Texaco Inc., however, has offered Old Harbor a cash payment of $45.7 million just for the rights to drill on the 55,000 acres. It also is offering to pay an annual rental of $3 an acre; a 14 percent royalty on any oil and gas taken from the acreage, and a 1⅛ percent royalty on the value of any petroleum it recovers from other portions of the refuge.

On its oil and gas leases, the Interior Department gets rental payments of $2 an acre a year. Its usual royalty rate is 12½ percent, a level that Horn has asked Congress to set on any federal leasing in the arctic refuge.

The other offer was made to the Koniag Regional Corporation by a consortium headed by Chevron. It applies to 3,183 refuge acres that Interior values at $77.4 million, including prospective royalties.

Jim Eason, director of the Alaska Division of Gas and Oil, says the Chevron group is offering Koniag a cash payment of $55 million for the oil rights; annual rental of $10 an acre on 2,560 acres and $5 an acre on the balance; a 20 percent royalty with a chance to change this to 40 percent of net profits from drilling on the acreage; a ⅛ percent royalty on the value of any petroleum taken within six miles of the acreage; and a ¼ percent royalty on any petroleum Chevron would take from any other part of the refuge.

Even if no oil were found in the refuge, these two offers combined would bring Koniag and Old Harbor payments totaling 84 percent of what Interior says their interests are worth.

In trying to convince Congress to open the refuge to oil exploration, Horn has said its reserves could rival the 9 billion-plus barrels of oil at Prudhoe Bay.

At a royalty rate of 12½ percent, the federal and Alaska treasuries would lose 4.125 cents for each barrel extracted from land traded to Natives.

"The value of the royalty interest alone, should significant discoveries occur, potentially may be measured in the billions of dollars," according to a study by the Alaska Division of Oil and Gas.

Mobil Oil, which is not allied with any of the Native corporations, has been lobbying against the trades. In a memo circulated on Capitol Hill, it said that Interior "significantly undervalued" the refuge land and "significantly inflated" the value of the land it would receive from the Native corporations.

Tom Marshall, former director of the Division of Oil and Gas, said in a consultant study for the National Wildlife Federation, which opposes any drilling in the refuge, that he believes Interior's projections of the refuge's oil reserves are conservative.

Notice...

STATE OF ALASKA
NOTICE OF PUBLIC HEARING
NEW WASILLA AIRPORT Project No. 55908

The Alaska Department of Transportation and Public Facilities (ADOT&PF) in cooperation with the Federal Aviation Administration (FAA) and the City of Wasilla will hold a public hearing on the proposed relocation of the Wasilla Airport, on Tuesday, November 17, 1987. The hearing will be held at 7:00 p.m. in the City of Wasilla Council Chambers at 290 E. Herning Avenue in Wasilla.

A general aviation airport is proposed for construction south of Jacobsen Lake and the Alaska Railroad Corporation (ARRC) tracks approximately three miles west of the existing airport in Wasilla. The new facility would replace the existing Wasilla airport and would improve the level of air service and safety to the City of Wasilla and surrounding area.



State senate bill would create a real-estate monopoly

I've learned to watch for the word "stabilization" in titles of bills in the Legislature this year. It's become a red flag signaling the worse kind of mischief.

I wrote on April 15 about one such bill, the "Bankers' Bail-Out." I said then that this particular bill was the worse example of the "welfare for business" programs to surface so far. Four days later a couple senators recaptured the "worse bill" title with a new version of SB 408.



Fred Pratt

This legislation would establish "real property liquidating organizations" to achieve "stabilization of the real estate market." These real property liquidating organizaitions would be formed by banks, state agencies or other entities holding title for foreclosed real estate property for the purpose of holding real estate off the market to keep home prices higher.

These "organizations" are in fact what antitrust lawyers call a "combination in restraint of trade." The bills sponsors seek to control real estate prices in the same way the Organization of Petroleum Exporting Countries tries to control oil prices, and for the same reasons.

SB 408 would apply to both residential and commercial property.

The bill states, "The Legislature finds to ensure the stability of the state's real estate markets and prevent a precipitous decline in real estate prices by displacing competition with government regulation in matters relating to the sale and disposition of real property held by financial institutions and state and federal agencies as a result of foreclosure actions."

Think about that for a moment.

The "problem" is the homebuilders and developers overbuilt and real estate dealers and bankers have oversold property in Alaska. The inevitable result in a free economy is that prices fall until supply catches up with demand.

That's bad for the developers, dealers and bankers, but it's good for the consumer because he has more property to choose from and lower prices.

These senators feel that we should instead create monopolies in the real estate market to control property under foreclosure, with the express purpose of keeping prices up.

Now you don't have to be as smart as a state senator to know what would happen next. With all the foreclosure property off the market, real estate prices would go up so much that even more homes would be built. That would perpetuate the oversupply on the real estate market from a short-term "problem" to an enduring economic illness.

Alaskan state senators should know this because we've all watched very closely while exactly the same thing happened in the world oil market. OPEC members limited their own oil production to drive prices up. The higher prices and tight supplies helped bring new supplies into the market from places like Alaska and the North Sea. Eventually, the market collapsed for everyone.

But the effect would reach far beyond the housing market. A liquidating organization could acquire businesses that went belly-up and wound up owned by a bank or state agency. The liquidating organization could be any corporation, trust, fund, partnership, joint venture or other legal entity, and it could continue to operate the business.

That businesses who fail wouldn't drop out of the market, but would continue to compete with the remaining healthy businesses even more strongly because they could get some rather sweeping legal exemptions to cut their overhead costs.

The sponsors of SB 408 realize they are doing something that would get a businessman in jail if he tried it on his own.

The bill states, " . . . the Legislature intends to grant authority to the commissioner of Commerce and Economic Development to provide by regulation that . . . a real property liquidating organization will be immunized as necessary possible (sic) against potential liability under federal antiturst laws and state antitrust, competition and trade practices laws arising from the operation of the organizations."

This exemption is given in the broadest terms.

The bill would add new language to state law regarding the powers of the commissioner of Commerce and Economic Development saying, "If the commissioner determines that the exemption is necessary to carry out the purposes of this chapter, the commissioner may by regulation exempt real property liquidating organizations from any state law other than this chapter or from any regulation other than one adopted under this chapter."

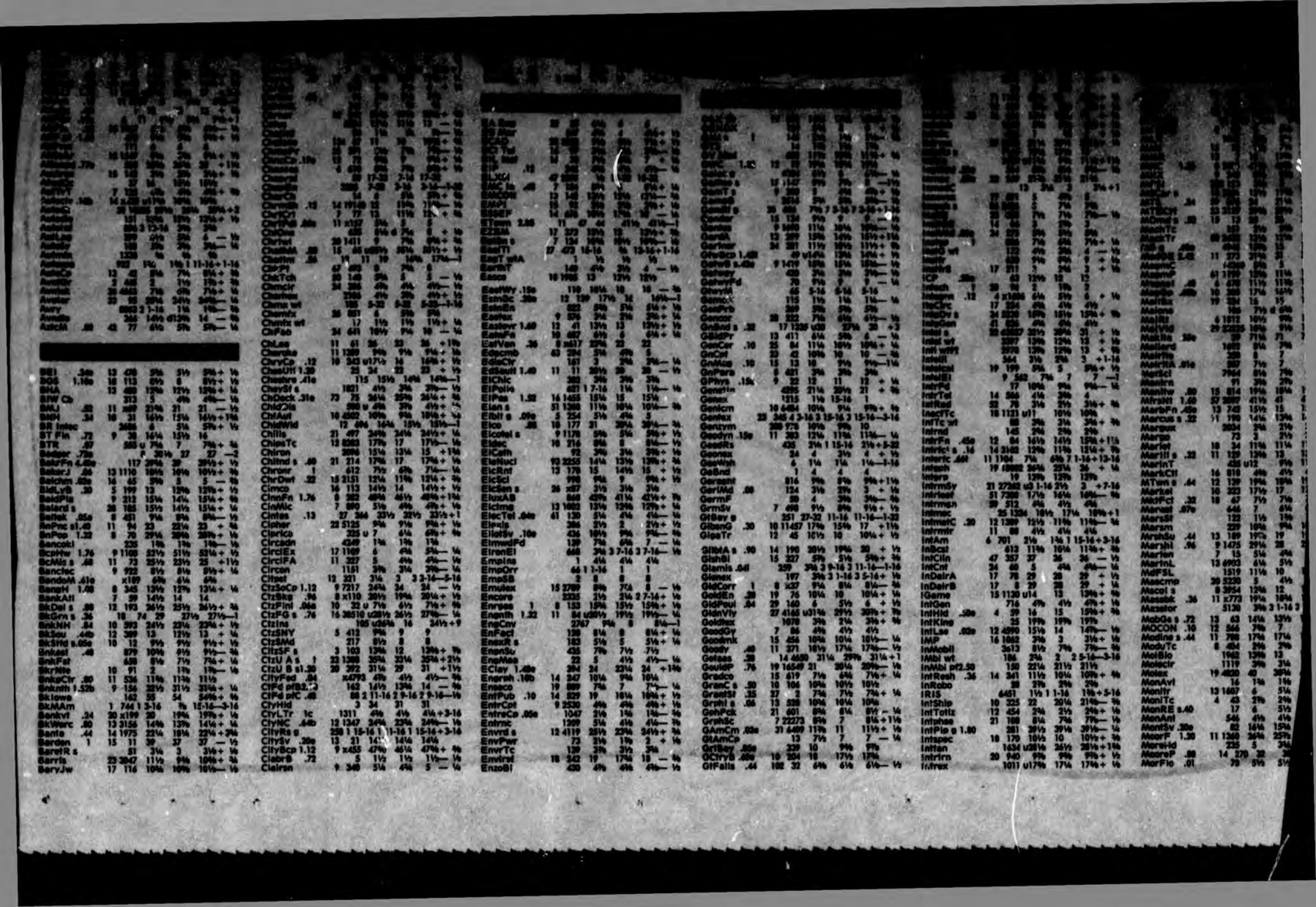
One could almost understand, with a long stretch of normal moral perception, why the state might want to exempt a banker from antitrust laws in order for him to manipulate the real estate market to his advantage. It's impossible to understand why it would still be necessary to allow a single politically appointed state official to absolve the banker from laws against murder, rape or arson.

If a business property put into these "liquidating organizations" continues to operate, it could get exemptions from mining wastewater regulations, workplace rules, fair employment laws or anything else that suits them and the commissioner of commerce.

What's even more amazing is that these bills are the work of two people who should know better; Sen. Tim Kelly, R-Anchorage, and Sen. Arliss Sturgulewski, R-Anchorage.

Stranger yet is the fact that the bills are being taken seriously by their colleagues. SB 408 was sent to only two committees, and one of those waived consideration of the bill. The Senate Finance Committee was considering SB 408 last week.

Free-lance journalist Fred Pratt has been covering Alaska business and politics for the past 10



Ketchikan Daily News,

Saturday-Sunday, April 2-3, 1988

Women unionists decry inequity

BEIJING (AP) - The top women officials of labor federations in seven cities issued a statement Friday complaining that women on the job received unequal treatment and demanding a public debate on the issue.

"We call upon the media, economic and theoretical communities, leaders at all levels of the (Communist) party and government ... and all men and women workers to air their own views and actively join in a discussion," the seven women said in the statement, published on the front page of the newspaper Workers' Daily.

Their statement, drafted at a meeting in Beijing, was especially critical of what they said was a growing tendency to fire women once they have children.

Many enterprises also have done away with maternity leave and other "women's benefits" in order to cut costs now that companies are being held responsible for their own profits and losses.

"Some people believe that when a woman becomes pregnant and has a child it is a private matter and becomes a burden for the enterprise," the statement said. "But others believe women carry two heavy loads, of helping produce material goods for society and perpetutating the human race, and this contribution deserves social recognition and special protection."

Women were regarded as inferior in traditional China's rigid social hierarchy but are promised equal treatment in Communist Chi



Panama City traffic jammed streets in reaction to their inabili

Panamanian would accep

PANAMA CITY, Panama (AP) - Police replaced Gen. Manuel Antonio Noriega's heavily armed soldiers on the streets Friday for the first time since last month's attempted coup against the Panamanian strongman.

The U.S. Defense Department announced it will send 1,300 additional military personnel to Panama, bringing the total number of American troopers there to nearly 12,000.

Panamanians, who are predominantly Roman Catholics, took time out from political activity on Good Friday to prepare for the Easter weekend, but for many that meant only another day of hunger

F.H. ORAL

Ketchikan Daily News,

Saturday-Sunday, April 2-3, 1988

Bank president opposes bailout for banks

The president of the new Alliance Bank visited Ketchikan this week and said he and his group oppose a state bailout for Alaska banks.

Fred Burrows joined Alliance the first of February, a few days after United Bank of Alaska, Southeast joined United Bank Alaska and Alaska Mutual in a merger and reorganization financed by the New York-based Hallwood Group with $65 million.

Burrows said in an interview Monday that the action needed to assist banks and private citizens is to avoid dumping all foreclosed property in Alaska on the market at once. He said the property should be put on the market over a period of years such as seven or 10, although he said he hasn't studied the issue enough to have a recommended time.

He said Alliance Bank has 2,000 pieces of foreclosed property in its possession. The total of all foreclosed property held by the Federal Deposit Insurance Corporation, other government agencies and banks represents at least $1 billion in value. Because of the recession in Alaska, people find the appraised value of their homes less than the balance they owe on the mortgage. Many are jobless and unable to make payments or move. To dump more property on the real estate market now would depress the value of real estate more and worsen the situation, Burrows said.

The FDIC, which insures bank customers against losses, however, doesn't like to hold property which it acquires from failed banks. Burrows said if FDIC suddenly dumped all of the property it holds, that instead of property values dropping the 20 percent they have in the Anchorage area, they would drop two to three times that amount.

Burrows said the economy in Southeast is good compared with Anchorage. This was echoed by Ketchikan Alliance branch manager Dick Axelson, who said that only one Ketchikan property is among the 2,000 which Alliance has taken back on foreclosure.

Burrows joined Alliance Bank as president after 21 years with First Interstate in Oregon and Washington where he rose to president of the Seattle branch. He also ran an advertising agency and recently worked for the Seattle Convention and Visitor Bureau in promoting the new Seattle convention center which opens in June.

Alliance Bank has 13 offices throughout Alaska and is negotiatng for a second bank office in Juneau. Its current Juneau office is in Mendenhall Valley and Burrows hopes to see the bank move into the old Alaska Bank of the North offices in the Sealaska Building in downtown Juneau. Bank of the North is one of the four major Alaska banks which failed last year. Bank of the North's assets were purchased by National Bank of Alaska.

Burrows said banking problems aren't confined to Alaska. Banks in other states hit by the depression in the oil and farming are failing. And not all banks in Alaska are failing. He said First Bank of Ketchikan is a sound institution.

Economic Recovery - Newspaper Article

It's time to take economic action



By Scott Hawkins

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 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. Long-time, well-established Alaskans have gone bankrupt.

The potential for yet another cycle of foreclosures, bankruptcies, liquidations, falling asset values, falling 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.

Anchorage Daily News, Sunday, 2/7/88

ALASKA'S ECONOMY

A monthly look at economic indicators



ALASKA/ANCHORAGE EMPLOYMENT

PERCENTAGE CHANGE FROM ONE YEAR EARLIER

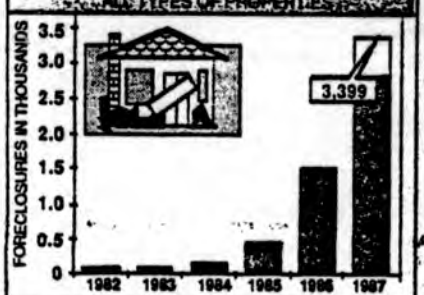


Source: Alaska Dept. of Labor

The number of jobs in Alaska and Anchorage continued to fall in December, meaning the recession continues. But the rate at which they're falling is slowing. Strongest sectors in Anchorage are oil and gas, shipping and trucking, food stores and federal jobs. Weakest are construction, restaurants/bars, finance, insurance, real estate. The big service sector showed a small decline.

ANCHORAGE FORECLOSURES

ALL TYPES OF PROPERTIES



Source: Matzak Computer Services inc.

Real estate foreclosures set a record last year with 3,399, up 124 percent from 1986. Most of these foreclosures were houses. In 1986 foreclosures grew the most: 216 percent.

AHFC FORECLOSURES

RESIDENTIAL PROPERTIES STATEWIDE



Source: Alaska Housing Finance Corp.

AHFC has financed most of the housing loans in Alaska this decade. Foreclosures grew 102 percent last year. About 850 foreclosures, or 23 percent, were mobile homes.

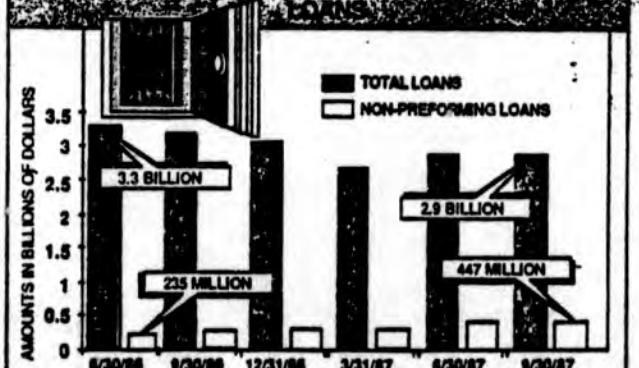
ANCHORAGE ARSONS



Source: Anchorage Fire Department

Arsons in Anchorage totaled 12 percent of all fires last year, more than double the level of 1985. A poor economy likely is to blame in part, said Robert Taylor, a city fire inspector.

ALASKA BANK LOANS/NON-PERFORMING LOANS

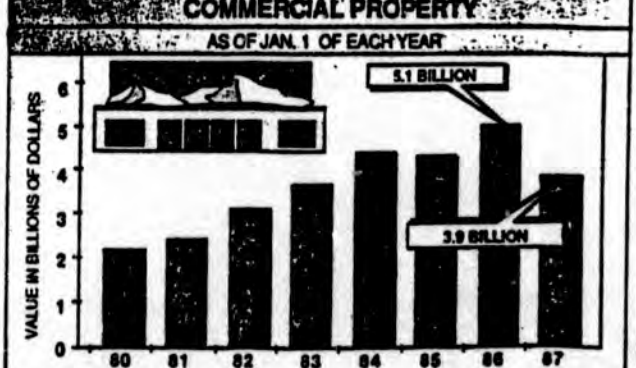


Source: Sheshunoff & Co. Inc., bank financial reports, Alaska Division of Banking

The level of bad loans at Alaska banks is rising while the total number of loans made has fallen off. Non-performing loans total about 15 percent of all loans at Alaska banks, about three times the national average.

ASSESSED VALUES OF ANCHORAGE COMMERCIAL PROPERTY

AS OF JAN. 1 OF EACH YEAR



Source: Municipal Assessor's Office

Commercial real estate assessed values peaked in 1986 at $5.1 billion. Assessments made a year ago showed total values of $3.9 billion, down 24 percent. New assessments for this year are due in March.

Anchorage Daily News - Sunday, February 7, 1988

ALASKA ECONOMY: Question of state real estate bailout can be confusing

bill white

State bailout or not?

Questions, yes; answers, sort of

If you don't keep your head down these days, you're likely to get zinged by all the hysterical rhetoric shooting through the air about the Anchorage commercial real estate market.

Cash reserves are depleted! Thousands of our friends and neighbors are near ruin! Crashing real estate values will topple hundreds of businesses and mercilessly throw thousands of people out of work! The FDIC will brutally dump its real estate holdings and spread misery everywhere! The Japanese and other OUTSIDERS are ready to swoop down and seize control of Anchorage! The recession is going to become a depression that's going to last for years and years! Oh, despair!

Hmmmm.

That's a lot of hysteria and rhetoric all right.

What's the truth, what's really going on? An Anchorage legislator asked me that last week, as he was being besieged to lend his endorsement to a state rescue effort.

I have an answer, or rather answers. Unfortunately, they are not definitive. But I hope by laying out what I have learned the level of discussion will rise.

First, I must say the hysteria has been focused exclusively on commercial or investment real estate. This has nothing to do with saving your home. Don't be fooled when you hear the words, "save our real estate" shrieked that they're talking about your home.

Now for one of the truths the legislator asked me for: Until a little over a month ago, there wasn't much hysteria at all. But suddenly, members of the Get Government Off Our Backs Party defected and organized under a new banner: The State Owes Us a Bailout Party, whose emblem is an open hand.

Continued from Page C-1

Another truth: Buying Anchorage real estate during the early to mid-1980s was one of the most incredibly bad investments since Hunt brothers tried to corner the silver market. The Alaska Housing Finance Corp. is selling its foreclosed houses at 1981 prices. And just about anybody who bought commercial or investment real estate since 1982 and still owns it probably is eligible for the Dummy Hall of Fame.

This, of course, is hindsight.

Commercial real estate *is* overbuilt. Rents are falling. Vacancies are rising. This hurts landlords. Obviously, nobody — not the builders, buyers or lenders — saw the fall coming, or they would have stayed away from real estate.

But despite rising foreclosures, only a small number of properties have gone back to lenders. A relatively larger number of commercial real estate loans are troubled.

Commercial real estate assessed values have fallen far. In Anchorage, the total value fell 24 percent last year to $3.9 billion. This year's number will be out next month, and it's likely to be down again.

GETTING A FIX

As hard as I have tried, I cannot get a solid fix on the state of the commercial real estate market. No one else seems to have one, either.

The main problem is that lenders from all over the nation have financed Anchorage real estate investments.

Bob Motznik of Motznik Computer Services Inc. last week searched local property appraisal records and found that Weyerhaeuser Mortgage Co. owns 47 parcels, Great Western Savings Bank owns 14, Fleet Real Estate Funding has 21, Firemans Fund Mortgage Corp. owns 14 and City Federal Savings Bank has 44.

Ever heard of any of those guys? That's what they foreclosed on. Who knows what local loans still are active with them.

But some pretty good pieces of the picture can be had. For example, Alaska bank financial reports reveal a lot.

Alaska banks — this excludes credit unions and savings and loans — had assets of about $5.2 billion as of Sept. 30. Of that, about $165 million, or 3 percent, is listed as "other real estate owned," which is where they put their foreclosed property. A year earlier they owned $98 million in OREO. That's a 68 percent increase in a year.

Some people make a mistake right here. They assume the $165 million is all foreclosed commercial property in Anchorage. It's not. A lot of it is houses and land. A lot of it isn't in Anchorage.

Of that $165 million total, $70 million — or 42 percent — was held by Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern, which have since been saved by the FDIC and reformed as Alliance Bank. Alliance needs to sell its real estate, but it won't dump it because that would cause more foreclosures.

Another $33 million — or 20 percent — was held by Alaska National Bank of the North and First Interstate Bank of Alaska, which later failed and shut down. The FDIC picked up the real estate.

Ah yes, the dreaded FDIC property.

This property is the focus of much hysteria. The FDIC is going to dump it, sending commercial real estate values spiraling down, according to the Bailout Party. No we won't, says the FDIC. Will too. Will not. And on and on.

Well, what exactly is it that the FDIC owns in Anchorage and should the state buy it?

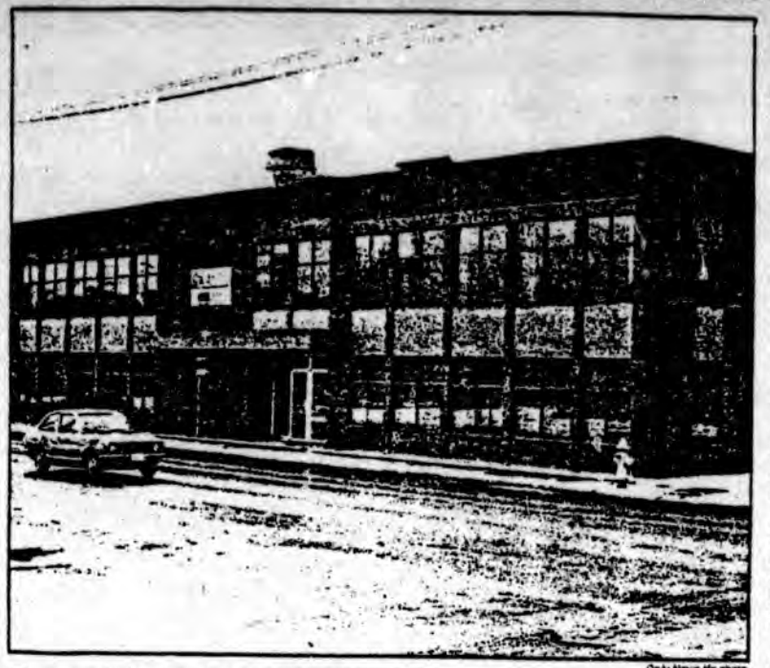
According to the list the agency gave me, it owns 57 condos, 82-plus lots or raw land parcels, one zero-lot-line, seven single-family homes, a duplex, six fourplexes, two apartment buildings, a day-care facility, an office condo, two industrial buildings, a warehouse condo, two hangars at Merrill Field, and an abandoned, dilapidated hotel in downtown.

This is the stuff that's going to vaporize the commercial real estate market in Anchorage? Not hardly.

Another agency whose stockpile of commercial real estate holdings we can see is the Alaska Industrial Development and Export Authority, which provided low-cost state money for development.

AIDEA has 14 properties worth $8.2 million that it has foreclosed on in Anchorage. They are a Dimond Boulevard strip mall, a grocery store, three retail/warehouses, a small office building, five office/warehouses, an office/shop, an office condo and a single-family house.

It would be a mistake to leave you with the impression that all of the foreclosed commercial property is junk. A nice downtown office building or two is owned by the lender.



Daily News file photo

The economic downtown in recent years has caused many vacancies in office buildings.

BAD LOANS

The bank financial reports also can tell us about bad loans on their books. A certain amount of these bad loans involve real estate. A certain amount will be foreclosed on.

As of Sept. 30, Alaska banks had $447 million in non-performing loans, on which payments were at least 90 days past due. This is up 54 percent from one year earlier. The pace at which loans are becoming "non-performing" is slowing, according to Willis Kirkpatrick, the state's top banking regulator.

The $447 million represents 15 percent of the banks' total loans of about $2.9 billion. That percentage is three times the national average.

Non-performing loans secured by real estate totaled $292 million on Sept. 30, up from $140 million on June 30, 1986.

Non-performing business and other loans totaled $153 million, up from $75 million 15 months earlier. Some business loans — for inventories, accounts receivable, etc. — are in trouble because of real estate investments. For example, Alaska Statebank has a strong real estate loan portfolio and a relatively weaker business loan portfolio. Ralph Whitmore, head of the bank, said some businessmen who borrowed also made real estate investments that soured; these investments are draining the business. Whitmore noted his bank's non-performing loan portfolio has stabilized in recent months.

Through the Bank of the North and First Interstate closures, the FDIC has about $200 million in loans. Because nobody wanted to take them from the FDIC, we can assume these loans are real stinkers.

What can be concluded is that something less than $447 million in local bank loans will go bad, some of which involve real estate foreclosures.

THE JAPANESE

This still leaves some of the rhetoric unchallenged.

To get answers, I had lunch recently with most of the commercial agents at Jack White Co., a local real estate agency. These agents are the guys who sell commercial and investment property. They put tenants and landlords together.

This is what they told me about the market (there wasn't unanimity on all these points):

- A few commercial sales have happened, mostly tenants buying their buildings. A Seattle investor bought 168 apartment units last fall.
- Financing is difficult to get. Local lenders are very conservative and the secondary lenders Outside won't touch Alaska, although they have helped finance a lot of Anchorage real estate investments.
- After long resistance, bankers about six months ago started agreeing to lower payments and other breaks for distressed borrowers.
- Japanese and Outside institutional investors aren't hovering over Anchorage waiting to buy until the market hits bottom. Most properties aren't high enough quality to interest them. The best properties are occupied and not for sale.
- Rents for the class A properties are falling, and vacancies are rising. This is a double whammy for the owners. They're right on the break-even point. Some owners have done OK because they had tenants locked in on old leases. As these leases expire and the tenants renegotiate their rents, the pressure on rents to fall will continue.
- As much as 100,000 square feet might have come on the market because of bank closures and mergers last year.

POLITICS

Real estate has been the source of tremendous wealth in Anchorage. In the early 1980s boom, real estate also was connected to a certain amount of economic activity. Lots of jobs were created for construction workers, bankers, title company employees, real estate agents. The sources of this growth largely were state-financed construction projects and state-subsidized mortgages.

We do know this wealth is falling. As I said, assessed values of Anchorage commercial property declined a big 24 percent last year.

Falling real estate values do suck potential growth out of the economy. Investors can't cash in their equity and spend it on new wealth. They might have to tap other funds to keep their real estate investments afloat.

The question is: What is greater, the amount of growth lost by the absence of potential investment money in a bum real estate market, or the amount of new wealth created by expansion of basic economic sectors?

As I have written in the past, the federal government and oil industry are growing. These are two of the four basic industries in Anchorage. The other two are state government and tourism, both of which are off a bit. Most other sectors — which rely on the solidity of the four basic industries — are still shrinking, but more slowly than in the past.

Most economists predicting the recession will bottom out this year say basic economic growth will out-muscle the opportunities lost by drooping real estate values; this does not mean the values won't drop farther.

Those arguing for a bailout — many of whom have heavy real estate investments — take the opposite position. They want the legislature to purchase foreclosed property and warehouse them to buy a bottom to the market.

Who is right?

You can make up your own minds. It's not an economic question anyway.

This is politics.

□ Bill White is business editor of the Daily News.

Anchorage Daily News - Sunday, February 7, 1988

fdic foreclosures

The following is a list of real estate owned in Alaska by the Federal Deposit Insurance Corp. The FDIC obtained the property after the closure of Security National Bank in 1986 and of Alaska National Bank of the North and First Interstate Bank of Alaska last fall. The FDIC supplied the list.

ANCHORAGE

Hotel, corner of West 6th Avenue and C Street, in need of extensive repairs.
Two hangers at Merrill Field, 4,200 square foot office building, 26 paved tie-downs.
Shop of 4,800 square feet; office of 3,200 square feet, 7040 Homer Drive.
Nine-unit warehouse condo, 230 E. Potter, 1,178 to 2,419 sf per unit.
Industrial building, 6340 Petersburg St., two story, 12,475 sf.
Seven office condos, 201 Barrow St., 993 to 3,900 sf.
Day-care facility, 101 Davis, 3,254 sf.
Apartment building, 4534 Lake Otis Parkway, 36 units.
Mare Cates Apartments, 310-320 W. 32nd St., six two-bedroom units, 12 one-bedroom units.
Three fourplexes, 9521, 9531 and 9541 Morningside, each unit contains two bedrooms, two baths.
Fourplex, 7410 Nancy St., each unit has two bedrooms, one bath, 792 sf.
Fourplex, 7410-7420 Nancy St., each unit has two bedrooms, one bath, 792 sf.
Fourplex, 7400 Nancy St., each unit with two bedrooms, one bath, 650 sf.
Duplex, 1437 Birchwood, each unit contains two bedrooms, one bath, 1,150 square feet.
Single-family house, 4228 Laurel St., four bedrooms, two baths, two-car garage, 1,872 sf.

aidea foreclosures

The following is a list of real estate owned by the Alaska Industrial Development and Export Authority. The state agency helps finance commercial development through low-interest state financing. AIDEA acquired the property in loan foreclosures.

ANCHORAGE

Shopping mall, 300 E. Dimond Boulevard, 27,620 sf.
Grocery store, 2600 E. 16th Ave., 6,998 sf.
Retail/warehouse, 3243 Commercial Drive, 4,200 square feet.
Retail/warehouse, 7900-7910 King St., 6,172 sf.
Retail/warehouse, East 6th Avenue and Juneau Street, 13,500 sf.
Office building, 444 H St., 4856 sf.
Office/warehouse, 2121 Abbott Road, 12,000 sf.
Office/warehouse, 1416 Spar.
Office/warehouse, 4841 Fairbanks St., 7,500 sf.
Office/warehouse, 6236 Nineteen Way, 13,394 sf.
Office/warehouse, 6151 B St., 9,600 sf.
Office/shop, 5001 Eagle St., 10,560 sf.
Office condo, 101 9th Ave., unit A-7, 960 sf.
Single-family house, 4228 Laurel St., 1,872 sf.

OUTSIDE ANCHORAGE

Wasilla, retail/warehouse, Airport Heights subdivision, 24,096 sf.
Palmer, vacant lot, Shaw Tri-Lakes #2.
Anchor Point, Keystone Center shopping mall.
Homer, office building on Kachemak Drive, 11,792 sf.
Homer, shopping mall/office building, Kachemak View Addition, 8666 sf.
Chitna, garage.
Valdez, retail/office, Mineral Creek Subdivision.
Fairbanks, J. McCall Inc. yard, Mile 7 of Richardson Highway.
Fairbanks, River Shopping Mall.
Fairbanks, grocery store/apartment building.
Central, 4,400 sf log lodge on 3.8 acre lot.
Illiamna, hangar at Illiamna Airport.
Juneau, Jordan Creek Office Condo, 1,193 sf.
Sitka, 16 units of 20,000 sf business park.

Single-family house, 10506 Prospect Drive, three bedrooms, three baths, garage and carport.
Single-family house, 8220 Kip Court, three bedrooms, two baths, garage, 1,700 sf.
Two single-family houses, 1151 and 1153 W. 71st Ave., each with four bedrooms, two baths, 2,688 sf.
Zero-lot-line house, 8060 Clear Haven Circle, three bedrooms, 2½ baths, two-car garage.
Two condos, 9610 and 9620 Morningside, each two bedrooms, two baths, one-car garage, 716 to 758 sf.
Twelve condos, 201 Barrow St., units typically having 2-3 bedrooms, 1¾ baths, 700 to 1,100 sf.
Condo, 2020 W. 36th Ave., townhouse style, two bedrooms, one bath, 700 sf.
Six condo units, 11301 and 11311 Pyramid Drive, each with two bedrooms, one bath, garage, 788 sf.
Sixteen condos, Lakespur Street, each with three bedrooms, 2½ baths, 1,270 square feet.
Three one-bedroom condos, 409 Taylor St., each with one bath, 540 sf.
Eleven condos, 4000 Bragaw St., each with three bedrooms, 2½ baths, two-car garage, 1,620 sf.
Five condos, 324 E. Dowling Road, three-story townhouse style, each with three bedrooms, 2½ baths, two-car garage, 1,762 sf.
Two-bedroom condo, 3606 Lois Drive, one bath, carport, 700 sf.
Eleven single-family lots, East 57th Avenue and Kiana.
Twenty single-family lots off Jewel Lake Road and West 80th Avenue; commercial lot at Dowling Road and the Seward Highway frontage road.
Four single-family lots, 100th Avenue.
Two lots, 1.61 and 3.81 acres, on east side of Seward Highway between Huffman and O'Malley roads.
Lots totaling 720,875 sf, north of Dowling Road, south of Alpine Apartments.
Lots, Viscount Circle, Brantwood Estates Subdivision.
Sixteen lots, Viscount Circle of West 80th Avenue.
Single-family lot, 227 Potter, currently contains old, dilapidated building.
Fourteen patio lots, Park Down Estates.
Five single-family lots, about 20 miles north of Anchorage off the Glenn Highway, .93 to 1.84 acres.
Single-family lot, 6821 Cheryl St.
Raw land on Stamp Circle off Upper DeArmoun Road, 1.17 acres.
Raw land, East Addition subdivision.

EAGLE RIVER

Single-family house, Juanita St., three bedrooms, 2½ baths, car port, 734 sf.
Single-family house, 9900 Teakee, three bedrooms, 1¾ baths, garage, 1,844 sf.

PALMER

Motherlode Lodge at Hatcher Pass, two story recreational lodge with restaurant, lounge, 17 guest rooms on 4.90 acres.
Single-family home, 7675 Woodview Drive, 3 bedrooms, 2 baths, spa, 1,858 s.f.
Single-family home, 17580 Maud Road, three bedrooms, 1¾ baths, 1,440 s.f.
Single-family residence, 250 Albrecht, two bedrooms, 1¾ baths and 1,130 s.f.
Single-family residence, 230 Albrecht, three bedrooms, one bath, 1,148 s.f.
Mobile home, 18701 Oak Circle and Marth Road, 52.25x12-foot Flamingo, two bedrooms, one bath, 675 s.f.
Single-family and commercial lots, and a single-family home, Palmer-Wasilla Highway, 15 residential lots, two commercial lots.
Raw land, 730 Iceberg Circle, 5.77 acres, electricity, gas and water available.
Raw land, Mile 91 of Parks Highway, 80 undeveloped lots 1¼ miles east of highway.
Raw land, Clark Wolverine Road, 20 undeveloped acres on Lazy Mountain.
Raw land, Clark-Wolverine Road, 50 undeveloped acres on Lazy Mountain.
Raw Land, eight miles east of Palmer, four acres near Polar Raceway.

WASILLA

Commercial office space, near Carr's Mall, 8,576 s.f.
Shop/warehouses, 5251 Mayflower Lane, 4,800 s.f. shop, 3,200 s.f. warehouse, 1,600 s.f. office.
Office condo, Fishhook Road, Unit A.
Fourplex, 850 Recluse Circle, each unit with two bedrooms, one bath, 1,000 s.f.
Single-family house, 5650 Alderwood Drive, three bedrooms, two baths, 960 s.f.
Single-family house, Amberwood Subdivision, three bedrooms, two baths, 1,408 s.f.
Single-family house and barn, 750 Hyer Road, three bedrooms, 2½ baths, workshop.
Single-family house, Longbeach Subdivision, three bedrooms, two baths, garage, 1,584 s.f.
Single-family house, 3560 Banner Way, five bedrooms, two baths, upgraded, 3,016 s.f.
Single-family house, 300 Schostte Drive, three bedrooms, two baths, deck, 1,640 s.f.
Two lots, Amberwood Subdivision, 40,000 s.f. each, private well and septic in.
Six parcels raw land, Mile 80 Parks Highway, 238 acres.
Raw land, Mile 80 Parks Highway, commercial/industrial zoning, five acres, unimproved.
Raw land, Mile 80 Parks Highway, 238 acres, 68 lots.

BIG LAKE

Office/docks, Burkshore Subdivision, 9,200 sf of office space, 33 units of storage space with a dock and shop area.

GLENNALLEN

Thirty half-acre lots, north of Edgerton Highway at mile 7.2.

TALKEETNA

Nine lots, one acre each.

SEWARD

Fourplex, 1902-1904 Phoenix, each unit with two bedrooms, two baths.
Lots, 1.48 acres, gravel road access, no utilities.

STERLING

Two single-family homes, Leif Street, one with two bedrooms, one bath, 1,342 s.f., the other has three bedrooms, one bath and 1,440 s.f.

SOLDOTNA

Restaurant, 44315 Sterling Highway, the old Wendy's Restaurant.

KENAI

Two lots, Marie Avenue, near Nikiski, set up for a mobile home.
Raw land, 610 Third St., .33 acres.
Raw land, mile 14.1 Kenai Funny River Road, 38.76 acres, no road access.

HOMER

Fourplex, 105 Bayview, each unit with two bedrooms, two baths.
Single-family house, Old Sterling Highway, four bedrooms, 1 bath.
Condo, 1394 Lakeshore.
Condo, Landings Condo, two bedrooms, one bath, 776 sf.

JUNEAU

Restaurant, 7099 Old Glacier Highway, the old Wendy's restaurant.

The real estate market: Some good news, but more bad



By Sewell F. Faulkner

The current real estate depression is the worst one in the history of Alaska. In some areas, buyer demand is nonexistent.

The effects are far-reaching. It has hurt everyone from the multi-millionaires who no longer have deep pockets to the mobile homeowner who has lost all equity. The depression has caused six banks to fold. When a bank closes the doors, it's not only the stockholders and employees who suffer, but also the real estate owner who no longer collects rent from a prime tenant.

Here are some specifics:

Single Family Homes — The price drop averaged 30 percent in two years. Appraisers now use a value decrease of -1 percent per month for homes priced below $160,000. (Four years ago it was plus 1 percent per month.) A flood of higher priced homes came on the market in '85 and '86 caused by the "golden handshake" policy of oil companies, which sent new retirees out of Anchorage. Most of these homes have now been absorbed and the inventory is down from last year. In short, the worst is over and upper-priced homes should not decline much more in value.

Condos — Prices have dropped 50 percent in two years. Sales are negligible. There's no financing for many units, and the oversupply is so huge that there's no hope for a solution in the forseeable future.

Mobile Homes — Similar to the condo problem. What can be done with thousands of vacant units?

Apartments — The overall vacancy rate is about 25 percent with much higher vacancies in lower end and older buildings. In three years the rent on a two-bedroom apartment has dropped from $750 per month to $450.

Sale prices have also nosedived. A 78 unit project that sold for $46,000 per unit in '84, resold in '87 for $15,400 per unit. Prices have tumbled below replacement costs and are at the level obtained in the early '70s. Four-plexes that sold for $250,000 a few years ago now sell for $100,000 to $150,000.

Office Space — The overall vacancy rate has climbed to about 22 percent or a total of 1,700,000 square feet in Anchorage. This is equivalent to six Hunt Ensearch buildings standing vacant. Rents have decreased 33 percent in two years. Most buildings now have a negative cash flow because rent receipts do not cover maintenance and debt service.

Industrial Space — Construction and oil service companies have been the main users and with construction flat and oil drilling way down, the result is lots of vacant space. Warehouse rents have plummeted from a high of $.85 to as low as $.35-per-square-foot per month.

Retail Space — Indoor malls have good occupancy with the exception of the new Fifth Avenue Mall, which is a super addition to downtown Anchorage and probably the nicest mall in the state. Rates have decreased 50 percent in a hodegepodge of strip malls that never should have been built and occupancy is low. Good quality, well-planned strip malls are 90 percent full.

Commercial Land — We know of only two sales of commercial land in the entire municipality in 1987. Despite a completely dead market, there has been no dumping at give away prices yet.

Residential Land — Aside from a few lot sales there were no large sales of residential land in 1987.

Recreational Property — From the Mat Valley to the Kenai, the demand for cabins and remote sites was way down; i.e., we know of only three waterfront parcels that sold in all of Kachemak Bay in 1987.

Alyeska is one exception to the above; well-located chalets are holding their value. The immediate future for Alyeska is bright, mainly because work starts this year on the first phase of the new 30 million dollar hotel, aerial tramway, surface lifts and restaurant. Also, Robert Trent Jones has completed a design study for a championship golf course on municipal land near Alyeska. Unfortunately, as in Anchorage, there is an over supply of condos and some prices have dropped 50 percent from their '84 high.

Summary — The above real estate report is probably the most dismal ever written in Alaska and possibly the most dismal ever created by a real estate broker. In short, the stock crash on Oct. 19, in proportion, is nothing compared to the two year bash in Southcentral Alaska real estate.

So, what's ahead?

What can be done?

There are two answers.

The first is to sit back and hope something unpredictable will solve our problems. This is a possibility and has happened before. Examples are the 1973 Mideast war that caused oil prices to skyrocket or the 1964 earthquake that produced a reconstruction boom.

The second answer is not to try to conquer a multi-billion dollar problem in one swoop but to work on it from many fronts. Inching forward with a number of solutions could definitely help put some confidence back in our economy. Here are a few specific areas that could help:

1. Economists should quit burying their heads in sand and simple job statistics and examine the real estate segment, especially commercial real estate.

2. Lenders, whether individuals or institutions, should realize that workouts are much better than foreclosures. Lower debt costs are a necessity for most property owners.

3. Bankers and/or the Federal Deposit Insurance Corporation should refrain from dumping real estate that could further depress the market. At the same time, we should be very grateful to the F.D.I.C. for the huge invesment it has made in our economy.

4. Certain attorneys should forget their adversary role and aim toward "workouts."

5. Local governments should do everything to help. Do they realize that tax appraisals are usually two years behind the market whether it's a rising market or a falling one. Also, is a 20 percent penalty fair for a tax bill paid one day late?

6. The state government should . . . (too numerous to mention.)

If some of the above steps, plus others, are taken this year, we feel sure that we can start seeing daylight again. We must remember that we're not the first city or state to hit a crash. For instance, 10 short years ago Boston was in a similar quagmire with a depressing 13 percent unemployment rate. Today, Boston is riding the crest of a boom with real estate prices soaring. The future for Alaska is definitely a good one with much higher oil prices and enjoying life in the very best of our 50 states.

Sewell F. Faulkner is with The Jack White Company, an Anchorage real estate firm.

Saturday, January 23, 1988, The Anchorage Times A-7

[redacted]

PRICE 25 CENTS

Mayor gets grim view of economy

Consultant recommends wide-ranging measures

By DON HUNTER
Daily News reporter

Instead of nearing a late-1988 rebound, as some economists have predicted, Anchorage is caught in a downward spiral that can be interrupted only by a comprehensive attack on unemployment and gluts in housing and commercial real estate markets, according to a report prepared for Mayor Tom Fink.



Vic Fischer

"It would be nice to argue that recovery is just ahead," consultant Vic Fischer wrote in the 98-page study called "Anchorage Recovery Program: Review of Economic Factors."

"But in reality, even the slight growth they (more optimistic economists) project is not likely to occur. Unless the situation changes drastically, the downward pressures on the economy will slow and defeat economic recovery," Fischer said in the report.

Fischer is a former Democratic state senator and a planning and economic development specialist. Fink paid his company, Vic Fischer and Associates, $26,000 to assess the economic damage to Anchorage precipitated by the collapse in world oil prices in 1986. On the whole, the study echoes many of the ideas Fink has offered for restoring the economy.

But Fischer attacks one well-publicized element of Fink's recovery plan: He labels a proposal to use public funds to buy foreclosed properties to prop up the real estate market as a politically impractical concept that detracts from serious attempts to improve the economy.

"What I concluded," Fischer said Wednesday, "was that this infatuation with the real estate market as being the ... focus of a crisis, is just a red herring, particularly talking about the bailout. ...

"There is not going to be an appropriation from anybody for a bailout. Anybody can talk about it as something horrible that we mustn't do, but it completely diverts us from dealing with some of the tough, underlying problems," Fischer said.

"One has to deal with all aspects, with every aspect of the depressed economy and the depressing economy. In housing, for example, it's not just single-family houses, it's not just condos, it's not just mobile homes, it's all those damn things."

See Back Page, ECONOMY

ECONOMY: Consultant says rebound not in sight

Continued from Page A-1

In coping with those underlying problems, though, Fischer embraces a number of tacks taken by Fink. Among those is the idea of trying to stabilize the commercial real estate market by taking older, vacant properties off the market until demand increases.

Fink originally proposed using the Alaska Permanent Fund to finance such acquisitions, but since has said he would accept other financing sources, public or private, that could accomplish the same end. Fischer says real estate trusts could acquire and hold property with little if any public investment needed.

Fink commissioned Fischer to write the report last month, after another study, by the University of Alaska Anchorage's Institute for Social and Economic Research, concluded that recovery is in sight.

Fischer formerly headed the organization that became ISER.

A week after release of the ISER study, the mayor told the Anchorage Board of Realtors he had hired Fischer "just to refute" the ISER study.

Fischer, then and now, insists that neither the mayor nor any city official tried to influence his findings. In several instances, however, Fischer's findings reflect what Fink has been saying since his campaign for mayor last fall:

• The best way to salvage the plummeting value of the city's housing stock is by eliminating surplus, substandard apartments and condominiums, moving lower-income families into better dwellings and using other vacant condos and apartments as university dormitories or for needy groups.

• The state should create or expand jobs programs reminiscent of the Great Depression-era projects devised by Franklin Roosevelt to put people to work.

• "The crash of the commercial property market ... is one of the basic causes of the continuing economic slide," Fischer's study says. The only way to affect the commercial market in the short run is "taking and keeping property off the market ... until a stabilized level of prices and rents is attained."

• Anchorage's economy is sick and getting sicker. In Fischer's analogy, it has a cancer "which spreads unseen and eats us away, bit by bit, organ by organ. If not treated it can destroy us."

• The principal choice facing Alaska officials is between action and inaction. "Should we act to arrest the downward spiraling of the economy? Should we act to salvage the people who are losing their homes? Should we act to slow the failure of businesses and the loss of jobs? ... Or should our choice be inaction? We could sit back, do nothing, and wait for the economy to right itself. Essentially, this would mean keeping government out of the situation and letting the marketplace determine what happens. Of course, that might be like waiting for the cancer to cure itself."

• Because a large proportion of the city's populace is employed by the government, many people are insulated from the effects of the recession and do not understand how deeply it hurts others.

Any similarity between his suggestions and Fink's is merely coincidental, Fischer said Wednesday.

"I can't help that," he said. "The mayor has talked about it, (Commerce Commissioner) Tony Smith has talked about it, Rick Halford. ... I was not out to discover new truths. My assignment was to document the character of the Anchorage economy, to define the problems and look at the preconditions for recovery."

"Fink had (a list with) 15 or 20 different items on it; none of the items were longer than one sentence," Fischer said. "I did not even refer to those. Those were ideas that were being thrown out as a means of starting a dialogue."

In a couple of instances, the economic picture worsened between the draft and final versions. A sentence in the draft about population trends — "The most recent data suggests that the steep drop is over and the rate of loss is slowing" — fell out, and the number of jobs lost in Anchorage in 1986 and 1987 grew from 17,000 in the draft to 21,000 in the final report.

Fischer attributed those changes to updated city projections.

The ISER study released early in January reported that drops in statewide employment had slowed and predicted job growth would resume at a rate of about 1.4 percent annually over the next eight years and that population would grow at a rate of about .8 percent annually. Parts of the ISER study are excerpted in Fischer's report.

The difference in the studies, Fischer said, is that ISER only looked at employment prospects.

"The situation is that they did not consider the downward pressures, for instance the fact there are still thousands of bankruptcies in the works, hundreds of millions in delinquent loans. As those are foreclosed, there are going to be more job losses, more businesses go out, more housing vacated, and so on and so forth."

State senate bill would create a real-estate monopoly



Fred Pratt

I've learned to watch for the word "stabilization" in titles of bills in the Legislature this year. It's become a red flag signaling the worse kind of mischief.

I wrote on April 15 about one such bill, the "Bankers' Bail-Out." I said then that this particular bill was the worse example of the "welfare for business" programs to surface so far. Four days later a couple senators recaptured the "worse bill" title with a new version of SB 408.

This legislation would establish "real property liquidating organizations" to achieve "stabilization of the real estate market." These real property liquidating organizaitions would be formed by banks, state agencies or other entities holding title for foreclosed real estate property for the purpose of holding real estate off the market to keep home prices higher.

These "organizations" are in fact what antitrust lawyers call a "combination in restraint of trade." The bills sponsors seek to control real estate prices in the same way the Organization of Petroleum Exporting Countries tries to control oil prices, and for the same reasons.

SB 408 would apply to both residential and commercial property.

The bill states, "The Legislature intends to ensure the stability of the state's real estate markets and prevent a precipitous decline in real estate prices by displacing competition with government regulation in matters relating to the sale and disposition of real property held by financial institutions and state and federal agencies as a result of foreclosure actions."

Think about that for a moment.

The "problem" is the homebuilders and developers overbuilt and real estate dealers and bankers have oversold property in Alaska. The inevitable result in a free economy is that prices fall until supply catches up with demand.

That's bad for the developers, dealers and bankers, but it's good for the consumer because he has more property to choose from and lower prices.

These senators feel that we should instead create monopolies in the real estate market to control property under foreclosure, with the express purpose of keeping prices up.

Now you don't have to be as smart as a state senator to know what would happen next. With all the foreclosure property off the market, real estate prices would go up so much that even more homes would be built. That would perpetuate the oversupply on the real estate market from a short-term "problem" to an enduring economic illness.

Alaskan state senators should know this because we've all watched very closely while exactly the same thing happened in the world oil market. OPEC members limited their own oil production to drive prices up. The higher prices and tight supplies helped bring new supplies into the market from places like Alaska and the North Sea. Eventually, the market collapsed for everyone.

But the effect would reach far beyond the housing market. A liquidating organization could acquire businesses that went belly-up and wound up owned by a bank or state agency. The liquidating organization could be any corporation, trust, fund, partnership, joint venture or other legal entity, and it could continue to operate the business.

That businesses who fail wouldn't drop out of the market, but would continue to compete with the remaining healthy businesses even more strongly because they could get some rather sweeping legal exemptions to cut their overhead costs.

The sponsors of SB 408 realize they are doing something that would get a businessman in jail if he tried it on his own.

The bill states, " . . . the Legislature intends to grant authority to the commissioner of Commerce and Economic Development to provide by regulation that . . . a real property liquidating organization will be immunized as necessary possible (sic) against potential liability under federal antiturst laws and state antitrust, competition and trade practices laws arising from the operation of the organizations."

This exemption is given in the broadest terms.

The bill would add new language to state law regarding the powers of the commissioner of Commerce and Economic Development saying, "If the commissioner determines that the exemption is necessary to carry out the purposes of this chapter, the commissioner may by regulation exempt real property liquidating organizations from any state law other than this chapter or from any regulation other than one adopted under this chapter."

One could almost understand, with a long stretch of normal moral perception, why the state might want to exempt a banker from antitrust laws in order for him to manipulate the real estate market to his advantage. It's impossible to understand why it would still be necessary to allow a single politically appointed state official to absolve the banker from laws against murder, rape or arson.

If a business property put into these "liquidating organizations" continues to operate, it could get exemptions from mining wastewater regulations, workplace rules, fair employment laws or anything else that suits them and the commissioner of commerce.

What's even more amazing is that these bills are the work of two people who should know better; Sen. Tim Kelly, R-Anchorage, and Sen. Arliss Sturgulewski, R-Anchorage.

Stranger yet is the fact that the bills are being taken seriously by their colleagues. SB 408 was sent to only two committees, and one of those waived consideration of the bill. The Senate Finance Committee was considering SB 408 last week.

Free-lance journalist Fred Pratt has been covering Alaska business and politics for the past 15 years.

Alsk		9	849	.7/8	6½	6¼	+	⅛
Alfsv	J	10	382	13½	13	13		
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AltnBc	.48i		1	12	12	12	+	⅛
AltFSv	.10e		6	11	9½	8¾	9½	+1
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Altwood	.77e		503	28⅜	26¾	28	+	1⅛
Austron		15	142	3¼	2⅞	3⅛	+	⅛
AtwdOc			37	16	15¼	15½		
AutTrT		7	135	4⅞	4⅜	4⅜	+	⅜
Autoclv	.16b	14	x435	u11¾	10¾	10¾		
Autodk		32	10285	29½	26¼	28¼	+	2
Autodie			151	13¼	12½	13¼	+	½
Autolnl			896	3	13-16	3⅜		3¼
AutLng			299	6½	5¾	6	—	½
AutoSy			188	3⅞	3¾	3¾	—	⅛
Autmfx			1338	¾	⅝	⅝		
Autospa			922	1¾	1⅝	1	11-16	+1-16
AutoCp		13	42	8¼	7¾	8¼	+	⅜
AvntGr		2	445	2	1½	1½	+	⅜
Avntek		36	4663	7⅛	6⅞	7⅛	+	¼
Avatar		33	95	25¼	24½	24¾	—	¼
Avry			8063	2	1-16	1¼	1⅜	— ⅜
Avndle			366	14½	d13⅜	14	—	⅜
AztcM	.08	42	77	6⅛	5⅝	5⅞	—	⅛

B

BEI	.24e	13	478	5¾	5½	5¾	+	⅛
BGS	1.10e	18	113	8½	8	8½	+	½
BHA		13	400	12¾	12½	12¾	+	¼
BIW Cb			313	5	4¾	4¾	—	⅛
BMJ	.52	11	x69	21¾	21	21	—	½
BNH	.24	18	31	16½	15¼	16½	+	1¾
BR Intec			2686	6	5¼	5⅞	+	½
BT Fin	.72	9	38	16¼	15½	16		
BTR	.07		555	u 7¾	7	7¾	+	¾
Badger	.72a		8	30⅛	27	27	—	2
BakrFn	4.40e		117	39¾	39	39½	+	½
BakerJ	.06	13	1110	10½	10⅛	10½	+	⅜
Balchm	.02e	16	65	5⅜	5	5	—	⅜
BldLyB	.20	5	199	13	12⅜	12⅞	+	½
BaldPia		9	212	15¼	14¼	15¼	+	⅜
Balard s		28	185	15½	14½	15¼	+	¼
Baltek	.05a	8	451	9¼	8¾	8¾	—	½
BnPnc s	1.40	11	94	23	22¼	23	+	¾
BnPop	1.32	8	70	29¼	28⅜	28⅞	+	⅛
Bancokl			235	1⅜	1⅜	1⅜	—	⅛
BcpHw	1.76	9	1100	52½	51½	52¼	+	½
BcMis s	.68	11	73	25½	23½	25	+	1½
Banctec		9	922	8½	8⅛	8½	—	⅛
BandoM	.61e		x189	6⅞	6¼	6¾		
BangH	1.08	8	345	13½	12⅞	13¼	+	¼
BankAtl		7	59	14½	14	14		
BkDel s	.88	12	193	26½	25½	26½	+	¾
BkGrn s	.36		18	74	29	27½	27½	—1
BnkNH	.84	10	593	24½	23¼	23¾	+	½
BkSou	.44b	12	389	13	12½	13	+	¼
BkStfd s	.05e	10	12	9½	9½	9½	+	½
Bnkest	.48		879	10⅜	9½	9½	—	⅜
BnkFst			658	8⅛	7½	7¾	+	⅛
BkrNte		10	91	2	1⅞	1⅞	—	⅛
BnkoClr	.80	11	536	11⅜	11⅜	11½		
Bnknth	1.52b	9	156	22½	21½	31¾	+	¼
Bkiowa			162	55	54	54⅝	+	⅜
BkMAm		1	744	1 3-16		⅞	15-16	—3-16
Bankvt	.24	20	x199	20		19¾	19⅞	+ ⅛
BkWorc	.80	13	3156	14⅝		13⅞	14¼	+ ¼
Banta	.44	14	1975	22¼		18¼	22¼	+ 3¼
Barden	1	15	11	39		37	37	— ½
BaretR s			51	3¼		3	3⅛	+ ⅛
Barris		23	3047	11½		9⅛	10⅜	+ ⅜
BaryJw		17	116	10¾		10⅜	10½	— ⅛
CtyCm s			3268	19⅝		18¼	19	+ ¼
Cntry*	.11r	9	98	14⅛		13¼	14⅛	+ 1
Canvsl	.40	17	41	13⅝		12¼	12⅝	+ ⅛
Cardyn			319	6		8¼	8	+ ⅛
Carbco	.06		96	3⅜		3½	3⅜	
Carmtk			341	1		⅝	⅝	
Carner		18	348	21¾		19½	20½	+ ⅜
Catus			5854	12¼		11½	12	— ¼
Chalint			80	1⅛		⅞	⅞	— ⅛
Chalone		134	87	11		10	10¾	+ ⅜
ChmpPr		25	391	8⅛		7⅝	7⅞	— ⅛
ChncCp	.17e	12	72	9¾		9	9¾	+ ⅛
Chenins		6	610	8¾		7⅞	8⅛	+ ⅛
Chapral			50	17-32		7-16	17-32	
ChapEn			3285	7-32		3-16	3-16	—1-32
CharCh			14	6		5¼	5⅞	+ ⅛
ChrmSh	.12	14	1914	0 12		11⅜	11⅝	— ⅛
ChrtCrl		7	77	13		11½	12¼	+ ⅜
ChrtFdl	.05e	11	x157	5¼		5	5	
ChtOne			635	8⅛	d	7¾	8	+ ⅛
Chrtwl		20	1411	9		7¾	8¼	+ ⅜
ChathM	.80	15	65	u55½		55¼	55½	+ ½
Chatlm	.56		12	11	19		16¾	17¾	—1
ChkPt		67	493	8		7¾	8	
ChkTch		50	140	5¾		5	5	— ½
Chmclr		24	306	4⅞		4⅛	4½	— ½
Chemex			2106	4½		3⅞	4½	+ ½
Chmx wt			185	5-32		5-32	5-32	—1-16
Chemfx		26	851	6		5⅜	5¾	
Chmfx wt			17	1½		1½	1½	+ ¼
ChFeb		24	641	10½		9¼	10	— ¼
ChLee		11	61	26		23	26	+ 1⅞
Cheroke		11	1389	9⅜		9⅛	9¼	+ ⅛
ChryCp	.12	10	243	u17½		16	16¾	+ ½
ChesUtl	1.20		25	24		22	23	+ ½
Cheshre	.41e		115	15½		14¾	14¾	—1
ChevSt s			1821	4½		3¾	3⅞	— ½
ChDock	.31e	73	75	26¼		25⅜	26¼	+ ⅜
ChldDis			500	u 4¾		3⅞	4½	+ ½
ChtAut		10	4502	10⅜		9¾	10⅛	+ ⅜
ChldWld		12	696	16¾		15½	15½	—1
Chilis		21	497	24⅜		24¼	24½	+ ¼
ChipsTc		12	8283	17⅞		17	17½	— ⅛
Chiron			2096	15¼		13¼	15	+ 1¾
Chitnd s	.60	21	214	17¾		17	17¾	+ ⅛
Chronr	†		612	7½		6⅞	7⅛	— ¼
ChrDwf	.22	15	2151	12¼		11⅜	12¼	+ ⅜
Cimco		16	113	14½		14	14½	+ ½
CinnFn	1.76	8	282	48¾		46½	48⅜	+ 1¾
CinMic		7	890	5¼		4⅜	4⅞	+ ⅛
Cintas	.13	27	266	33½		32½	33½	+ 1
Cipher		22	5125	9¾		9⅛	9¾	+ ⅛
Ciprico			325	u 7		6¼	6⅞	+ ⅜
Circadn			4249	1¾		1⅜	1¾	
CircIEx		17	1109	6		4¾	5¾	— ¼
CircIFA		11	327	5		4⅜	4¾	— ⅛
Circon			1151	3⅞		3¼	3⅜	— ⅛
Citpst		12	321	3¼		3	3	3-16	—5-16
CtzSoCp	1.12	9	7217	24¾		24	24	— ½
CtzBkg	.96	8	x110	20½		19¾	20¼	+ ½
CtzFinl	.06a	10	32	u 7⅛		6½	7⅛	+ ⅜
CtzFG s	.76	16	38510	u28½		26½	27⅜	— ¼
Ctzlns			105	u26¾		16	24½	+ 9
CtzSNY		5	412	9¾		9	9	
CtzSMd			217	8½		8	8	
CitzSF s		3	103	13¾		12	13⅜	+ ⅞
CtzU A s	†	23	1388	35¾		33¼	35¾	+ 2½
CtzU B s	1.20	20	392	31¼		29	31	+ 1½
CityFed	.04		x4793	4⅞		4½	4½	— ⅜
CtFd pf	B2.10		162	14½		13¾	14	— ⅜
CtFd pf	C .40		88	2	11-16	2	9-16	2	9-16	—⅛
CtyHld			3	34		31	31	
CtyLTr	1c		1311	4⅜		4⅛	4¼	+ 3-16
CtyNC	.64b	12	1347	24¾		23¾	24⅝	— ⅛
CityRs g		258	1	15-16	1	11-16	1	15-16	+ 3-16
CitySv	.20e	13	21	14¼		14¼	14¼	
CityBcp	1.12	9	x455	47⅜		46¼	47⅜	+ ⅜
ClabrB	.72		5	1½		1½	1½	— ⅛
Clairsn		9	340	5¼		4¾	5	— ¼
DomnT			4	15¾		13¾	15	
Dorncg s	.84		4	15¾		13¾	15	
DorsBk	.76	8	7023	17¼		17	17¼	+ ⅛

EA Eng		22	35	6⅛		6	6	
EB Mar			547	4⅜		4	4½	+ ½
ECAD		28	3382	9½		8½	9¼	+ ½
ECI Tel		16	97	3⅛		2⅝	3⅛	— ⅛
EIL Inst		16	78	7½		6¾	7	+ ⅛
EIP	.12		346	4¾		4¼	4½	— ⅛
ELXSI		47	2295	½		13-32	15-32	
EMC In	.48	7	154	8¾		8	8¼	+ ⅛
EMCON		13	142	13½		12¼	12¾	— ⅜
EMPI		15	92	2½		2½	2⅝	+ ⅛
ESSEF		14	676	18½		17¾	18	— ⅛
ETown	2.88	11	47	44		41½	41½	—1
EZEM		17	373	13½		13	13½	+ ⅜
EglBn s		7	124	10⅜		10½	10⅝	— ⅛
EaglTl		27	473	15-16		⅜	13-16	+1-16
EaglTwtA			1	½		½	½	
EarthT			140	4½		3½	4	— ½
Easco		18	1905	13		12½	12½	
EastWy	.15e		110	18¼		18	18	— ¾
EstnBc	.20e		12	139		17½	16	16¼	—1
EstnEn			822	5⅝		5¼	5¼	+ ⅛
Eastex		9	576	3¼		2¼	2⅜	+ ⅛
Eastovr	1.60	12	41	13½		13	13½	+ ½
EatnFn		10	687	6½		6	6¼	+ ¼
EatVan	.36	8	x617	22¾		22	22	
Edgcmb		63	294	5¼		4⅞	5	
EdisCtr			161	3		2¾	2¾	— ¼
EdSault	1.40	11	11	20½		20	20	— ½
ElChic			382	3⅜		3⅜	3⅜	
ElPollo			621	1 7-16		1¼	1¼	— ⅛
ElPas	1.52	16	1455	15¼		15	15¼	
Elan s		51	1368	11⅛		10¼	10¼	— ⅜
Elbit g	.09e	5	254	5⅛		4¾	5	
Elco	.88	10	177	31		30¼	30¼	— ¾
Elcotel s		9	1178	5⅜		5¼	5⅜	+ ⅛
Eldec		10	216	8¾		8	8¼	— ½
ElCath			92	3⅜		3¼	3⅜	+ ⅛
EleNucl		93	2255	14¼		13½	13⅞	+ ⅜
ElcRnt		13	178	15		14½	15	+ ½
ElcSci			998	9¾		9	9¾	+ ½
ElcSen s		26	x87	3½		3⅛	3⅛	
ElucAB			868	42⅞		41¼	42⅛	+ ⅞
Elctmg		13	1002	13½		12⅜	12⅞	+ ¼
ElecTel	.04e	61	130	5¼		4¼	4¼	— ¼
Elexis			386	2½		2	2½	+ ½
ElIotSv	.10e		436	10½		9¾	9¾	— ⅜
ElmwdFd			139	7¾		6¾	7	— ¼
ElronEl			668	3¾	3	7-16	3	7-16	— ⅛
Empins			1	4¼		4¼	4¼	
EmpOrr			66	1 1-16		1	1	
EmpSB			2	8		8	8	
Emulex		15	2789	8⅜		7¾	8	— ⅛
Encore			2335	2½		2¼	2	7-16	+ ⅛
Enrgas	1	8	153	15¾		15½	15⅝	+ ⅛
Engnth	1.32	11	84	u20½		19½	19½	— ¼
EngCnv			2767	9¾		8	8¼	—1
EnFact			128	8¼		8	8¼	+ ¼
EnexR s			183	5⅛		5	5⅛	+ ¼
EngnSu			435	7⅞		7½	7½	
EngMea			22	5		4½	4½	— ¼
EClay	1.48e		394	24		23¼	24	+ 1⅜
Engrph	.18b	14	247	10¼		9¾	10¼	
Enseco		19	889	7¾		7	7½	— ¼
EntPub	.10	14	529	19		18¼	18¾	+ ½
EntrCpt		9	2530	4⅜		4⅜	4⅜	+ ⅛
EntreCp	.05e		1047	2⅛		1¾	1¾	— ⅜
Entrnc			1209	5¼		4⅛	4¼	— ⅛
Envrd s		12	4119	25½		23¾	24½	+ ¾
EnvPwr			73	2⅛		1⅞	2	+ ⅛
EnvrTc			139	3⅞		3½	3¾	
Envirst		18	242	19		17¾	18	— ⅜
EnzoBi			430	4⅞		4⅜	4⅝	— ½

G&K Sv		19	892	15⅞		15¼	13⅜	+ ⅛
GENOX			129	⅜		8	8	+ ¼
GMI s	†		146	2½		1¾	2⅛	— ⅜
GTS			14	1⅜		1⅜	1⅜	
GV Med			608	11½		10⅜	11½	+ ⅜
GWC	1.32	12	19	19¼		18¾	19¼	
Gaiac g			6384	6½		6	6⅛	— ¼
Galileo s		15	1147	9½		7⅞	8	—1½
GamT s		9	200	5		4¾	4⅞	+ ⅛
GamaB			2516	5¾		5⅜	5⅝	— ⅛
Gandlf g		20	686	7¾	7	3-16	7	3-16	+ 1-16
Gander		15	134	9½		9	9	— ½
Gantos		9	1690	11¼		10¼	10¾	— ⅛
GardA		13	299	15¾		14½	15½	+ 1⅛
Gartner		24	201	11½		10½	11½	+ ⅜
GfwBcp	1.45t		49	u14¼		13¾	14¼	+ ½
GatwB s	.42e	9	1419	15¾		15¼	15¼	— ½
Gatway			420	3¼		3⅛	3⅛	— ⅛
GatwyFd			70	9⅛		9	9	— ¼
GfwyM			65	5-16		5-16	5-16	
Gemcft			115	1½		1¼	1¼	— ⅛
GenPrb			369	5⅜		5⅛	5⅜	
Gencor		28	222	7⅛		6½	6½	— ½
GnBnd s	.32		17	1335	u30		27¼	30	+ 3
GBidPr		13	411	6¼		5⅜	6	— ⅛
GenCer	.10	25	84	11¼		10½	10¾	+ ⅛
GnCpt		23	42	10⅜		10	10	— ⅜
GnMag	.10	15	13	10		9½	9½	—1¼
GnPara		8	621	3¾		3⅜	3⅜	
GPhys	.15e	9	22	12		11	12	+ ¼
GenetIn			4295	21¼		20½	21	+ ⅜
Genex			1215	1⅛		15-16	1	
Genicm		10	6484	10⅛		9¼	9⅞	+ ⅜
Gentex		23	345	4	3-16	3	15-16	3	15-16	—3-16
Genzym			200	978	10⅛		9⅞	10	
Geodyn	.15e	11	383	12¼		11¾	11¾	— ¼
GeodRs			435	2⅛	1	15-16	2⅛	+ 5-32
Geonex			24	4		3½	4	+ ½
GeoWsh			6	1¼		1¼	1¼	—1-16
GaBnd			1	4		4	4	
Geraght			816	9¼		8⅜	9⅜	+ 1⅛
GeriMd	.08		124	3⅛		2⅞	3	+ ⅛
GermF			50	4		3⅝	3¾	— ⅛
GrmSv		7	498	9½		8⅝	9⅛	+ ½
GtBay	g		251	27-32		11-16	11-16	—1-32
GibsnG	.30	10	11457	17⅜		15⅜	17	+ 1⅛
GigaTr		12	45	10½		10	10¼	+ ½
GilbtA s	.90	14	190	20½		19¾	20	+ ½
GilshBi		15	327	5⅞		5½	5⅜	+ ⅜
Glamis	.04i		259	3¾	3	9-16	3	11-16	—1-16
Glenex			197	3⅜	3	1-16	3	5-16	+ ⅛
GldCorr	1	8	x37	9¼		8¼	8¼	— ¾
GoldEn	.28	19	76	10¼		10	10¼	+ ¼
GldPoul	.04	29	160	6		5½	6	+ ½
GldnVly		27	4165	u31¾		29½	30⅞	+ ⅞
Goldtex			1078	3⅜		2¼	3⅜	+ ⅜
GoodGy		7	86	4⅜		4½	4½	
Goodmk		15	456	10¾		10¼	10½	— ¼
Goody	.40	11	371	18½		17¼	17¾	— ½
Gotaas	.28		14	4650	31¼		29⅞	31¼	+ 1
GouldP	.76	19	16549	21		20¼	20⅜	— ⅛
Gradco		15	619	7⅛		6¾	7⅛	+ ⅛
GranC s	.50	10	106	10¾		10½	10½	
GrantSt	.25	27	2	7¾		7½	7¾	+ ⅛
Grphl s	.06	13	528	10¾		10¼	10¾	
GphPck		21	601	8¾		8¼	8½	— ⅛
GrphSc		7	22273	8⅜		7	8¼	+ 1⅛
GAmCm	.02e	31	6409	11⅞		11	11½	+ ⅛
GtAmCp			13	7½		7	7	— ¼
GrtBay	.05e		339	10		9⅝	9⅞	
GCtryB	.60e	10	204	18		17½	17¾	
GtFalls	.44	102	32	6⅜		6⅛	6⅛	— ½

IntRes			3946	4½		3¾	4½	+ ½
IntTrn			30	6		5¾	6	
IntlBdc		71	1122	23¼		22	22⅝	+ ⅛
Intrdel		12	253	3⅝		3⅜	3⅜	+ ¼
Intrntl	.22	16	606	13¼		12¾	13	+ ⅛
Intstch			1048	5⅜		5⅛	5⅜	+ ⅛
IntloSc			606	1		¾	1	+ ⅛
Infrmx		29	3233	21¼		20¼	20½	+ ¼
IntloRs	s		7165	13¾		12½	13	
Infrm			3629	u11¾		9⅜	11⅛	+ 1½
InstAkt	.20e		364	9⅜		8⅝	8⅝	— ⅛
Inmac	.09e	22	269	21¾		21¼	21¾	
InmedC			13	3¼		3	3¼	+ 1
Innovex		17	691	5		4⅞	5	
Insech	s	86	2426	8		7¼	7¾	
InsltE		38	695	7½		7⅛	7⅛	— ⅛
InsltGlf		14	66	3		2⅞	3	
InsltMd	.03e	34	275	5¾		5½	5¾	
Instgp	†		826	7⅛		6¾	7⅛	+ ⅛
InstG wt			172	4½		3¾	4	— ½
Instfr			630	9⅛		8¾	9	+ ⅛
InstfrS		17	211	3		2¾	3	+ ⅛
ICP	.20e		43	12½		12	12	
Intech	†	30	96	2		1⅞	2	
Integon	.12		4	x1606		6¼	5½	6	+ ⅛
ItgCirc		17	234	4¾		4⅛	4½	
IntgDv	s	34	5295	15⅞		15⅛	15¾	+ ⅜
IntgGen		41	826	4¾		4¼	4½	
Intel	s	22	63027	32½		30¾	31	+ ⅛
Intel wt			3397	13⅜		12¾	13	+ ⅛
Intl wt92			2978	13⅜		12¾	13	+ ⅜
Inteill			564	3⅛		2¾	3	+1-16
Intelcal		19	199	5¾		5	5¾	+ ½
IntelEl			9	562	7¾	7	7	—1
IntrFd			17	10¾		9¾	9¾	— ¼
IntrTel		14	566	4¼		3¾	4	
IntRad		52	78	3⅛		2½	3⅛	+ ¾
InactTc		18	1121	u11		10⅛	10⅜	
IntTc wt			88	3¾		3¼	3¾	+ ⅜
Intrnd			145	2¾		2¾	2¾	
IntrFn	.45e	12	84	16½		14½	15¾	+ 1¼
Intrfcl s	.16	14	3102	12⅜		11⅜	12¼	+ ⅞
Interfc	.66f	11	1104	7¼		6¾	7	1-16	+ 13-16
Intgph		19	18802	26¾		25¼	26	+ ¼
Intgrp			19	12⅞		12⅜	12⅜	
IntrmSv		21	27262	u3	1-16	2½	3	+7-16
Intrleaf		51	7300	17½		16¼	16¾	— ⅜
Intrmgn		59	512	4¾		4½	4¾	
Intmec			25	1324	18½		17¼	18⅜	+ 1
IntmetC	.20	12	1389	12½		11⅜	11⅜	— ¾
Infrmtr		11	88	4½		4¼	4¼	
IntAm		6	701	2⅛		1⅜	1	15-16	+ 3-16
InBcst			613	11⅜		10¼	11⅜	+ ⅜
IntClin		47	357	37		36	36	— ½
IntCnt		24	60	5		4¾	4¾	— ¼
InDairA		17	78	29		28	29	+ ½
InDairB		17	8	29		28	29	+ ¼
IGame		15	1130	u14		13	13⅜	+ ⅜
IntGen			716	4⅞		4½	4⅞	+ ⅛
Intrlid	.50e	4	59	16		15	15⅜	+ ⅜
IntKing			25	19⅞		19⅝	19⅞	
IntLse	.02e	12	4590	15⅛		14	14⅞	— ⅛
IMP		16	1062	3⅜		3	3⅛	+ ⅛
InMobil			3613	8½		7¾	7⅞	— ⅜
IMbl wt			186	2¾		2	2	5-16	—3-16
InMbl pf	2.50		150	22¼		21½	21½	
IntResh	.36	14	341	11½		10¼	10⅞	+ ⅜
InRobo			28	2⅞		2⅜	2⅜	
IRIS			6451	1½	1	1-16	1⅜	+ 5-16
IntShip		10	325	22		20¼	21⅜	— ⅜
IntTotlz		12	454	2¾		2½	2⅝	+ ⅛
Intphse		21	108	8¼		7¾	7⅞	— ⅛
IntPip g	1.80		281	39½		39⅛	39⅛	— ¼
Intspec		18	170	10½		10	10½	+ ⅜
Inttan			1634	u28⅛		26½	28⅛	+ 1⅜
Intrtrn		20	940	9⅞		9¾	9⅞	+ ½
Intrex			1011	u17¾		17¼	17⅜	+ ⅛
MARC		13	86	14⅜		13⅞		
MBS			8	472		6⅜	6	
MCI		32	168809	u13⅜		13¼		
MDT Cp			22	5388	u10⅜		9⅝	
MI Hom			8	69		6	6⅝	
MLX			1045	2¼		2¼		
MMI		15	12	7⅛		7⅛		
MMR		13	7	18		17⅜		
MNC	1.56		8	2491		41¼	40⅝	
MNX			9	240		9⅝	9⅝	
MPSI			338	123		3⅜	3	
MSCar	s		13	3301		12½	11⅜	
MTS	.24		59	876		24	21¼	
MTECH			23	3129		29⅝	29½	
MDmd	s .52		15	13		25	25	
MachTc			

F.H. Oral

Ketchikan Daily News,

Saturday-Sunday, April 2-3, 1988

Bank president opposes bailout for banks

The president of the new Alliance Bank visited Ketchikan this week and said he and his group oppose a state bailout for Alaska banks.

Fred Burrows joined Alliance the first of February, a few days after United Bank of Alaska, Southeast joined United Bank Alaska and Alaska Mutual in a merger and reorganization financed by the New York-based Hallwood Group with $65 million.

Burrows said in an interview Monday that the action needed to assist banks and private citizens is to avoid dumping all foreclosed property in Alaska on the market at once. He said the property should be put on the market over a period of years such as seven or 10, although he said he hasn't studied the issue enough to have a recommended time.

He said Alliance Bank has 2,000 pieces of foreclosed property in its possession. The total of all foreclosed property held by the Federal Deposit Insurance Corporation, other government agencies and banks represents at least $1 billion in value. Because of the recession in Alaska, people find the appraised value of their homes less than the balance they owe on the mortgage. Many are unable and unable to make payments or move. To dump more property on the real estate market now would depress the value of real state more and worsen the situation, Burrows said.

The FDIC, which insures bank customers against losses, however, doesn't like to hold property which it acquires from failed banks. Burrows said if FDIC suddenly dumped all of the property it holds, that instead of property values dropping the 20 percent they have in the Anchorage area, they would drop two to three times that amount.

Burrows said the economy in Southeast is good compared with Anchorage. This was echoed by Ketchikan Alliance branch manager Dick Axelson, who said that only one Ketchikan property is among the 2,000 which Alliance has taken back on foreclosure.

Burrows joined Alliance Bank as president after 21 years with First Interstate in Oregon and Washington where he rose to president of the Seattle branch. He also ran an advertising agency and recently worked for the Seattle Convention and Visitor Bureau in promoting the new Seattle convention center which opens in June.

Alliance Bank has 13 offices throughout Alaska and is negotiatng for a second bank office in Juneau. Its current Juneau office is in Mendenhall Valley and Burrows hopes to see the bank move into the old Alaska Bank of the North offices in the Sealaska Building in downtown Juneau. Bank of the North is one of the four major Alaska banks which failed last year. Bank of the North's assets were purchased by National Bank of Alaska.

Burrows said banking problems aren't confined to Alaska. Banks in other states hit by the depression in the oil and farming are failing. And not all banks in Alaska are failing. He said First Bank of Ketchikan is a sound institution.

Ketchikan Daily News,

Saturday-Sunday, April 2-3, 1988

Women unionists decry inequity

BEIJING (AP) - The top women officials of labor federations in seven cities issued a statement Friday complaining that women on the job received unequal treatment and demanding a public debate on the issue.

"We call upon the media, economic and theoretical communities, leaders at all levels of the (Communist) party and government ... and all men and women workers to air their own views and actively join in a discussion," the seven women said in the statement, published on the front page of the newspaper Workers' Daily.

Their statement, drafted at a meeting in Beijing, was especially critical of what they said was a growing tendency to fire women once they have children.

Many enterprises also have done away with maternity leave and other "women's benefits" in order to cut costs now that companies are being held responsible for their own profits and losses.

"Some people believe that when a woman becomes pregnant and has a child it is a private matter and becomes a burden for the enterprise," the statement said. "But others believe women carry two heavy loads, of helping produce material goods for society and perpetutating the human race, and this contribution deserves social recognition and special protection."

Women were regarded as inferior in traditional China's rigid social hierarchy but are promised equal treatment in Communist Chi



Panama City traffic jammed streets in reaction to their inabili

Panamanian would accep

PANAMA CITY, Panama (AP) - Police replaced Gen. Manuel Antonio Noriega's heavily armed soldiers on the streets Friday for the first time since last month's attempted coup against the Panamanian strongman.

The U.S. Defense Department announced it will send 1,300 additional military personnel to Panama, bringing the total number of American troopers there to nearly 12,000.

Panamanians, who are predominantly Roman Catholics, took time out from political activity on Good Friday to prepare for the Easter weekend, but for many that meant only another day of hunger

Funds from National Park Service resurrect plans for Denali resort

The Associated Press

Planning efforts for a resort in Denali State Park have been resurrected with $100,000 from the National Park Service, state officials say.

A combination of public opposition and the legislature's refusals to ante up $200,000 for further study and preparation of a concession contract halted the planning 18 months ago.

But with the $100,000 from the park service, the state over the next 10 months will revise the Denali State Park master plan. The revisions will provide site selection criteria for a visitor complex and assess the effects of increased public use and recommend park amenities such as trails, campgrounds and parking areas, officials say.

"One of the elements will be the concept of a resort complex and a National Park Service visitor center," said Neil Johannsen, director of state parks.

The state Department of Natural Resources and federal government hope to increase tourism at the 324,240-acre state park and relieve overcrowding at Denali National Park about 100 miles to the north.

"Things are getting worse up there," Johannsen said of the national park. "We're hitting the point where arguably the top visitor attraction in the state has hit the saturation point."

The Department of Natural Resources also will try again for $200,000 grant when the legislature convenes in January. The money would allow the state to look more closely at the economics of a visitor complex in the state park.

The idea of a resort at Denali State Park has been kicked around for nearly 20 years.

ANWR: Congressional, state critics say land swap proposal could cost taxpayers billions

Continued from Page C-1

ets of valuable, privately owned land in the seven refuges without spending federal money.

But at least two of the Native groups have received offers from oil companies for higher rent and royalty payments than the Interior Department generally gets on its oil leases.

Under the plan, the Old Harbor Native corporation would receive rights to 55,000 acres in the Arctic refuge. The Interior Department says these oil rights are worth $45.7 million, including the value of royalty payments if recoverable oil is discovered on the land.

Texaco Inc., however, has offered Old Harbor a cash payment of $45.7 million just for the rights to drill on the 55,000 acres. It also is offering to pay an annual rental of $3 an acre; a 14 percent royalty on any oil and gas taken from the acreage, and a 1½ percent royalty on the value of any petroleum it recovers from other portions of the refuge.

On its oil and gas leases, the Interior Department gets rental payments of $2 an acre a year. Its usual royalty rate is 12½ percent, a level that Horn has asked Congress to set on any federal leasing in the arctic refuge.

The other offer was made to the Koniag Regional Corporation by a consortium headed by Chevron. It applies to 3,183 refuge acres that Interior values at $77.4 million, including prospective royalties.

Jim Eason, director of the Alaska Division of Gas and Oil, says the Chevron group is offering Koniag a cash payment of $55 million for the oil rights; annual rental of $10 an acre on 2,560 acres and $5 an acre on the balance; a 20 percent royalty with a chance to change this to 40 percent of net profits from drilling on the acreage; a ½ percent royalty on the value of any petroleum taken within six miles of the acreage; and a ¼ percent royalty on any petroleum Chevron would take from any other part of the refuge.

Even if no oil were found in the refuge, these two offers combined would bring Koniag and Old Harbor payments totaling 84 percent of what Interior says their interests are worth.

In trying to convince Congress to open the refuge to oil exploration, Horn has said its reserves could rival the 9 billion-plus barrels of oil at Prudhoe Bay.

At a royalty rate of 12½ percent, the federal and Alaska treasuries would lose 4.125 cents for each barrel extracted from land traded to Natives.

"The value of the royalty interest alone, should significant discoveries occur, potentially may be measured in the billions of dollars," according to a study by the Alaska Division of Oil and Gas.

Mobil Oil, which is not allied with any of the Native corporations, has been lobbying against the trades. In a memo circulated on Capitol Hill, it said that Interior "significantly undervalued" the refuge land and "significantly inflated" the value of the land it would receive from the Native corporations.

Tom Marshall, former director of the Division of Oil and Gas, said in a consultant study for the National Wildlife Federation, which opposes any drilling in the refuge, that he believes Interior's projections of the refuge's oil reserves are conservative.

Notice...

STATE OF ALASKA
NOTICE OF PUBLIC HEARING
NEW WASILLA AIRPORT Project No. 55908

The Alaska Department of Transportation and Public Facilities (ADOT&PF) in cooperation with the Federal Aviation Administration (FAA) and the City of Wasilla will hold a public hearing on the proposed relocation of the Wasilla Airport, on Tuesday, November 17, 1987. The hearing will be held at 7:00 p.m. in the City of Wasilla Council Chambers at 290 E. Herning Avenue in Wasilla.

A general aviation airport is proposed for construction south of Jacobsen Lake and the Alaska Railroad Corporation (ARRC) tracks approximately three miles west of the existing airport in Wasilla. The new facility would replace the existing Wasilla airport and would improve the level of air service and safety to the City of Wasilla and surrounding area.

The proposed airport would include a 3,700-foot runway, two aprons, connecting taxiways, and an access road. In addition,



Legislator proposes a plan to attack economic ills

By SEN. ARLISS STURGULEWSKI

Of all of the economic booms and busts Alaska has experienced, this bust is affecting more of us more severely than any other. Consequently, it's time for the legislature to address fiscal policy issues so that future booms and busts won't affect us so dramatically. During the coming session, we must create some long overdue financial tools.

Billions of dollars rolled into state coffers from the most recent oil boom and then rolled right out again. We spent money on experiments in agriculture, in renewable resource development, in housing, in industrial development, and on quality of life improvements.

There's no denying there were some resounding successes and some equally resounding failures. Our successes have been in areas in which government should be successful. We spent money on school programs and have a good school system statewide.

We improved the health of our citizens through water and sewer projects and through grants to health care providers.

Some successes were cooperative efforts with the private sector. Alaska Industrial Development Authority funded projects that were able to stand on their own merits. The partnerships formed by the Alaska Seafood Marketing Institute with the fishing industry and by the Division of Tourism with the visitor industry paid off in expanded markets for our fish and a steadily increasing stream of visitors to Alaska.

Experiments in which we attempted to directly accelerate private development were less successful, however. The Alaska Renewable Resources Corporation only lasted a few years. Agriculture is badly limping and the effort to start a red meat industry was far from successful.

It has become increasingly clear that the private sector must be on its toes to find the competitive and profitable edge and that government's role is to assist through reasonable regulation, responsible resource management and the elimination of roadblocks.

More specifically:

• Now is the time to devise a spending limit that works. The current constitutional spending limit bears absolutely no relationship to the amount of our annual budgets. The constitutional spending limit must be rewritten to tie it to the prior year's budget, and also outline how to dispose of excess revenue when we have it.

• Excess revenue should be at least partially dedicated to a constitutionally mandated budget reserve fund. Rather than frantically casting about for dollars just to keep the state running when revenues plummet as they did in 1985, we will know there is a source of funds for basic costs of government.

• It is critical that we devise and adopt criteria for the funding of capital projects. Life, health, and safety projects should be first in line for funding. Education and transportation both are the responsibility of government and should be funded based on need. Projects that will lead to real economic development should receive priority. Included in the criteria for all of the above must be operations and maintenance costs and a maintenance plan.

• Although it may seem like closing the barn door after the horse has run away, we need to set standards of accountability for municipal grants, and for grants to non-profit corporations that deliver government services.

• School capital funding has turned into a monster. With the promise of 80 percent reimbursement by the state, municipalities sold $300 million worth of bonds in one recent year. The debt service on those bonds has become a burden on the state and a source of anxiety for municipalities as they watch to see if the state will budget for the full entitlement. The state should fund for basic schools; extras should be paid for by communities.

• The Alaska Permanent Fund is an excellent counter-cyclical tool for us. It has meant the maintenance of our excellent credit rating in the face of a down economy. It also means that we have a source of income about which the legislature needs to make some decisions — and then go to the voters to confirm those decisions. I personally support using the income of the fund for continuation of the dividends, inflation-proofing, and partial funding for a constitutionally established budget reserve fund.

These are all decisions that can and must be made now. Without the proper tools in place, the next boom could find us allowing history to repeat itself. We can do better.

☐ **Sen. Arliss Sturgulewski is chairman of the Senate Community and Regional Affairs Committee and the Senate Special Committee on Local and Regional Economic Opportunity.**



Economic chances not all bad — you just have to look for them



chris stephens

The problems and opportunities of real estate markets like ours have become popular topics of discussion on the national real estate scene. Such markets are most often categorized as severely distressed. Others in similar condition are Houston, Dallas, Tulsa and Oklahoma City. We are not unique. This type of market will be with us for a while. We must learn how to cope with it, but even more important, how to take advantage of it and prosper.

The current debate about what the state should do, if anything, to alleviate adjustments in both the residential and commercial sectors illustrates the magnitude of the problem in our economy.

Unfortunately, only a few are taking advantage of the opportunities for solid investment. Many people think that depressed prices and distressed owners are signs that they should stay out of real estate. They reason that the market is going to get a lot worse before it gets better.

This kind of thinking is wrong. It assumes that in a distressed market, all properties are distressed. Nothing could be further from the truth. They assume the current situation accurately portrays the future. That kind of thinking during the recent boom is what got us into this mess in the first place. And it implies that the time to step in is after the market has improved when prices have gone up, not now when they are low.

The entire market is not depressed. Some excellent properties are doing very well in this market. There are, however, distressed owners with excellent properties who must sell. This puts good properties on the market at bargain prices. Because investors are few, opportunities is out there to make sound investments in excellent properties.

We need to remember that every situation and opportunity is unique. As our past can teach us, the future of Alaska will be shaped by events totally different than our current situation. Change is inevitable. Alaska still has tremendous natural resource wealth and a very small population, which will continue to create healthy market opportunities and wealth-generating investments.

Finally, we must rely on our own perceptions and be willing to invest when others are fearful. We all want to avoid risk. But most avoid risk by waiting until the market is proven safe because so many others are investing and making money at it.

What is happening instead is that people are selling because the price is high. They are the people who bought when the market was down, and no one else would buy. Though everyone knows you buy low and sell high, most people buy high and sell low. They are afraid to buy when the price is low because no one else is buying. So they wait, and sure enough, prices do go up.

Distressed real estate markets offer the opportunity of a lifetime, much better than during the boom. Quality properties can be purchased at a price far below replacement value, often with easy financing. When the market recovers, those who invest now will be selling to those who wait until the market is proven safe and prices are higher.

□ Chris Stephens, CCIM, is a local associate broker specializing in investment and commercial real estate.

ANCH DAILY NEWS 2/21/88

AMA TreasFed	109	6.68	— .04	DryUSGuarMM	93	6.21	.....	MorganGrenfell	17	6.43	+ .06	MuniCashInv	37	6.37	— .01	RepCashAssets	68	6.70	— .00	DreyCalTx	24	4.21	.....
AMA PrimePort	85	6.58	+ .16	DryTUSGuarMM	22	6.09	— .02	MSTEllio	9	4.23	— .01	MuniCashMgmt	12	6.43	+ .01	TempleInstMny	12	6.73	+ .01	DrINYTE	43	4.08	— .02
AMGIV Fd	39	6.13	.....	EagleVarCapCshMg	25	6.30	— .01	NetCashFlow f	48	6.15	unavail	MuniCashReserve	38	6.37	— .02	TemporaryInvt. Fd	48	6.72	.....	DreyTxExempt c	32	4.11	— .04
ActivaAssetGovt	39	6.38	— .03	EmblemPrime	20	6.34	— .01	NetInstLqAstGv af	44	6.35	.....	MuniMoMMkt	37	6.36	+ .04	TheMacMillMMkt	38	6.31	— .02	EatonVanceTxPr	28	4.36	— .03
ActivaAssetMoney	68	6.43	.....	EmblemUS Gv	20	5.75	— .03	NetInstLqAstPr af	48	6.34	— .01	MuniMoMMkt	37	6.36	+ .13	TheMacMillMMkt	38	6.31	— .02	EmpireTaxPree	78	4.11	+ .02
AlexBrownCash	33	6.43	.....	EvergrnMMTr	52	6.79	.....	NetInstLqAstTr af	46	6.36	+ .01	NewEngGovt	44	6.48	+ .04	TheroPrOb	43	6.46	.....	FFBTaxFrMMkt	42	4.10	— .04
AlexBrownGovt	44	6.16	+ .01	FBLMoneyMkt	28	5.95	+ .01	NetInstitutionalMM Pt	34	6.37	.....	NewEngMMkt	37	6.43	— .02	TheroUSGv	69	6.13	+ .02	FederatedTxFree c	36	4.32	.....
AllianceCapReal	71	6.25	.....	FFB Cash	55	6.53	.....	NewEngUSGvt	84	6.74	— .03	NewEngUSGvt	84	6.74	— .03	TransamCashRes	38	6.37	+ .01	FidelityCalTxFree	53	4.02	.....
AlliancGovtReal	68	6.01	+ .01	FFBUS Gvt	47	6.25	— .06	NorstonMoney	48	6.32	.....	NorstonMoney	48	6.32	.....	TrinityLiqd	39	6.39	— .07	FidelityNYTxPr	82	4.16	— .01
AmerCapReserv a	51	6.34	— .01	FFBUS Tr	38	6.01	— .06	NuveenMassTF	76	4.43	— .01	NuveenMassTF	76	4.43	— .01	TrustCashReaf	46	6.38	.....	FidelityPaTFMM	42	4.33	.....
AmNatl	19	6.36	— .01	FederatedMasterTr	48	6.61	— .01	OppenMoneyMkt	29	6.26	— .01	OppenMoneyMkt	29	6.26	— .01	TrstfdTreasry	33	6.35	+ .00	FidelityTExmt c	42	4.44	.....
AutCah	80	6.48	— .01	PedShtUSGov	23	6.57	.....	OxfordCash	6	5.84	+ .22	OxfordCash	6	5.84	+ .22	TrstfdUSAgen	37	6.56	.....	FidelityMassTxFr	57	4.13	— .01
AutGvt	37	6.12	.....	FidelityCashRes	41	6.24	— .01	PacHrzGvtMM	52	6.14	+ .01	PacHrzMMktPort	34	6.33	+ .06	TrstfdPrmeOblig	43	6.78	+ .01	FidDailyTE	43	4.46	+ .27
AxeHoughtInMM	22	5.93	.....	FidelityDlyIncm b	41	6.12	.....	PacHrzMMktPort	34	6.33	+ .06	PW Cash	37	6.34	.....	TrstfdCommcl	39	6.84	.....	FinancialTxFre	44	4.17	+ .07
BabsonMoneyMkt	36	5.99	— .01	FidelityDlyMMkt	23	6.29	.....	PW Cash	37	6.34	.....	PWMasterMny b	31	5.43	.....	TrustShortTerm	31	6.55	.....	FstInvstTaxEx	86	3.96	— .02
GranitMM	19	5.95	— .01	FidDlyUSTrees	6	5.94	+ .01	PWMasterMny b	31	5.43	.....	TrstShrtFdT	30	6.41	+ .01	TrstShtFdT	30	6.41	+ .01	FstLakeshreTE	38	4.29	— .02
BirrWilson	26	5.64	.....	FidelGovtPortf	32	6.38	.....	ParkCah	51	6.17	— .01	ParkCah	51	6.17	— .01	TrustShTrmUSGvt	34	6.57	+ .34	FstTrustTaxFree		unavail	
BostonCoCash	50	6.24	— .03	FidelDomesticPort	27	6.37	.....	Phoenix	32	6.25	.....	Phoenix	32	6.25	.....	TrurtUSTreesObl	38	6.23	.....	FrankinCalTxEx	36	4.44	.....
BostonCoGovt	42	5.52	+ .01	FidelMMUS Treas	22	6.11	+ .01	PilgrimGov	1	5.59	.....	PilgrimGov	1	5.59	.....	TrstfdaCashFdISec	38	6.27	+ .01	FrnkNYTE MF	32	3.84	.....
BullBearDallr	62	6.48	+ .01	FidelityUSGvt	45	6.19	.....	PioneerMMTr	17	6.12	— .01	PioneerMMTr	17	6.12	— .01	TrstfdaCashMMkt	46	6.96	.....	FrankinTaxExmt c	32	4.49	— .01
CAM Fund		unavail		FinancialDlyIncSh	26	6.02	— .03	PiperMMFd	40	5.97	.....	PiperMMFd	40	5.97	.....	TuckerAnthony	24	6.14	.....	GenlCalTEMM	51	4.29	— .04
CBA MoneyFd	58	6.17	— .23	FincIResv	28	6.40	— .01	PrimeCash	33	6.22	— .01	PrimeCash	33	6.22	— .01	TuckerAnthGvt	39	5.75	+ .01	GenlNYTEMM	25	3.62	— .01
CIMCO	29	5.91	— .01	FstAmerMoneyFd	34	6.36	.....	PrincorCash	16	5.69	.....	PrincorCash	16	5.69	.....	TwentCentCah	31	5.98	— .01	FundTaxFree	61	4.03	— .02
CA TFMF	66	4.18	— .02	FstInvestCshMgtf	20	5.77	— .01	PruBacCmdGvt	62	6.22	+ .01	PruBacCmdGvt	62	6.22	+ .01	UMBFedPort	42	6.34	.....	GnTxExemptMM	22	4.13	— .05
CalvertSocial af	38	6.09	— .01	FstLakeshreMM	43	6.18	.....	PruBacCmdMny	48	6.41	— .03	PruBacCmdMny	48	6.41	— .03	UMBPrime	37	6.37	+ .06	HiMrkCalTF	39	4.01	.....
CapitalCashMgt	19	6.03	.....	FstLakeshrGvt	33	5.66	+ .01	PruBacGvt	58	6.30	+ .02	PruBacGvt	58	6.30	+ .02	USAAMutualFd	29	6.43	+ .01	HomeFedTF		unavail	
CapitalPreservFd	61	5.55	— .19	FstTrustGeneral		unavail		PruBacMMart	47	6.36	— .02	PruBacMMart	47	6.36	— .02	USTreasury	61	6.15	+ .06	HorizonTE	33	4.63	— .05
CapitPreservII	2	5.66	+ .09	FstTrustGovt		unavail		PruInstLiqMM	55	6.84	— .16	PruInstLiqMM	55	6.84	— .16	USTMasterGvt	35	6.32	.....	IDSTaxFree c	71	4.00	+ .07
CapT MM	12	6.04	.....	FstVarlGvtIncmf	37	6.23	.....	PutnamDailyDiv	43	6.11	— .02	PutnamDailyDiv	43	6.11	— .02	USTMasterMoney	14	6.42	.....	InstTxExAst afc	41	4.44	.....
CardinalGvtSec	32	6.07	+ .21	FlexFund	13	6.51	.....	PWRMA Mony	54	6.13	— .01	PWRMA Mony	54	6.13	— .01	UnitedCashMgmt a	47	6.14	— .01	IntegrtTxFr		unavail	
CarillonCah	25	6.11	— .08	FtWash	41	6.36	.....	PWRMA USGvt	58	5.84	.....	PWRMA USGvt	58	5.84	.....	ValueLineCashFd	30	6.33	— .01	KemprMMTE	29	4.58	— .03
CarnegieGvtSecur	13	5.93	.....	FoundersMMkt	19	5.97	.....	QuestValue	29	6.33	— .01	QuestValue	29	6.33	— .01	VanEckUSGovMM	49	5.47	+ .08	KidderPeabTx	46	4.36	.....
CashAssets	29	6.52	— .04	FranklinMoneyFd a	26	6.12	— .02	RNCLiqAst	36	6.28	— .01	RNCLiqAst	36	6.28	— .01	VanKampenMM		unavail		KidderP CalTE	33	4.15	.....
CashEquivM	32	6.32	— .01	FrankinFedMon b	1	5.45	+ .02	RenaissanceGvt	22	6.31	— .01	RenaissanceGvt	22	6.31	— .01	VangrdMMFed f	39	6.43	.....	LandmrkNYTxFrRsv	39	3.74	— .02
CashEquivIntGvt	15	6.16	+ .01	FrankIFTMny	28	6.88	— .01	RenaissanceMMkt	26	6.42	.....	RenaissanceMMkt	26	6.42	.....	VangrdMMPR f	40	6.69	— .01	LandmarkTxFreeRsv	19	4.18	— .02
CashMgmtTrAm a	16	6.22	+ .01	FundGvtInvest	9	5.76	+ .01	ReserveCash		unavail		ReserveCash		unavail		Vangrdinsured f	20	6.13	.....	LazdInstTF	49	4.05	— .02
CashResrvMgmt a		unavail		FundSourcMoney	22	6.19	— .01	ReserveFund	12	6.09	+ .02	ReserveFund	12	6.09	+ .02	VantageCash	37	6.27	— .04	LazardTxFr	57	4.42	+ .03
CentennialGvtTr	25	5.71	— .15	FSWash MT	35	6.32	— .01	ReserveFd Gvt	1	5.81	+ .03	ReserveFd Gvt	1	5.81	+ .03	VantageGovt	41	5.91	+ .02	LeggMasTE	22	4.15	— .01
CentennialMMTr	33	6.01	— .02	GalaxyGov	51	6.30	.....	RodneySqMMPt	36	6.34	.....	RodneySqMMPt	36	6.34	.....	VikingMnyMkt	30	5.92	— .01	LehmanMgtTF	62	3.97	— .02
ChurchillCashRsv	24	6.28	— .02	GalaxyMM	30	6.41	+ .01	RodneySqUSGv	22	6.17	+ .01	RodneySqUSGv	22	6.17	+ .01	VistaUSGov	44	6.00	+ .01	LexingtonTaxFr c	84	4.31	.....
CignaCash	55	6.48	— .01	GenGvtSecur	51	5.93	+ .02	RothschldEarn	4	5.92	— .03	RothschldEarn	4	5.92	— .03	WPGShtTrm	72	6.43	— .03	LiquidGreenTx	69	4.60	— .01
CignaMMkt b	63	6.43	— .02	GenlMMkt	58	6.25	— .03	RowePricePrmR f	42	6.45	.....	RowePricePrmR f	42	6.45	.....	WebsterCashRes	40	6.38	.....	MarinerTax	43	4.31	+ .09
ColonialGvtMMkt	56	5.69	— .04	GovtInvestorsTr a	26	5.92	— .01	RowePriceUSTr f	42	5.79	+ .01	RowePriceUSTr f	42	5.79	+ .01	WorkingAssets	37	5.85	— .01	MarinerNYTax	84	4.02	+ .05
ColumbDlyIncm af	32	6.01	.....	GovtSecurityCash	49	5.92	+ .02	SafecoMMkt f	37	6.23	+ .01	SafecoMMkt f	37	6.23	+ .01	Tax	Exempt:			MassTE MM	69	3.98	+ .02
CompositeCshMg a	25	5.81	— .01	GradisonCashRes	40	5.96	— .01	StClair	38	6.27	— .01	StClair	38	6.27	— .01					McDnldTaxEx	61	4.21	— .03
CoreFdCash	30	6.20	+ .07	GradisonUSGvt	27	5.55	+ .22	ScudderCshInv	43	6.34	.....	ScudderCshInv	43	6.34	.....	ATOhio txFr	38	4.14	— .01	MerrLynCMA	49	4.30	.....
CortlandGeneral	42	6.01	.....	GuardianCshFd	32	6.27	— .03	ScudderGovt	53	5.51	— .06	ScudderGovt	53	5.51	— .06	ActvAsetTxFr	28	4.33	— .01	MerrLyInst	51	4.38	— .01
CortlandUSGvt	54	5.80	.....	GuardianCshMgt	26	5.83	— .01	SelectedMoneyMkt	30	5.62	+ .05	SelectedMoneyMkt	30	5.62	+ .05	AllianceTaxEx	38	4.24	— .01	MetroNYTF	30	3.72	.....
CouCshRF	46	6.66	.....	HarborMM	101	5.59	+ .22	SecurityCashFd	18	5.92	+ .01	SecurityCashFd	18	5.92	+ .01	AllianceTE NY	28	3.50	— .01	MdwstGrp	68	4.57	— .01
CountryCapital	23	5.51	+ .01	HeritageCash	43	6.15	.....	SeligmanCsh Gvt	1	5.48	+ .03	SeligmanCsh Gvt	1	5.48	+ .03	BenhamCalTxFre	10	3.78	— .01	MdwOHTF	54	4.51	— .09
CurrentInterest	38	5.67	.....	HiMrkDiv	36	6.35	.....	SeligmanCsh prime	31	5.94	.....	SeligmanCsh prime	31	5.94	.....	BenhamNtlTaxFr	26	4.31	+ .02	MoneyMgtPlus	54	4.34	— .01
CurrentIntUSGvt	39	5.32	+ .01	HiMrkMM	36	6.35	.....	SeminiCash b	40	6.31	— .01	SeminiCash b	40	6.31	— .01	BostonCo	68	4.27	— .02	MonitorTF	30	4.37	+ .01
DBLAMM Portfolio	59	6.50	.....	HiMrkTF	39	6.35	.....	SheamonDailyDiv f	44	6.19	— .01	SheamonDailyDiv f	44	6.19	— .01	CIGNA TxEx	61	4.16	— .01	MuniCAInv	29	4.37	— .01

a—Yield includes capital gains or losses.
b—Fixed charges vary yield based upon account size.
c—Primarily Federally tax-exempt securities.
f—As of previous day.

Average yield 5.53

A proposed solution to the real estate recession

HAYDEN GREEN

Alaska has been besieged by a plague — it alled a real-estate recession and it is going infect even more people before it's over. less the state intervenes and stops the ue spiral that the market is in, prices will tinue to deteriorate.

This is not a problem that can be passed off only affecting investors who "paid their ney and took their chances." It is a social blem that affects thousands of Alaskans.

The hundreds of millions lost in the reces- n does not include the decline in appraised ues. Declining market values are for many ple only paper losses; that is, inflation eth and recession taketh away. But the real ts being borne in Alaska today are mostly den costs, ones that are seldom mentioned.

For example, it has been estimated that 60 rcent of the homes in Alaska have a gative equity. What that means is that a rtion of the debt service being paid on these mes goes to pay for value that no longer sts. Every month millions of dollars flow of the state to pay for this negative uity.

A second social cost that is accumulating is the form of deferred maintenance. Thou- nds of condos, single family homes, apart- nt and commercial buildings in both the

COMPASS

POINTS OF VIEW FROM OUR COMMUNITY

private and public sector are not being properly maintained.

A recent study released by economists at UAA is giving many people unwarranted optimism. The economists have stated, and rightly so, that the economy will bottom out in mid-1988. This projection is based on an estimate of the number of jobs lost in the work force.

This does not, however, mean that the purchasing power of the typical family in Alaska will increase or that real estate markets will turn around.

The "HOAP" program introduced by AHFC is not going to resolve this problem either. It will, in fact, make the problem worse for many individuals and prolong the agony for AHFC.

Lenders don't want all of this property so they have devised a way to keep the property in the hands of the borrowers by increasing their loan obligation. A person who already has a negative equity and cannot make his payments is being encouraged to borrow more money. Then he will end up with a larger negative equity and an even greater incentive to default in the future. Some solution!

Only two solutions will cure the real estate problem; that is, increasing the population or reducing the supply of housing or some combination of both. Increasing the population while reducing the supply is the answer.

The least expensive means of removing some property from the market would be to create a "distressed real estate holding company." This would be a quasi-governmental/private corporation similar to AHFC.

It would need to be funded by seed money to form the entity and to guarantee interest payments on bonds for the first five years. Its primary source of money would be through the sale of 15-year bonds on the world market. Banks and secondary lenders, working in concert with mortgage insurers, could sell distressed real estate holdings to this company in exchange for stock in the corporation.

Of course the holding company would expect to purchase the property at favorable rates, including a reduction for mortgage insurance settlements. This would help resolve some of the asset to liability ratio difficulties facing banks by converting debt for stock (an asset) and it would help get some Alaskans out of housing they cannot afford without bankruptcy being their only remedy.

Using the money raised through bonding, the holding company would manage this inventory of property while, at the same time, taking it off the market. This would reduce the supply and help restore some of the lost value in all our homes.

As prices recover, the property would be returned to the market place over a 5- to 10-year holding period, being sold at future market prices and the holding company using this profit to repay the interest and principle on the bonds and to pay back the stock issued to the banks. The holding company would create jobs for property managers, maintenance people, real estate agents, and contractors hired to bring deficient property up to code.

This plan will not remove some of the real marginal property from the market. The holding cost of some properties is greater than any economic benefit that will ever be derived from them; therefore, the holding company should not be obligated to purchase just any property. The worst case examples should be removed from the market through demolition.

☐ G. Hayden Green is a professor of real estate at University of Alaska Anchorage.

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For Self-

State expert: Economy

By LARRY PERSILY
Associated Press Writer

JUNEAU—Alaskans must expect a different economy in the future, without oil money as the answer and with lower wages as the reality, says Commerce and Economic Development Commissioner Tony Smith.

"The ultimate solution to the problem is industrial development," Smith told a dozen senators and representatives Friday. Industry creates jobs, he said.

Oil money is not the answer to Alaska's sour economy, he said in testimony before the first meeting of the joint legislative committee on economic recovery.

Smith reported that hard rock mining in Alaska is up 30 percent this year. Tourism, timber and military spending also are on the rise.

"Ultimately, we need a number of small initiatives to allow us to manage our way through the situation," Smith said.

"The oil industry tells me that they squeezed 40 percent out of their cost system," he told legislators. As the oil industry reduces its cost of doing business in Alaska, he said, it "squeezes the cream" out of the state's economy.

Jobs that paid $4,000 a month for cooks on the North Slope will be replaced with ones that pay $1,200 a month on the ski slopes, he said.

Smith said he met this week with Juneau's mayor and talked about new mining jobs in the area that will pay $10 to $15 an hour.

"We're looking at a different economy," he said. "We spent our way

will never be same

into the problem. We can't spend our way out of the problem."

In giving a lesson in realism, he said Alaskans can no longer afford to "perpetuate the bubble" of a wealthy economy.

Senate co-chairman of the committee, Lloyd Jones, opened the session with a statement that caught no one by surprise: "We're at a time when the state certainly needs some economic recovery."

The Ketchikan Republican said the state's wealth is in its natural resources. "They're laying out there on the ground, in the ground and in the ocean."

House chairman of the committee, Max Gruenberg, followed with a report on everything bad about the economy.

The Anchorage Democrat said bankruptcies and home loan defaults are at their highest levels and thousands of jobs have been lost. He said the committee wants to hear from people who know where the economy has been, where it is going and what can be done to help it get better.

Economic Studies, Reports

FDIC
Federal Deposit Insurance Corporation

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

From: 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 catagorized 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.

Commercial Loans	ANBN		FIB	
Secured by:	#	BV	#	BV
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	17.6mm
Stocks	4	3.0mm	6	.2mm
Miscellaneous	3	1.2mm	65	4.3mm
Unsecured	94	3.5mm	61	3.4mm
Totals	602	~~74.2mm~~ 54.2mm	549	~~76.3mm~~

Real Estate Mortgage Loans	ANDN		FIB	
A. Real Estate Construction Type	#	$V	#	$V
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	2.4mm	3	3.8mm
Single Family Residences	36	3.2mm	24	6.2mm
Other	2	1.2mm	9	5.1mm
Totals	64	18.4mm	54	28.3mm

B. Covered Transaction-Type				
Condos	7	400m		N/A
Zero Lot Lines	7	600m		
SFR	7	700m		
Vacant	3	160m		
Commercial	1	375m		
Mobile Homes	1	68m		
Hotel/Motel	1	680m		
Other	1	210m		
Totals	28	3.193m	0	* 0

* FIB did not segregate covered transactions.

C. Amortized/Term-Type	ANBN #	ANBN BV	FIB #	FIB BV
SFR	60	5.0mm	167	13.3mm
Convential 2-4 Units	10	1.2mm	30	5.1mm
FHA	3	100,000	--	
VA	2	160,000	--	--
Commercial	20	2.9mm	148	34.4mm
Vacant Lots	2	50,000	9	4.8mm
Other	13	500,000	12	5.6mm
Totals	110	9.8mm	366	63.2mm
GRAND TOTALS	804	84.8mm	969	167.8mm

The breakdown above includes the original inventory retained by the FDIC and all putbacks to 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 $8.0mm, 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 $900,000.00, from both banks. These were not included in the schedules above. The schedules above also exclude charged off loans, owned real estate, bank properties and other fixed assets.

Attached to this memorandum is a listing of ORE 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

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

	BANK NUMBER: 5915 BANK: ALASKA NATIONAL BANK	BANK NUMBER: 2766 BANK: FIRST INTERSTATE BANK	TOTAL
COMMERCIAL	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

Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
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

Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
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.

Alaska Housing Market Council

April 7, 1988

Senator Arliss Sturgulewski
P.O Box V
Juneau, Ak. 99811

Dear Senator Sturgulewski:

I have enclosed a copy of "Residential Mortgages in Alaska, A Comparison of the Last Three Quarters of 1987", for your information.

If you have any comments or questions, please call me at 563-3325.

Sincerely,

ALASKA HOUSING MARKET COUNCIL

Glenda Straube

Glenda Straube
Executive Director

GJS/mr

Enclosure

624 W. INTERNATIONAL AIRPORT ROAD, SUITE E • ANCHORAGE, ALASKA 99518 • P.O. BOX 240048 • ANCHORAGE, ALASKA 99524-0048 • (907) 563-3325

RESIDENTIAL MORTGAGE LOANS IN ALASKA

A COMPARISON OF THE LAST THREE QUARTERS OF 1987

Prepared By:

The Alaska Housing Market Council
624 W. International Airport Rd., Suite E
Anchorage, Alaska 99518
563-3325

SUMMARY

Statewide trends are strongly influenced by changes in Alaska Housing Finance Corporation (AHFC) held loans. While the statewide trend may move in one direction, the non-AHFC state held loans and the non-state agency loans may move in the opposite direction.

Synopsis of Results for the Last Three Quarters of 1987:

1) Statewide, the number of outstanding loans decreased 5.5% over the last three quarters of 1987.

2) The number of loans in delinquency and default dropped 11% during the survey period.

3) Statewide delinquency rates dropped by .4% during both the 3rd and 4th quarters.

4) The number of real estate owned properties (those held in inventory) increased by 34% over the last three quarters of 1987. The rate of increase, however, fell by 2% from the 3rd to the 4th quarter.

SURVEY METHODOLOGY

This report was compiled through a survey conducted by the Alaska Housing Market Council (AHMC). The survey period extends from June 30 to December 31, 1987. After each survey was received, the agency was contacted to verify the information and answer any additional questions. Sales information (see Table 1, pg.6) was added to the 4th quarter survey; hence, not all agencies were able to provide 3rd quarter statistics. Some of the agencies included in this report rely on lenders to provide them with loan information; therefore, an estimate was used for some statistics. For example, FNMA, FHLMC, FHA and the VA do not keep track of how many of their loans are held by AHFC. This information had to be collected through AHFC. The figures reported here are agency figures, net AHFC loans.

Approximately 25% of the information contained in the June 30th report, came from a report by the Institute of Social and Economic Research (ISER). The information in the other two reports came solely from the survey.

An effort is being made to include private lending institutions in future surveys. The information has been difficult to obtain in the past because of the number of institutions and the fact that some do not compile statistics on a regular basis.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1559 SCOMM 59. JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1356

SURVEY RESULTS

A summary of the changes reported in this section can be found in Figure 1, on page 3.

Number of Outstanding Loans:

The total number of outstanding loans, in Alaska, decreased from 88,875 in June to 83,921 in December of 1987. The number of loans fell 5.7% during the 3rd quarter, but increased slightly (.1%) in the 4th quarter. This increase was the result of enhanced participation by non-AHFC agencies (Appendix I).

Looking at the participation of state agencies, the number of outstanding loans fell from 56,764 to 54,860 over the last three quarters of 1987. Non-state agencies saw a decrease of 3,050 loans over the survey period. Review of 1st quarter 1988 statistics should indicate whether the slowing trend, implied here, continues.

Loans in Delinquency and Default:

The total number of loans in delinquency and default, statewide, dropped 11% over the last three quarters of 1987. State agency loans in delinquency and default fell 17% over the same period. Non-state agencies loans fell in the 3rd quarter, but increased 18.7% in the 4th quarter.

Delinquency Rates:

Statewide delinquency rates decreased from 13.4% in June to 12.6% in December of 1987.

This drop is mirrored in the 2.2% drop in delinquency rates for loans held by state agencies. However, non-state agencies saw their overall delinquency rate increase from 9.6% in the 2nd quarter to 11.4% in the 4th quarter.

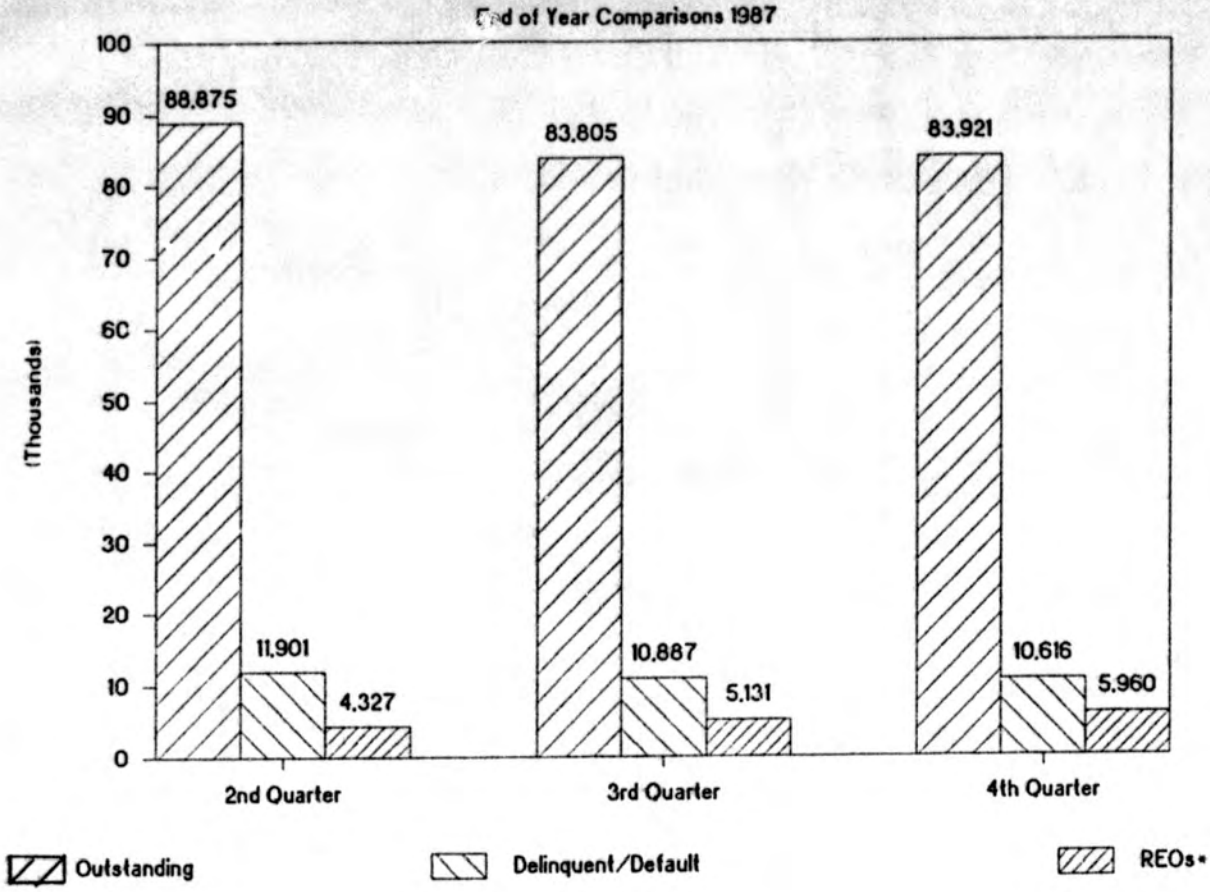
Number of Real Estate Owned (REO):

This review of the changes in foreclosed upon, institutionally owned properties, (REOs) in Alaska does not include those held by private lending institutions. This information is difficult to obtain from private lenders. Most lending institutions do not compile these statistics on a regular basis.

The number of REO properties, held statewide, increased from 4,327 in June to 5,960 in December of 1987. There was an 18.6%

Residential Mortgage Loans in Alaska

End of Year Comparisons 1987



increase in the 3rd quarter followed by another 16.1% increase in the 4th quarter.

REOs held by state agencies increased from 2,847 in June to 3,761 in December. However, the rate of increase fell from 15.4% between the 2nd and 3rd quarters to 14.5% between the 3rd and 4th.

Non-state agencies saw an increase in REO properties from 1,480 in June to 2,199 in December of 1987. The rate of increase also went down from 24.7% between the 2nd and 3rd quarters, to 19.1% between the 3rd and 4th quarters.

REVIEW

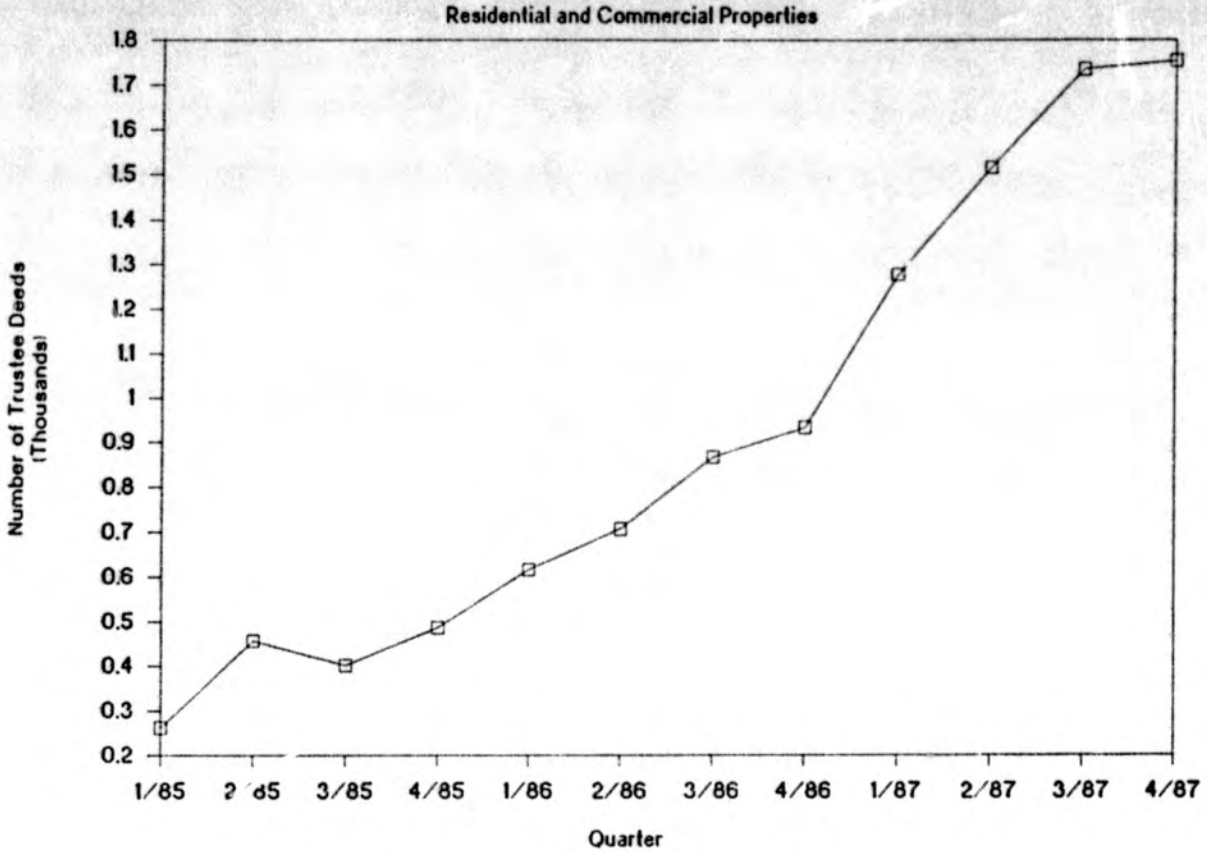
The rapid rise in statewide foreclosures (Figure 2, pg. 5) and the tightening of current lending policies may be responsible for the decrease in the number of outstanding loans held by state agencies. Non-state agencies saw an increase in the number of outstanding loans in the 4th quarter primarily due to increases in FHLMC and VA loans. Increases in the loans not held by AHFC offset the decreases in other loans and caused the statewide total to rise in the last quarter of 1987.

The fact that the number of loans in delinquency and default are decreasing would be encouraging if it weren't for the sharp increase in the number of REO properties. It's probable that the number of loans in delinquency and default are falling because they are going through foreclosure and becoming REOs. Non-state agencies don't seem to be faring as well as state agencies in reducing the number of loans in delinquency or default; meanwhile their REO inventory is also increasing.

One encouraging aspect of this analysis is that the rate of increase in REO inventories appears to be slowing.
It is likely that the foreclosure moratorium, established by the Governor during the 4th quarter, may have helped slow the pace of foreclosures in the residential market.

With the start up of AHFC's HOAP programs, we can expect the rate of increase in REO inventories to slow even more during the 1st quarter of 1988.

Foreclosures Statewide: 1985 - 1987



Source: Motznik Computer Services, Anchorage, Alaska.

Foreclosures Statewide: 1982 - 1987

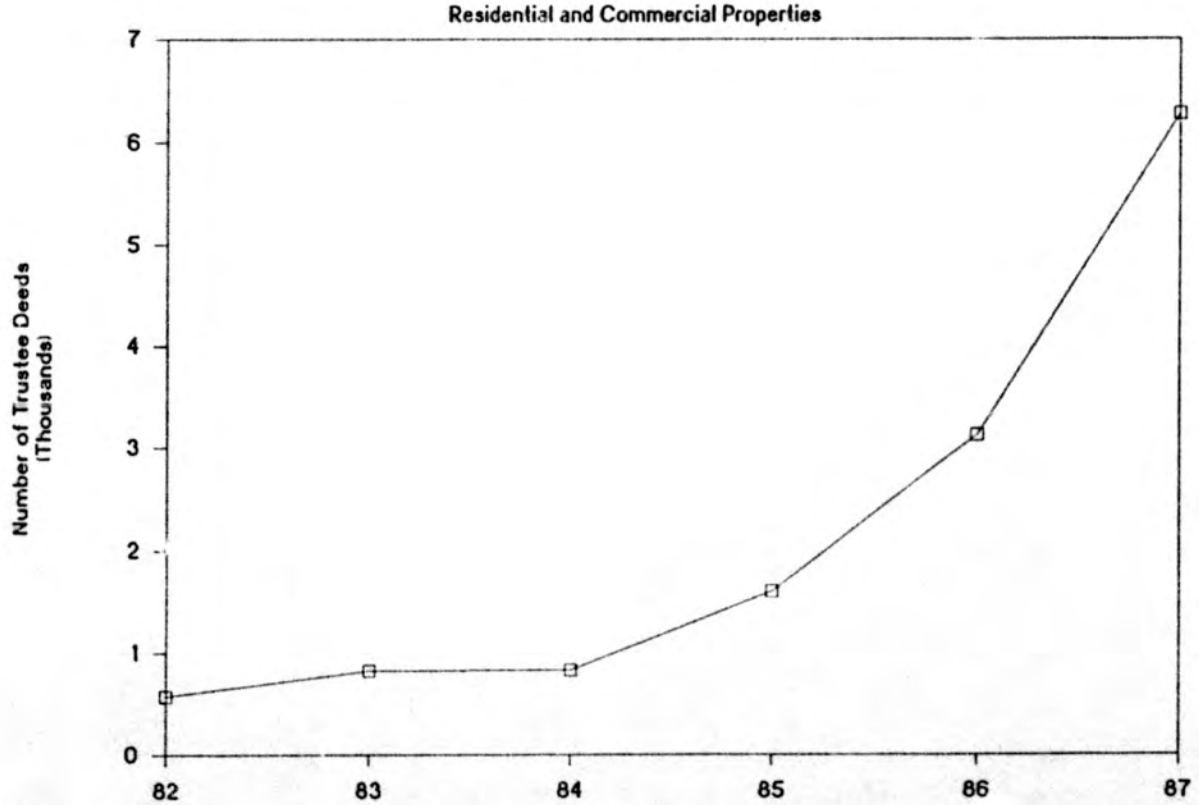


TABLE 1. NUMBER OF FORECLOSED PROPERTIES HELD AND SOLD

AGENCY	HELD 9/30/87	SOLD 3rd Quarter 1987	HELD 12/31/87	SOLD 4th Quarter 1987
AHFC*	3,216	417	3,687	511
DCRA	37	3	44	5
AK PERMANENT FUND	25	2	24	2
AIDEA/DIV. OF INV	7	0	6	1
FNMA	473	139	498	169
FHLMC	52	--	79	--
FHA	719	66	948	121
VA	386	17	391	21
FARMERS'	117	12	146	12
MGIC	99	3	137	6
TOTAL	5,131	659	5,960	848

*includes properties conveyed to and acquired by other agencies.

APPENDIX I

	Number of Loans Outstanding	Unpaid Principal Balance [$ in millions]	Number of Loans Delinquent or in Default	Unpaid Principal Balance [$ in millions]	Delinquency Rate [a]	Number of REOs	Value of REOs [$ in millions] [b]
AHFC (Active Loans)	45,859	$3,905.5	6,981	$597.1	15.2%	3,687	$215.9
AHFC (Total Loans Owned) [c]	50,646	4,140.2	6,981	597.1	13.8%		
DCRA HAD	1,376	140.1	82	12.4	6.0%	44	3.9
AK Permanent Fund	225	37.2	20	3.3	8.9%	24	2.8
AIDEA/Division of Invest.	1,518	64.9	116	5.9	7.6%	6	0.4
State Res. Energy Loans [d]	1,082	2.5	97	1.2	9.0%	n/a	n/a
AIDEA multi-family residential loans [e]	13	11.5	7	8.6	53.8%	0	0.0
Alaska Pension Funds [f]	NA	NA	NA	NA	NA	NA	NA
TOTAL STATE LOANS	54,860	$4,396.4	7,303	$628.5	13.3%	3,761	$223.0
FNMA	5,605	421.4	886	66.6	15.8%	498	43.4 [g]
FHLMC	5,648	519.1	421	40.2 [h]	7.5%	79	25.1
FHA-Insured	11,864	1,128.1	1,453	138.0 [i]	12.2%	948	90.0 [i]
VA-Guaranteed [j]	4,674	376.3	449 *	36.1 [k]	9.6%	391	23.4 [l]
Farmer's Home Admin.	1,270	75.1	104	7.8 [m]	8.2%	146	10.4
MGIC [n]	n/a	n/a	n/a	n/a	n/a	137	6.5 [o]
TOTALS	83,921	$6,916.4	10,616	$917.2	12.6%	5,960	$421.8

c*Alaska Housing Market Council estimate n/a - Not applicable NA - Not available

[a]- Determined by dividing "number of loans delinquent or in default" by "number of loans outstanding".

e[b]- Most entities determine this value to be the unpaid principal balance of the loans on the properties forclosed.

h[c]- This figure reflects the total number of loans "owned". It includes active loans, REO loans, and loan insurance receivables.

g[d]- State Residential Energy Loans are not mortgage loans per se, but reflect second or third mortgages.

c[e]- These loans are commercial loans, but affect residential markets. The delinquency rate is a better reflection of the commercial e market than the residential market.

e[f]- Information not released by agency.

t[g]- FNMA estimate of market value. Based on 61% of original property appraisal.

g[h]- Figures based on average loan balance of $95,500.

b[i]- Based on average loan balance of $95,000.

e[j]- Does not include mobile home loans.

b[k]- Based on average loan balance of $80,500.

v[l]- VA estimate of market value. Based on average asking price of listed properties.

[m]- Based on Farmers' Home Administration estimated average balance of $75,000.

u[n]- MGIC is a mortgage insurance company which does not purchase loans. However, they do acquire property in settling insurance claims.

t[o]- MGIC estimate of market value. Based on 66% of aquisition value.

	Number of Loans Outstanding	Unpaid Principal Balance [$ in millions]	Number of Loans Delinquent or in Default	Unpaid Principal Balance [$ in millions]	Delinquency Rate [a]	Number of REOs	Value of REOs [$ in millions] [b]
AHFC (Active Loans)	46,718	$3,970.9	7,770	$650.4	16.6%	3,216	$194.4
AHFC (Total Loans Owned)[c]	51,034	4,251.6	7,770	650.4	15.2%		
DCRA-HAD	1,336	138.0	75	12.3	5.6%	37	3.2
AK Permanent Fund	258	39.7	19	3.0	7.4%	25	2.9
AIDEA/Division of Invest.	1,542	66.1	117	5.8	7.6%	7	0.4
State Res. Energy Loans [d]	1,103	2.7	107	0.3	9.7%	N/A	N/A
AIDEA multi-family residential loans [e]	13	11.5	8	9.0	61.5%	0	0.0
Alaska Pension Funds [f]	NA	NA	NA	NA	NA	NA	NA
TOTAL STATE LOANS	55,286	$4,509.6	8,096	$680.8	14.6%	3,285	$200.9
FNMA	5,606	444.7	680	53.9	12.1%	473	43.3 [g]
FHLMC	5,279	504.0	307	29.3 [h]	5.8%	52	8.9
FHA-Insured	11,873	1,137.2	1,300	124.8 [i]	10.9%	719	69.0 [i]
VA-Guaranteed [j]	4,461	354.4	415 *	32.8 [k]	9.3%	386	23.2 [l]
Farmer's Home Admin.	1,300	77.0	89	6.7 [m]	6.8%	117	8.0
MGIC [n]	N/A	N/A	N/A	N/A	N/A	99	4.9 [o]
TOTALS	83,805	$7,026.9	10,887	$928.3	13.0%	5,131	$358.2

*Alaska Housing Market Council estimate. N/A - Not applicable. NA - Not available

[a]- Determined by dividing the "number of loans delinquent or in default" by the "number of loans outstanding".

[b]- Most entities determine this value to be the unpaid principle balance of the loans on the properties foreclosed.

[c]- This figure reflects the total number of loans "owned" which includes active loans, REO loans, and loan insurance receivables.

[d]- State Residential Energy Loans are not mortgage loans per se, but reflect second or third mortgages.

[e]- These loans are commercial loans, but affect residential markets. The delinquency rate is a better reflection of the commercial market than the residential market.

[f]- Information not released by agency.

[g]- FNMA estimate of market value. Based on 61% of original property appraisal.

[h]- Based on an estimated average loan balance of $95,500.

[i]- Based on average loan balance of $96,000.

[j]- Does not include mobile home loans.

[k]- Based on average loan balance of $79,000.

[l]- VA estimate of market value. Based on average value of $60,000.

[m]- Based on Farmers' Home Administration estimated average balance of $75,000.

[n]- MGIC is a mortgage insurance company which does not purchase loans. However, they do acquire property in settling insurance claims.

[o]- MGIC estimate of market value. Based on 66% of the acquisition value.

	Number of Loans Outstanding	Unpaid Principal Balance ($ in millions)	Number of Loans Delinquent or in Default	Unpaid Principal Balance ($ in millions)	Delinquency Rate [a]	Number of REOs	Value of REOs ($ in millions) [b]
AHFC (Active Loans)	48,334		8,500		17.6%		
AHFC (Total Loans Owned) [c]	51,973	$4,258.2	8,500	$681.3 [d]	16.4% [e]	2,777	$194.5
DCRA-HAD	1,328	137.2	70	9.9	5.3%	40	3.5
AK Permanent Fund	300	42.0	24	3.0	8.0%	23	2.9
AIDA/Division of Invest.	1,792	78.7	84	4.2	4.7%	7	0.5
State Res. Energy Loans [f]	1,359	3.7	143	0.3	10.5%	N/A	N/A
AIDA multi-family residential loans [g]	12	11.7	5	7.2	41.7%	0	0.0
Alaska Pension Funds [h]	NA	NA	NA	NA	NA	NA	NA
TOTAL STATE LOANS	56,764	$4,531.5	8,826	$705.9	15.5%	2,847	$201.4
FNMA	5,471	400.0	770 *	61.6 *	14.1%	394	31.5 *
FHLMC	5,152	479.0	230 *	20.7 *	4.5%	46	4.1 [i]
FHA-Insured	11,600 [j]	1,125.2 [k]	1,015	98.5 [k]	8.8%	478	46.4 [k]
VA-Guaranteed	8,602	763.0	850 *	68.0 *	9.9%	366	29.3 *
Farmer's Home Admin.	1,286	100.3	210	16.4 [l]	16.3%	100	7.8 [l]
MGIC	N/A	N/A	N/A	N/A	N/A	96	9.1 [m]
Private Lending Institutions	NA	NA	NA	NA	N/A	596	49.4
TOTALS	88,875	$7,399.0	11,901	$971.1	13.4%	4,923	$379.0

* Alaska Housing Market Council estimate. N/A - Not applicable NA - Not available

[a]- Determined by dividing the "number of loans delinquent or in default" by the "number of loans outstanding".

[b]- Most entities determine this value to be the unpaid principal balance of the loans on the property foreclosed.

[c]- This figure reflects the total number of loans "owned". It includes active loans, REO loans, and loan insurance receivables.

[d]- This information was not available to the researcher; it was estimated as 16% of the "unpaid principle balance of outstanding loans".

[e]- Most institutions determine that a loan is delinquent after 60 days. AHFC uses the 30 day cutoff; if they were to compute for 60 days, the delinquency rate would fall to approximately 11%.

[f]- State Residential Energy Loans are not mortgage loans, per se, but reflect second or third mortgages.

[g]- These loans are commercial loans, but affect residential markets. The delinquency rate is a better reflection of the commercial market than the residential market.

[h]- Information not released by agency.

[i]- Based on an estimated average REO balance of $90,000.

[j]- Based on HUD estimate.

[k]- Based on HUD's estimated average balance of $97,000.

[l]- Based on Farmers' Home Administration estimated average balance of $78,000.

[m]- Based on MGIC's estimated average balance of $95,500.

Approximately 25% of the raw data used to compile this report was derived from the ISER report on Residential Mortgage Holdings of Major Alaska Lenders.



MORTGAGE HOME OWNERSHIP ASSISTANCE PROGRAM

Anchorage Neighborhood Services
3700 Woodland Park Drive
Anchorage, Alaska 99517
(907) 243-1558

Anchorage Neighborhood Housing Services, Inc.
Business Loan Fund
ECONOMIC DEVELOPMENT IMPACT
Seven Months

PROJECT/LOAN	TOTAL $	ANHS Loan $	PRIVATE $	CONST. JOBS	PERM. EMP.
LOANS CLOSED					
Spenard Inv. Group	$ 83,000	$ 33,000	$ 50,000	15	
Northland Sales	440,000	50,000	390,000	7	14
Quality Travel	75,000	50,000	25,000	4	6
3001 Tanglewood	15,500	15,500		4	
G.H. Private	3,500	3,500		2	Residence
N.V. Private	1,000	1,000		1	Residence
G.H. Private	3,500	3,500		2	Residence
N.V. Private	1,098	1,098		2	Residence
TOTAL	622,598	157,598	465,000	37	20
LOANS APPROVED PENDING CLOSING					
Puffin Inn	3,053,000	195,000	2,858,000	15	8
Videoplex	255,000	75,000	180,000		15
Norene Property	75,000	75,000		3	For Lease
Northland Soy	300,000	270,000	30,000	12	8
House of Harley	420,000	84,000	336,000	4	7
Wm. Southworth	130,000	100,000	30,000	4	4
TOTAL	4,233,000	799,000	3,434,000	38	42

OTHER PROJECTS	CONST. JOBS	NEW PERMANENT EMPLOYMENT
Lakeshore/Sundae Shoppe	4	5
Pickle Barrel Deli	3	5
Chelsea Inn	5	5
Barratt Inn	25	40
Alaska Distributors	30	10
Aleutian Center/Foodland	N/A	N/A

TOTALS

TOTAL INVESTMENT	ANHS $	PRIVATE $	CONST. JOBS	PERM. EMP.
$4,855,598	$956,598	$3,899,000	142	127

MORTGAGE HOME OWNERSHIP ASSISTANCE PROGRAM

I. Executive Summary

II. Proposal
    Financial Counseling
    Debt Consolidation
    Social Service Assistance

III. Marketing and Outreach Program

IV. Anchorage Neighborhood Housing Services Background

V. Staffing and Budget

I. EXECUTIVE SUMMARY

This report contains a proposal to AHFC, MGIC and FNMA to provide financial and debt counseling by Anchorage Neighborhood Housing Services, Inc. It is our proposal to offer a program parallel to the HOAP program developed by AHFC, MGIC and FNMA, but including more in depth counseling and social service assistance. We propose that a revolving loan fund be established for individuals needing debt consolidation loans. This loan fund would provide minimum debt consolidation for exceptional hardship uses and would be used to prevent mortgage foreclosure during these hard economic times. The loans would be reviewed by a loan committee and administered by ANHS. ANHS proposes to seek its secondary market support for this fund and would ask FNMA and MGIC to consider providing private mortgage insurance on loans made with this fund. ANHS also proposes to develop a marketing and outreach plan to make consumers aware of this program.

Staffing will be provided by ANHS. Attached is a budget of anticipated expenses for the first year of operation.

Anchorage Neighorhood Housing Services, Inc. has a successful six year history in Anchorage community and economic development. We have maintained a close working relationship with our loan clients, which has resulted in an extremely low delinquency rate.

II. MORTGAGE HOME OWNERSHIP ASSISTANCE PROGRAM

Anchorage Neighborhood Housing Services, Inc. proposes to administer a mortgage assistance and financial counseling program in Anchorage. This program will be modeled after the Home Ownership Protective Effort (HOPE) of Housing Opportunities, INC. in McKeesport, Pa. In preparing this proposal we have also contacted Washington D.C. Delinquent Home Mortgage Programs, the National Federation of Housing Counselors and other counseling and delinquency programs in other areas. The ANHS program will work in close cooperation with the HOAP program currently underway by AHFC, MGIC and FNMA, but will offer more in depth counseling. This will include personal financial planning, mortgage debt counseling and restructuring, consumer debt counseling, and social service agency assistance, if necessary.

The ANHS program will include the following:

- Financial counseling: This will be the cornerstone of the program.
  - ANHS counselors will help the consumer focus on their most essential needs ie. food, mortgage and utilities.
  - We will teach money management skills and record keeping of all income and expenses.
  - We will help develop a budget based on individual income and needs
  - Counselors will work out mortgage modification or forbearance agreements with the appropriate agencies.
  - Counselors will assist in negotiating repayment schedules with consumer creditors. Where it is necessary for consumers to have their credit managed for them, we will refer them to the Consumer Credit Counseling Service of Alaska. It is expected, based on our own experience and that of the HOPE program, that this will not usually be necessary.

- Social Service Assistance: Referral and connection to appropriate community resources will be available when necessary.
  - ANHS has a close working relationship with the various public and private community resources. We will refer consumers to them on a case by case basis.
  - We will help workers find job retraining programs, where appropriate.

• Debt Consolidation Program

Where debt consolidation is necessary, consumers will be provided with an opportunity to borrow money through a revolving loan fund. Loan fund applicants will be reviewed by a loan committee of ANHS. ANHS will look to the State to capitalize this fund and will ask FNMA and MGIC to participate through a mortgage insurance pool. ANHS would be willing to entertain participation through its secondary market to recapitalize this fund. Loans will be secured by a Deed of trust on the residence or by a personal note. The repayment plan will be flexible and based on need and ability to repay the loan.

It is expected, based on the HOPE model, that new clients will require an average of six (6) hours of counseling and staff time in their first month in the program. This will consist of an initial visit in the client's home with both borrowers present (if applicable) lasting 2-3 hours. At the time of this visit, the counselor will be able to see the condition of the home and recommend any necessary deferred maintenance and repairs, as well

as obtain a detailed picture of the family's financial situation. Subsequent sessions will be on a face to face basis as necessary. Once a plan is established and implemented, contact will be maintained by phone and personal visits, as needed. Based on the HOPE model, we estimate an average of 2-3 hours per month of follow-up once a family's financial situation is stabilized for at least four months.

III. OUTREACH PROGRAM

ANHS will develop an outreach program to make consumers aware of our services. This will consist of:

- Two (2) Public Service Announcements to be aired on Anchorage TV stations - KIMO Channel 13, KTVA Channel 11 and, KTUU Channel 2
- Two (2) public service announcements to be aired on Anchorage radio stations - KBYR, KENI, KFQD, KHAR, KNIK, KYAK.
- Print advertisements to appear in the Anchorage Times and the Anchorage Daily News.
- Brochures explaining our program will be printed and distributed by mail and through lending institutions and other agencies.

ANHS will conduct several (based upon need) community workshops. These workshops will cover financial planning and money management as well as budget making and record keeping. This would also present an excellent opportunity to acquaint the public with this service as well as the Alaska HOAP program.

ANHS will expect referrals from AHFC, MGIC and FNMA as well as the Alaska Housing Market Council and local financial institutions themselves. A close well coordinated relationship with these entities is essential if the program is to be successful.

IV. BACKGROUND

Anchorage Neighborhood Housing Services is a private non-profit corporation which has been involved in community and economic development since 1982. The corporation operates on a partnership model, bringing together lenders, residents, and government representatives. Representatives of this partnership comprise the Board of Directors, which sets policy for the corporation and its various committees.

The corporation is part of a national network of Neighborhood Housing Services of America and the Neighborhood Reinvestment Corporation, a congressionally chartered, public, non-profit corporation charged with neighborhood revitalization activities. Neighborhood Reinvestment is governed by a board of directors comprised of the Chairman of the Federal Home Loan Bank Board, the Secretary of HUD, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, a member of the Board of Governors of the Federal Reserve System and the Chairman of the National Credit Union Administration.

A key program element of ANHS is the Revolving Loan Fund. There are two funds administered by ANHS: a commercial loan fund for business district revitalization efforts, and a residential loan fund for home improvements, and to refinance existing mortgages. The Residential Loan Fund loans to both single family homes and multifamily properties. The loan fund operates as a lender of last resort, thus allowing for neighborhood-wide improvements.

There are two separate loan committees which review administration of all loan funds. The committees follow the partnership model, each one comprised of local lenders, residents and government representatives. The Residential Loan Committee's lenders include representatives from three different banking institutions and are experienced mortgage lenders; the commercial loan committee lenders have experience in their commercial loan functions. Through the partnership model, ANHS has developed an active and solid working relationship with local lending institutions. When appropriate, ANHS leverages its funds by participating with local banks in loans. This allows the Loan Fund to assist a greater number of neighborhood residents. Furthermore, ANHS has a secondary market for its real estate loans, Neighborhood Housing Services of America. By selling its loans to NHSA, the loan fund is continually being replenished.

Despite the often high risk nature of the ANHS loan portfolio, the recovery rate has been commendable. To date, more than $3.0 million dollars have been loaned; the current principal balance is $1.3 million. Of these loans, only one in the past six years has resulted in a foreclosure. In the current loan portfolio, there is only one loan which is 90 days delinquent. The problems within the community the corporation is seeing today are clearly related to the present economic conditions.

Part of the reason for ANHS' success rate in lending is the close on going relationship ANHS develops with its loan clients. ANHS has also sponsored community workshops, both on conventional lending including FNMA and AHFC's HOF program, and on more technical home improvement topics.

While the ANHS approach over the last six years has been neighborhood based redevelopment, the problems the corporation has been addressing are citywide. Essentially, the central issue around which ANHS' work has focused is quality of life for the city's residents. This, of course, takes a number of forms. Clearly one of the most important measures of quality of life is maintaining one's own home. Given ANHS's commitment to decent housing , the corporation has been an active participant in the housing support sector. As a result, ANHS has worked closely with such agencies as Alaska State Building Authority, the Alaska Housing Finance Corporation, the Alaska Housing Market Council, the State's Department of Community and Regional Affairs, and the Municipality's Department of Community Planning.

ANHS has become a well respected participant in the Anchorage housing and lending communities. This position has been earned by the work of both the staff and the many committed volunteers who have helped create this effective, professional enterprise. The skills of the staff are complemented by the abilities and expertise of the professional volunteers who serve on the Board of Directors and the various committees. They are listed at the back of this proposal.

V. STAFFING PATTERNS AND DRAFT BUDGET

Anchorage Neighborhood Housing Services is currently staffed by seven employees, including two loan packagers, a housing inspector, project administrative and clerical positions. It would be our intent to include the housing foreclosure and debt counseling program within the present organizational structure, but as a separate component. Staff requirements would based upon volume of people requiring this service, and the type of counseling needed. Based on the HOPE experience, it is anticipated that each counseling applicant would require 6 - 12 initial hours of counseling assistance over a four month period, including initial document review, and an at-home visit. Counseling needs will vary with some individuals requiring referral and connection to other social service agencies, mortgage counseling or assistance with credit forbearance. ANHS would propose that a small loan fund similar to its Revolving Loan Fund be available for occasional debt consolidation if necessary. ANHS believes this loan fund could be capitalized at $1.5 million, and would be prepared to seek secondary funds through its secondary market. The ANHS Loan Committee comprised of realtors, bankers and private citizens would act as the review body for approval of those loans. ANHS proposes that MGIC and FNMA look at participation in this loan pool by providing private mortgage insurance for these type of loans.

BUDGET

Assuming an average of 6 - 12 hours counseling per individual, we would propose the following one year budget: It is our belief that this program should run parallel to the Alaska "HOAP" Program for a two year period.

Personnel	
Personnel * 1	$113,000
Employee Expense	22,600
	$135,600
Office Expenses	
Telephone	$ 2,400
Postage	1,200
Printing	7,000
Travel	5,000
Training and Development	7,000
Office Supplies	2,000
Advertising and PR *2	12,000 - 35,000
Equip/Software	3,000
Miscellaneous	1,200
	$ 40,800
General and Administrative	
Rent and Utilities *3	$ 24,000
Insurance	800
Legal	5,000
Accounting	4,000
Outside Services	2,400
Depreciation	1,200
Amortization	-0-
	$ 37,400
TOTAL OPERATIONS - FIRST YEAR	$213,800
CONTINGENCY IF EXPANDED SERVICE IS NECESSARY	$ 42,000

*1 Personnel Costs assume a maximum review of 2,000 clients

*2 Advertising and PR costs depend on necessity for paid announcement vs. Public Service use.

*3 Rent may require expansion of existing facilities, but is anticipated that the program will not require it.

ANHS Board of Directors

Barry Hulin, President
Alaska Mutual Bank

Dan Dixon, Director
State Office of International Trade

Will Walker, Mathematics Teacher
Service High School

Nick Rodes
Graduate Student

Dan O'Connell
Federal Deposit Insurance Corp.

Lois Reed
Department of Transportation

Donald Keil, Anchorage Director
Federal Aviation Administration

Tyler Jones, Director
Port of Anchorage

Tom Scott, Executive Director
South Region Emergency Medical Services

Bert Wagnon
Alaska Industrial Development Authority

Julie Liska, Volunteer Coordinator
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Commercial Lending, Rainier Bank

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National Bank of Alaska

Commercial Development and Loan Committee

Barbara Steckel, Chief Fiscal Officer
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Will Walker, Mathematics Teacher
Service High School

Steven Street, Vice President
Alaska Continental Bank

Jay Hanseth, Assoc. Broker
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Gordon Godfred, President/CEO
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Mike Hanley, Vice President
Commercial Lending, Rainier Bank

Paul Smith
Owner, Sunset Travel
Controller, Barratt Inn

Jim Kubitz, Owner/Manager
Kubitz Construction

Alaska Continental Bank

January 6, 1988

A SUGGESTED PLAN FOR AIDEA TO ACQUIRE AND LEASE PROPERTIES

SECTION 44.88.080 "POWERS OF THE ALASKA INDUSTRIAL AND EXPORT AUTHORITY" under (5) & (6) states the following. (5) "to acquire an interest in a project as necessary or appropriate to provide financing for the project whether by purchase, gift or lease. (6) to lease to others a project acquired by it for the rentals and upon the terms and conditions the authority may consider advisable including, without limitation, provisions for options to purchase or renew".

During these tough economic times it is suggested that if a servicing lender and the existing borrower concur, AIDEA would acquire properties currently financed, in lieu of the outstanding debt, provided that the originating lender maintains either its 10 or 20% share of the project as originally provided and further provided that the seller agree to lease that property back for three to five years at a 6% cap rate. The seller would have an option to re-acquire the property within three to five years by paying the original amount the property was transferred for in satisfaction of the debt plus an option premium of 2½% per year up to the time of repurchase.

AIDEA and the participating lender would take title to the property in their joint names with the servicing lender continuing to collect the rent and service the lease. The servicing lender would have the second right of refusal to acquire the property at the option price in the event the seller chose not to and could finance that project through AIDEA under the original terms of the bonds sold to support the project in the first place.

AIDEA would offer to work with lenders to purchase any commercial project for up to 75% of the latest appraisal used to support any loan against the project and would agree to purchase projects in conjunction with the lender whether within or outside of the state so as to help all commercial borrowers on a broad basis.

This program could acquire an estimated $1 Billion of properties. It may be necessary for AIDEA to go to the bond market to raise additional funds to support their purchases. AIDEA has the capital and reputation to allow for additional bond sales. It has statutory authority to provide this type of financing. Implementation would require no legislation, only a regulation change as approved by the AIDEA Board on an emergency basis.

Alaska Continental Bank

VALUE OF THEIR REAL ESTATE PLUMMET TO WAY BELOW ITS DEBT.

HOW ABOUT THE COMMERCIAL PROPERTY OWNERS?

HOW ABOUT THE BUSINESS PERSON WHO CREATES JOBS THAT WON'T BE ABLE TO MEET PAYROLLS?

HOW ABOUT THE PERSON WHO LOSES THEIR JOB - CAR - FURNITURE - HOME?

HOW DEEP IS THE AGONY GOING TO GO?

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
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02–576(2/77)

Alaska Continental Bank

January 6, 1988

A SUGGESTED PLAN FOR AIDEA TO ACQUIRE AND LEASE PROPERTIES

SECTION 44.88.080 "POWERS OF THE ALASKA INDUSTRIAL AND EXPORT AUTHORITY" under (5) & (6) states the following. (5) "to acquire an interest in a project as necessary or appropriate to provide financing for the project whether by purchase, gift or lease. (6) to lease to others a project acquired by it for the rentals and upon the terms and conditions the authority may consider advisable including, without limitation, provisions for options to purchase or renew".

During these tough economic times it is suggested that if a servicing lender and the existing borrower concur, AIDEA would acquire properties currently financed, in lieu of the outstanding debt, provided that the originating lender maintains either its 10 or 20% share of the project as originally provided and further provided that the seller agree to lease that property back for three to five years at a 6% cap rate. The seller would have an option to re-acquire the property within three to five years by paying the original amount the property was transferred for in satisfaction of the debt plus an option premium of 2½% per year up to the time of repurchase.

AIDEA and the participating lender would take title to the property in their joint names with the servicing lender continuing to collect the rent and service the lease. The servicing lender would have the second right of refusal to acquire the property at the option price in the event the seller chose not to and could finance that project through AIDEA under the original terms of the bonds sold to support the project in the first place.

AIDEA would offer to work with lenders to purchase any commercial project for up to 75% of the latest appraisal used to support any loan against the project and would agree to purchase projects in conjunction with the lender whether within or outside of the state so as to help all commercial borrowers on a broad basis.

This program could acquire an estimated $1 Billion of properties. It may be necessary for AIDEA to go to the bond market to raise additional funds to support their purchases. AIDEA has the capital and reputation to allow for additional bond sales. It has statutory authority to provide this type of financing. Implementation would require no legislation, only a regulation change as approved by the AIDEA Board on an emergency basis.

The benefits would be many and this could be a "win-win" situation. A borrower could sell a project to AIDEA and the participating lender for its outstanding debt and immediately reduce its monthly overhead by 50%. The seller may also be able to show a tax loss on the sale of the property and apply for a tax refund. A 6% cap rate on the lease would effectively lower the cost of operation and avoid foreclosures. The lender could assist its borrower and eliminate a non-performing loan by converting the loan to Other Real Estate Owned (OREO) and supporting the investment in OREO by the lease paying 6%, which should cover the lenders cost of funds. AIDEA would be able to expand its program and bring more outside capital into the area. The borrower will benefit by knowing that when the market improves, the property can be re-acquired at a pre-determined price.

AIDEA and lender would agree not to lease the property for less than 6% nor sell for less that its capitalized cost. This could strengthen lease and resale rates on commercial projects.

Finally, AIDEA would have to adopt a moratorium on financing any new projects to be constructed unless a broad need was shown for that project.

H. A. BUZ HOFFMAN
PRESIDENT

HAH/jwb



Alaska Continental Bank



VALUE OF THEIR REAL ESTATE PLUMMET TO WAY BELOW ITS DEBT.

HOW ABOUT THE COMMERCIAL PROPERTY OWNERS?

HOW ABOUT THE BUSINESS PERSON WHO CREATES JOBS THAT WON'T BE ABLE TO MEET PAYROLLS?

HOW ABOUT THE PERSON WHO LOSES THEIR JOB - CAR - FURNITURE - HOME?

HOW DEEP IS THE AGONY GOING TO GO?

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AS A STATE, WE HAVE TREMENDOUS FINANCIAL RESOURCES BUT LACK THE POLITICAL WILL AND LEADERSHIP TO USE THEM.

I DO EXPECT TO SEE SEVERAL "BAND-AID" PACKAGES PASS THE LEGISLATURE. BUT WILL IT BE ENOUGH?

IT MIGHT BE IF THEY RECOGNIZE THAT THEIR OWN PENSIONS ARE AT RISK DUE TO THE PENSION FUNDS INVESTMENT.

SOME OF OUR LEGISLATORS LIKE TO **SNEER** ABOUT BANK BAIL-OUT'S.

THE BANKS DON'T NEED A BAIL OUT

NBA?

FNBA?

KEYBANK? **DEEP OWNER POCKETS**

RAINIER?

ALLIANCE AND FDIC BAILED OUT ALASKA MUTUAL AND UNITED BANK.

ONLY ALASKA CONTINENTAL BANK AND ALASKA STATEBANK LEFT - OUR CLOSURES WOULDN'T CREATE A RIPPLE.

NO - THE REAL NEED FOR A BAIL OUT IS EVERY HOMEOWNER WHO HAS SEEN THE

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TOTAL EQUITY CAPITAL OF ALL BANKS ON 9/30/87 WAS $207,477,000.

ON 9/30/87 ALL BANKS HAD A TOTAL OF $165,189,000 IN FORECLOSED REAL ESTATE.

TOTAL DEPOSITS IN ALL BANKS DROPPED $105,985,000.

STATE DEPOSITS DROPPED $220,320,000.

BANKS WERE USING $341,465,000 IN FED FUNDS - ONE DAY BORROWINGS.

TOTAL PAST DUE AND NON ACCRUAL LOANS TOTALED $407,740,000 OF BANKS TOTAL ASSETS OF $5,206,702.

THE BANKS BY THEMSELVES WILL NOT BE ABLE TO PROVIDE THE CREDIT AND FINANCING NEEDED TO FUEL ANY NEAR TERM RECOVERY - THEY WILL NEED HELP.

THE STATE OWNS MOST OF THE RESOURCES - DOES NOT REINVEST MOST OF IT HERE.

PERMANENT FUND	$9 BILLION OUTSIDE
AIDEA	$400 MILLION OUTSIDE
AHFC	$1,200,000,000 OUTSIDE
RAILBEST ENERGY FUND	$350,000,000 OUTSIDE

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WHO KNOWS WHAT ELSE!

AIDEA ALONE HAS A COMBINED NET WORTH OF $519,600,000, MORE THAN 2 1/2 TIMES THE NET WORTH OF ALL BANKS COMBINED. HAD PROFITS OF $24,500,000 - UNUSED CASH ON HAND OF $420,000,000.

AIDEA COULD CUT THE INTEREST ON ALL OF ITS LOANS TO 6% - WOULD ONLY COST THEM $18,000,00 PER YEAR - LESS THAN TWO THIRDS OF ONE YEARS PROFITS.

AIDEA COULD OFFER TO PURCHASE AND LEASE BACK COMMERCIAL PROJECTS.

AHFC HAS AN EQUITY OF $1,521,000,000 ALMOST EIGHT TIMES THE EQUITY OF ALL OF THE BANKS IN THE STATE. HAS OVER $1,256,000,000 CASH AND INVESTMENTS ON HAND - HAD PROFITS OF $21,000,000 AFTER RFBD AND EARLY RETIREMENT OF DEBT.

COULD HAVE OFFERED A SIMPLE MODIFICATION OF NOTE AND DEED OF TRUST FOR $30.00 FOR ANYONE THAT HAD REDUCED INCOME AND REVISED THE NOTE TO 25% OF INCOME. DID NOT NEED TO DO A REFUNDING BOND ISSUE.

OUR BANKS DO NOT HAVE EVEN A SMALL PERCENTAGE OF THE RESOURCES THAT THE STATE AGENCIES CONTROL.

Alaska Continental Bank

THE GOOD - THE BAD & THE UGLY

1987 WAS A DISASTROUS YEAR FOR ALASKA BANKS AND OTHER FINANCIAL INSTITUTIONS.

FIVE BANKS FAILED WITH THREE CLOSED AND TWO MERGED.

TWO CREDIT UNIONS FAILED.

TWO SAVINGS & LOANS FAILED.

YEAR END FIGURES ARE NOT AVAILABLE FOR ALL BANKS BUT IT APPEARS ONLY FNBA & NBA SHOWED A PROFIT.

ALL OTHERS COMBINED LOST MILLIONS.

IN THE FIRST NINE MONTHS OF 1987, ALL STATE BANKS COMBINED HAD A MINUS NET WORTH OF $130,971,000.

SINCE THEN 1ST INTERSTATE CLOSED.

ALL NATIONAL BANKS HAD A COMBINED NET WORTH OF $330,276,000.

SINCE THEN, BANK OF THE NORTH CLOSED. COMPARED TO 9/86, ALL BANKS IN THE STATE LOST A TOTAL OF $297,177,000 AND THE FIGURES THROUGH 12/31/87 WILL BE WORSE.

MEMORANDUM State of Alaska

TO: Milt Barker
Deputy Commissioner, Treasury
Department of Revenue

DATE: February 12, 1988

FILE NO:

TELEPHONE NO:

THRU: Vincent Wright
Chief of Research
Department of Revenue

SUBJECT: Commercial Real Estate Subsidy

FROM: Alfred G. Zangri
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 program[2]. State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

Both the direct and indirect costs will be imposed upon the State economy even if it is the lowest quality space that is taken off the market since this will keep rents higher than necessary and could well keep many start-up businesses from ever making it. Actual estimation of the net costs and benefits of higher rents for commercial space would require a difficult and, due to data availability problems, perhaps impossible, empirical study. It is likely, however, that since the proportion of businesses that rent space is greater than the proportion that own space, the losses of the losers from higher rents will more than offset any gains to the gainers.

Further if, as is likely, the income of commercial real estate investors is higher than the average income of the rest of the population of the state then the leakage to Federal income taxes will be greater than if the funds were used in alternative ways. It may also be more likely that commercial real estate owners will spend incremental income on out-of-state travel and other out-of-state goods and services. Additionally, to the extent that buildings are owned by out-of-state individuals or corporations, this leakage from the economy is increased.

It has been argued that the owners of other buildings will be unable to compete with buildings sold at distress sales. It is true that market conditions are causing building owners to accept reduced returns on their buildings as rents fall. On the other hand, if current owners believe that prices at any potential distress sale will be so low that they will be unable to compete, they have the option of purchasing the distress priced buildings themselves. This option will allow the owners of other buildings to minimize the reduction in their revenue.

In summary, the outcome of a State program to reduce excess capacity in commercial real estate will be to keep rents higher than they would have been in the absence of such a program which will, in turn, drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, implementation of this type of program will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment

period and delay the process of economic recovery. Banks and owners of commercial real estate will be the beneficiaries of this program while the costs will be borne by all the other citizens of the State.

FOOTNOTES

1. Memorandum to Mary Holloran, "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso, Table 1, Jan. 28, 1988.

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

Comment Draft 2/18/88
Comments should be addressed to: Gregg Erickson, senior economist, Division of Policy, P.O. Box AD, Juneau, AK 99811-0164 phone (907) 465-3568

The Recession, The Real Estate Crash, and Alaska's Economic Prospects

Introduction

Many Alaskans have been surprised by the severity of the current recession, and the speed with which it engulfed the state's economy. The collapse of the real estate market has been a shock, particularly in Anchorage. As long as anyone there can remember, investment in Anchorage real estate has been about as sure a thing as one could hope to find in this uncertain world. Granted, there have been ups and downs, but Anchorage real estate always held its value when the economy was doing poorly. When the economy was expanding -- during the Korean War, again after statehood, after the $900 million North Slope lease sale in 1969, during the pipeline boom, and in the biggest boom of all in the early 1980s -- an investor could achieve extraordinary returns. In the intervals when the economy was stagnant, a real estate investor in Anchorage felt protected. "You never sold a piece of property for less than you paid for it," recalls John Rader, Anchorage lawyer and investor whose experience in Anchorage dates to the early 1950s. "It was almost a religious statement."

The benefits of real estate appreciation weren't just restricted to the very rich. Anyone wealthy enough to buy a home was able to play the game. The more a family borrowed to buy a home and the less of their own cash they used in the purchase, the faster their home equity would compound. Over the years, ordinary folks and major investors alike came to believe that there some rules of investing were better ignored. In Alaska, it always paid to be highly leveraged. In Alaska, the more an individual borrowed, the more an individual stood to make. And in Anchorage, one would never need to sell a piece of real estate for less than one paid for it.

No single event swept away this folklore, but it vanished nonetheless. In January 1986 Anchorage taxable real estate had an assessed value of $13.9 billion, up 38 percent from two years earlier. In January 1988 municipal assessors estimated it at $8.3 billion, down 41 percent in two years. Because a half billion in new construction was added to the tax rolls over the '86-'88

period, the average property in Anchorage took an even bigger beating.

This kind of collapse would spell trauma in any community, but because of Anchorage's demographics, growth pattern, and the policies of an activist state government, the distress has touched an especially large number of households. Anchorage's population is relatively young, and the town has been growing fast. In any other state most of the young families that dominate Anchorage's demographics would still be renting; a crash in real estate values would then be to their advantage since it would mean falling rents. In Alaska, though, the state has actively encouraged home ownership by providing mortgage credit at subsidized rates. The booming market made it look foolish not to participate, and in Anchorage about 29,000 households now owe about $2.5 billion on subsidized residential mortgages.

According to Anchorage real estate broker Brooke Marston, these subsidized mortgages are now virtually all "underwater," e.g., the principal owed on the mortgage exceeds the market value of the home. The average family's equity in its home is one of its major repositories of savings. In Alaska, for most urban households, the value of that asset has been erased or become a net liability. The probability is that many now have negative net worth.

The purpose of this analysis is to examine these painful events in the broader context of Alaska's overall economic performance, addressing five questions: What caused the recession? When will it end? What sort of recovery can we expect? How will the real estate crash affect the recovery? And what are the economic policy options for state government?

The Inevitable Recession

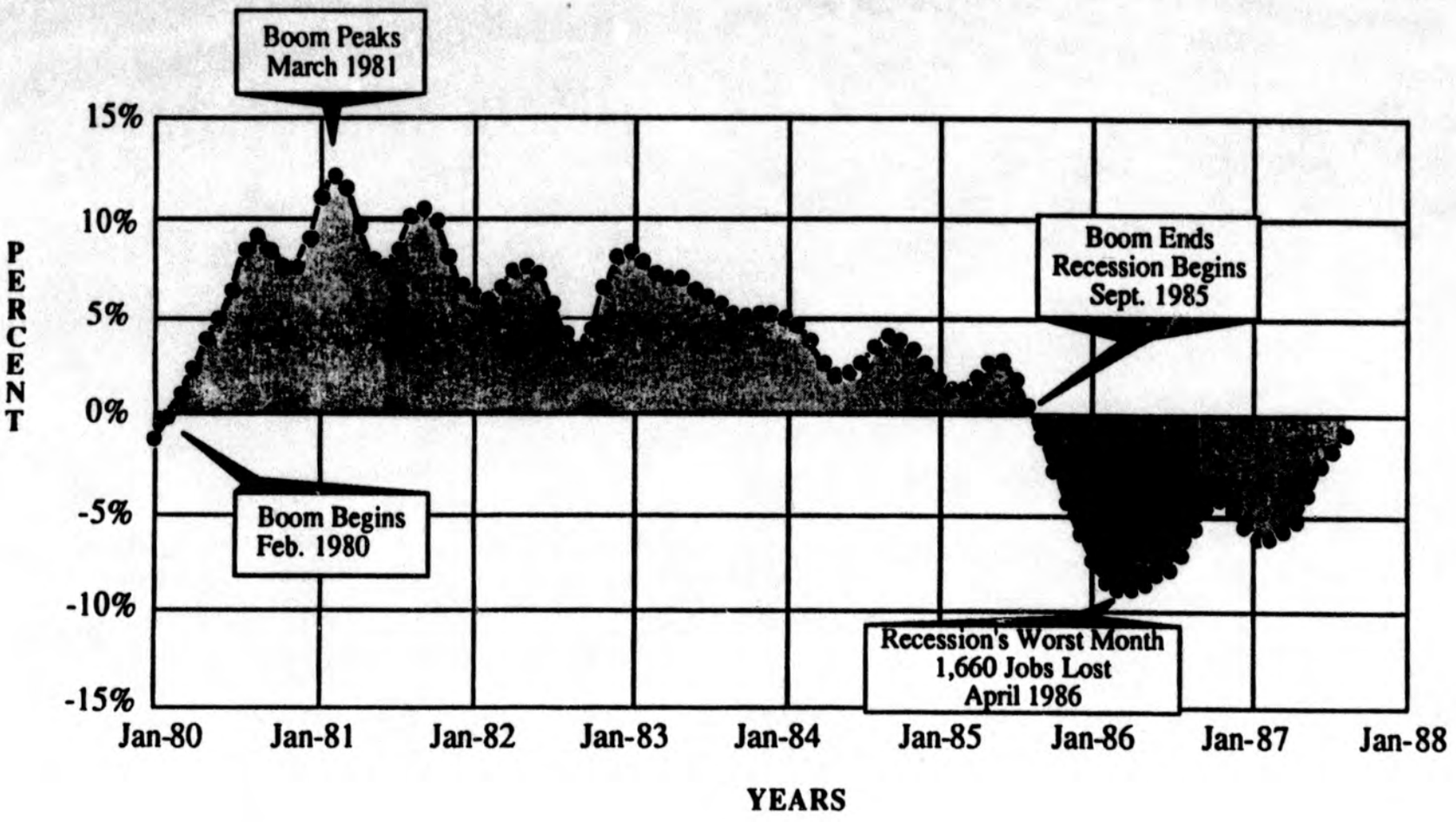
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. ***When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.*** Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott Goldsmith, economics professor at the University of Alaska's Institute of Social and Economic Research, measures the peak of the boom in early 1981, when jobs were being added at the phenomenal 12 percent annual rate.[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]

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[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 shakey technical assumption underlying the vulture/Phoenix fund idea -- that purchasing distressed properties will stabilize the market for holders of other properties. The Anchorage market has seen a "distinct flight to quality." She argues that the demand for mid- and high quality property is largely independent of the demand for the low quality properties that constitute virtually all the distressed assets. According to Yoshimura, removing those assets by demolition might make sense as an urban renewal strategy, but will have no effect on prices or demand for anything except the the very lowest quality properties, most of which are already in foreclosure. Professor Green expresses similar concerns.

Loss of Confidence

Despite economists belief that the direct economic effects of the real estate crash will be positive, the regional recession in Alaska is at least partly beyond the range of economic experience. It is a reason for caution.

An event this encompassing could conceivably have non-economic effects that could feed back into the economic system in unanticipated ways. Anchorage real estate broker Chris Stephens has suggested that most severe effect of the market crash could be the loss of entrepreneurial talent. Most economists scoff at this idea. "Heck," ISER's Lee Huskey remarks, "lower costs are going to make it *more* likely entrepreneurs will succeed."

Arlon Tussing, a Seattle economist and frequent visitor, thinks the odds are good that the loss of confidence won't last very long or extend very deep into the fabric of Alaska society. So far, the evidence seems to favor this view. Anchorage's municipal demographer Michael Breedlove estimates that 59 percent of the households lost in Anchorage since 1985 have been male headed, non-family households, a category that accounts for only 18 percent of total households. Moreover, 80 percent of the population loss has been in 20-30 age group, and two-thirds of the loss is accounted for by males. These numbers don't suggest a broad-based exodus.

But what about the attitudes and intentions of those who remain? Population movements tend to lag changes in the economy, so a collapse of confidence could have already happened, with the resulting wave of out-migration only now beginning. As far as attitudes are concerned, the answers given by Dittman's Railbelt respondents don't reflect any sense of crisis: 44 percent say the economy will get better over the next two years,

compared with 16 percent who see things getting worse.

What about the 18 percent of Dittman's respondents who reported they were "very likely" or "quite likely" to leave Alaska within two years? For some observers the number was "shocking." Gregg Williams, the state's chief demographer, doesn't see it that way. "Every year, in good times and bad, about 15 percent of the people in Alaska leave. The [poll] results are about what I'd have expected." According to Dr. Williams, the number of people coming to Alaska is much more variable than the number leaving, and much more sensitive to economic conditions. Unfortunately, surveys of people already in Alaska, whether the results are "shocking" or "expected," tell nothing about the intentions of those not yet here. The guessing among experts like Breedlove and Williams is that population isn't in for any collapse in Anchorage, and certainly not in the balance of the state.

Alaska's Policy Options

Many of the experts who are saying there is no economic justification for using public money to prop up the real estate market are also owners of homes and other real estate. A few of them suggest that there may be some *moral* justification for state government involvement. "After all," one asked rhetorically, "doesn't everyone agree that the state government was responsible for getting us into this?" But even those who see a moral basis for state intervention sense that whatever state government's guilt, indemnification of those who have taken losses would be beyond its means. And proposals to assist only a segment of the market, say the commercial real estate market, are hard to take seriously when so many others have also been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford.

Besides, excess capacity in investment goods and services (like construction) has dissipated, and it seems likely that the state will arrest the decline in public spending. If this happens, the recovery will occur regardless of what else the state does or does not do. That doesn't mean that prompt, informed government action would not save a lot of pain. Unfortunately, what the government should do, apart from not trying to corner the real estate market, is not nearly so clear. It would make sense to allow people to carry their negative equity along with them to a different house. Whether the public and private bureaucracies involved are able to handle these transactions remains to be seen. It doesn't make sense to have a moratorium on foreclosures. The rights of condominium associations may need to be strengthened. The policies and role of the state's lending agencies -- especially AHFC, need review. Millett Keller, an Anchorage business consultant, suggests that the real estate collapse provides Alaska communities with "opportunities to accomplish ... public sector projects at bargain rates," including acquisition of property for parks, greenbelts and rights-of-way for

future transportation facilities, assuming government can avoid carelessly mixing in subsidies and economic recovery. That may be an optimistic assumption, but Commerce and Economic Development Commissioner Tony Smith was surely on target when he testified that "we can't spend ourselves out of this one, we have to manage ourselves out of it."

Borrowed Time

With management -- and a little luck -- the real estate crash will do no lasting damage to Alaska's economy. Years hence Alaskans may look back at the recession and post-recession period as a time of renewal and opportunity. If so, it will probably be because Alaskans learned the lessons that this self-inflicted recession had to teach.

On this point, however, the returns are still to be counted. Alaska did cut its spending in FY 1985-88, but not enough to erase the fundamental imbalance that Drs. Goldsmith and Reaume first described ten years ago. In a speech early this year Goldsmith described the imbalance as a problem

> which always takes a back seat to concerns which are more immediate or pressing, but it is the most pervasive issue we will face in the next decade. *In the long run the economy is still living on borrowed time.* We continue to artificially stimulate the economy by selling off the assets of the state -- our petroleum wealth. How we adjust to a sustainable level of government will affect us all as surely as this recession. [emphasis added]

Unless Alaska controls its public spending, the state will be buying a ticket to a rerun of its present recession. Showtime will be within the decade, and probably sooner.

Another old imbalance also remains. Alaska has developed a mature economy, but parts of rural Alaska have increasingly been left behind. Disparities in income, employment, educational success, health, and a host of other measures all are all widening. Some economists say that this is the kind of problem that economics shouldn't have much say in solving, but all agree that the growing disparities are already a drag on economic development *throughout* Alaska, and that these disparities will become an even greater burden in the future. Economic solutions that might work seem unacceptable on other grounds, and solutions acceptable on other grounds clearly don't work economically. It is a tough issue that won't be ignored.

Alaska's economist emeritus George Rogers wrote in 1962 of how many Alaskans subscribe to the view that economic forecasting "should be a projection of present hopes, that prediction should bolster self assurance. Forecasting in this view is only valid if it agrees with a popularly held dream of the future and makes its realization appear likely."

Today, economists' believe that the real estate collapse will not produce dangerous consequences for the economy as a whole. This view runs counter not to a popular hope, but to a popular fear. A lesson from the recession and

real estate crash may be that hopes and fears, like dreams, are better servants when they are firmly founded on a hardheaded respect for history.

Reference Notes (Incomplete)

If not otherwise cited, quotations are from personal conversations with the author.

Taxable Anchorage real estate values are from Phil Webber, municipal assessor's office, Municipality of Anchorage. Data on the number of Anchorage AHFC mortgages are from AHFC. State spending data are Division of Policy figures.

Goldsmith's seasonally adjusted employment figures have not been published, but are available from him or the author. Goldsmiths 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. Goldsimth 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 spce 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.

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr RL
Executive Director

DATE: March 8, 1988

RE: Attached Memo from Representative Brown to Commissioner Malone

Commissioner Malone has requested that I comment on the attached memo from Representative Brown regarding funds for demolition costs for Willow Park and Hollywood Vista. As Representative Brown notes in her cover letter, a total of $4.75 million additional is needed, and she believes these funds should come from AHFC reserves.

It seems there are two separate issues raised by this letter. First, is the demolition of these projects an issue that should involve AHFC (and its resources)? Second, assuming AHFC will be financially involved in assisting this demolition, what is the most appropriate form of involvement?

The first question is largely a policy decision. However, it is perhaps appropriate to note that even though both these projects are multifamily rental projects, and hence not normally the province of AHFC, any action that involves 500 units of housing is likely to have some effect on the housing market in general.

The second question raises certain sensitive issues regarding legislative appropriation of AHFC resources. As has been discussed, there is a great deal of concern in the financial community regarding just how secure AHFC's assets are. Any use of AHFC resources for other than standard programs is bound to raise the question again, and we should be prepared to deal with it.

With regard to the specific subject of $4.75 million for the two projects, clearly AHFC has adequate resources to actually provide funding. Furthermore, an appropriation to fund these projects would appear to be simple. However, it would certainly raise the questions cited above, as well as legal questions about the legislature's ability to appropriate AHFC funds. Furthermore, it would seem to

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encourage additional appropriations of AHFC resources for other real-estate related projects.

I believe that the Board should at least consider another approach. Willow Park and Hollywood Vista are merely representatives of a much bigger problem, that being a large excess supply of housing, particularly in the lower end of the quality range. It may be appropriate to devote a significant amount of AHFC resources toward dealing with this overall problem, rather than simply funding requests for these two projects.

Specifically, I think the Board should consider a program whereby, say, $20 million of AHFC resources are to be used as a "stabilization and upgrade fund." This fund could be used for grants to other state agencies or local governments. The purpose of the fund would be to upgrade the overall supply and availability of adequate housing. In operation the fund would be used for two purposes. First, it could make grants to destroy substandard housing. Second, it could be used as grants to allow applicable governmental bodies to purchase AHFC-owned property that would be used for qualified purposes. Examples of qualified purposes could be low income housing, student housing, senior citizen housing, etc. This would include, for instance, the sale of mobile homes to rural areas to make more housing available. I believe that all grants should be matching grants, since there is a natural screening process done when an applicant needs to put some of their own resources into a project. Furthermore, I believe it would be best to limit the eligible recipients to state and local governments. This will limit the number of applications which AHFC will have to contend with and avoid AHFC having to establish a significant grants bureaucracy.

The costs of this program are clearly greater than simply an appropriation of $4.75 million. However, I believe the concept does have certain advantages that may justify the additional costs. First, it is a more broad based approach, so should provide more overall help. Second, I believe that such an approach could be more easily explained to the financial community. It should not be surprising to the financial community that AHFC would be engaging in programs that not only help individual housing needs, but also help contribute to improving the overall situation in the housing market in a planned and coordinated fashion.

su

Attachment

Kay Brown

Alaska State Legislature
House of Representatives

RECEIVED
ALASKA DEPARTMENT OF REVENUE
FEB 25 1988
OFFICE OF THE COMMISSIONER

Rec'd FYI

TO: Commissioner Hugh Malone
Department of Revenue

FROM: Representative Kay Brown

RE: Willow Park and Hollywood Vista Apartments

DATE: February 25, 1988

As we discussed yesterday, please find attached background information on the Willow Park and Hollywood Vista demolition costs. A total state appropriation of $4.75 million is needed, and I believe it would be appropriate to fund this work from AHFC reserves.

If you need further information or have questions on this material, please contact me or Katy McHugh of my office.

P. O. Box 20-2661
Anchorage, AK 99520-2661
(907) 272-0207

During Session:
P. O. Box V
Juneau, AK 99811
(907) 465-4998

WILLOW PARK AND HOLLYWOOD VISTA SITE DEMOLITION AND RESIDENT RELOCATION PLANS

WILLOW PARK

The $13.8 million proposal is a comprehensive plan to remove Willow Park, a 35-year old, 150-unit low rent multifamily housing project, from the Anchorage rental inventory. The funding for this project would be obtained from three sources: federal, state and municipal government.

$2.6 million state funds (asbestos abatement)
$2.2 million municipal funds (demolition and site restoration costs)
$9 million federal funds (relocation and administration costs)

=$13.8 million

Municipal officials have indicated that the municipality will make a commitment on its $2.2 million share in the next few days. The Alaska State Building Authority cannot obtain the $9 million of federal funds until both the state and municipality have committed to funding their portions of the project.

HOLLYWOOD VISTA APARTMENTS

The Hollywood Vista Apartment Complex consists of 347 units of which 51 are currently occupied. The municipality of Anchorage purchased the project from the United States Department of Housing and Urban Development for the sum of $1.00 in February 1988. This sale is contingent on the Municpality's agreement to raze the complex within two years of title acquisition. The Municpality has proposed demolition of this property due to its substandard condition and the current abundance of multi-family rental units available in Anchorage.

The proposed costs of the demolition and relocation are approximately $2.15 million.

$650,000 (asbestos abatement)
$1.5 million (demolition, site restoration and relocation)

=$2.15 million

The Alaska State Building Authority has agreed to issue vouchers or certificates (through HUD) for Hollywood Vista residents that qualify for public housing assistance. (30 to 40 tenants out of the 51 remaining.)

A total appropriation of $4,750,000 in state funds is sought for the purpose of demolition of Willow Park and Hollywood Vista Apartments in Anchorage. This decision is based on several determining factors including:

- Existing buildings are old and in need of extensive renovation to remedy safety code violations. Renovation would cost more than structures are worth.
- Removing substandard units and replacing them with available public and privately owned housing units will help to stabilize the current housing market.
- Relocation would provide improved quality of life and upgraded housing for Willow Park and Hollywood Vista residents.
- The complexes are functionally obsolete and no longer meet the needs of the community.

Prepared by:
Rep. Kay Brown
2/25/88

Work Session

Floor Session

Alliance Bank

March 19, 1988

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

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

Sincerely,

Fred H. Burrow
President

Enclosure

Alliance Bank
A Financial Service of Alliance Bancorporation
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Anchorage, Alaska 99509-9003 • (9[illegible]58-7890
Member FDIC

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

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

Background

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

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

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

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

The Proposal

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

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

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

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

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

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

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

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

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

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

Under the terms of the Distribution Agreement, the Trustee will

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assistance from the State of Alaska

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

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

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

Marketing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management

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

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

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

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

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

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

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

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

Fees to the Trustees

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

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

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

March 17, 1988

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

MEMORANDUM

State of Alaska
Department of Law

TO: Ronald D. Lehr, Executive Director
Alaska Housing Finance Corporation

DATE: April 4, 1988

FILE NO: 663-88-0438

TEL. NO: 465-3600

SUBJECT: Urban renewal powers of AHFC

FROM: James L. Baldwin
Assistant Attorney General
Governmental Affairs-Juneau

You have requested our advice concerning the power of the Alaska Housing Finance Corporation (AHFC) to take certain action regarding real estate owned by another public entity. This memo will briefly set out our conclusions regarding some of the questions you asked.

It has been suggested that AHFC would be an appropriate source of financing for the cost of demolishing two dilapidated, low-cost housing projects in Anchorage. Apparently, the Alaska State Building Authority (ASBA) would be the project director, with ownership of the projects currently held by the Municipality of Anchorage. AHFC has been considered as a source of financing for part of the cost of demolition. The purpose of the demolition is to remove substandard housing from the market and decrease the supply of residential housing in Anchorage.

AHFC does not currently own an interest in either project. Any benefit flowing to AHFC would be indirect in that the former tenants of the projects may enter the market for owner-occupied residential housing and become borrowers or eligible for AHFC financing. It is also probable that existing developers of rental housing financed by AHFC would be able to prevent further defaults.

We have advised that the legislature may appropriate surplus assets of a public corporation for any public purpose. 1985 Inf. Op. Att'y Gen. (Apr. 24; 663-85-0463). However, an appropriation directly from the assets is quite unusual and will undoubtedly cause concern in the financial community. The concern centers upon the continuing ability of AHFC to repay its bonds. As we understand the financing proposal, AHFC would effectively grant $4.75 million to ASBA and would not receive an interest in the property to be demolished.

Our review of the general powers of AHFC discloses that this type of grantmaking activity is not specifically authorized by statute. AHFC is authorized to make grants in the form of

subsidized rent or mortgage payments for lower or moderate income persons. AS 18.56.090(4). Other powers of the AHFC are expressly directed toward implementing an enterprise activity consisting of a secondary mortgage market. The prefatory language of section 90 suggests that AHFC's general powers are directed toward "providing housing for persons of lower and moderate income or persons located in remote, underdeveloped or blighted areas of the state.... (Emphasis added.) Under the demolition proposal, AHFC would not be providing housing; rather, it would be assisting in the elimination of housing.

As currently structured, involvement in this transaction could not be conducted under the general investment power of the corporation. Based on existing law, AHFC may only invest in guaranteed certificates of deposit and obligations or other securities or investments in which banks or trust companies in the state may legally invest reserves. AS 18.56.090(24).

AHFC also enjoys the power to acquire property "when necessary or appropriate to protect any loan in which the corporation has an interest." AS 18.56.090(7). To our knowledge, the projects set for demolition are not now financed under any program administered by AHFC.

The foregoing suggests that it would be advisable for AHFC to seek a specific amendment to section 90 which would add urban renewal powers similar to those possessed by ASHA. By doing this, AHFC could finance all or a part of the cost of demolition without the disruptive effect of direct legislature appropriation of surplus assets of the corporation.

Set out below is the wording for a provision that could authorize the type of activity contemplated for the projects under consideration:

> * Sec. __. AS 18.56.090 is amended by adding a new paragraph to read:
>
> (28) provide financing to demolish or remove buildings and improvements used for residential housing when necessary to eliminate unhealthful, unsanitary or unsafe conditions, lessen density, reduce traffic hazards, eliminate obsolete or other uses detrimental to the public welfare, or to otherwise remove or prevent the spread of blight or deterioration, or to provide land for needed public facilities.

Does not let AHFC to finance standard

We hope this memorandum answers your questions.

ILR/pjg

FIGURE 2

PETROLEUM PRODUCTION PROJECTIONS

(Total Alaskan)

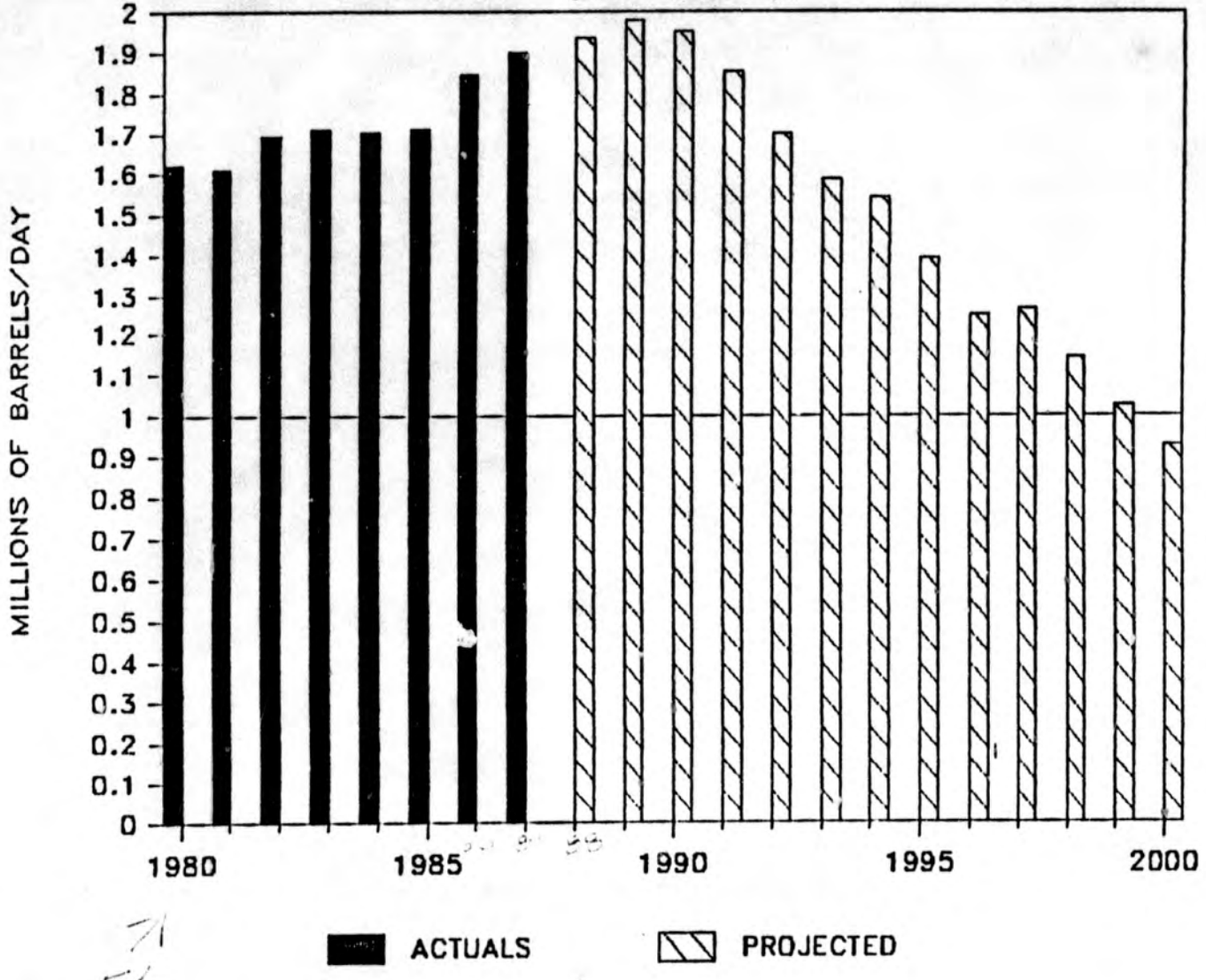


TABLE 2
PETROLEUM PRODUCTION PROJECTIONS
(Millions of Barrels/Day)

FISCAL YEAR	ALL ALASKAN BARRELS/DAY
1980	1.621
1981	1.609
1982	1.696
1983	1.714
1984	1.704
1985	1.714
1986	1.848
1987	1.902
1988	1.937
1989	1.978
1990	1.952
1991	1.854
1992	1.699
1993	1.587
1994	1.541
1995	1.392
1996	1.245
1997	1.259
1998	1.139
1999	1.024
2000	0.928

FIGURE 5A

ACTUAL & PROJECTED TOTAL REVENUES

(30% Case/Nominal $)

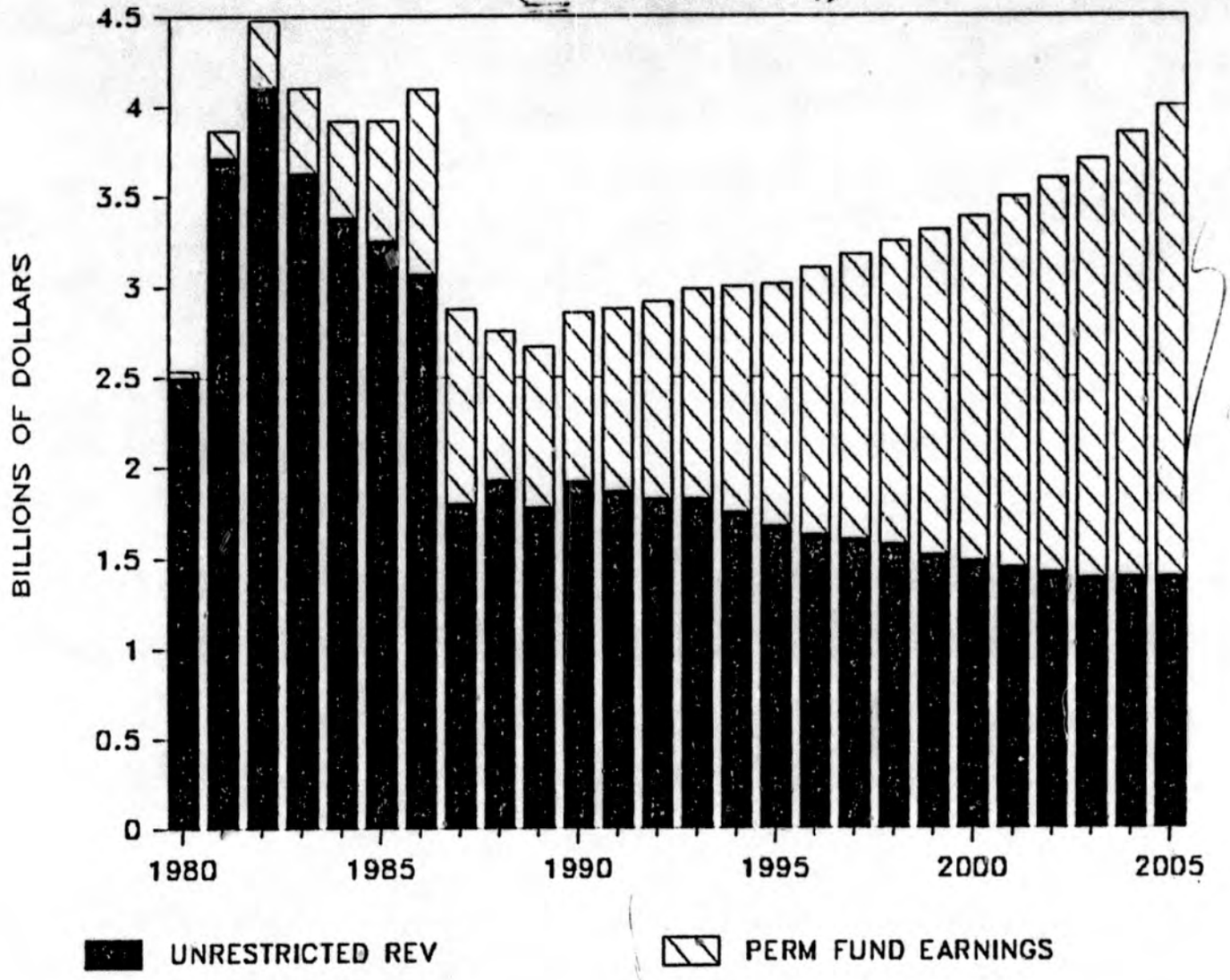


TABLE 5A
ACTUAL & PROJECTED TOTAL REVENUES
(30% Case/Nominal $)

FISCAL YEAR	GENL FUND UNRESTRICTED REVENUES	PERM FUND EARNINGS	TOTAL REVENUES
1980	2.501	0.032	2.533
1981	3.718	0.150	3.868
1982	4.108	0.368	4.476
1983	3.631	0.471	4.102
1984	3.390	0.530	3.920
1985	3.260	0.658	3.918
1986	3.076	1.021	4.097
1987	1.799	1.069	2.868
1988	1.934	0.811	2.745
1989	1.785	0.878	2.663
1990	1.925	0.926	2.851
1991	1.870	1.006	2.876
1992	1.834	1.080	2.914
1993	1.829	1.160	2.989
1994	1.757	1.243	3.000
1995	1.683	1.330	3.013
1996	1.632	1.468	3.100
1997	1.610	1.570	3.180
1998	1.577	1.677	3.254
1999	1.522	1.789	3.311
2000	1.484	1.906	3.390
2001	1.452	2.043	3.495
2002	1.423	2.173	3.596
2003	1.393	2.309	3.702
2004	1.397	2.451	3.848
2005	1.401	2.600	4.001

FIGURE 5B

ACTUAL & PROJECTED TOTAL REVENUES

(30% Case/Real 1981 $)

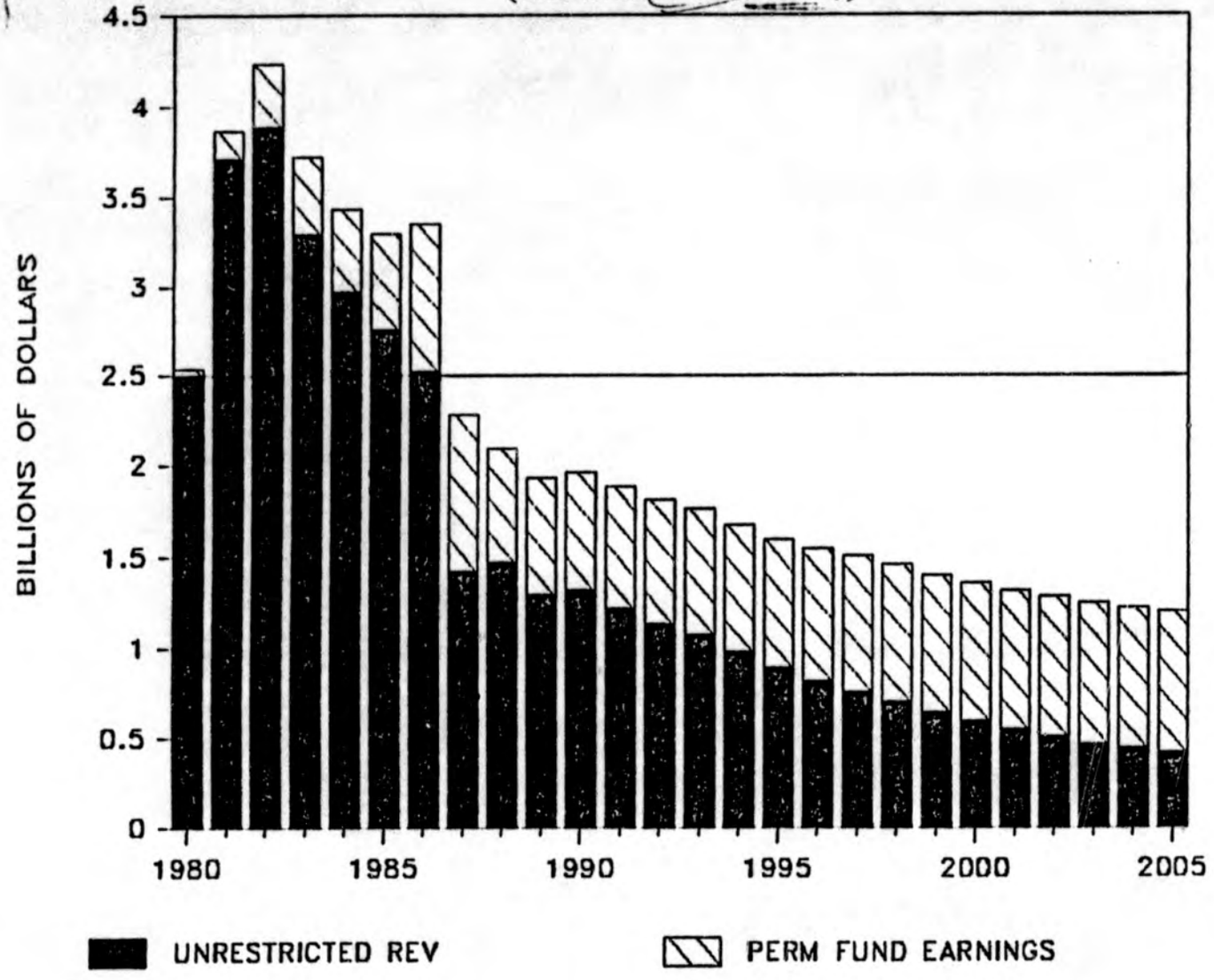
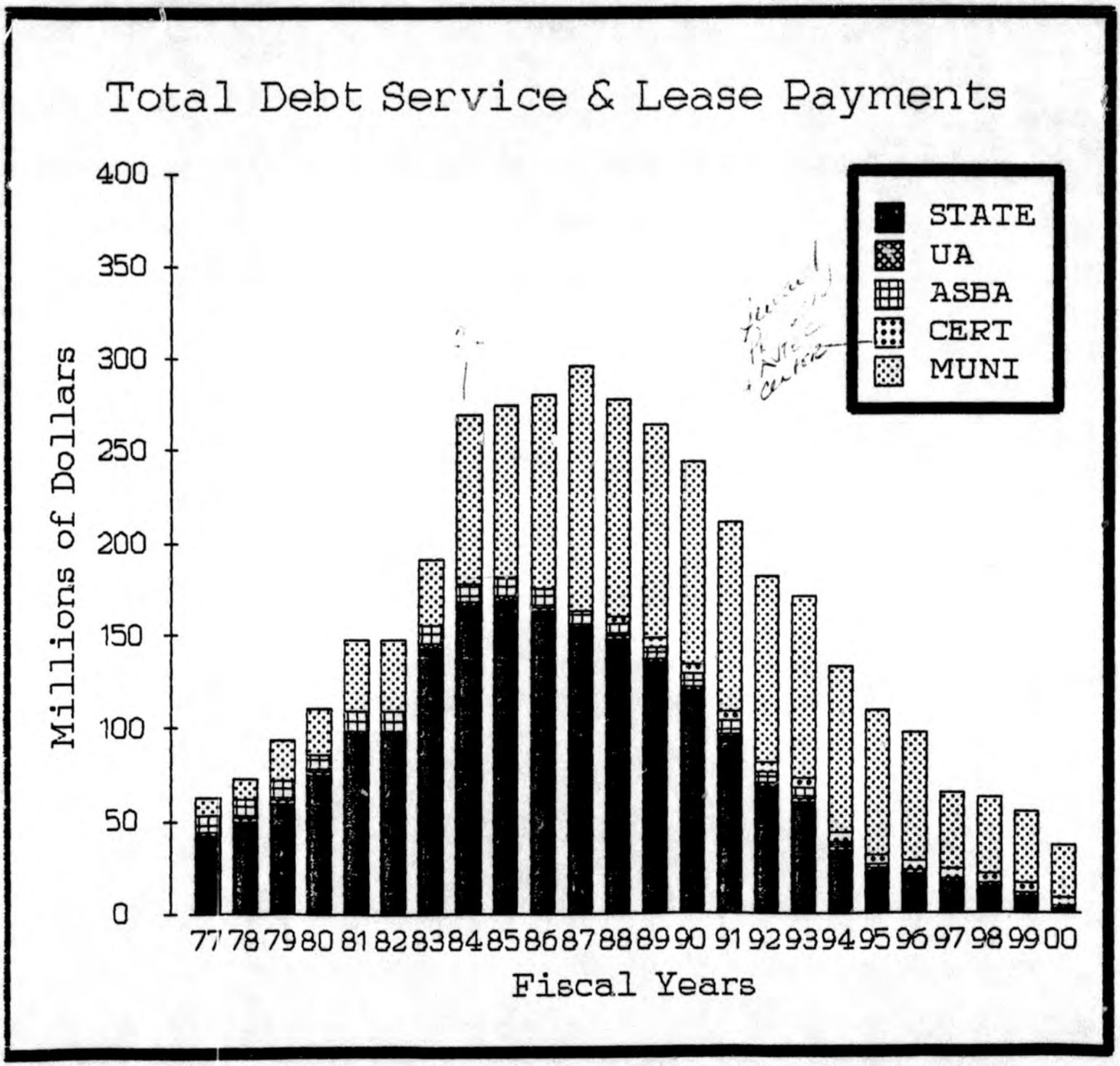
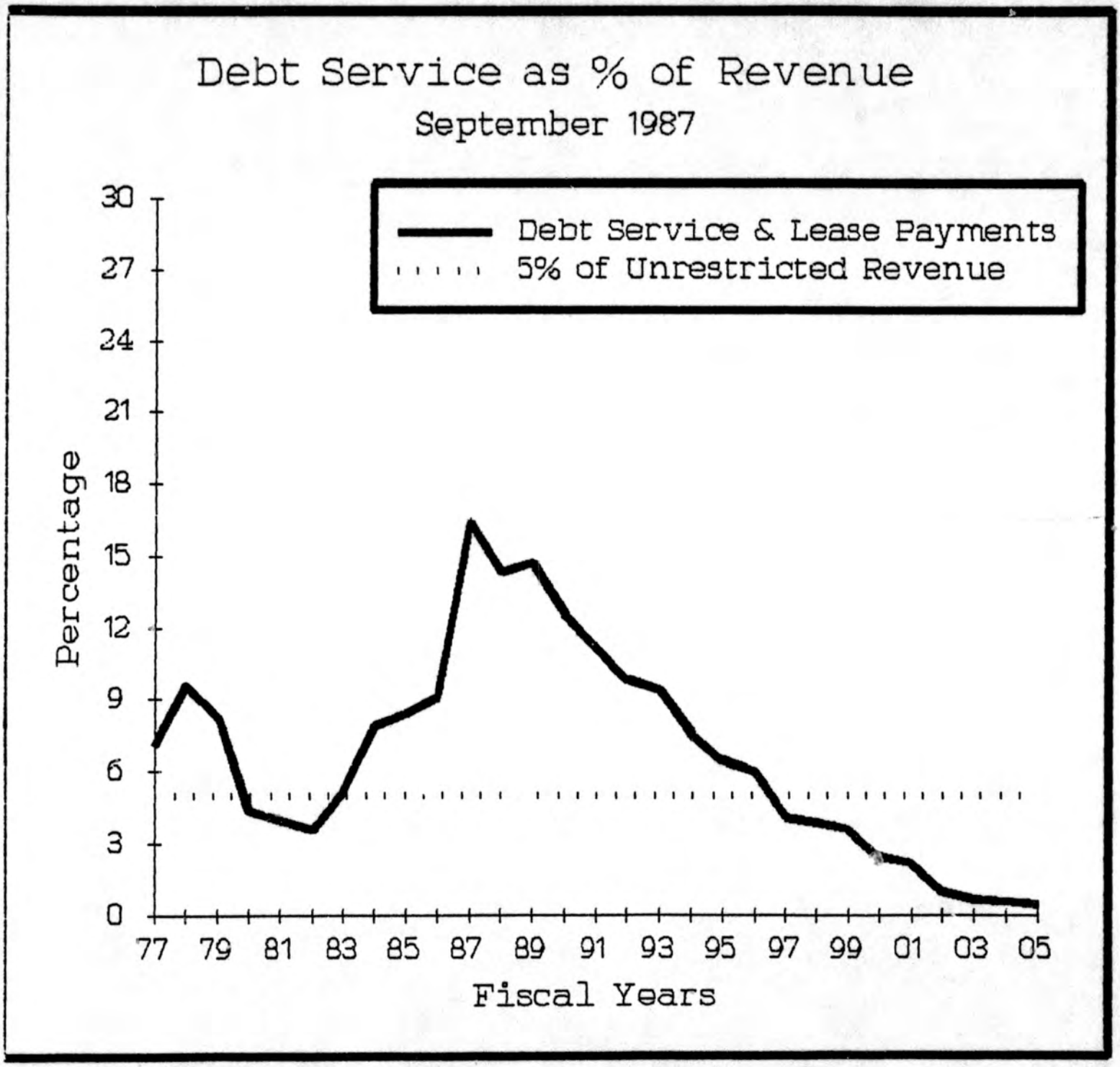
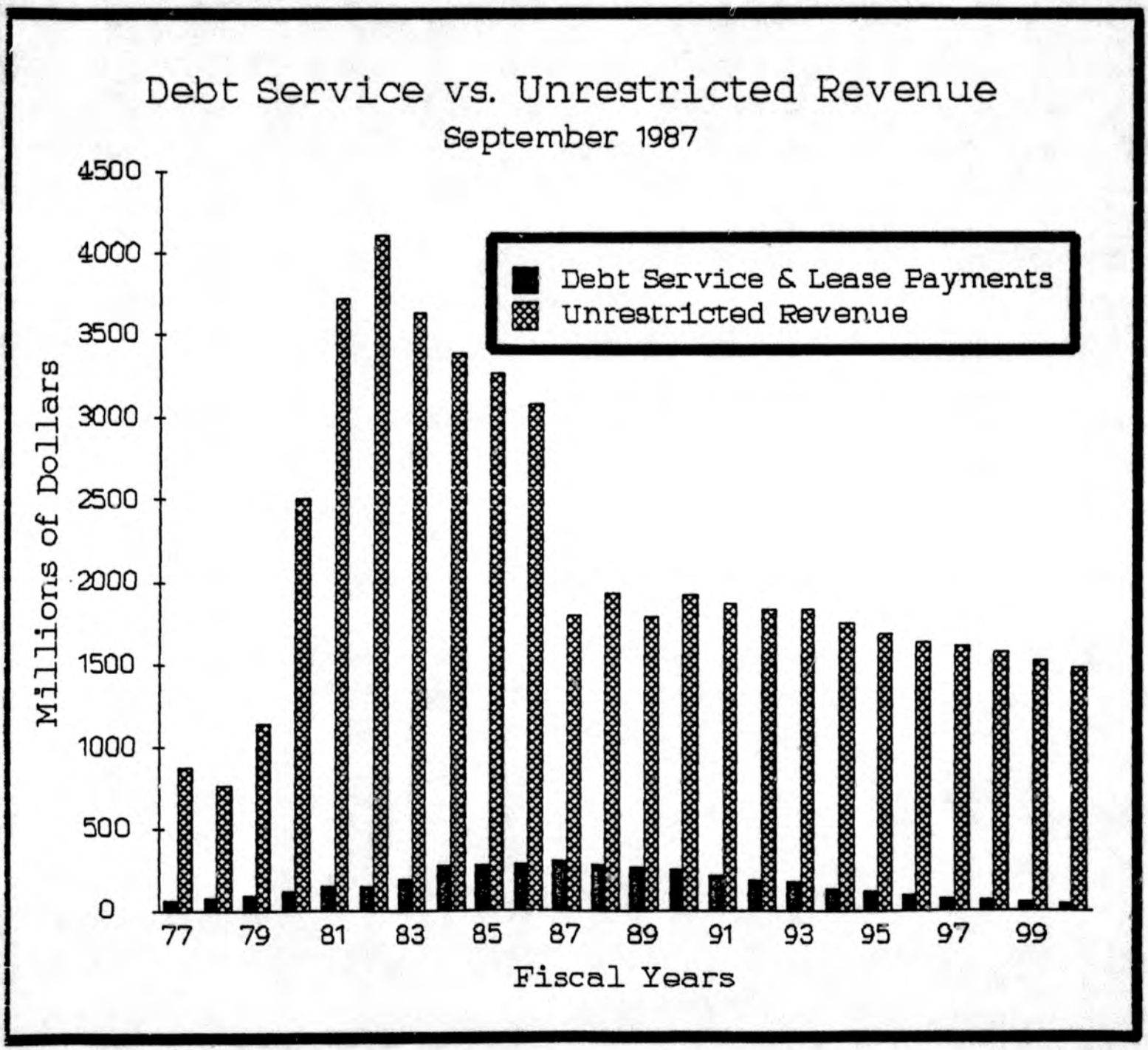


TABLE 5B
ACTUAL & PROJECTED TOTAL REVENUES
(30% Case/Real 1981 $)

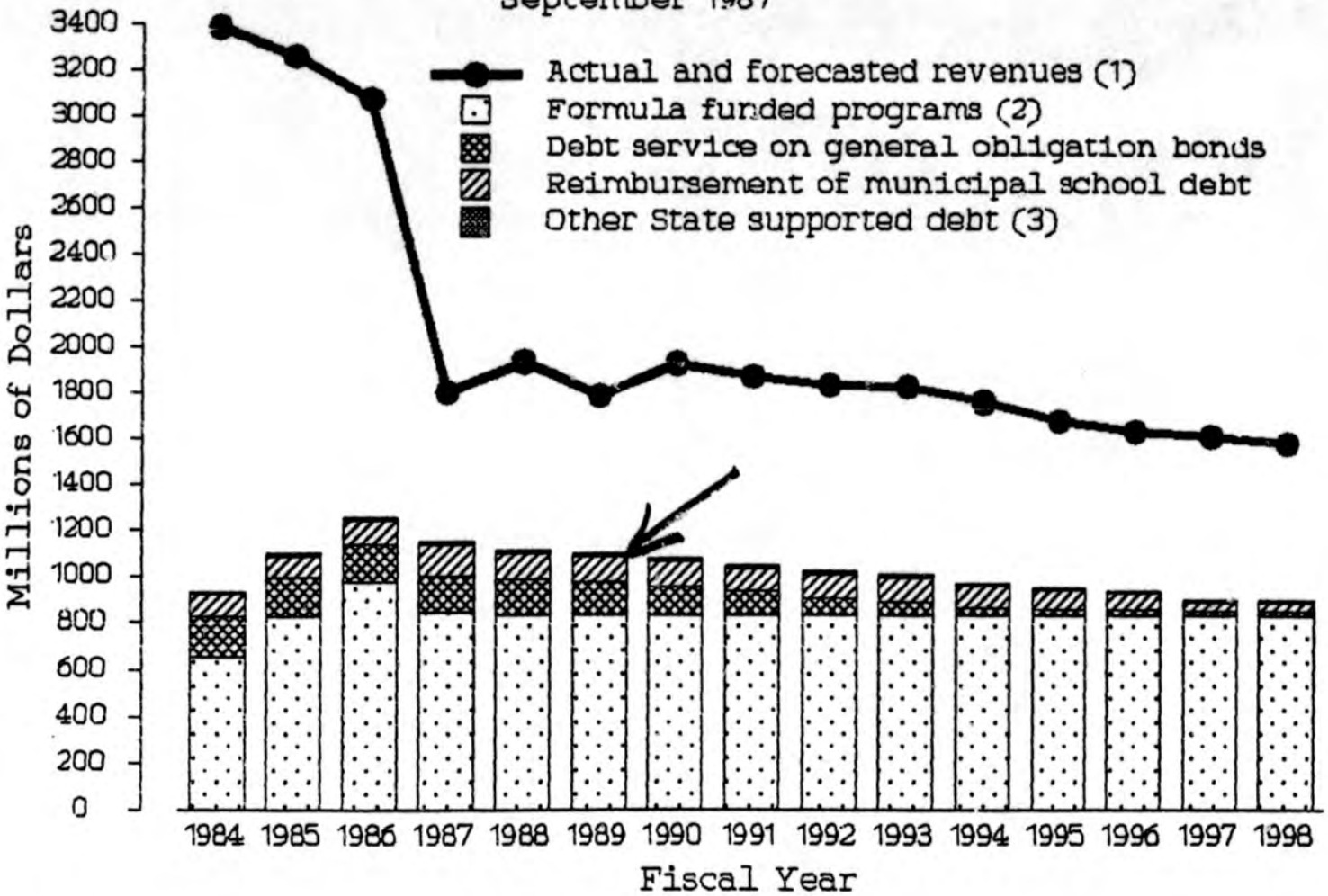
FISCAL YEAR	GENL FUND UNRESTRICTED REVENUES	PERM FUND EARNINGS	TOTAL REVENUES
1980	2.501	0.032	2.533
1981	3.718	0.150	3.868
1982	3.891	0.349	4.240
1983	3.298	0.428	3.726
1984	2.968	0.464	3.432
1985	2.746	0.554	3.300
1986	2.517	0.836	3.353
1987	1.429	0.849	2.278
1988	1.473	0.618	2.091
1989	1.296	0.638	1.934
1990	1.328	0.638	1.966
1991	1.223	0.658	1.881
1992	1.138	0.670	1.808
1993	1.076	0.682	1.758
1994	0.980	0.693	1.673
1995	0.890	0.704	1.594
1996	0.816	0.734	1.550
1997	0.762	0.743	1.505
1998	0.705	0.750	1.455
1999	0.644	0.757	1.401
2000	0.593	0.762	1.355
2001	0.549	0.772	1.321
2002	0.508	0.776	1.284
2003	0.470	0.779	1.249
2004	0.445	0.781	1.226
2005	0.422	0.783	1.205


Total Debt Service & Lease Payments
Millions of Dollars
400
350
300
250
200
150
100
50
0
STATE
UA
ASBA
CERT
MUNI
77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00
Fiscal Years


Debt Service as % of Revenue
September 1987
Debt Service & Lease Payments
5% of Unrestricted Revenue
Percentage
30
27
24
21
18
15
12
9
6
3
0
77 79 81 83 85 87 89 91 93 95 97 99 01 03 05
Fiscal Years


Debt Service vs. Unrestricted Revenue
September 1987
Debt Service & Lease Payments
Unrestricted Revenue
Millions of Dollars
4500
4000
3500
3000
2500
2000
1500
1000
500
0
77
79
81
83
85
87
89
91
93
95
97
99
Fiscal Years

FORMULA PROGRAMS & DEBT SERVICE
COMPARED WITH UNRESTRICTED REVENUE
September 1987



(1) Actual revenue for FY84 - FY87, forecast for FY88 and beyond from Sept. 1987 Dept. of Revenue, 30th percentile

(2) Actual formula program amounts paid from General Fund for FY84 - FY86. Amount authorized for FY87 & FY88. Amount for FY88 and beyond is FY88 authorization for the purpose of illustration.

(3) Debt Service on University of Alaska bonds, ASHA lease revenue bonds, and certificates of participation issued for construction of the Seward Student Service Center and the Spring Creek Correctional Center.

Table XXV

Ratio of Debt Service to Unrestricted Revenues
September 1987
($ Millions)

Fiscal Year	(1) Unrestricted Revenue	State GOB's	%	(2) UA	%	(3) ASBA	%	Certificates of Participation	%	(4) School Debt	%	Total Debt Service	%
77	874.3	41.9	4.8%	1.5	.2%	9.9	1.1%	0	0 %	9.0	1.0%	62.3	7.1%
78	764.9	50.0	6.5	1.7	.2	10.1	1.3	0	0	11.4	1.5	73.2	9.6
79	1133.0	60.0	5.3	1.7	.2	10.1	.9	0	0	22.3	2.0	94.1	8.3
80	2501.2	75.1	3.0	1.8	.1	10.1	.4	0	0	24.1	1.0	111.1	4.4
81	3718.2	97.6	2.6	2.2	.1	10.0	.3	0	0	38.4	1.0	148.2	4.0
82	4108.4	97.5	2.4	2.3	.1	10.0	.2	0	0	38.3	.9	148.1	3.6
83	3631.0	143.6	4.0	2.3	.1	9.9	.3	0	0	36.2	1.0	192.0	5.3
84	3390.1	166.3	4.9	2.0	.1	9.9	.3	0	0	91.2	2.7	269.4	7.9
85	3260.0	169.5	5.2	2.0	.1	9.9	.3	.8	0	92.8	2.8	275.0	8.4
86	3075.0	163.2	5.3	1.8	.1	9.9	.3	.5	0	105.3	3.4	280.7	9.1
87	1798.7	154.9	8.6	1.8	.1	6.5	.4	.7	0	132.5	7.4	296.4	16.5
88	1934.2	147.9	7.6	1.7	.1	6.5	.3	3.7	.2	118.1	6.1	277.9	14.4
89	1784.3	135.5	7.6	1.8	.1	6.5	.4	4.8	.3	115.8	6.5	264.4	14.8
90	1925.1	120.3	6.2	1.7	.1	6.5	.3	5.2	.3	110.2	5.7	243.8	12.7
91	1870.5	95.5	5.1	1.7	.1	6.5	.3	5.2	.3	102.9	5.5	211.7	11.3
92	1834.5	68.2	3.7	1.7	.1	6.5	.4	5.2	.3	100.9	5.5	182.5	9.9
93	1829.0	59.7	3.3	1.7	.1	5.9	.3	5.2	.3	98.9	5.4	171.3	9.4
94	1757.5	33.9	1.9	1.5	.1	3.1	.2	5.2	.3	89.1	5.1	132.8	7.6
95	1682.5	23.1	1.4	1.5	.1	1.5	.1	5.2	.3	78.6	4.7	109.9	6.5
96	1631.7	21.5	1.3	1.5	.1	0	0	5.2	.3	69.5	4.3	97.7	6.0
97	1610.3	16.7	1.0	1.5	.1	0	0	5.2	.3	42.1	2.6	65.5	4.1
98	1577.0	14.4	.9	1.5	.1	0	0	5.2	.3	41.1	2.6	62.2	3.9
99	1522.0	9.0	.6	1.5	.1	0	0	5.2	.3	39.2	2.6	54.9	3.6
00	1484.2	2.6	.2	1.5	.1	0	0	4.3	.3	28.6	1.9	37.0	2.5
01	1452.1	0	0	1.0	.1	0	0	4.3	.3	26.7	1.8	32.0	2.2
02	1423.5	0	0	.4	0	0	0	4.3	.3	9.1	.6	13.9	1.0
03	1393.1	0	0	.3	0	0	0	4.3	.3	4.6	.3	9.2	.7
04	1397.4	0	0	.2	0	0	0	4.3	.3	3.4	.2	8.0	.6
05	1400.8	0	0	.1	0	0	0	4.3	.3	2.6	.2	7.1	.5

(1) September 1987 Department of Revenue revenue estimates, 30th percentile.
(2) University of Alaska bonds.
(3) Alaska State Building Authority lease revenue bonds.
(4) Includes State reimbursement of municipal school debt issued through June 30, 1987.



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1357

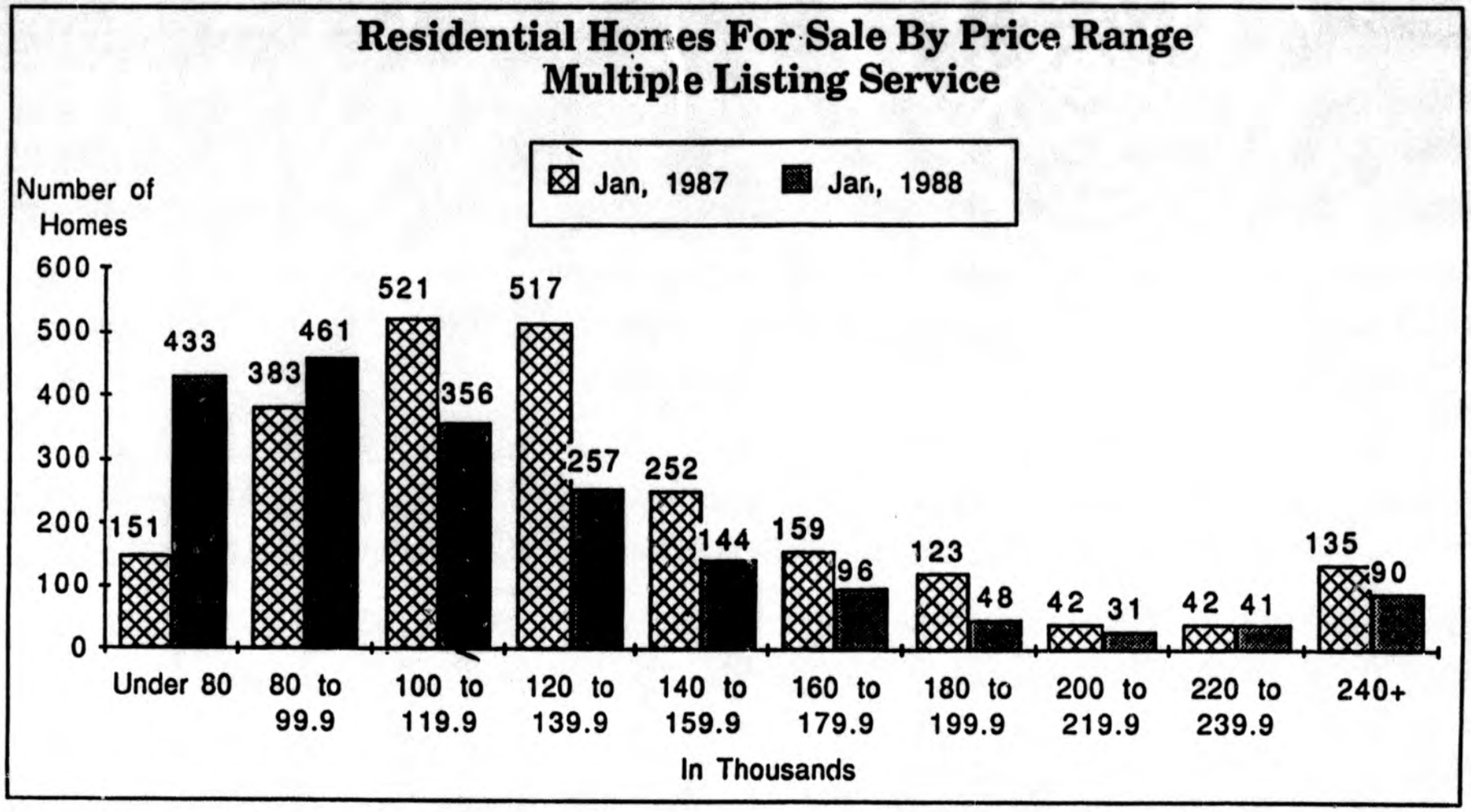


Chart Preparation: FORTUNE PROPERTIES, INC.

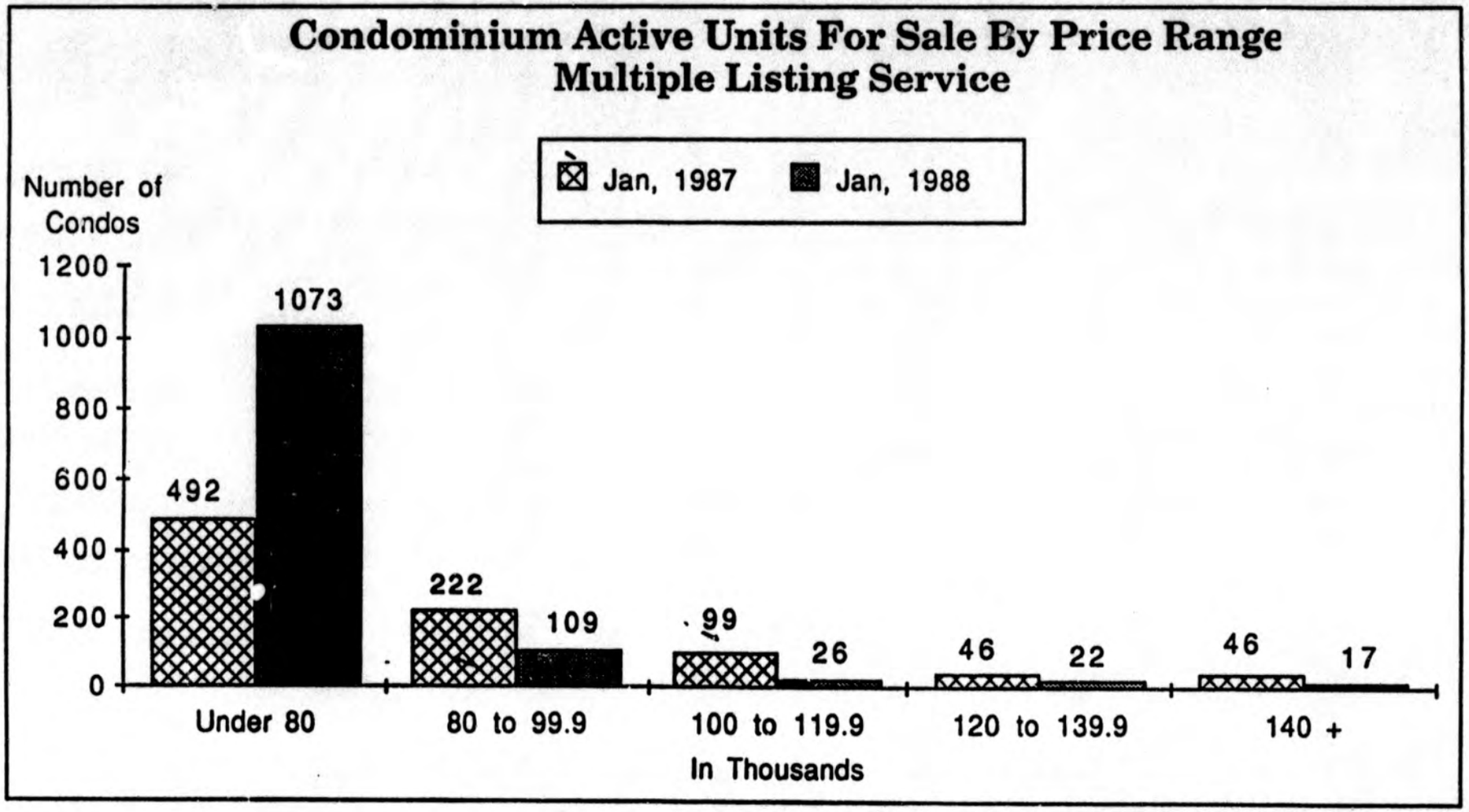
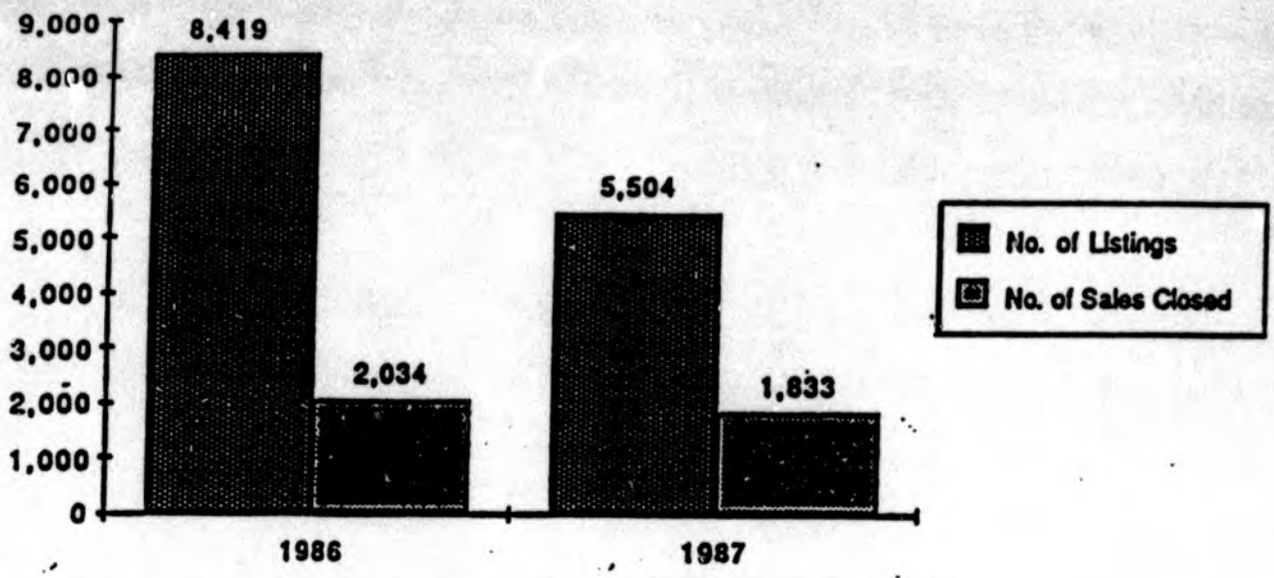


Chart preparation by: FORTUNE PROPERTIES

Residential Inventory and Sales
1986 vs. 1987



35% decline in inventory vs. only a 10% drop in sales units.

Source: Multiple Listing Statistical Year End 1987

COMMENTS:

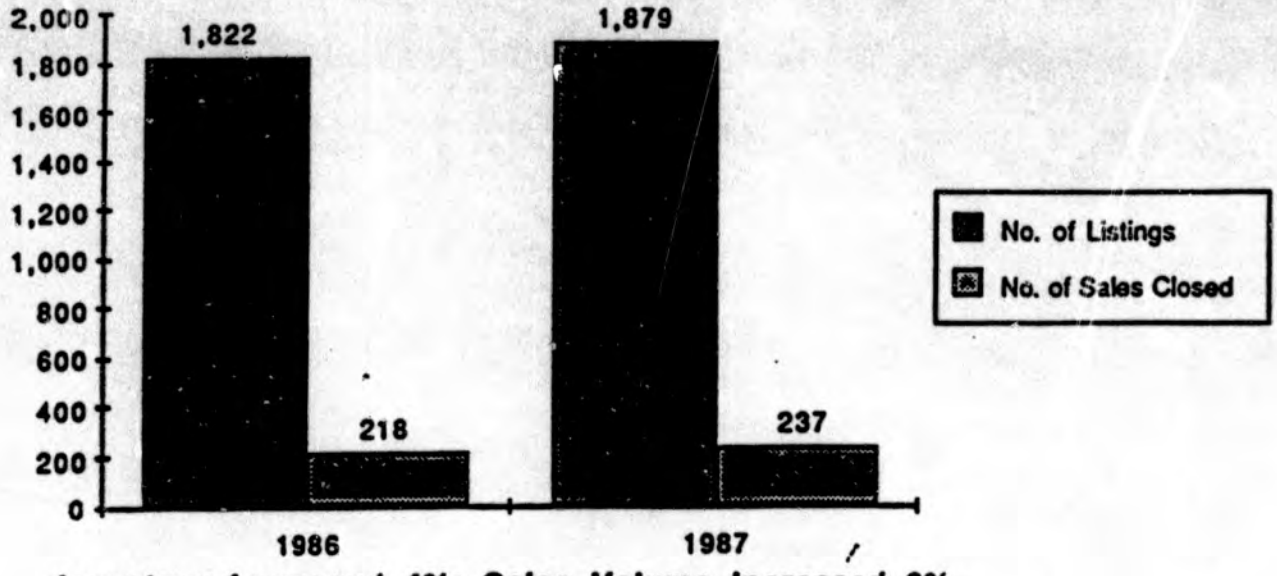
If there is any good news in the Anchorage real estate market, it is the fact that residential inventory (classified as single family and zero lot line properties) had a significant 35% drop in number of units available.

This figure is particularly significant in the fact that sales , measured by unit count, and not dollar value, declined by only 10%. This indicates a fairly healthy absorption of property in Anchorage.

There is no problem selling property in Anchorage according to these statistics. The only problem is in the value that is obtained for residential properties. This value, however, has indicated considerable stability and it is anticipated that little, if any, further decline will take place in value for single family and zero lot lines.

This market, if left alone, will continue its absorption. There is no recommended action for the single family and zero lot line market. Given all the economic circumstances of the times, it is functioning well.

Condominium Inventory and Sales
1986 vs. 1987



Inventory Increased 4%; Sales Volume Increased 9%

Source: Multiple Listing Service Year-End Statistics

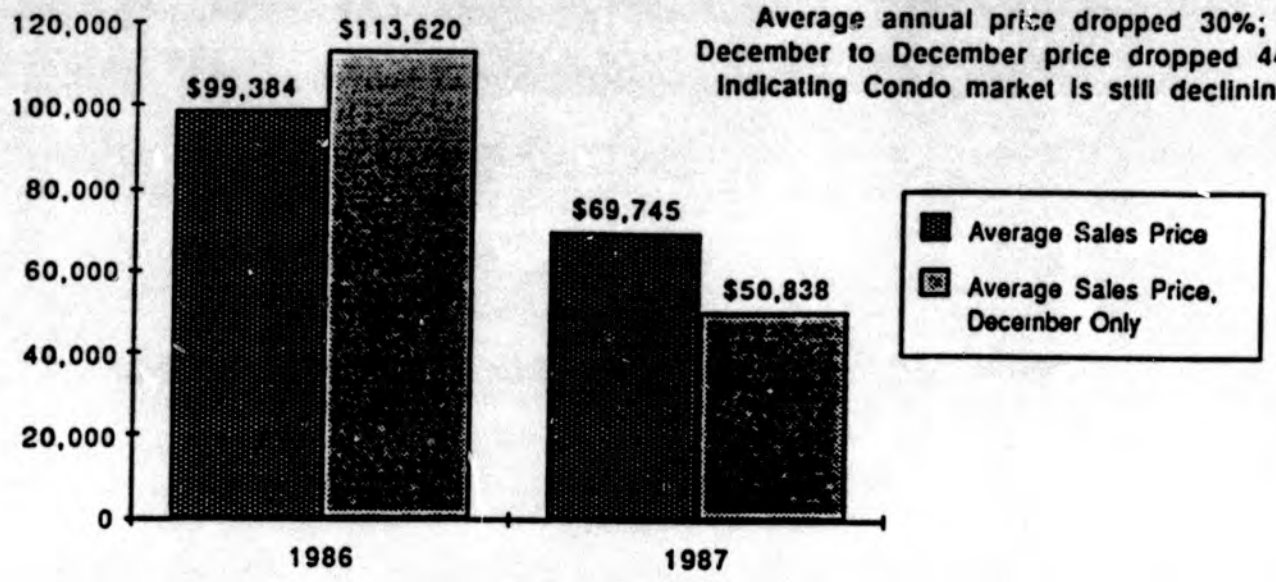
COMMENTS:

From the above chart, it is obvious that the condominium market is virtually stagnant. Neither inventory nor sales have increased or decreased a significant amount.

It is an interesting note, however, which is not on the graph that closed sales for the month of December 1987 was exactly double that of 1986, or 34 compared to 17. Doubling the number of closed condominium sales is admirable, which was accomplished primarily through the marketing efforts of MGIC, but it does not address the basic problem of oversupply. Other action must be considered.

At the current absorption rate, assuming no new inventory, there is a nine year supply of condos within the Municipality of Anchorage.

Condominium Sales Prices
1986 vs. 1987



Average annual price dropped 30%; December to December price dropped 44% indicating Condo market is still declining

Additional Information: 17 Condo Closed Sales in 1986; 34 Closed Condo Sales in 1987

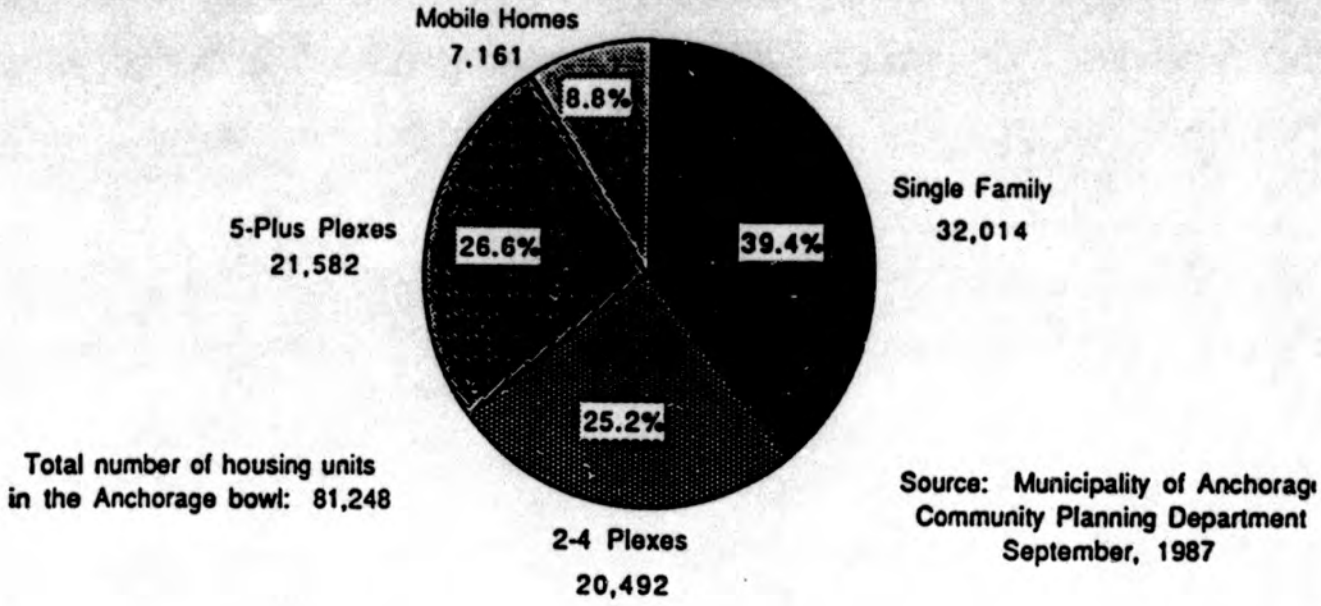
Source: Multiple Listing Service Year-End Statistics

COMMENTS:

By comparing December 1986 to December 1987, it is obvious that the condominium market is still in its downward spiral. The year end statistics show a drop of 30% in value from 1986. However, the December comparison shows that the drop is 44%. Since the December statistic is not averaged and is the most current, it is obvious that the present value is 44% of last year's value and not the 30%.

There is no reason to think with the oversupply that exists that all condominiums will not continue to decline in value unless steps are taken to take properties off the market, either through warehousing or rentals.

1987 Population and Housing Unit Statistics
Housing Unit Types



Total number of housing units in the Anchorage bowl: 81,248

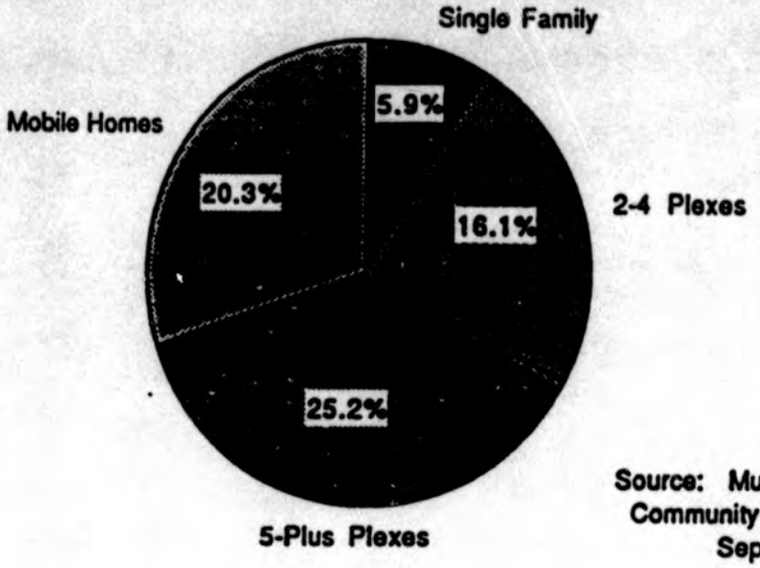
Source: Municipality of Anchorage
Community Planning Department
September, 1987

COMMENTS:

Nobody knows for sure how many condominiums there actually are in Anchorage, Alaska. The reason for this is that the Municipality of Anchorage counts housing units by physical building type. This means that condominiums fall within the 2-4 plex category, if they are in a building of that size or in the 5-plus category if located in a larger structure. The majority of condominiums fall within the 5-plus structures.

AHFC has over 7,000 condominium loans, the vast majority of which are in Anchorage. Condominiums could probably best be counted by taking a survey of investors because most condominiums were financed at the time of purchase.

1987 Population and Housing Unit Statistics
Census Vacancy Rates--Anchorage Bowl



Source: Municipality of Anchorage
Community Planning Department
September, 1987

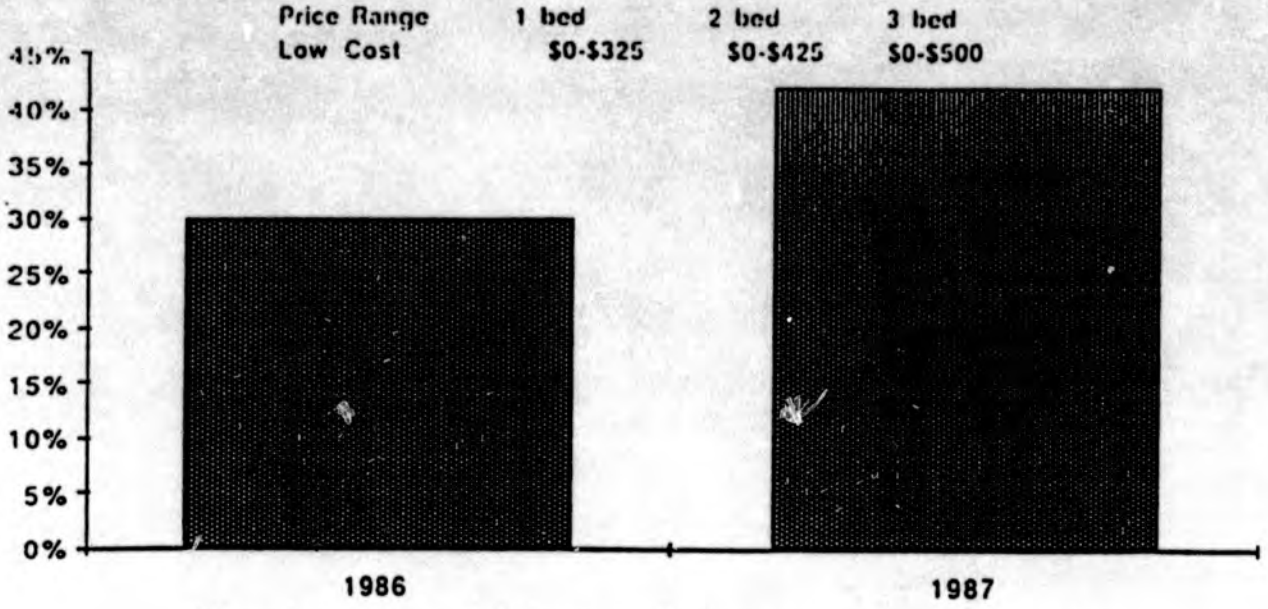
COMMENTS:

This pie-chart shows a 25% vacancy in the 5-plus categeory, which demonstrates that renters prefer to live in as low a density as possible.

This chart measures physically vacant properties which were inspected by the Municipality during the second quarter of 1987. As you can see, it indicates all product type.

The overall vacancy for the Anchorage bowl is 14.9% taking into consideration all product type. The chart breaks down this overall vacancy into percent of product type.

Fourth Quarter Low Cost Apartment Vacancy Rates
1986 vs. 1987



There has been a 40% increase in low cost apartment vacancies.

Source: Shorett and Riely Appraisers, Ken Kincaid

COMMENTS:

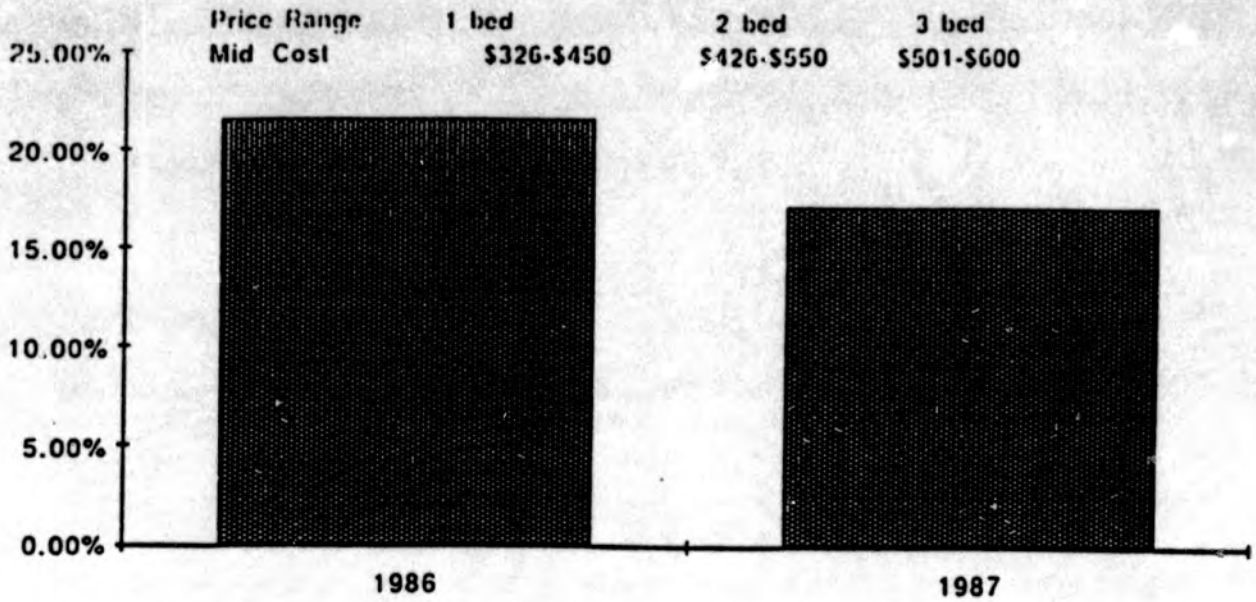
The most revealing statistic from the 5,000 unit survey completed by Shorett and Riely was the fact that there had been an increase of 40% in the vacancy of low cost apartments.

This substantiates a flight to quality that is being taken advantage of by savvy renters, as well as upgrading home buyers. There are certain areas of Anchorage which, without extensive urban renewal projects, are not going to be repopulated for many years. These areas include Mt. View, parts of Spenard, some pocket areas of the Eastside, as well as areas in Muldoon.

The apartment projects in these areas are functionally and cosmetically obsolete and with loss of rental income are in dire need of maintenance and repair which the owners cannot afford to make at this time. Many of these properties should probably be torn down. Even the newer four-plexes, etc., which were built in these areas suffer from higher vacancy factors.

There is a definite flight to the southside of Anchorage. Although Anchorage lost 10% of its population in the past two years, the southside of Anchorage, defined as being south of Tudor Road, has had an increase in population. In fact, the elementary schools on the southside of town, such as Rabbit Creek, O'Malley, Huffman, and Spring Hills are considered to be overcrowded, and there has been purchase of a new elementary school site off Huffman Road.

Fourth Quarter Mid Cost Apartment Vacancy Rates
1986 vs. 1987



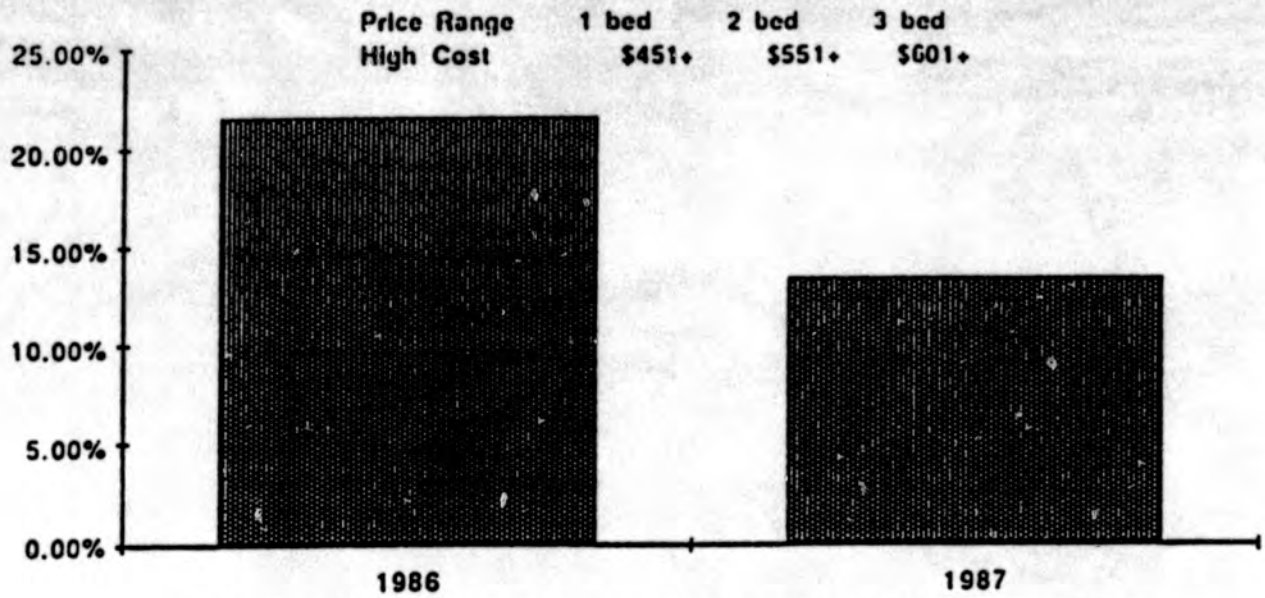
There has been a 21% decrease in mid cost apartment vacancies.

Source: Shorett & Riely, Real Estate Appraisers

COMMENTS:

Although there has been a substantial decrease in mid-cost apartment vacancies, it is important to note that these apartments were previously at one point in time considered high cost. In other words, just as vacancies have declined in this price range so as the rental rate. This is the flight to quality in rentals previously commented upon.

Fourth Quarter High Cost Apartment Vacancy Rates
1986 vs. 1987



There has been a 37% decrease in high cost apartment vacancies.

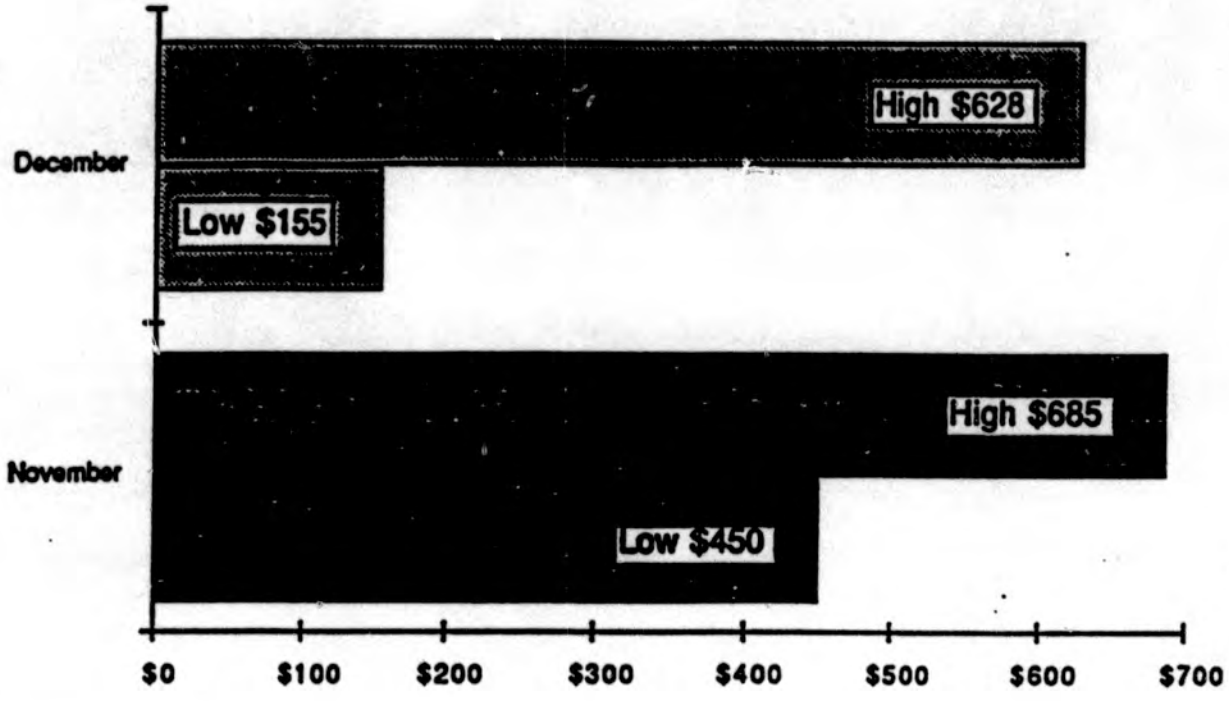
Source: Shorett & Riely, Real Estate Appraisers

COMMENTS:

The decrease in vacancies for pricey apartments is signification. Again, however, it must be pointed out that this decrease in vacancy is a result of only lower rents being charged for these apartments.

These charts point out, however, that the trend to quality is overwhelming and that there is probably no market force great enough to deter it except more population.

Analysis of Rental Rates for 2 Bedroom Condos
As Advertised in the Anchorage Daily News and Anchorage Times
November, 1987 vs. December, 1987



Information Provided by Kay E. Eliason

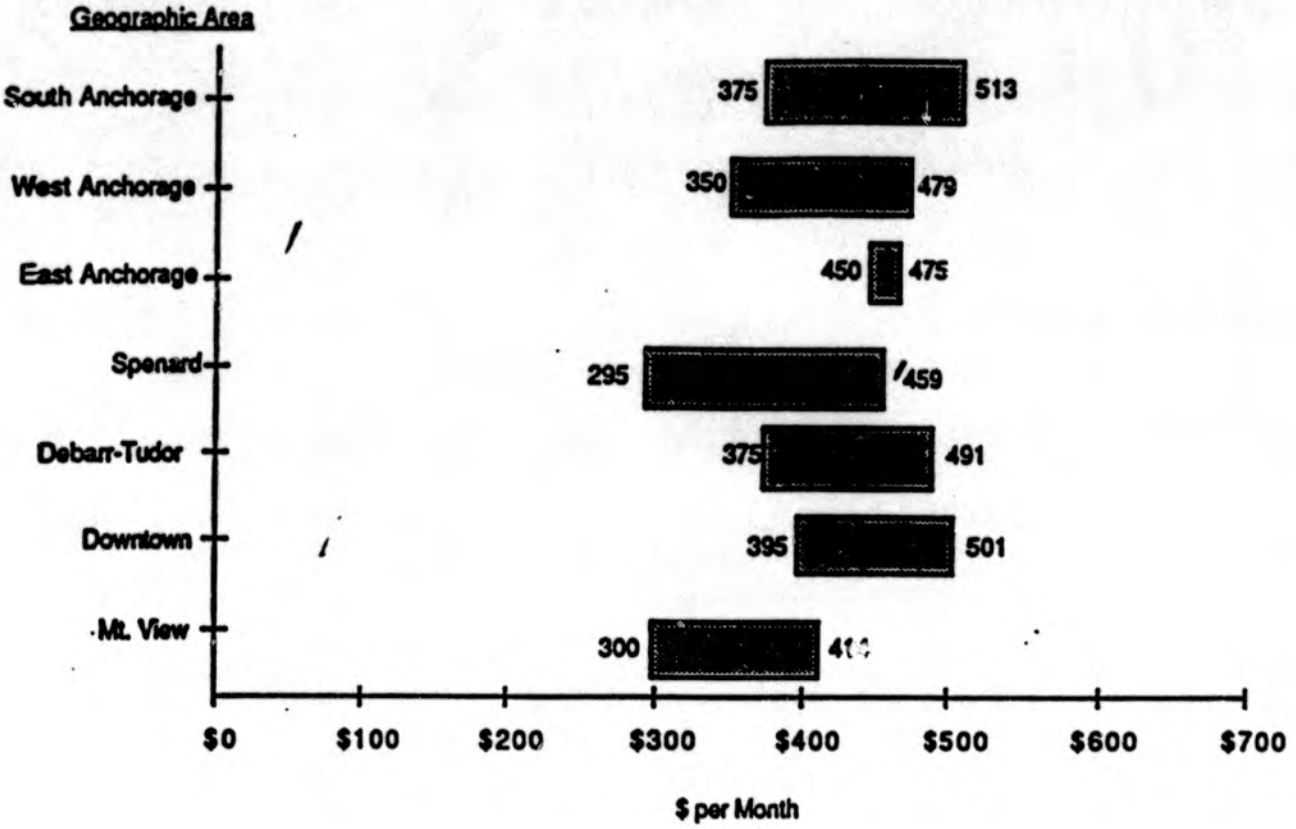
COMMENT:

This newspaper survey was done by a private consultant who used Sunday's Anchorage Times and News to do a comparison of rental rates.

This chart demonstrates from November to December that rental rates fell for two bedroom condos a significant amount. The high rate in November advertised in the paper was $685. In December that rate dropped to $628.

The number of ads for November was 39; for December 41.

Rental Rate Analysis
of Two-Bedroom Unfurnished Apartments
Acccording to Classified Advertising
Anchorage Daily News and Times Classified A
December 6, 1987



Information Provided by Kay E. Eliason

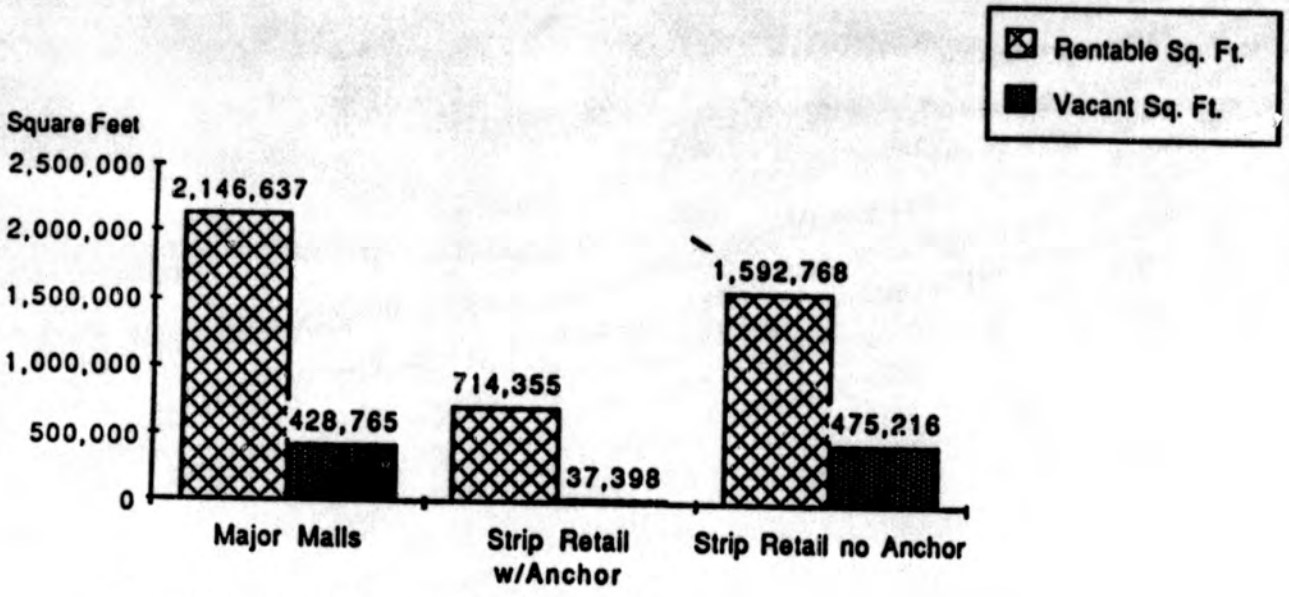
COMMENTS:

This chart demonstrates the asking rental rates for two-bedroom unfurnished apartments as advertised for sale on Dec. 6, 1987.

The two-bedroom unfurnished apartments were selected for analysis because MGIC condos fall into the two bedroom, unfurnished classification as rental properties.

This chart, therefore, gives you an idea of what can be expected for rental income in the various geographical locations. Utilities are not factored into these asking rental prices.

Anchorage Retail Inventory and Vacancies by Type of Mall



SOURCE: Alaska Valuation Services
Fred Ferrara, President

ANCHORAGE CHAMBER OF COMMERCE
1988 LEGISLATIVE PRIORITIES

Approved by the
Board of Directors
December 4, 1987

SUMMARY OF LEGISLATIVE PRIORITIES

I. Budget: Selective reductions in operating expenditures and entitlements. Increased capital expenditures based on budget surpluses caused by enhanced oil revenues and/or reductions in operating expenditures and entitlements. Endorsement of constitutional amendment allocating permanent fund earnings and restricting expenditures.

II. Economy: Legislative measures to protect and reinvigorate the economy in recognition of continuing recessionary trends, including the following recommendations:
- (A) No tax increases.
- (B) Enactment of economic incentive policy.
- (C) Alternative methods of compensation for overtime.
- (D) Conveyance of public lands to private sector.
- (E) Regulatory reform.
- (F) Modification of return transportation law.
- (G) Reform of State "Davis-Bacon Act."
- (H) Legislation imposing limitations on public employee wages and benefits.
- (I) Reform of workers' compensation statutes.

III. Capital Projects: Establish financially viable priorities:
- (A) Water and wastewater projects.
- (B) Anchorage road projects.

IV. Health and Social Services: Equitable distribution of funding based on point of delivery to the recipient rather than the recipient's place of origin.

V. Crime: Endorsement of Anchorage Crime Commission recommendations:
- (A) State conspiracy law related to drug trafficking.
- (B) Recriminalization of marijuana.
- (C) Telephonic testimony in grand jury proceedings.
- (D) Private sector access to state conviction records.

VI. Alaskan Hire/Purchase: Legislative incentives to hire Alaskans and to purchase Alaska goods and services.

VII. Energy: Railbelt Energy Fund/Bradley Lake Hydro Project.

VIII. ANWR: Open ANWR coastal plain to environmentally responsible oil and gas exploration, development and production.

IX. Tort Reform: Support additional efforts to secure genuine reform of tort liability laws.

X. Anchorage International Airport: Support legislation establishing an Anchorage Airport Authority.

I. Budget

The legislature should continue to reduce the state operating budget in response to expected future declines in oil production and the inherent instability of market prices. Aggressive reductions in state spending should occur prior to consideration of appropriating monies from other distinct funds. Any surplus created as a result of rising oil prices or further reductions in the state operating budget should be expended on capital projects designed to improve infrastructure and stimulate the economy. The Chamber strongly opposes increases in taxes of any kind, including modification of the economic limit factor, imposition of an individual income tax, state sales tax, or increases in the motor fuel tax. Excess earning reserves are to be applied to a budget deficit only after aggressive measures have been undertaken to reduce state spending. The legislature should not use the corpus of the Permanent Fund to finance the activities of state government under any foreseeable circumstances. The Chamber endorses SJR 40 proposing a ballot measure to amend the Alaska State Constitution to authorize allocation of permanent fund earnings as follows: 40% to dividends, 30% to inflation proofing, and 30% to the budget reserve account. The Chamber also supports provisions in SJR 40 imposing constitutional spending limitations on future state legislatures.

II. Economy

The Chamber recommends that the legislature consider the following recommendations to protect and reinvigorate the Alaskan economy:

A. Taxes. The legislature should not, under any foreseeable circumstances, impose increased taxes or user fees on any segment of the Alaska economy during the impending recession. Nor should the legislature impose the equivalent of additional taxes on the oil industry by modifying the economic limit factor. Such action would disrupt long-term operating plans for major Alaskan oilfields and weaken the commitment of industry to expend additional exploration and development funds in the state. The Chamber is also opposed to any proposals in the Alaska state legislature to impose separate accounting methodology on oil and gas companies for the purpose of calculating corporate income taxes. Nor should the legislature consider imposing a personal income tax, state sales tax, or any increased motor fuel tax.

B. Alaska is one of a dwindling number of U.S. states that does not have an "economic incentives policy" in place to help local development groups lure basic industry to Alaska. The Anchorage Chamber of Commerce supports the enactment of an economic incentives policy that would include:

1) Temporary tax abatement

2) Infrastructure investment

3) Land and resource availability

4) Financing assistance

These inducements should be made available only to qualifying private-sector projects that expand Alaska's economic base. They should provide a flexible array of incentives that encourage development without unduly subsidizing it.

In addition, the Chamber supports amending Alaska Statutes, Title 29 to allow local governments to offer temporary property tax incentives to qualifying economic development projects.

C. Alternative methods of compensation for overtime. The state legislature should adopt legislation incorporating appropriate federal regulatory methodology for compensating employees engaged in operations involving irregular work weeks. Specifically, the legislature should eliminate impediments to alternative methods of compensating for overtime, including compensatory time off and flexible work week plans. Such action will assist natural resource development projects involving work schedules which are unpredictable with respect to time demands on employers and employees.

D. Expeditious Conveyance of Public Land to Private Sector. The legislature should expedite the conveyance of municipal, state and federal public lands to the private sector. The legislature should require the Department of Natural Resources to expedite the process of issuing permits, leases, and mining production licenses on state mineral lands to facilitate natural resource development.

E. Regulatory Reform. The State of Alaska's redundant, overly complicated, and counterproductive regulatory processes impede economic development and growth. The Chamber supports passage of House Bill 212 establishing the Department of Natural Resources as the lead agency for all natural resource projects in Alaska. The legislature should consolidate coastal zone management authority within DNR and curtail CZM jurisdiction over all upland areas which are more than three miles removed from the Alaska coastline. Many of the existing regulations of DF&G and DEC are redundant with federal regulations promulgated by the EPA and Federal Fish and Wildlife Service. The state legislature should review and consider eliminating any unnecessary regulatory programs in an effort to conserve public funds and encourage development of Alaska's natural resources through private investment. Federal programs which are appropriate for the state to assume exclusive control and jurisdiction in an effort to benefit local industry should be excluded from this process.

F. Return Transportation Law. The Anchorage Chamber of Commerce strongly supports revisions to AS 23.10 which clarify the rights of employees and the responsibilities of employers with respect to return transportation. Revisions should include time period and dollar cost limitations on the right to return transportation. The Chamber recommends passage of legislation limiting the right to return transportation to a period of one year after the employee's first day of employment in the state. In addition, the maximum obligation of the employer to provide return transportation should not exceed $5,000. The Anchorage Chamber of Commerce opposes passage of House Bill 43 in its present form which modifies AS 23.10 dealing with employee rights to return transportation. Provisions of HB 43 requiring notification of employees of their rights under the statute and requiring return transportation for employees hired outside the state when such transportation was not originally furnished are counterproductive and contrary to sound public policy objectives.

G. State Davis-Bacon Act. The State legislature should adopt legislation altering the formula for determining prevailing wage utilized by the Department of Labor to more realistically reflect actual labor costs in the State of Alaska.

H. Legislation Imposing Limitations on Public Employee Wages and Benefits. State of Alaska employees are the most highly compensated in the nation. Alaska also has comparatively more public employees per capita than other states. Under no

circumstances should the existing tax burden on the economy be increased to provide funding for public employee wages and benefits. If public employees are unwilling to accept a 40-hour work week and contractual limitations on wages and benefits, the legislature should enact legislation mandating further reductions in force to limit the size of state government.

I. Workers' Compensation Insurance Reform. The Anchorage Chamber of Commerce endorses and supports efforts to reduce workers' compensation costs in the State of Alaska through the following legislative reform measures:

1. Scheduling more injuries for payment at a fixed rate of reimbursement for the injury.
2. Payment of all medical costs on a reasonable and customary charges basis.
3. Imposition of controls on the frequency of visits to health care practitioners by claimants.
4. Voluntary vocational rehabilitation for eligible claimants by nationally certified professionals.

III. Capital Projects

The legislature should adopt a capital budget that reflects realistic municipal priorities and is designed to provide maximum benefit to the Alaskan public. The legislature should, at a minimum, allocate funds to those projects that are on-going

(multi-year) and necessary for viable economic development of the area. These projects have been identified by the Municipality of Anchorage as critical to the city's future development. The remainder of the Anchorage Road Projects that are not specifically identified should be preserved to the extent possible in the 1989 capital budget. A more detailed analysis of the Anchorage Chamber of Commerce's position on capital spending is as follows:

A. Water and Wastewater Projects. The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need to provide water and wastewater services that exceeds the capabilities of the utilities in many areas. These service limitations will have an impact on the future growth and development of many areas of the Municipality. The Chamber urges the continued funding of the Alaska Department of Environmental Conservation (DEC) Grant Program. This Grant Program provides for approximately 50 percent state matching funds on local qualifying water and wastewater projects. A funding of $6 million is being requested for DEC's program to match the Municipality of Anchorage project funds. These projects may include water and wastewater improvement districts to neighborhoods which reduce the assessments to be paid by the property owner.

B. Anchorage Road Projects. The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need for more and better highways,

streets, and roads for Anchorage's traveling public. The Anchorage roads program has identified those routes that will contribute to a more efficient vehicular and pedestrian traffic flow, create a grid of major traffic distribution routes, decrease accidents and provide safe access to businesses and residential areas which will not detract from neighborhoods. Design and in some cases construction has already started on these projects, and construction funding is necessary for their timely completion to meet traffic and pedestrian needs.

C. State Roads. There are state highways within the Municipality of Anchorage that intertie with those routes of the roads program that also require upgrading to obtain continuity of traffic flow. It is urged that the State Department of Transportation and Public Facilities pursue the design and construction of these projects for timely interfacing with the Anchorage roads program and that operation and maintenance funds be budgeted and funded to adequately service the existing infrastructure. It is also urged that DOT/PF and the legislature pursue all avenues possible to obtain Federal Highway Administration funding. Federal highway funding is at 95 percent for those projects that qualify and would allow for the construction of projects with only 5 percent state money at a time when the availability of project money is scarce. The Chamber urges the legislature to implement the recommendations of the Anchorage Metropolitan Area Transportation Study Policy Committee.

IV. Health and Social Services

The Chamber supports a formula which more equitably distributes state funding (and federal funding distributed by the state) for health and social service programs based on the point of delivery to the recipient, as opposed to the recipient's place of origin. Many of the human services funded by or through the state are provided to residents of rural Alaska in the major population centers such as Anchorage. These population centers generally provide the health and social services to a far greater percentage of the state than is indicated by their local populations. These services include mental health counseling, alcohol and drug abuse programs, youth services, day care, child abuse investigation and prevention, and shelters for victims of domestic violence. The Chamber recommends that the legislature and administration analyze the geography of health and social service delivery and fund the programs accordingly. Funding must generate the greatest possible benefit to the public. This can only be possible if support is concentrated on the point of delivery, not the beneficiary's point of origin.

V. Crime

A. State Conspiracy Law Related to Drug Trafficking. The Anchorage Chamber of Commerce supports the adoption of a state conspiracy law related to drug trafficking. Based on interviews with justice professionals and surveys of public opinion, the

Anchorage Crime Commission has established that traffic of illegal drugs is the key driver of the majority of crimes against individual citizens. Additionally, during the recent political campaigns there was overwhelming recognition by legislators of the importance in strengthening Alaska's drug laws and enforcement efforts. State drug enforcement efforts are hampered by Alaska's unique absence of a conspiracy statute.

B. Recriminalization of Marijuana. The Anchorage Chamber of Commerce supports legislation recriminalizing marijuana. As noted above, substance abuse is our community's No. 1 problem and priority. Over the last decade the significant harmful effects of marijuana have been medically documented. Public opinion surveys indicate a two-to-one ratio in favor of making marijuana in any quantity an illegal substance.

C. Telephone Testimony in Grand Jury Proceedings. The Anchorage Chamber of Commerce supports legislation permitting the introduction of telephonic testimony in grand jury proceedings. Providing prosecutors with the option to utilize telephonic sworn testimony in grand jury proceedings will significantly reduce witness expenses without compromising individual rights or justice.

D. Private Sector Access to State Conviction Records. The Anchorage Chamber of Commerce supports legislation authorizing the Alaska State Troopers to provide criminal history information

upon request to private sector employers. Although such information is already available to the public through time consuming and complex searches of court records, private sector employers are currently denied access to the computerized records of the Alaska State Troopers. Many other states have already made such records available to private sector employers for a nominal fee.

VI. Alaskan Hire/Purchase

The Anchorage Chamber of Commerce continues to support local hire and purchase of goods and services. The Chamber endorses continued research and development of legislation based on an incentive approach to facilitate local hire and purchase of Alaskan goods and services. The Chamber opposes any legislative approach to local hire/purchase based upon the imposition or assessment of penalties.

VII. Energy

The Anchorage Chamber of Commerce supports completion of the Bradley Lake Hydro Electric Project. The Chamber recommends that the legislature continue the feasibility studies of the proposed railbelt electric interties and the proposed intrastate gas pipeline between Anchorage and Fairbanks. The Chamber urges the Alaska legislature to insure that the monies in the railbelt energy fund are used for energy project development for the benefit of communities throughout the railbelt.

VIII. Arctic National Wildlife Refuge

The Anchorage Chamber of Commerce strongly urges the state legislature to adopt a joint resolution supporting legislation by the United States Congress to open the Arctic National Wildlife Refuge Coastal Plain to environmentally responsible oil and gas exploration, development and production. The ANWR Joint Resolution should be unqualified and should not contain restrictions based on the existence of a core caribou calving area.

IX. Tort Reform

The Anchorage Chamber of Commerce supports significant changes and reform in civil liability laws, including revisions resulting in lower insurance cost to businesses, while providing adequate and fair compensation to claimants. Specifically, the Chamber supports a change in current law to limit liability in civil cases to a pro rata percentage of each party's fault. (ie) "Several" rather than "joint liability.

X. Anchorage International Airport

The Anchorage Chamber of Commerce supports HB 173 creating the Alaska International Airport Authority. The Authority should aggressively market the Anchorage airport and pursue stopover rights for international travelers.

C. **State Roads.** There are highways within the Municipality of Anchorage that intertie with those routes of the roads program that also require upgrading to obtain continuity of traffic flow. It is urged that the State Department of Transportation and Public Facilities pursue the design and construction of these projects for timely interfacing with the Anchorage roads program and that operation and maintenance funds be budgeted and funded to adequately service the existing infrastructure. It is also urged that DOT/PF and the legislature pursue all avenues possible to obtain Federal Highway Administration funding. Federal highway funding is at 95 percent for those projects that qualify and would allow for the construction of projects with only 5 percent state money at a time when the availability of project money is scarce. The Chamber urges the legislature to implement the recommendations of the Anchorage Metropolitan Area Transportation Study Policy Committee.

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Your Chamber Works For A Fair Cost of Doing Business . . .

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Anchorage Chamber of Commerce
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Chamber of Commerce

1988 LEGISLATIVE PRIORITIES

December 4, 1987

SUMMARY OF LEGISLATIVE PRIORITIES

I. **Budget:** Selective reductions in operating expenditures and entitlements. Increased capital expenditures based on budget surpluses caused by enhanced oil revenues and/or reductions in operating expenditures and entitlements. Endorsement of constitutional amendment allocating permanent fund earnings and restricting expenditures.

II. **Economy:** Legislative measures to protect and reinvigorate the economy in recognition of continuing recessionary trends, including the following recommendations:
- (A) No tax increases.
- (B) Enactment of economic incentive policy.
- (C) Alternative methods of compensation for overtime.
- (D) Conveyance of public lands to private sector.
- (E) Regulatory reform.
- (F) Modification of return transportation law.
- (G) Reform of State "Davis-Bacon Act."
- (H) Legislation imposing limitations on public employee wages and benefits.
- (I) Reform of workers' compsensation statutes.

III. **Capital Projects:** Establish financially viable priorities:
- (A) Water and wastewater projects.
- (B) Anchorage road projects.

IV. **Health and Social Services:** Equitable distribution of funding based on point of delivery to the recipient rather than the recipient's place of origin.

V. **Crime:** Endorsement of Anchorage Crime Commission recommendations:
- (A) State conspiracy law related to drug trafficking.
- (B) Recriminalization of marijuana.
- (C) Telephonic testimony in grand jury proceedings.
- (D) Private sector access to state conviction records.

VI. **Alaskan Hire/Purchase:** Legislative incentives to hire Alaskans and to purchase Alaska goods and services.

VII. **Energy:** Railbelt Energy Fund/Bradley Lake Hydro Project.

VIII. **ANWR:** Open ANWR coastal plain to environmentally responsible oil and gas exploration, development and production.

IX. **Tort Reform:** Support additional efforts to secure genuine reform of tort liability laws.

X. **Anchorage International Airport:** Support legislation establishing an Anchorage Airport Authority.

Your Chamber Works For You . . .

I. Budget

The Legislature should continue to reduce the state operating budget in response to expected future declines in oil production and the inherent instability of market prices. Aggressive reductions in state spending should occur prior to consideration of appropriating monies from other distinct funds. Any surplus created as a result of rising oil prices or further reductions in the state operating budget should be expended on capital projects designed to improve infrastructure and stimulate the economy. The Chamber strongly opposes increases in taxes of any kind, including modification of the economic limit factor, imposition of an individual income tax, state sales tax, or increases in the motor fuel tax. Excess earning reserves are to be applied to a budget deficit only after aggressive measures have been undertaken to reduce state spending. The legislature should not use the corpus of the Permanent Fund to finance the activities of state government under any foreseeable circumstances. The Chamber endorses SJR 40 proposing a ballot measure to amend the Alaska State Constitution to authorize allocation of permanent fund earnings as follows: 40% to dividends, 30% to inflation proofing, and 30% to the budget reserve account. The Chamber also supports provisions in SJR 40 imposing constitutional spending limitations on future state legislatures.

II. Economy

The Chamber recommends that the legislature consider the following recommendations to protect and reinvigorate the Alaskan economy:

A. **Taxes.** The legislature should not, under any foreseeable circumstances, impose increased taxes or user fees on any segment of the Alaska economy during the impending recession. Nor should the legislature impose the equivalent of additional taxes on the oil industry by modifying the economic limit factor. Such action would disrupt long-term operating plans for major Alaskan oilfields and weaken the commitment of industry to expand additional exploration and development funds in the state. The Chamber is also opposed to any proposals in the Alaska state legislature to impose separate accounting methodology on oil and gas companies for the purpose of calculating corporate income taxes. Nor should the legislature consider imposing a personal income tax, state sales tax, or any increased motor fuel tax.

B. **Economic Incentive Policy.** Alaska is one of a dwindling number of U.S. states that does not have an "economic incentives policy" in place to help local development groups lure basic industry to Alaska. The Anchorage Chamber of Commerce supports the enactment of an economic incentives policy that would include:

1) Temporary tax abatement
2) Infrastructure investment
3) Land and resource availability
4) Financing assistance

These inducements should be made available only to qualifying private-sector projects that expand Alaska's economic base. They should provide a flexible array of incentives that encourage development without unduly subsidizing it. In addition, the Chamber supports amending Alaska Statutes, Title 29 to allow local governments to offer temporary property tax incentives to qualifying economic development projects.

C. **Alternative methods of compensation for overtime.** The state legislature should adopt legislation incorporating appropriate federal regulatory methodology for compensating employees engaged in operations involving irregular work weeks. Specifically, the legislature should eliminate impediments to alternative methods of compensating for overtime, including compensatory time off and flexible work week plans. Such action will assist natural resource development projects involving work schedules which are unpredictable with respect to time demands on employers and employees.

D. **Expeditious Conveyance of Public Land to Private Sector.** The legislature should expedite the conveyance of municipal, state and federal public lands to the private sector. The legislature should require the Department of Natural Resources to expedite the process of issuing permits, leases, and mining production licenses on state mineral lands to facilitate natural resource development.

E. **Regulatory Reform.** The State of Alaska's redundant, overly complicated, and counterproductive regulatory processes impede economic development and growth. The Chamber supports passage of House Bill 212 establishing the Department of Natural Resources as the lead agency for all natural resource projects in Alaska. The legislature should consolidate coastal zone management authority within DNR and curtail CZM jurisdiction over all upland areas which are more than three miles removed from the Alaska coastline. Many of the existing regulations of DF&G and DEC are redundant with federal regulations promulgated by the EPA and Federal Fish and Wildlife Service. The state legislature should review and consider eliminating any unnecessary regulatory programs in an effort to conserve public funds and encourage development of Alaska's natural resources through private investment. Federal programs which are appropriate for the state to assume exclusive control and jurisdiction in an effort to benefit local industry should be excluded from this process.

Doing Business With A Chamber Member Is Good Business . . .

F. **Return Transportation Law.** The Anchorage Chamber of Commerce supports revisions to AS 23.10 dealing with employee rights to return transportation. Provisions of HB 43 requiring notification of employees of their rights under the statute and requiring return transportation for employees hired outside the state when such transportation was not originally furnished are counterproductive and contrary to sound public policy objectives.

G. **State Davis-Bacon Act.** The State legislature should adopt legislation altering the formula for determining prevailing wage utilized by the Department of Labor to more realistically reflect actual labor costs in the State of Alaska.

H. **Legislation Imposing Limitations on Public Employee Wages and Benefits.** State of Alaska employees are the most highly compensated in the nation. Alaska also has comparatively more public employees per capita than other states. Under no circumstances should the existing tax burden on the economy be increased to provide funding for public employee wages and benefits. If public employees are unwilling to accept a 40-hour work week and contractual limitations on wages and benefits, the legislature should enact legislation mandating further reductions in force to limit the size of state government.

I. **Workers' Compensation Insurance Reform.** The Anchorage Chamber of Commerce endorses and supports efforts to reduce workers' compensation costs in the State of Alaska through the following legislative reform measures:
1) Scheduling more injuries for payment at a fixed rate of reimbursement for the injury.
2) Payment of all medical costs on a reasonable and customary charges basis.
3) Imposition of controls on the frequency of visits to health care practioners by claimants.
4) Voluntary vocational rehabilitation for eligible claimants by nationally certified professionals.

III. Capital Projects

The legislature should adopt a capital budget that reflects realistic municipal priorities and is designed to provide maximum benefit to the Alaskan public. The legislature should, at a minimum, allocate funds to those projects that are on-going (multi-year) and necessary for viable economic development of the area. These projects have been identified by the Municipality of Anchorage as critical to the city's future development. The remainder of the Anchorage Road Projects that are not specifically identified should be preserved to the extent possible in the 1989 capital budget. A more detailed analysis of the Anchorage Chamber of Commerce's position on capital spending is as follows:

A. **Water and Wastewater Projects.** The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need to provide water and wastewater services that exceeds the capabilities of the utilities in many areas. These service limitations will have an impact on the future growth and development of many areas of the Municipality. The Chamber urges the continued funding of the Alaska Department of Environmental Conservation (DEC) Grant Program. This Grant Program provides for approximately 50 percent state matching funds on local qualifying water and wastewater projects. Funding of $6 million is being requested for DEC's program to match the Municipality of Anchorage project funds. These projects may include water and wastewater improvement districts to neighborhoods which reduce the assessments to be paid by the property owner.

B. **Anchorage Road Projects.** The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need for more and better highways, streets, and roads for Anchorage's traveling public. The Anchorage roads program has identified those routes that will contribute to a more efficient vehicular and pedestrian traffic flow, create a grid of major traffic distribution routes, decrease accidents and provide safe access to businesses and residential areas which will not detract from neighborhoods. Design and in some cases construction has already started on these projects, and construction funding is necessary for their timely completion to meet traffic and pedestrian needs.

Promoting A Healthy Business environment Has Been Our Tune Since 1915.

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

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FEATURE

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.

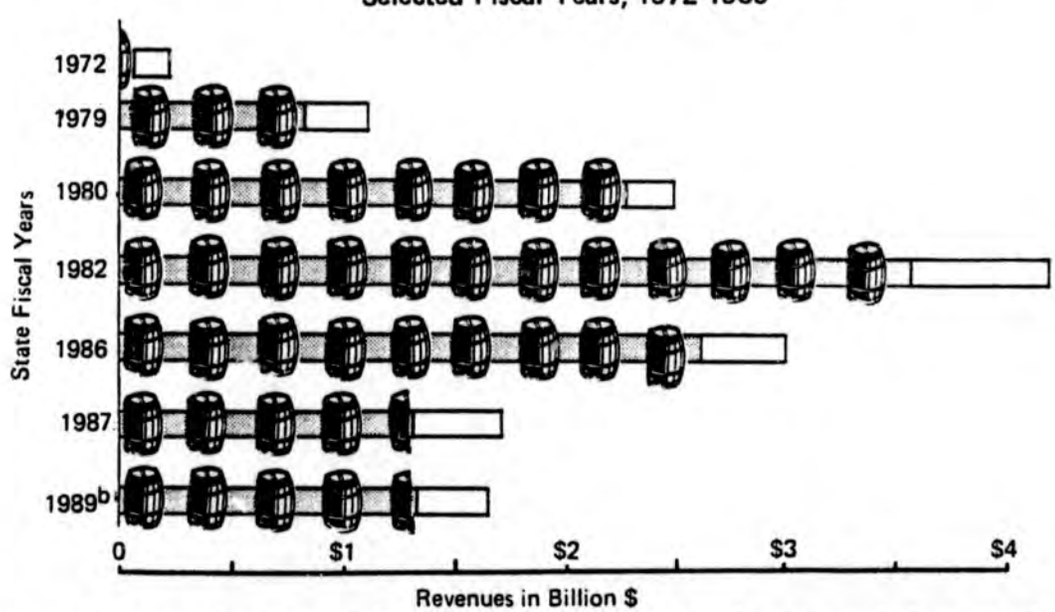
After 1982 oil prices started to fall, but it was in 1986 that prices briefly plummeted as low as $10 a barrel. State revenues in fiscal 1987 dropped to around $1.7 billion—a decline of more than 40 percent from the previous year, and nearly 60 percent less than 1982 revenues. As of late 1987, state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

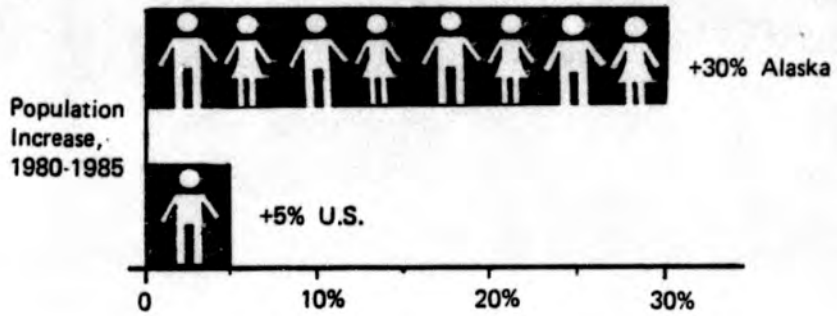


[a]Includes just unrestricted general fund revenues; excludes restricted revenues, which are mainly federal grants-in-aid. Graph represents actual revenues received with no adjustment for inflation.

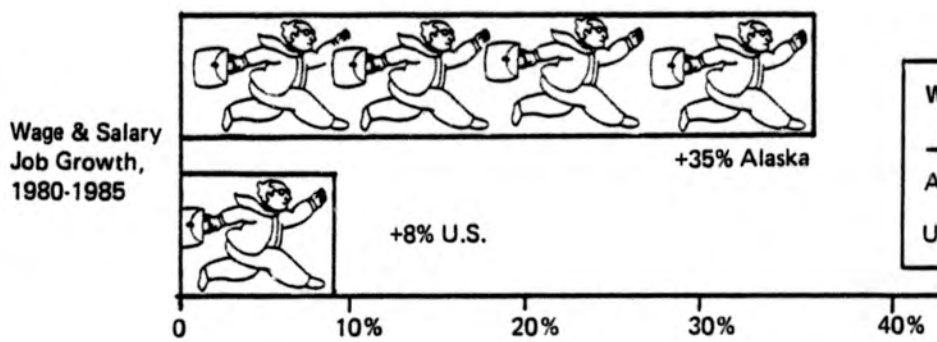
[b]Estimate as of June 1987.

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

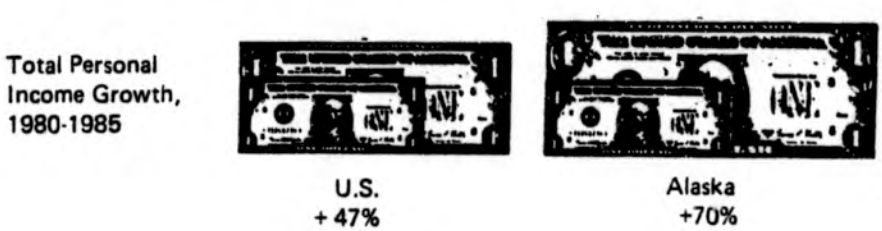
Figure 2. Growth in Population, Jobs, and Personal Income Alaska and the U.S., 1980-1985



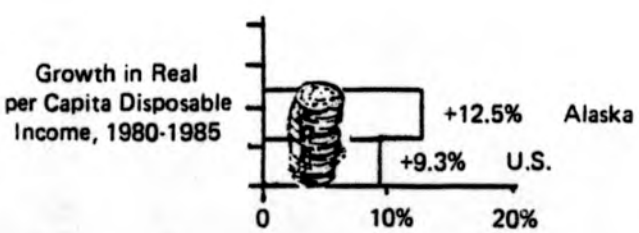
Population	1980	1985
Alaska	414 thousand	540 thousand
U.S.	228 million	239 million



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



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



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 Alaska[3] 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.

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.

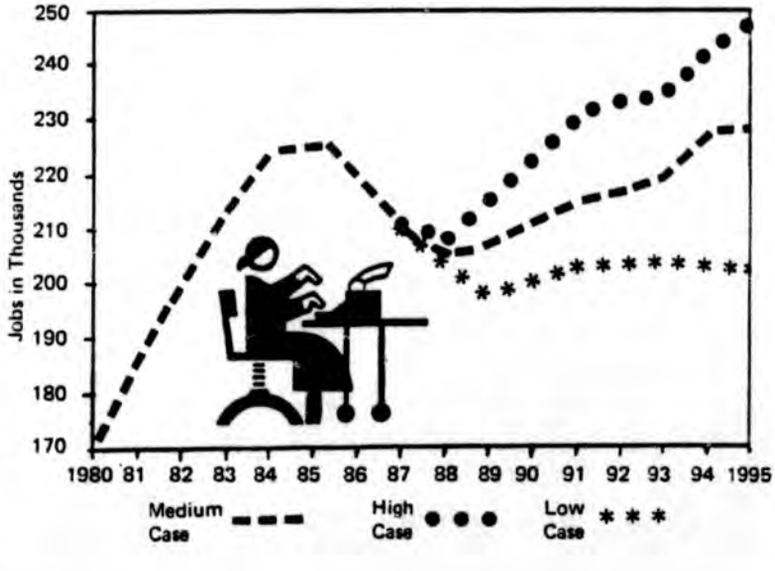
Job Loss

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



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

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

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]

[4]The 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.

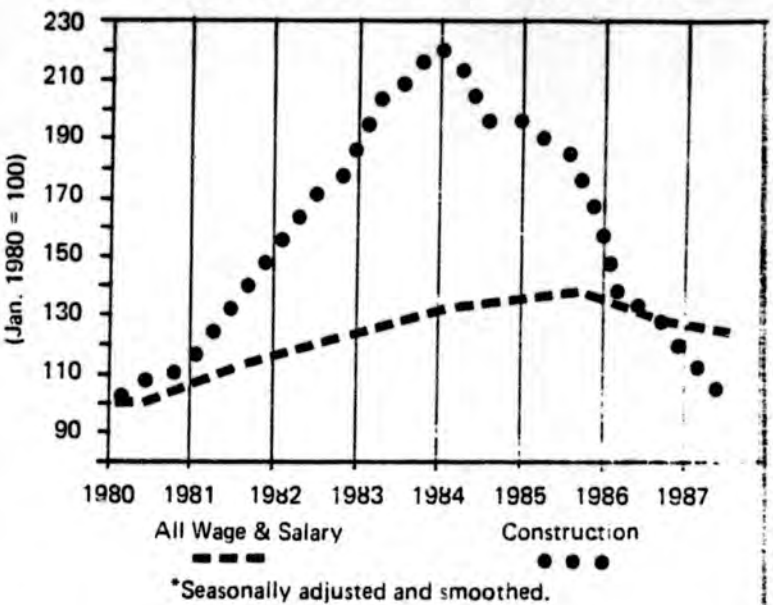
Figure 4. Alaska Employment Index*
All Wage and Salary Jobs



*Seasonally adjusted and smoothed.

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*



*Seasonally adjusted and smoothed.

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

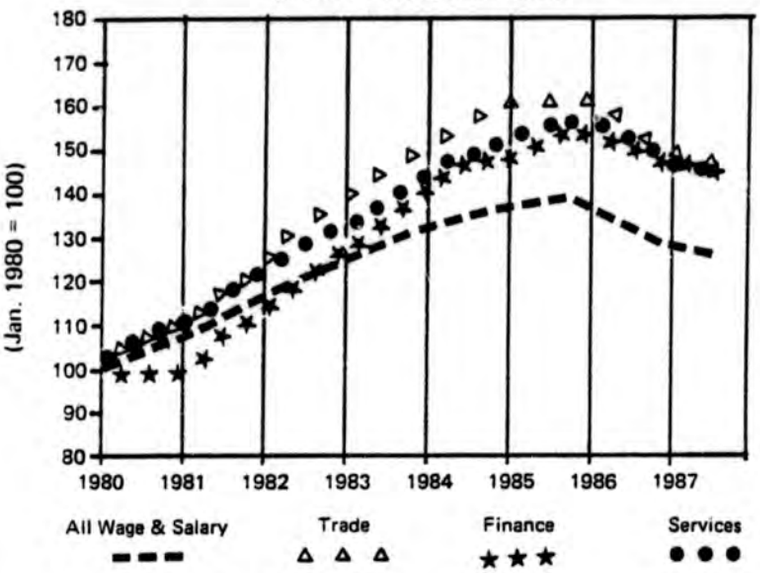
relatively low. By mid-1988, numbers of construction jobs in Alaska will be down about 65 percent from the peak 1984 level (Figure 9).

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, 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.

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



*Seasonally adjusted and smoothed.

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).

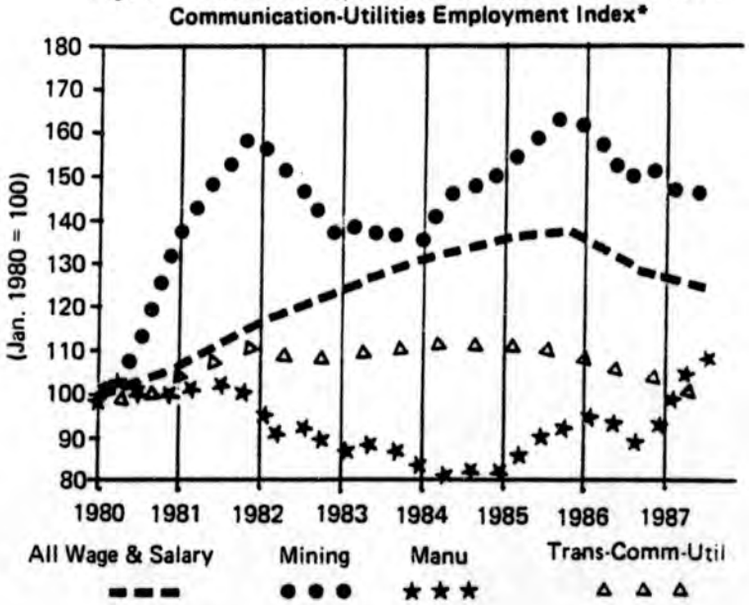
Mining, Manufacturing, and Transportation, Communications, and Utilities Jobs

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,

[5]Figures 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).

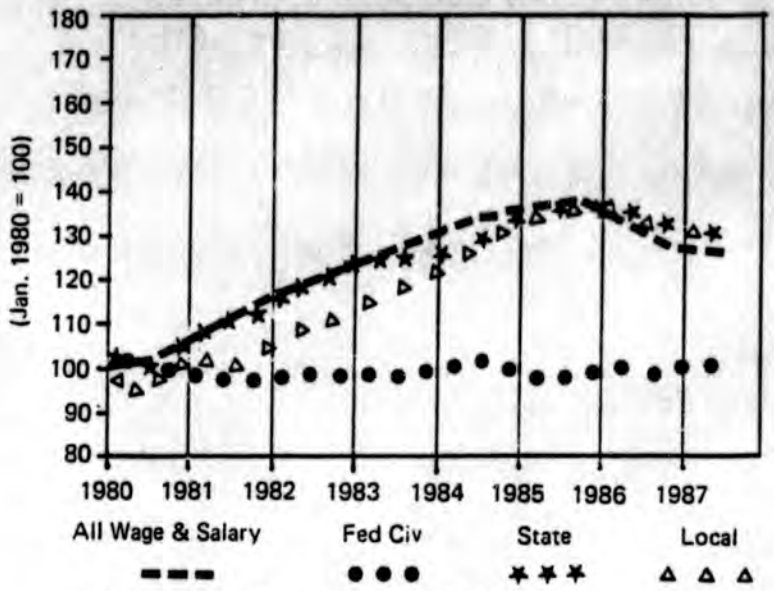
Alaska's manufacturing industries depend not on state government spending but on the size of the harvests and the demand for Alaska's fish and timber. In the early 1980s, when other parts of the economy were growing, overall employment in manufacturing actually dropped—and during the recession, when 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*



*Seasonally adjusted and smoothed.

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	Construction −64%	−20%
Trade & Services[c]	58,000	91,400 (Nov. 1985)	82,100	79,000	Trade & Services[c] −14%	+36%
State & Local Govt.	36,750	50,200 (Oct. 1985)	47,100	45,000	State & Local Govt. −11%	+22%
Transportation,[c] Communication, Utilities	17,000	19,000 (May 1985)	17,000	17,000	Trans., Comm., Util.[c] −11%	0%
Finance, Insurance, Real Estate	7,740	11,800 (Oct. 1985)	11,000	11,000	Fin., Ins., R... Est. −7%	+42%
Petroleum & Mining	6,000	9,800 (Sept. 1985)	8,700	9,000	Petroleum & Mining −9%	+50%
Federal Civilian	17,900	17,600[a] (Sept. 1985)	18,000	18,000	Federal Civilian +2%	+1%
Manufacturing[d]	13,800	12,800[a] (Sept. 1985)	14,700	14,000	Manufacturing[d] +10%	+1%

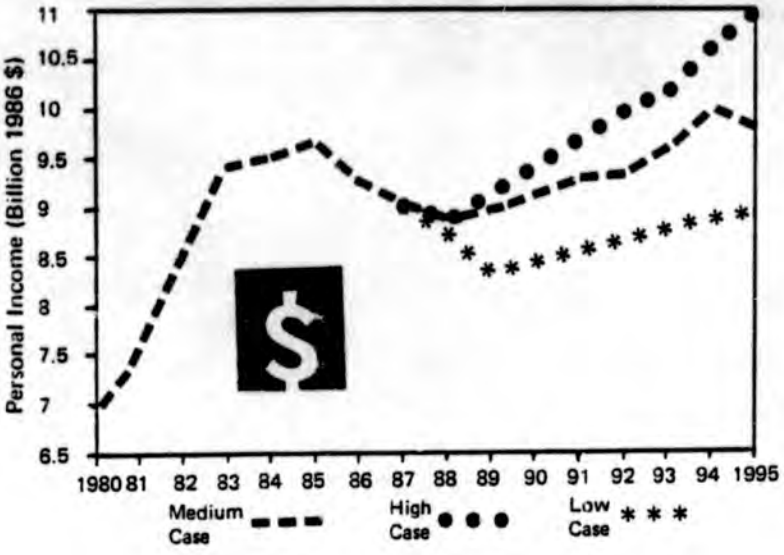
[a]Employment in various industries peaked at somewhat different times, but mostly in late 1985. Federal civilian and manufacturing employment did not peak in 1985.

[b]As projected under the medium case economic projections from ISER's report, *Alaska's Economy and Housing Market.*

[c]Tourism accounts for a portion of employment in these industries; tourism employment has not declined in recent years.

[d]This 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 nonresidents.

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.

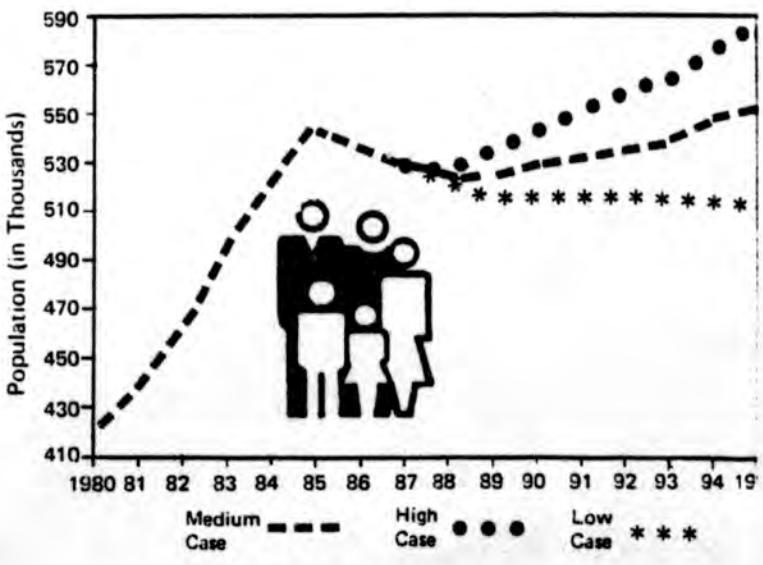
Regional Effects of Recession

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.

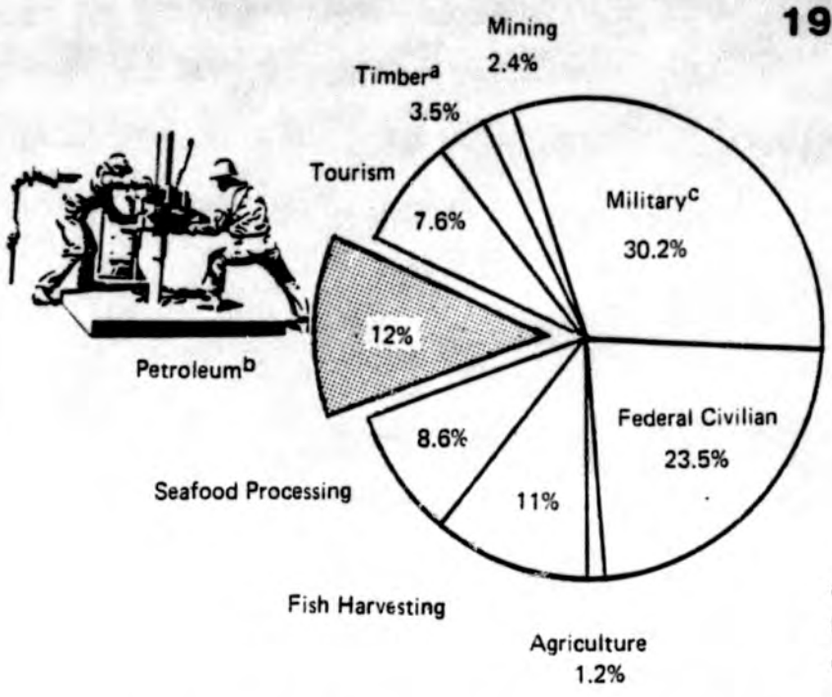
But if we look at *value added* by each of the basic industries—a much more comprehensive measure of the potential contribution of an industry to the economy—a different picture emerges. Value added consists primarily of the wages and salaries contributed by an industry, taxes paid (federal, state, and local), depreciation, and profits generated[6]—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

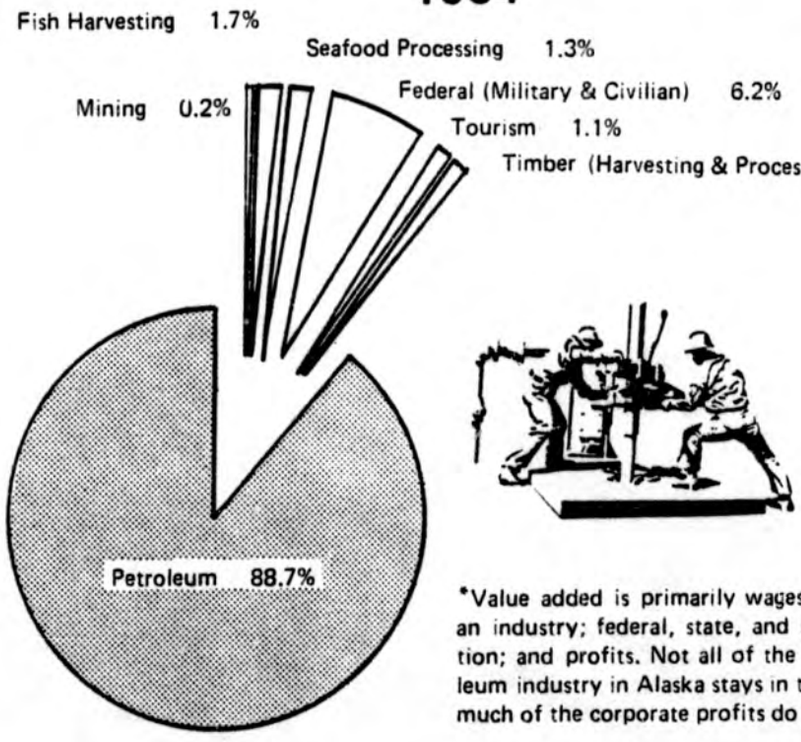
[6]Including royalties in the petroleum industry.

Figure 12. Alaska Basic Industry Employment 1986



[a]Includes havesting and processing.
[b]Includes production and processing.
[c]Active duty military personnel.

Figure 13. Value Added* of Alaska Basic Industries 1984



*Value added is primarily wages and salaries generated by an industry; federal, state, and local taxes paid; depreciation; and profits. Not all of the value added by the petroleum industry in Alaska stays in the state—federal taxes and much of the corporate profits do not remain in Alaska.

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.

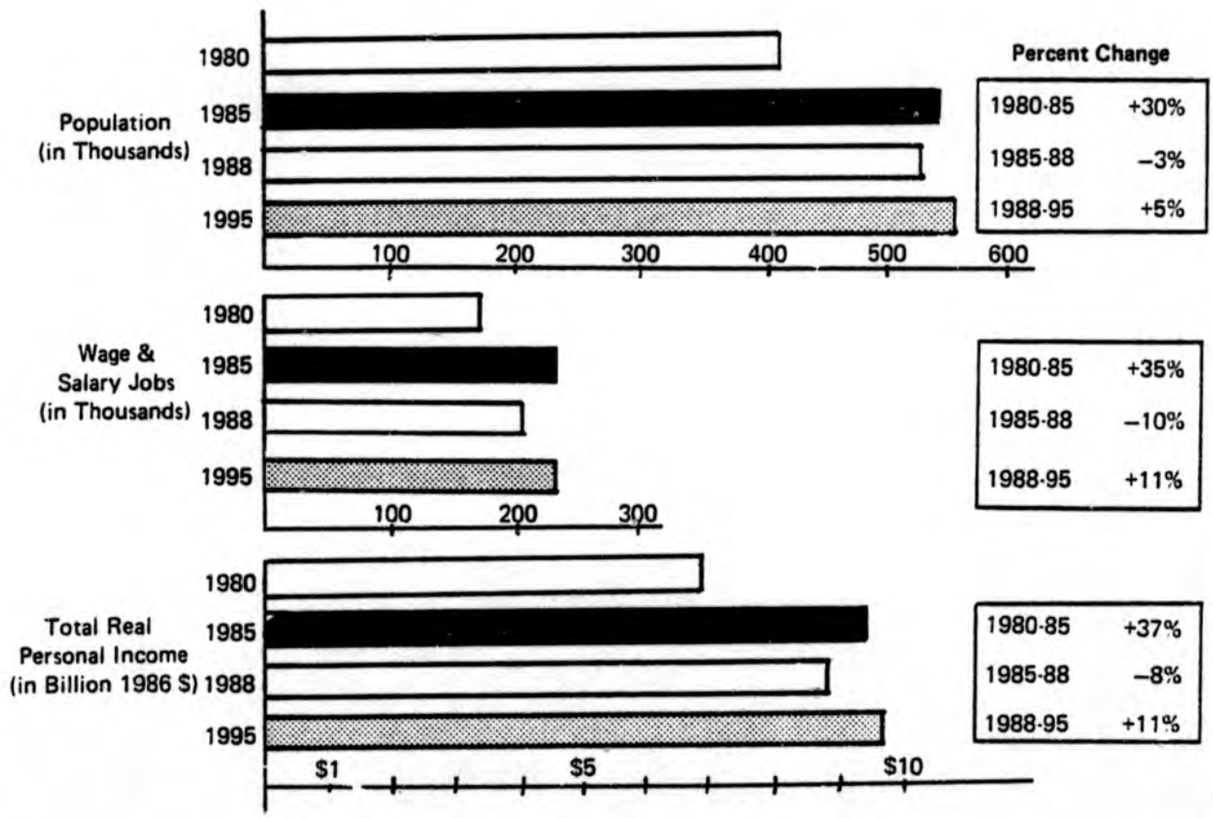
Alaska's population grew 30 percent between 1980 and 1985. Between 1985 and mid-1988 it will likely drop about 3 percent, and grow by 5 percent between 1988 and 1995.

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



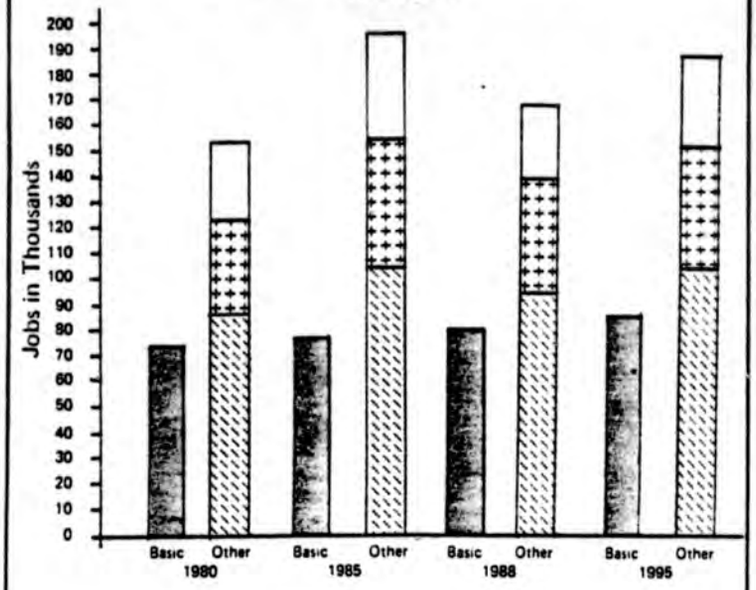
[a]As projected under medium-case economic projections prepared for *Alaska's Economy and Housing Market*, ISER report, October 1987.

produ ing 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 construction—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.

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



Basic: Basic industries are those that drive the economy by producing goods or services for export. They are: petroleum, other mining, fishing, timber, tourism, and federal government. Here we also include those portions of the construction, manufacturing, and transportation industries that produce for export.

Support: Support industries provide a variety of services for local residents and businesses. These industries include wholesale and retail trade, finance insurance, real estate, and other service industries.

State & Local Govt. The combined numbers of state and local government in jobs in Alaska.

Infrastructure Infrastructure industries are defined as transportation, communications, utilities, and those portions of construction that provide just local services.

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

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 1985 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

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

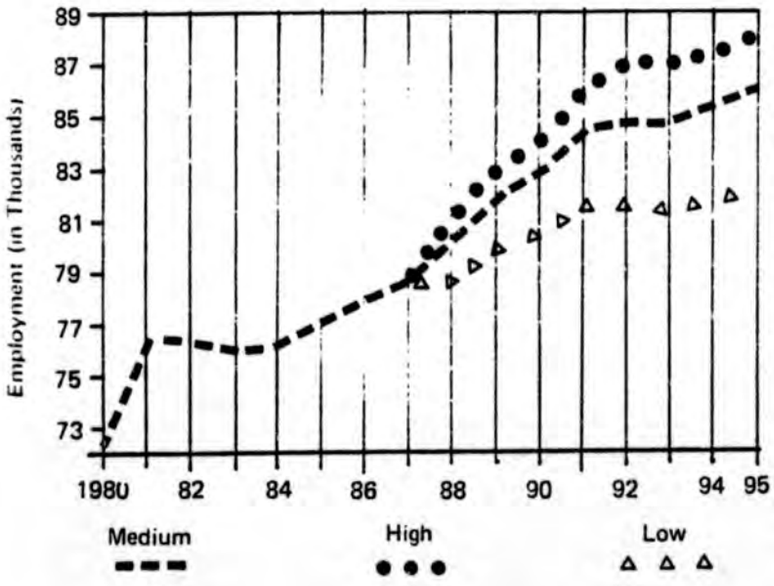
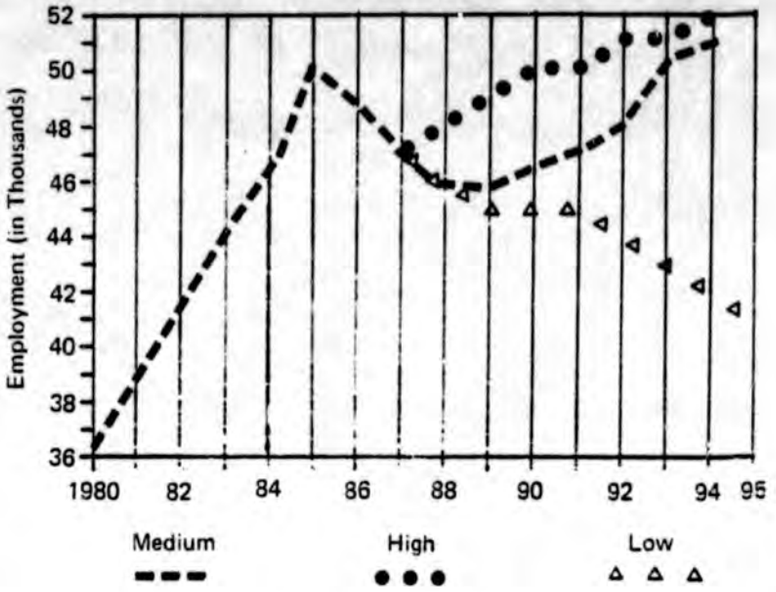


Figure 17. Alaska State and Local Government Employment, Historical and Projected Under Three Cases, 1980-1995



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

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

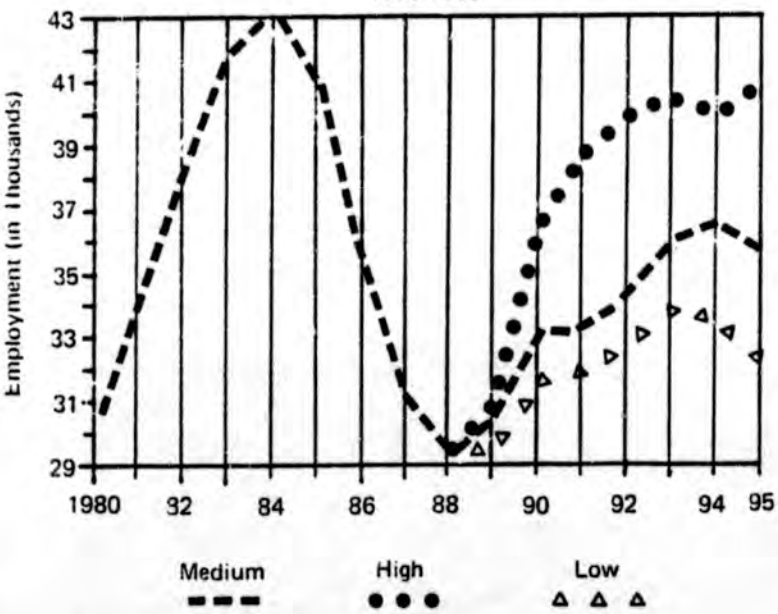
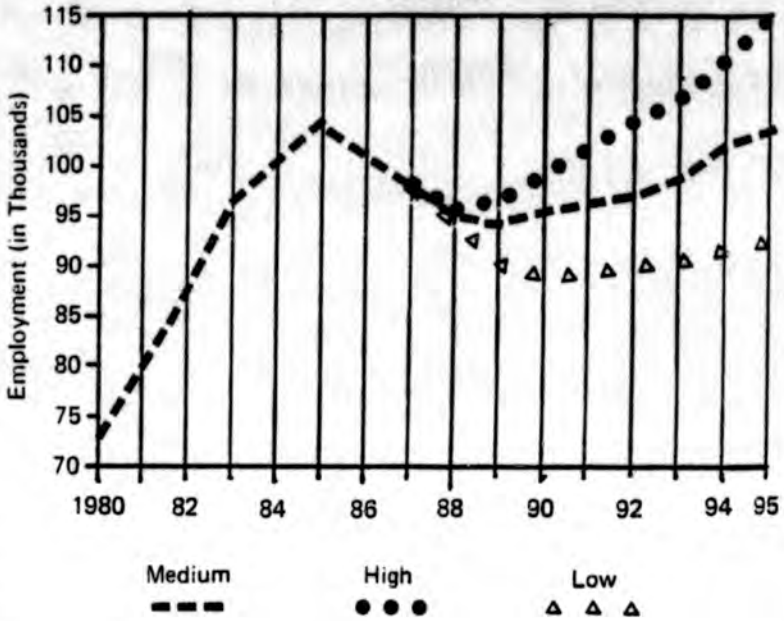


Figure 19. Alaska Support Industry Employment, Historical and Projected Under Three Cases, 1980-1995



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 Cener 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.

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ALASKA
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REVIEW OF
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University of Alaska, Anchorage, Institute of Social and Economic Research

Alaska Housing and the Recession

The recession that started at the end of 1985 turned the Alaska housing market on its head. Prices of houses, condominiums, and mobile homes—especially the last two—have come down so far that Alaskans have been left queasy and disbelieving. Recent ISER economic projections are for the recession to end in 1988, and a *gradual* economy recovery to begin—*if* oil prices remain stable in the $16- to $20-per-barrel range. Oil prices are the crucial element in ISER's projections. But if the Alaska economy does begin to recover in 1988, the effects of the recession on the housing market will not disappear overnight.

Thousands of houses, condominiums, and mobile homes have been foreclosed on in Alaska over the past two years: grim testimonials to the population, job, and income losses that have come with the recession. Even after the economy bottoms out, the housing market will be slow in recovering. This is particularly true of the market for condominiums and mobile homes in Anchorage.

Recent ISER work projects that it will likely be well into the 1990s before real-adjusted for inflation—condominium prices in Anchoage regain their 1985 levels. There are hundreds more mobile homes in Anchorage right now than are likely to be occupied by 1992.[1] Very few condominiums or apartments will be built in Anchorage over the next few years: the units that already exist will more than meet the projected demand.

We expect single-family houses to fare better—because most buyers prefer houses when they can afford them. Lower prices in the past two years have put single-family houses within the reach ot some buyers who in the early 1980s might have bought condominiums or mobile homes.

Future economic conditions will of course be crucial in determining the future health of the Alaska housing market. But after economic conditions, what will make the most difference to the stability of the Anchorage housing market in the next few years is how the major lenders handle their big inventory of foreclosed properties. If they try to quickly sell large numbers of those properties, they will further depress prices and increase loan defaults.

This *Review* reports on a recent ISER examination of how various policies might affect the Alaska housing market. The Alaska Housing Finance Corporation (AHFC) asked us to do this work to help AHFC in its efforts to stabilize the housing market.

Depressed prices and large numbers of loan defaults are serious problems for all Alaska homeowners and mortgage lenders—but particularly for AHFC, which holds more than 60 percent of the outstanding residential mortgages in the state.

This publication has two main parts. The first part describes conditions in the Alaska housing market in 1987, and contrasts them with conditions during the economic boom of the early 1980s. Those descriptions set the stage for the second part of this publication, which reports on how various policies available to AHFC and other lenders might affect the housing market.

ALASKA MORTGAGES AND FORECLOSURES

National Secondary Lenders

Alaskans plannig to buy houses generally apply for mortgage loans at banks or savings and loans or mortgage companies. These institutions—known as primary lenders—process the applications, approve or disapprove the loans, and collect the monthly mortgage payments. But very rarely do the banks themselves actually hold the mortgages: they sell almost all of them on the secondary market. In fact, primary lenders as a rule won't make a mortgage loan without

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FEATURE

Oliver Scott Goldsmith — Alaska's Economy: What's Ahead?

Oliver Scott Goldsmith is professor of economics with ISER.

first determining that a secondary lender will buy it. This system greatly reduces the risks for primary lenders in making long-term loans and frees their money for other uses.

The biggest secondary lenders nationally were created by the federal government to help increase the amount of home mortgage money available—on the grounds that a healthy housing industry is important to the U.S. economy. Of these by far the biggest is the Federal National Mortgage Association (FNMA) —widely known as Fannie Mae—which holds about $100 billion in mortgage loans. Another, much smaller, secondary lender is the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac).

The Federal Housing Administration (FHA) and the Veterans Administration (VA) are federal agencies that do not actually buy mortgage loans but rather insure or guarantee them. Loans insured by FHA or guaranteed by the VA sell easily on the secondary market because they carry government backing. Most FHA-insured or VA-guaranteed loans go onto the secondary market through mortgage-backed securities that are issued by yet another federal organization—the Government National Mortgage Association (Ginnie Mae)—and are sold to investors. FHA and VA are often thought of as secondary lenders, because their backing for a loan generally insures its marketability.

The Farmers' Home Administration is another federal gency that makes home loans, but only to farmers and to low-income Americans living in rural areas. This agency holds its own mortgages.

Alaska Housing Finance Corporation

The national lenders and insurers described above all operate in Alaska, but here the state government has also created several secondary lenders. The biggest is of course the Alaska Housing Finance Corporation, which holds more than $4 billion in Alaska residential mortgages, or about 60 percent of the outstanding home mortgage debt in Alaska in 1987.

AHFC is a public corporation created by the Alaska Legislature in 1971. As a public corporation, AHFC is under the control of the state government, but it has more authority than traditional state agencies—the most important authority being the ability to sell bonds.

The state legislature originally established AHFC to help Alaskans with low or moderate incomes get housing at reasonable costs. Alaska officials said that the high cost of housing in Alaska, the lack of mortgage money in many rural areas, and other factors was making it difficult for many Alaskans to buy houses. From 1971 through 1980, AHFC raised virtually all its mortgage money by selling tax-exempt bonds. Tax-exempt bonds carry lower interest rates than taxable bonds, so AHFC was able to offer rates somewhat below the going market rates.

In 1980 the state legislature made two decisions that rapidly transformed AHFC into the dominant mortgage lender in Alaska: it opened AHFC's lending programs to virtually all Alaskans by removing the income ceilings for borrowers, and it directed AHFC to begin subsidizing mortgage interest rates. At that time rates for home loans nationally were at around 15 percent and still going up.

As Figure 1 shows, in 1981 Alaska borrowers could get a $135,000 loan from AHFC for less than 11 percent—or they could go to a national lender and pay more than 15 percent. AHFC's interest rate advantage narrowed in later years as the legislature tied AHFC's rates closer to its costs of borrowing money, but through 1985 AHFC loaned money at significantly lower rates than the national lenders.

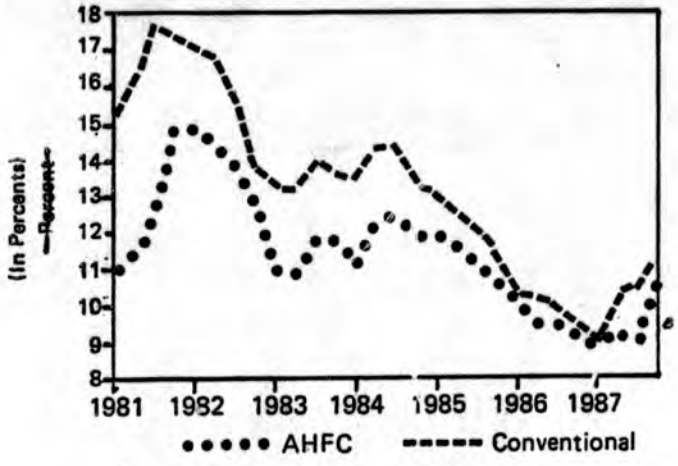


Figure 1. Home Mortgage Interest Rates, AHFC Taxable Program and Conventional,* 1981-1987

*Mortgage rates for a $135,000 loan under AHFC's taxable program and under FNMA's 30-year, fixed-rate mortgages.

Changes in federal law forced AHFC to begin selling most of its bonds in the taxable market after 1980. Since 1980 AHFC has raised several billion dollars in mortgage money by selling bonds. The legislature appropriated about $1 billion for AHFC mortgage subsidies between fiscal years 1981 and 1984. For the past several years, AHFC has had a revolving loan fund and received no subsidies.

It's not surprising that AHFC bought 80 percent of the new home mortgages written in Alaska in the first half of the 1980s. In recent years AHFC's share of Alaska mortgages has declined steadily. Market interest rates began dropping off sharply in 1985, and in 1987 reached their lowest point since the 1970s. During part of 1987 rates under AHFC's biggest loan program were the same as other lenders'. (See Figure 1.) As interest rates fell, buyers weighed other things in choosing a lender—loan restrictions, refinancing terms, and principal payment systems, for example. Still, in 1987 AHFC remained the biggest single buyer of mortgages written for home sales.

Other Sources of Mortgage Money

The Alaska Department of Community and Regional Affairs also acts as a secondary lender, but it buys loans only in the most remote areas of Alaska. Its operations are small as compared with AHFC's, and it gets its loan money not through bond sales but through state appropriations.

The managers of the Alaska Permanent Fund and the state pension funds (the Public Employees Retirement System and the Teachers Retirement System) also buy some residential mortgage loans—but not many as compared with the other secondary lenders, and frequently those that exceed the loan limits of other lenders. In recent times, however, those agencies have bought very few loans.

There are a variety of others who hold some Alaska mortgage loans. Credit unions hold rather than sell some mortgages. Individuals sometimes finance the sale of their own houses. Figures on mortgages held by those and others are not available, but they are few compared with those held by the big lenders.

Mortgage Activity, 1979-1987

Figure 2 marks the ups and downs of housing sales in Alaska from 1979 through 1987: it shows the numbers of mortgages written for home sales. (The figure excludes mortgages for refinancing, which are shown in Figure 3.)

About 5,500 mortgages worth $380 million were written in Alaska in 1979. That was a slow year as compared with what was to come. The economic boom created by construction of the trans-Alaska

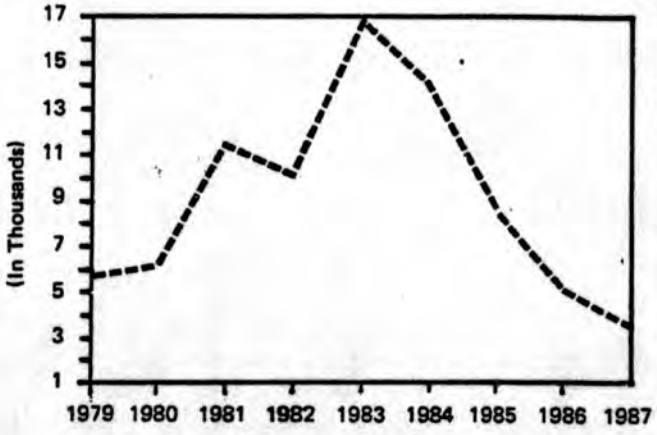


Figure 2. Alaska Mortgages for Home Sales, 1979-1987

*1987 figure is an estimate based on numbers for the first six months of the year.

pipeline was over; some people were leaving the state? and mortgage interest rates were on their way up. Mortgage activity in 1980 was not much higher, but the stage was set for the next boom. High oil prices were fattening the Alaska treasury. The state government began spending its oil revenues in hundreds of ways that sparked unprecedented economic growth. At the same time, the legislature also voted to subsidize mortgage interest rates.

The economic boom created by state spending drew tens of thousands of people into the state. The combination of a burgeoning population and subsidized interest rates more than tripled numbers of new mortgates between 1979 and 1983, when more than 16,500 mortgages for home sales were written. Numbers of new mortgages began dropping in 1984, but it was in 1985 that the really sharp decline started.

The recession began toward the end of 1985, as state spending declined. In 1986 the recession worsened as oil priced plummeted. Fewer than 5,000 mortgages for home sales in Alaska ere written in 1986: fewer than had been written in 1979. And we estimate tht in 1987 roughly 3,000 mortgages were created for home sales in Alaska.

Home Refinancing

Firm figures on how many mortgages are written for Alaskans refinancing their homes are hard to get. Figure 3 shows our estimates of how many mortgages written in Alaska in 1985, 1986, and the first half of 1987 were for refinances and how many for sales. We assume tht there was very little refinancing before 1985, when interest rates were much higher.

The figure shows that in 1985 less than 20 percent of the 10,000 mortgages created in Alaska were for refinancing. In 1986, 15,000 mortgages were written—but more than 10,000 of those, or 70 percent, ere for refinancing. In the first half of 1987, more than 60 percent of new Alaska mortgages were for refinancing.

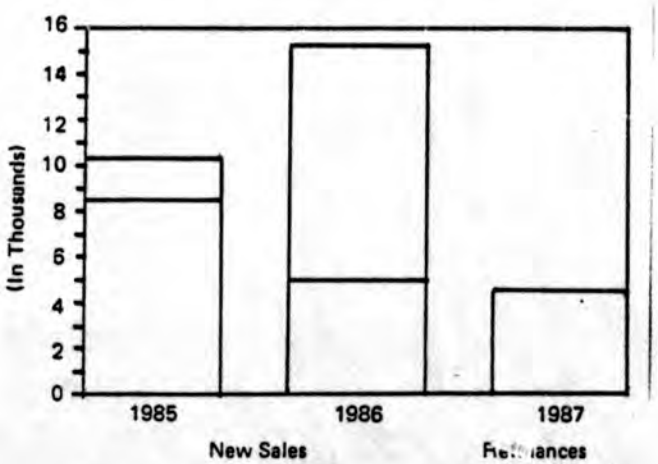


Figure 3. Alaska Mortgages for Home Sales and Refinancing, 1985-1987*

*The 1987 figure is just the first six months.

AHFC's Market Share

Figure 4 clearly shows why AHFC is the biggest mortgage holder in Alaska: it identifies hares of total mortgages (including those for sales and for refinances) AHFC and other lenders bought each year from 1979 through the first half of 1987. From 1980 through 1982, when AHFC's rates were several percentage points below those of other lenders, AHFC bought 90 percent or more of new mortgages. Through 1984 AHFC still had 80 percent of the market. In the past several years interest rates and terms of other lenders became more competitive. AHFC's share dropped from about 50 percent in 1985 to less than 40 percent in the first half of 1987.

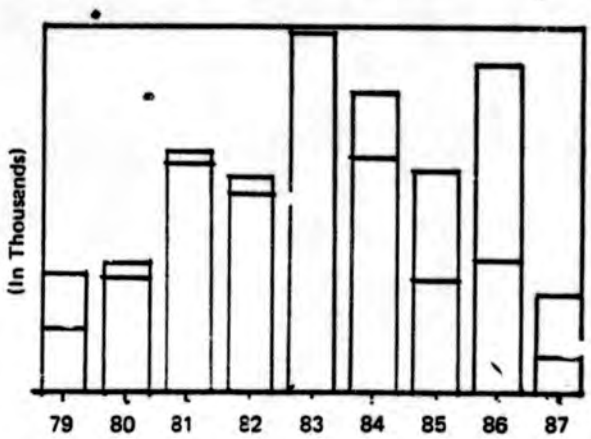


Figure 4. AHFC's Share of Alaska Mortgages,[a] 1979-1987[b]

[a]Includes mortgages for sales and for refinances.
[b]Figures for just the first six months of 1987.

1987 Mortgage Holdings of Major Alaska Lenders

What is at stake in the Alaska housing market? How much home mortgage debt is there in the state? Table 1 shows the mortgage holdings of major Alaska lenders as of mid-1987.

In 1987 the major lenders in Alaska held more than 84,000 home mortgage loans worth $7 billion dollars. The biggest mortgage holder is AHFC, which as of June held more than 52,000 home mortgages with an outstanding balance of about $4.3 billion. Other state government entities held another 3,000 loans with a balance of $230 million.

National lenders and insurers are also carrying tens of thousands of loans. There were nearly 8,500 FHA-insured loans and 8,600 VA-guaranteed loans in

Table 1

Residential Mortgage Holdings of Major Alaska Lenders, June 1987[a]

	Number of Loans Outstanding	Unpaid Principal Balance ($ millions)
AHFC		
Mobile Home	4,760	$ 151
AHFC/FNMA[b]	10,722	1,170
AHFC/Other	36,686	2,967
Total	52,168	$4,288
FNMA[c]	5,471	400
FHLMC[d]	5,152	479
FHA-Insured[e]	8,437	844
VA-Guaranteed[f]	8,602	763
Alaska Dept. of CRA[g]	1,194	123
Farmers' Home Admin.[h]	1,322	106
Alaska Permanent Fund	300	42
Alaska Pension Funds	NA	NA
AIDA & Div. of Invest.[i]	1,565	68
Total	84,211	$7,113

[a]As of June 1987, unless otherwise noted.

[b]These are loans financed with FNMA money from early 1984 through 1986; AHFC makes principal and interest payments to FNMA on collateralized notes. FNMA is, however, liable for any losses not covered by private mortgage insurance if borrowers default.

[c]Excluding loans cited in note b; these are loans financed through banks and other primary Alaska lenders.

[d]Figures are for FHLMC loans serviced by Alaska lenders as of June 1987; they may include some loans on homes outside the state but serviced by Alaska lenders and exclude some loans on Alaska homes that are serviced by lenders outside the state.

[e]Outstanding loans as of December 31, 1986, excluding AHFC loans insured by FHA. The unpaid principal balance is an estimate, based on average size of outstanding loan. Although FHA is an insurer rather than a lender, FHA-insured loans are included here because most of those loans go to lenders other than those listed in this table. Most FHA-insured loans go into mortgage-backed securities (MBSs) issued by the Government National Mortgage Association (GNMA) and sold to various investors.

[f]Figures as of March 31, 1987, excluding VA-guaranteed loans held by AHFC. A very large share of new VA-guaranteed loans in Alaska in the first half of the 1980s were purchased by AHFC. Most VA-guaranteed loans not purchased by AHFC go into MBSs issued by GNMA and sold to various investors.

[g]As of March 1987.

[h]Outstandng loans as of May 1987. Unpaid principal balance is an estimate based on average size of outstanding loan.

[i]Good estimates of cumulative Alaska residential mortgage holdings of the pension funds are not available because figures on such holdings are combined with figures on other mortgage holdings of the funds.

[j]These are mortgage loans made under a state veterans' loan program that no longer exists; it was replaced in the early 1980s by the state veterans' program administered by AHFC. Most of these loans are now held by the Alaska Industrial Development Authority (AIDA); the Division of Investments in the Alaska Department of Commerce and Economic Development holds a few and services those held by AIDA.

Source: *Alaska's Economy and Housing Market*, ISER Report, October 1987, Tables 3.1 and 3.3.

Alaska in 1987, with a combined unpaid balance of $1.6 billion. (AHFC also holds some FHA-insured and VA-guaranteed loans; those are included in AHFC's holdings and excluded from FHA's and VA's, to avoid double-counting.) FNMA and FHLMC were each carrying more than 5,000 mortgage loans with a combined balance of nearly $900 million.

Mortgage Liabilities

The current recession has pushed thousands of Alaska homeowners into default and foreclosure. Before we look at 1987 figures on properties in foreclosure, we'll broadly outline liability on mortgage loans when borrowers default. When we say "mortgage liabilities" here we just mean losses lenders and borrowers take when individual borrowers default. There are of course other kinds of liabilities—for instance, AHFC is liable for payments on the billions of dollars in bonds it sold to finance mortgage loans. We don't discuss that or other potential liabilities here.

Table 2 summarizes insurance requirements and liabilities of home buyers and major lenders. The first step lenders take to protect themselves is requiring a down payment, generally 5 to 10 percent of the sales price. The chief exception is the Veterans Administration, under which qualified veterans can borrow up to a specific amount with no money down.

The next line of defense for the lender is requiring borrowers to carry private mortgage insurance (PMI) on loan amounts above 70 to 80 percent of the purchase price. This mortgage insurance protects the lender, not the borrower: if the borrower defaults, the private mortgage insurer pays the lender any losses on the insured portion of the loan. Loans in remote areas of Alaska generally don't carry private insurance because insurance usually isn't available in those areas. Loans held by the Alaska Department of Community and Regional Affairs and the Farmers' Home Administration are uninsured. Also, some loans made before 1980 under various state loan programs are uninsured.

So what happens when a borrower defaults and his property goes into foreclosure? First, borrowers

Table 2

Liability* in Home Foreclosures

Lender	Insurance Requirements	Liability of Borrower in Foreclosure	Liability of Lender in Foreclosure
Conventional Loans FNMA/FHLMC	Borrowers required to carry private mortgage insurance (PMI) on loan amounts above 80% of the house price.		Lender liable for any losses not covered by PMI.
FHA-Insured Loans	Borrowers pay premium for government insurance, either in lump sun or as part of monthly payments.		FHA liable for all losses.
VA-Guaranteed Loans	The federal Veterans Administration guarantees up to $27,500 on mortgage loans to veterans as a benefit of military service; this guarantee takes the place of private mortgage insurance.	Borrowers in all cases lose their down payments, which can be as low as 0-5% but are generally 10% or more of the purchase price. Also forfeited is any amount subsequently paid on the loan principal. And, in some cases, lenders will undertake judicial foreclosures, in which they go to court to make borrowers who default liable for losses on resale of the properties.	VA liable for losses up to $27,500 on each loan; additional liability falls on primary or secondary lender.
Farmers' Home Administration	This federal agency makes loans to low-income households in rural areas; no private mortgage insurance.		Farmers' Home Administration liable for all losses.
STATE OF ALASKA			
AHFC	Most borrowers required to carry private mortgage insurance on loan amounts above 75% to 80% of the house price; on mobile home loans, borrowers must carry private credit insurance on 40% of the loan amount.		Varies substantially among different types of loans; see Table 3.
DCRA	Loans in rural areas; no private mortgage insurance required (because it is not available in many cases).		DCRA takes all losses.
Ak Permanent Fund	Borrowers required to carry private mortgage insurance on loan amounts over 70% of the house price.		Permanent Fund bears any losses not covered by PMI.
Division of Investments and AIDA	These loans were made to veterans before 1981 through the former Division of Veterans Affairs; no private mortgage insurance required.		Losses accrue either to Veterans' Revolving Loan Fund or AIDA.

*Includes just losses the various parties may be liable for when individual loans go into foreclosure; does not include AHFC's liability for repayment of bonds and notes financing the loans.

who default lose their down payments and any additional amount they've paid on the loan principal. (Damage that defaulting does to a borrower's future credit is also certainly a loss, but a less direct one.)

Another liability that borrowers face is that lenders may institute what is known as a judicial foreclosure. If a lender believes that a borrower who defaulted could have continued to make his payments but chose not to, he may go to court to make the borrower liable for any losses when the property is re-sold. In a non-judicial foreclosure, the lender accepts that the borrower couldn't meet his payments and does not press or any further liability.

Losses that lenders and insurers face when properties go into foreclosure is a complicated question influenced by many things. But the biggest factor is the condition of the housing market.

Insurers face the first losses when properties with private mortgage insurance go into foreclosure. But in a market where properties values are rising, insurers don't generally lose because the properties can be sold for enough to cover the outstanding mortgage and foreclosure costs. However, property values in Alaska in the past two years have been falling rather than rising. Many mortgages written when prices were at their peak exceed the current value of the property. So insurers have been taking losses—but they try to keep those losses to a minimum. An insurer can let the lender re-sell a property and then pay a claim to the lender, up to the maximum amount covered by the insurance. Or he can try to sell the property himself, if he thinks he can reduce his liability by doing so.

What about lenders? What losses do they take in foreclosures? Again, that depends on the condition of the housing market. In a market where prices are rising, lenders who require mortgage insurance don't generally take any losses. But in the Alaska market today, values of many properties are so much lower than the outstanding mortgages that insurance doesn't cover all the losses. And on loans not covered by insurance, lenders take all the losses.

AHFC's liability on mortgage loans varies considerably amont loans made at different times and under different programs, as Table 3 shows. But AHFC has better protection than most lenders on the

Table 3

AHFC's Liability* in Foreclosures

Types of Loans by Insurance Coverage	AHFC Liability
ALL LOANS EXCEPT MOBILE HOMES	
Loans with private mortgage insurance and pool insurance; include most loans made from 1981 to early 1984.	None, until bonds carrying pool insurance provision area paid off; then AHFC liable for any losses not covered by PMI.
Loans with private mortgage insurance that were financed by FNMA, 1984-1986; include most loans made during that period.	None. FNMA is liable for any losses not covered by PMI on loans it financed for AHFC during this period.
Loans with just private mortgage insurance; include some loans made throughout AHFC history and almost all loans made since January 1987.	AHFC is liable for any losses not covered by PMI.
Loans with no insurance; include loans made under several special programs that no longer exist.	AHFC liable for all losses.
Loans with federal government insurance or guarantee; include loans made throughout most of AHFC's history.	FHA takes all losses on FHA-insured loans; VA takes liability only up to $27,500 on each VA-guaranteed loan; AHFC liable for additional losses.
MOBILE HOME LOANS	
Loans before 1983 with no insurance.	AHFC liable for all losses.
Loans since 1983 with private credit insurance.	AHFC liable for losses not covered by PCI.

*Includes just losses AHFC is liable for when individual borrowers default.

majority of loans it made between 1981 and 1986. Almost all AHFC loans made during that period carry private mortgage insurance. AHFC loans made between 1981 and early 1984 also carry pool insurance —insurance that covers any losses not covered by private mortgage insurance. Mortgage Guarantee Insurance Company (MGIC) provided that pool insurance as a provision of bonds AHFC sold to finance loans during that period. So AHFC has virtually no liability when borrowers default on those particular loans—until the bonds backing them are paid off: the pool insurance is in effect only until the bonds are paid off.

From 1984 through 1986, the national lender FNMA financed a large share of AHFC loans—and on those particular loans, FNMA rather than AHFC is liable for any losses not covered by private insurance. (AHFC is, of course, liable to re-pay principal and interest to FNMA on the notes that financed the loans.)

AHFC's liability on other loans varies, as Table 3 shows. Some loans it took over from earlier state loan programs carry no insurance. Mobile home loans made before 1983 carry no insurance; loans made after that time carry private credit insurance on 40 percent of the value of the loan. AHFC takes losses beyond what private credit insurance covers.

Homes in Foreclosure

We've seen the mortgage holdings of major lenders and how the losses are divided up when borrowers default. Now we turn to the grim evidence of Alaska battered housing market: properties in foreclosure.

Table 4 shows foreclosed properties held by the major lenders and insurers as of mid-1987. Table 5 shows AHFC's inventory of foreclosed properties in each year from 1984 through 1987, and Figure 5 graphically illustrates the steep climb in foreclosures over the past several years.

In June 1987, lenders and insurers were holding more than 4,200 foreclosed properties. During the preceding 18 months, they had sold an additional 1,600 properties that had been foreclosed on. Taken together, the foreclosed properties still in inventory and those re-sold during the preceding year and a half totaled nearly 5,900—or 7 percent of outstanding residential mortgage in Alaska in mid-1987. And there were doubtless other foreclosures not recorded on Table 4—properties held by individual banks and private mortgage insurers other than MGIC, for instance. Reliable figures on such foreclosures are hard to get.

It's no surprise that AHFC held about 65 percent of foreclosed properties in mid-1987. AHFC bought most of the new mortgages written in Alaska in the 1980s and in particular most of those written when prices were at their peak. Also, from 1980 on, AHFC bought almost all the mortgage loans on mobile homes—which have seen tremendous losses in value during the recession.

FNMA, FHA, and VA were also holding several hundred properties each in the middle of the year:

Table 4

Inventory of Foreclosed Properties Held by Major Alaska Lenders and Insurers, June 1987

	Held in Inventory June 1987	Foreclosed Properties Sold 1986–June 1987
AHFC		
Mobile Home	965	143
Other	1,793	1,075
Total	2,758	1,218
FNMA	394	160[c]
FHLMC[b]	78	–
FHA-Insured	385	87
VA-Guaranteed[c]	366	80
MGIC	105	25[f]
Alaska Dept. of CRA	40	1
Farmers' Home Admin.	100	30
Alaska Permanent Fund	23	11
AIDA and Div. of Invest.	5	6
Others[d]	NA	NA
Total	4,254	1,618

[a]Properties "held by" each lender or insurer include just those to which each already held title or was in the process of acquiring title as of June 1987.

[b]Includes both completed and nearly completed foreclosures.

[c]Includes both properties the VA has already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

[d]Some foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

[e]Properties sold 1986–May 1, 1987.

[f]Estimated sales from November 1986–June 1987.

Sources: See Sources, Table 3.1.

Table 5

AHFC Cumulative Inventory* of Foreclosed Properties, Year-End, 1984-1987

	1984	1985	1986	1987	% of 1987 Total
Mobile Homes	38	186	610	1,179	32%
Other	91	322	1,061	2,522	68%
All	129	508	1,671	3,701	100%

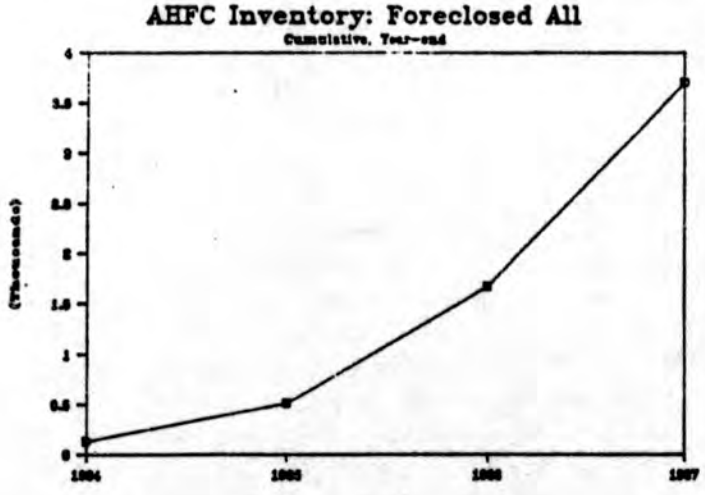
*The year-end inventories are total properties foreclosed on minus those resold. These figures are AHFC's statewide inventory.

other lenders held fewer. The 100 properties that the insurer MGIC was holding at that time were just properties it had actually taken title to; remember that MGIC carries substantial liability on properties that are in AHFC's inventory.

Table 5 and Figure 5 document that relentless climb in AHFC's inventory of foreclosures from 1984—before the start of the recession—through the end of 1987. At year-end in 1984, AHFC held just 129 properties. By the end of 1985 that had grown to more than 500, and in 1986 to more than 1,600. At the end of 1987 AHFC held 3,700 properties—nearly a thousand more than it had held just 6 months earlier.

Table 6 shows a more detailed breakdown of properties in AHFC's inventory as of the end of 1987: 1,325 single-family houses and duplexes, 1,171 condominiums and townhouses; 1,192 mobile homes; and 13 triplexes and fourplexes.

AHFC Inventory: Foreclosed All



It's easy to see why the problems in the condominium and mobile home markets are more severe than in the market for single-family houses: there are a great many more single-family houses in Alaska than there are either condominiums or mobile homes, but there are just about as many mobile homes and condominiums in foreclosure as there are single-family houses. Mobile homes, for example, make up less than 10 percent of housing in Anchorage, but more than 30 percent of foreclosures.

Table 6

AHFC Inventory of Properties, Year-End 1987

	Number	Percentage of Total
Single-Family Houses & Duplexes	1,325	36%
Condominiums & Townhouses	1,171	32
Mobile Homes	1,192	32
Triplexes & Fourplexes	13	>1
Total	3,701	100%

Source: AHFC.

POLICY OPTIONS

Thousands of Alaskans and dozens of institutions have important stakes in the future of the Alaska housing market. But it is the big secondary lenders who may be able to help stabilize the market over the next few years—and they have compelling reasons to try. Collectively they hold more than $7 billion in Alaska home mortgages. AHFC alone holds 60 percent of that mortgage debt.

If prices continue to fall and defaults persist in such disheartening numbers, investors will be reluctant to put money into the Alaska housing market in the future. That reluctance will translate into more expensive mortgage money for Alaskans. AHFC's ability to sell bonds could be hampered. Mortgage insurers might pull out of the Alaska market entirely, or charge much higher premiums for staying in.

The biggest factor in the recovery of the housing market will of course be economic conditions. ISER projects that if—a crucial qualifier—oil prices remain stable in the $16-to-$20-per-barrel range, the state economy should bottom out in 1988 and begin a gradual recovery. We consider this themost likely case if oil prices stay in that range. The economic recovery would be faster over the next several years if oil

prices suddenly rose to around $25 a barrel and stayed that high. Or, on the other extreme, if oil prices plummeted below $16 and stayed very low for several months or more, the economy could continue to decline into 1989 and we would see very little growth over the next few years.

But even after the economy begins to recover, the problems in the housing market will not disappear. The big lenders will dominate housing sales for the foreseeable future because they have so many foreclosed properties to sell.

So while economic conditions will be the biggest force in recovery of the housing market, lenders' decisions about how quickly to sell their large inventories of properties will strongly influence the stability of the market over the next several years. This is by far the most critical policy choice the lenders will make. Anything else they do to try to stabilize the market will be critically influenced by how many properties they are putting on the market and how quickly.

In the following pages we assess how rates of foreclosure sales and other factors could affect the Anchorage housing market between now and 1992. We don't have enough information to make such assessments for housing markets in other areas of the state, but movements in the Anchorage market will reflect general trends in housing markets throughout Alaska—with some obvious regional differences.

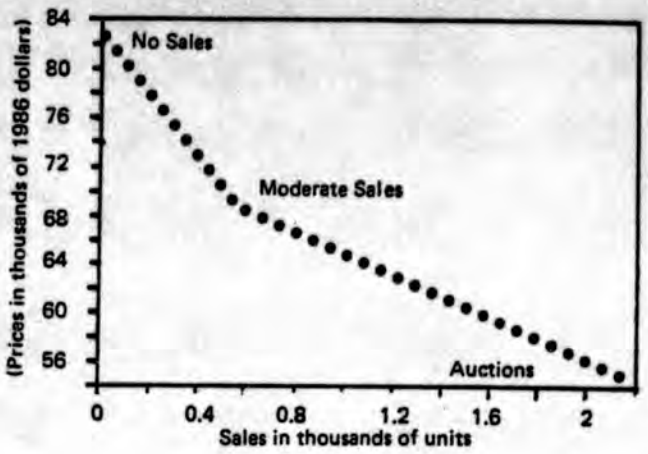
Sliding Prices and Rising Defaults: A Vicious Circle

The faster AHFC and other big lenders and insurers put foreclosed properties on the market—at the extreme, through large auctions—the more prices will be depressed and defaults persist. And more defaults will mean the lenders will end up with even more foreclosed properties.

It's easy to see why selling large numbers of properties quickly leads more homeowners to default. Flooding the market with properties pushes prices down. As prices go down, more and more homeowners find themselves with negative equity—that is, their mortgages are larger than the market prices of their properties. If owners with negative equity are forced to sell, they will likely default because they are unable or unwilling to make up the sometimes substantial difference between what they owe and what the properties will sell for.

Figure 6 illustrates how prices of Anchorage condominiums are related to the number of foreclosed units on the market. The figure is hypothetical: it does not show numbers of condominiums that will actually be sold this year. (We have no way of knowing what that number will be.) The prices shown on the vertical axis of the figure are for a particular kind of unit and are not intended to represent

Figure 6. Relationship Between Real Prices and Sales of Foreclosed Anchorage Condominiums, 1988



average prices of all condominiums on the Anchorage market. (We know that in recent months condominiums in Anchrage have sold for as little as $25,000 and as much as $100,000.) What we are showing here is how different rates of sale could affect the price of the same condominium.

As the figure shows, if all foreclosed condominiums were kept off the market—a very unrealistic scenario—condominium prices could be nearly 50 percent higher than if the market were flooded with condominiums through large auctions. At more moderate rates of sale, prices would be about 25 percent higher than if large auctions were held.

Holding properties off the market is of course very expensive for lenders and insurers: they pay in the neighborhood of $18 to $30 a day for each unit, depending on the size of the outstanding mortgage and the interest rate. We are not suggesting that lenders and insurers should simply hold onto all their foreclosed units: that simply is not feasible. What we are saying is that AHFC and other lenders should take into account all the possible costs and benefits when deciding how to manage their inventories of foreclosures.

Sliding property values and rising defaults have already cost Alaska lenders, insurers, and borrowers tens of millions of dollars. The foreclosure process itself is expensive. Costs of judicial foreclosures—under which the lender goes to court to try to make borrowers liable for any losses when the property is re-sold—are particularly high. And falling property values also have other social costs. For example, some homeowners who could find better jobs elsewhere don't move because they can't sell their houses for what theyowe on them and they don't want to default.

What Can Be Done?

We examined a number of policies AHFC and other lenders might try to increase demand, keep prices from falling more, and reduce defaults. Those include loosening down payment and other loan requirements; easing restrictions on owner-occupancy in AHFC-financed condominium complexes; subsidizing interest rates; removing housing stock; and limiting mortgage liability in some circumstances.

We made our analysis with a complex computer model that simulates the Anchorage housing market. The model assumes that in general certain relationships exist between elements of the housing market, as shown in Figure 7. Higher prices are linked with fewer defaults, increased equity, more construction, and more private sales. Lower prices result in more defaults, less equity, less construction, and fewer private sales.

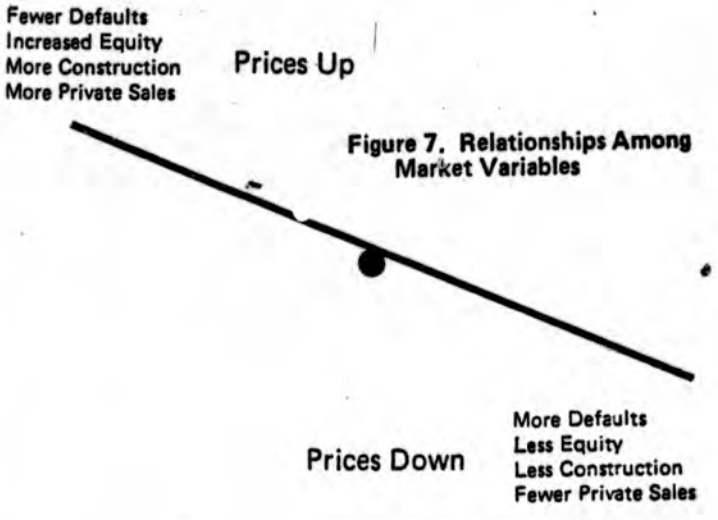


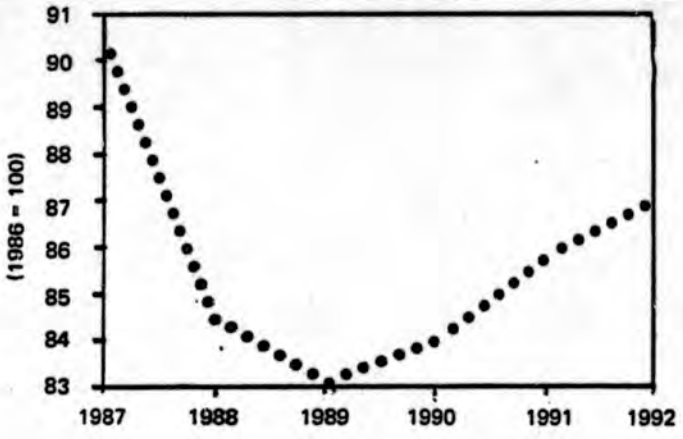
Figure 7. Relationships Among Market Variables

Our findings about how various policies might affect the Anchorage housing market are detailed in ISER's recent report, *Alaska's Economy and Housing Market*.[2] Below we summarize our main findings:

- o It is impossible to "forecast" how a specific policy would affect the housing market without knowing how many foreclosed properties will be put up for sale in a given time: the rate of sale of foreclosed properties dominates all other policies.

- o The market for single-family houses will recover more quickly thatn the market for condominiums. Most buyers prefer houses when they can afford them—and today's lower prices mean houses are within the reach of more buyers. Once the economy turns around, the market should be able to absorb the inventory of foreclosed single-family houses relatively quickly. And there will be some construction of single-family houses in Anchorage over the next several years—but the cumulative number of new houses built between now and 1992 will likely be smaller than the number built during the peak construction year of 1983.

- o Very few condominiums or apartments will be built in Anchorage between now and 1992, if our medium case economic projections prove correct. The existing supply will be more than ample to meet demand. Under that same case, real rents—rents adjusted for inflation—in Anchorage in 1992 will still be below 1986 levels. (See Figure 8.)



*Rents adjusted to eliminate the effects of price inflation.

Figure 8. Projected Anchorage Real* Rent Index (1987-1992

- o Because such a large proportion of Anchorage condominiums are in foreclosure, it would likely take several years beyond 1988 to sell the inventory of foreclosed condominiums without further depressing prices.

- o For some Alaskans there is a silver lining in the real estate cloud: lower prices may mean that they can move into better-quality housing than they could afford before. But a big barrier for those who already own homes is that many now owe more on their houses than the houses will sell for. Lenders may want to consider a policy that somehow allows those who want to buy better houses in Alaska to transfer a portion of their current mortgage liability to new homes.

Faster or Slower Economic Recovery

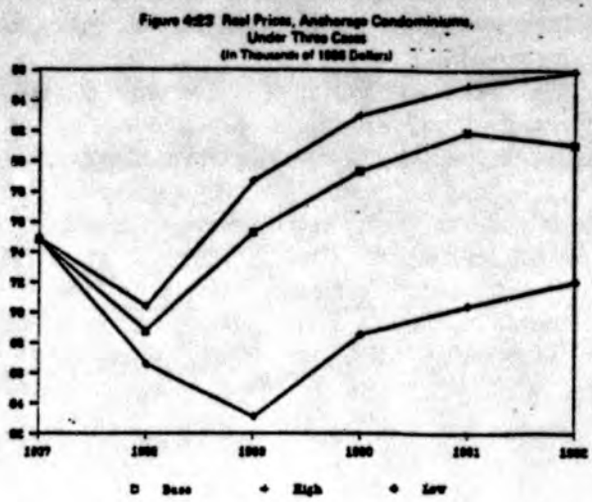
We consider our medium case economic projections most likely if oil prices stay in the range of $16 to $20 per barrel. But it's always possible that the economy could grow faster or slower than we expect: the Alaska economy is often surprising. If the econ-

omy grew more or less than we expect in the next few years, the housing market would of course be affected. Figures 9 and 10 show how real—adjusted for inflation—prices of Anchorage condominiums and single-family houses would be different under the high, medium, and low economic projections. All three cases assume a moderate rate of sales of foreclosed properties.

Figure 9 shows projected average real prices for a standard condominium under the high, medium, and low cases from 1987 through 1992. In the medium and the high cases prices bottom out in 1988 and in the low case in1989. Prices then begin a very gradual recovery. But even under the most optimistic case, 1992 average condominium prices when adjusted for inflation are still far below their 1985 peak of around $100,000.

10 maybe

Figure 4.23 Real Prices, Anchorage Condominiums, Under Three Cases (In Thousands of 1986 Dollars)



Real Prices, Condominiums
(thousand 1986 dollars)

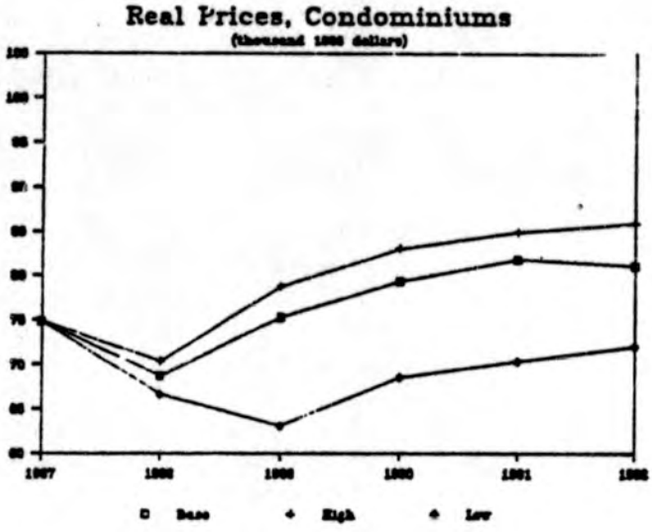


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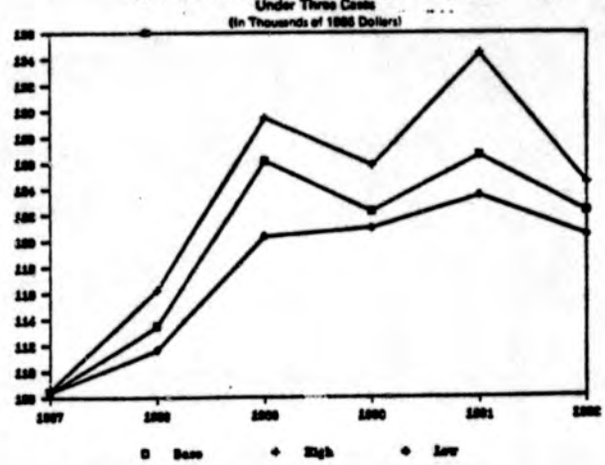
Figure 4.24 Real Prices, Anchorage Single-Family Houses, Under Three Cases (In Thousands of 1986 Dollars)



Real prices of single-family houses will rebound faster, although the pattern is not consistently upward. (Figure 10.) In our housing model, price increases of a certain level trigger new house construction—and when more new houses go on the market, rpices are pushed down somewhat. But overall, real prices of houses under the medium or the high case in 19?? are projected to come fairly close to the peak prices of 1986.

Finally, Figure 11 shows projected cumulative numbers of building permits for new single-family houses in Anchroage between 1987 through 1992. Under any of the cases projected construction is modest as compared with the frenzied building of the early 1980s: under the medium case, a total of fewer than 3,000 new houses would be built in Anchorage between now and 1992. By contrast, in 1983 alone 3,500 new houses were built in Anchorage.

FDIC
Federal Deposit Insurance Corporation

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

From: 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 catagorized 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.

Commercial Loans	ANBN		FIB	
Secured by:	#	BV	#	BV
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	17.8mm
Stocks	4	3.0mm	6	.2mm
Miscellaneous	3	1.2mm	65	4.3mm
Unsecured	94	3.5mm	61	3.4mm
Totals	602	54.2mm 59.2mm	549	76.3mm

Real Estate Mortgage Loans	ANDN		FIB	
A. Real Estate Construction Type	#	BV	#	BV
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	9	5.1mm
Totals	64	18.4mm	54	28.3mm

B. Covered Transaction-Type				
Condos	7	400m		N/A
Zero Lot Lines	7	600m		
SFR	7	700m		
Vacant	3	160m		
Commercial	1	375m		
Mobile Homes	1	68m		
Hotel/Motel	1	680m		
Other	1	210m		
Totals	28	3,193m	0	* 0

* FTR did not segregate covered transactions.

	ANBN		FIB	
C. Amortized/Term-Type	#	BV	#	BV
SFR	60	5.0mm	167	13.3mm
Convential 2-4 Units	10	1.2mm	30	5.1mm
FHA	3	100,000	--	
VA	2	160,000	--	--
Commercial	20	2.0mm	148	34.4mm
Vacant Lots	2	50,000	9	4.8mm
Other	13	500,000	12	5.6mm
Totals	110	8.8mm	376	83.8mm
GRAND TOTALS	804	84.8mm	969	167.8mm

The breakdown above includes the original inventory retained by the FDIC and all putbacks to 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 $6.0mm, 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 $900,000.00, from both banks. These were not included in the schedules above. The schedules above also exclude charged off loans, owned real estate, bank properties and other fixed assets.

Attached to this memorandum is a listing of ORE 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

TYPE	BANK NO: 2608 BANK: SNB	BANK NO: 5915 BANK: ANBN	BANK NO: 2766 BANK: FIAK	TOTAL
SFR	10	18	24	52
(B.V.)	(1,165,132.35)	(1,315,087.06)	(1,649,920.07)	(4,130,139.4
COMMERCIAL OFFICE	2	8	13	23
(B.V.)	(427,000.00)	(830,351.51)	(1,827,890.50)	(3,085,242.0
COMMERCIAL OTHER	1	3	13	17
(B.V.)	(63,636.14)	(291,508.41)	(4,064,632.95)	(4,419,777.5
DUPLEX	-0-	1	1	2
(B.V.)		(64,800.00)	(704,444.06)	(769,244.06
4-PLEX	1	6	10	17
(B.V.)	(234,351.50)	(723,632.65)	(1,181,821.94)	(2,139,806.09
6-PLEX	2	-0-	2	4
(B.V.)	(493,969.22)		(9,165.75)	(503,134.97
APTS MULTI-FAMILY	-0-	-0-	4	4
(B.V.)			(3,476,099.19)	(3,476,099.19
CONDOS	2	20	120	142
(B.V.)	(145,816.99)	(843,272.62)	(3,781,043.59)	(4,770,133.20
1-4 SFR LOTS	33	61	247	341
(B.V.)	(1,359,016.32)	(1,502,188.33)	(3,178,157.89)	(6,039,362.54
COMMERCIAL LOTS	5	1	3	9
(B.V.)	(455,344.00)	(103,153.57)	(2,300,881.65)	(2,859,379.22
TRAILORS MOBILE HOMES	-0-	1	1	2
(B.V.)		(35,700.00)	(36,000.36)	(71,700.36
TOTAL:	56	119	436	611
(B.V.)	(4,344,266.52)	(5,709,694.15)	(22,210,057.95)	(32,264,018.62

REAL ESTATE PROPERTIES OWNED
PAGE 2

SUBSIDIARY ACCOUNT

BANK NUMBER: 5915 BANK: ALASKA NATIONAL BANK		BANK NUMBER: 2766 BANK: FIRST INTERSTATE BANK		TOTAL
COMMERCIAL	2	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

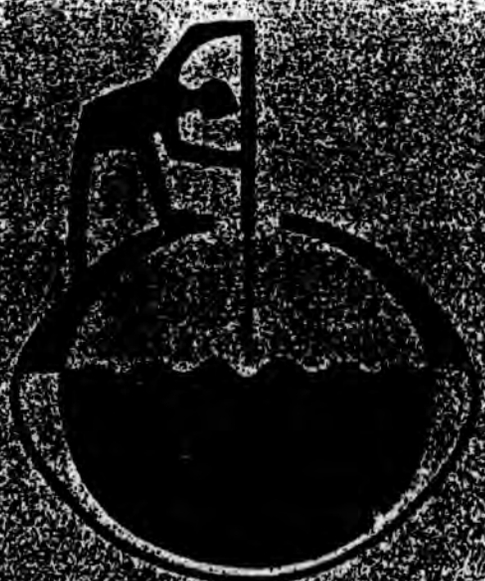
Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
Agriculture										
Real Estate Related	8	5,132M		48		76	18,903M			615
Tourism	2	829M	23			17	6,687M			462
Transportation						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

Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
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.



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, Alasks'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.

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.

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

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

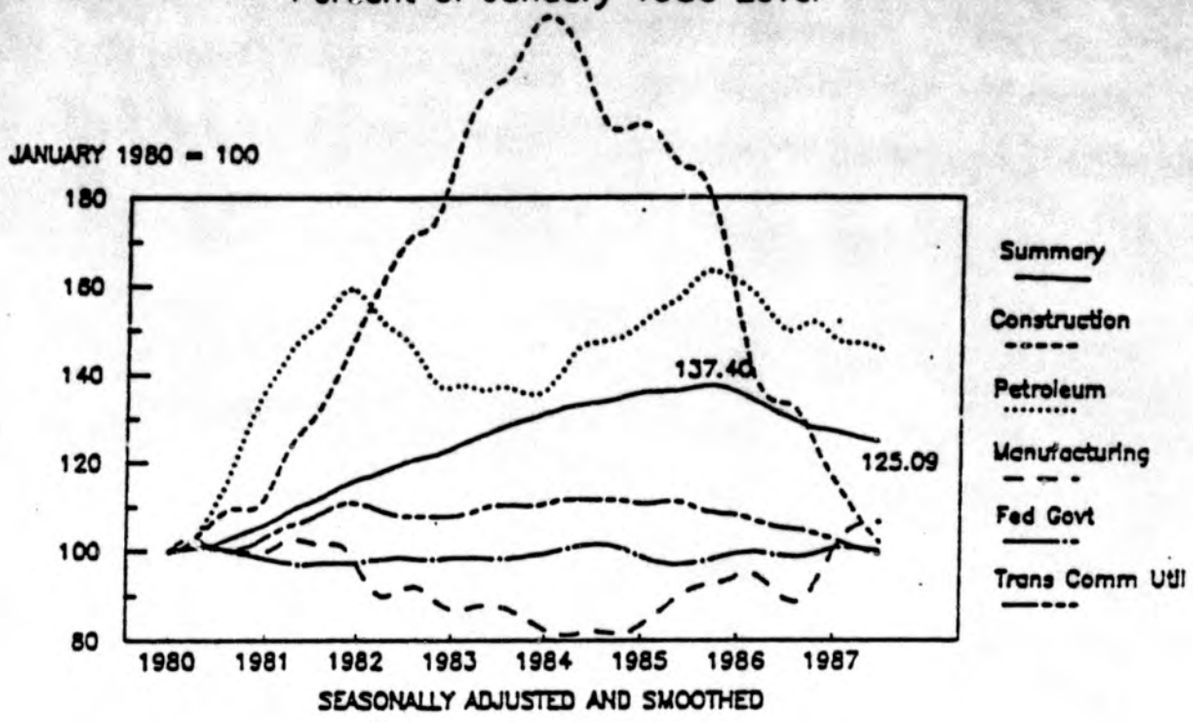


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

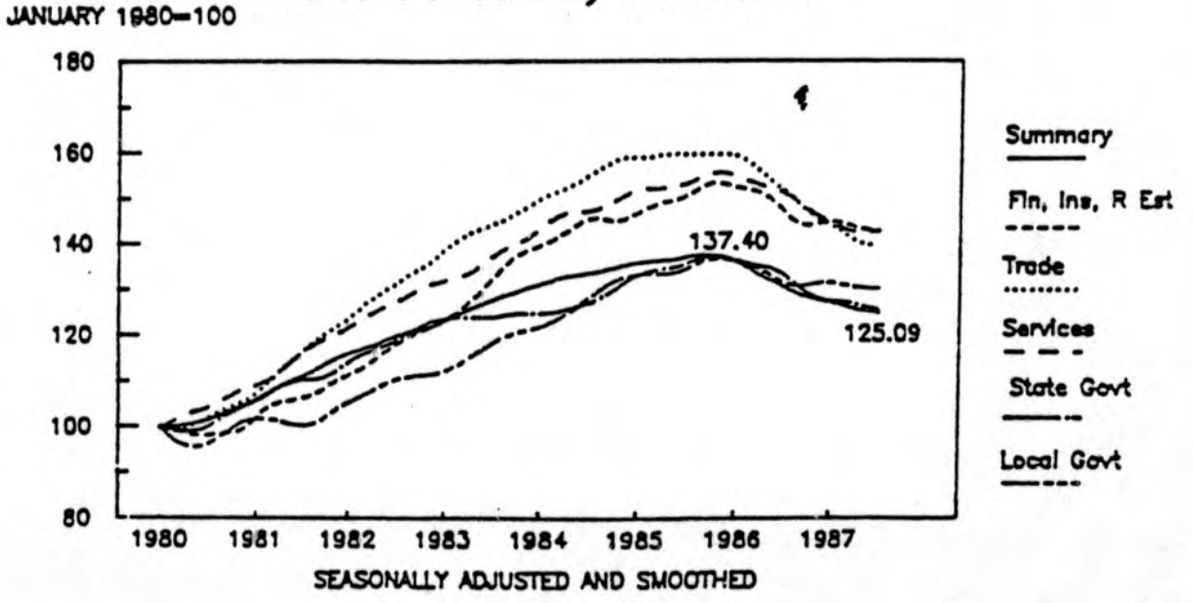


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

	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

[a]No significant loss from peak to date. These industries are experiencing a cyclical peak.

[b]Peak month--January 1984.

Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

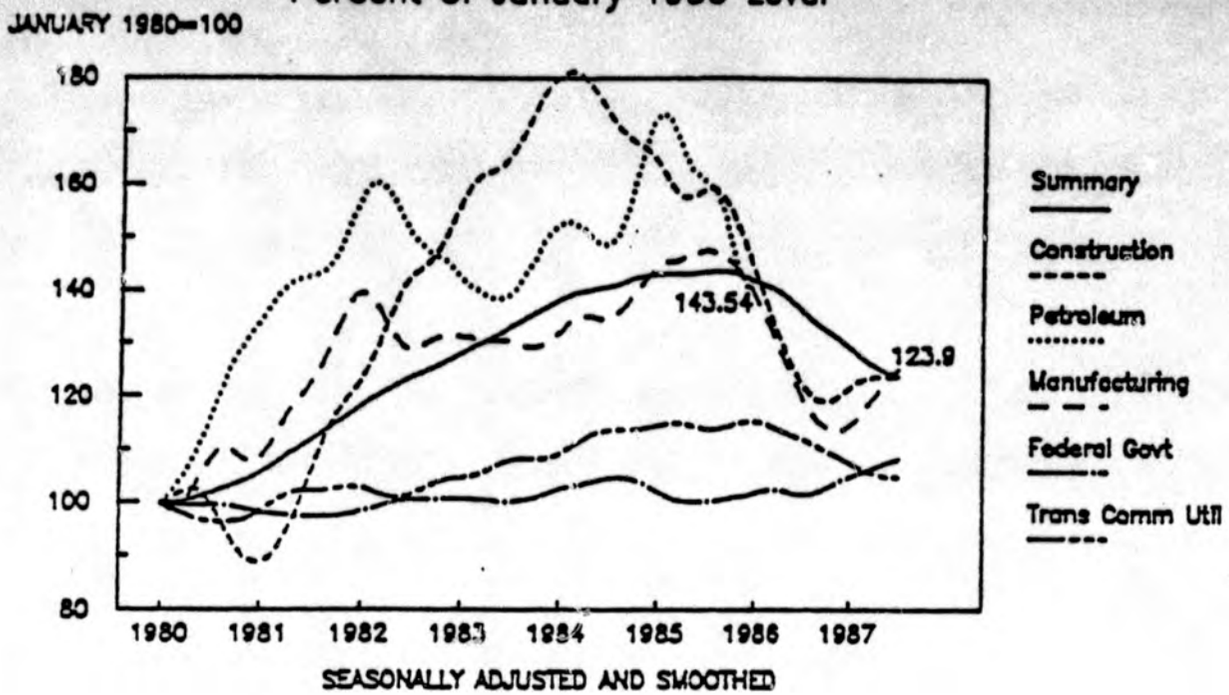


Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

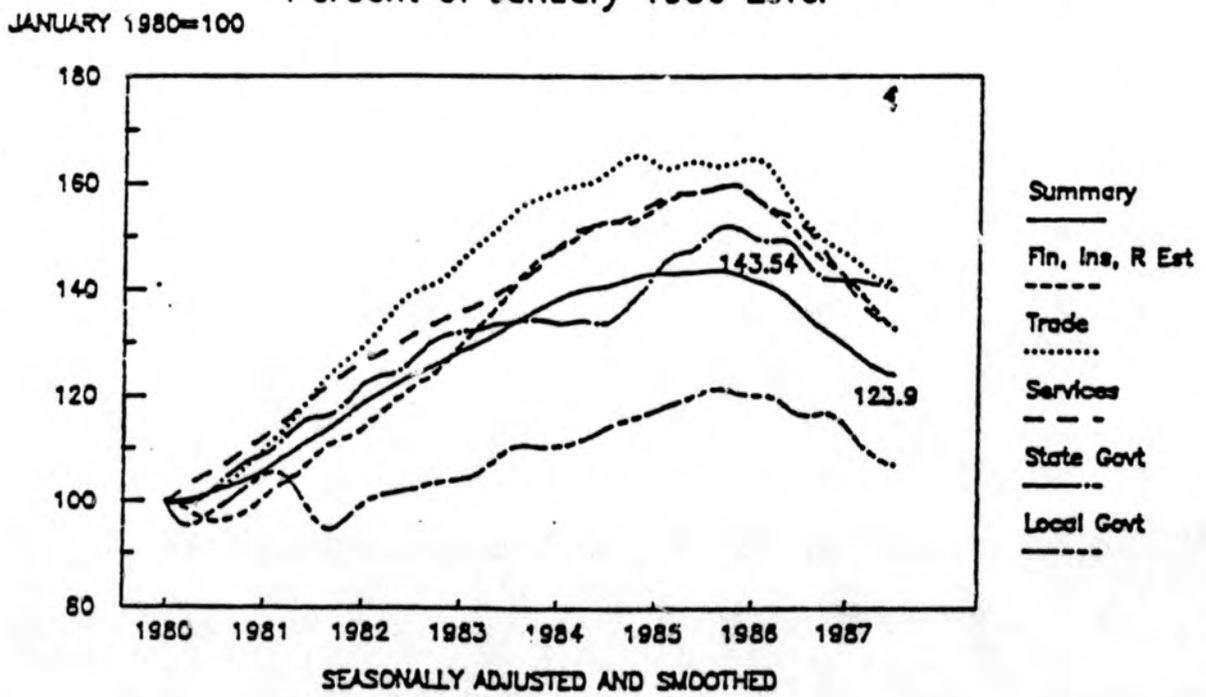


Figure 2.11

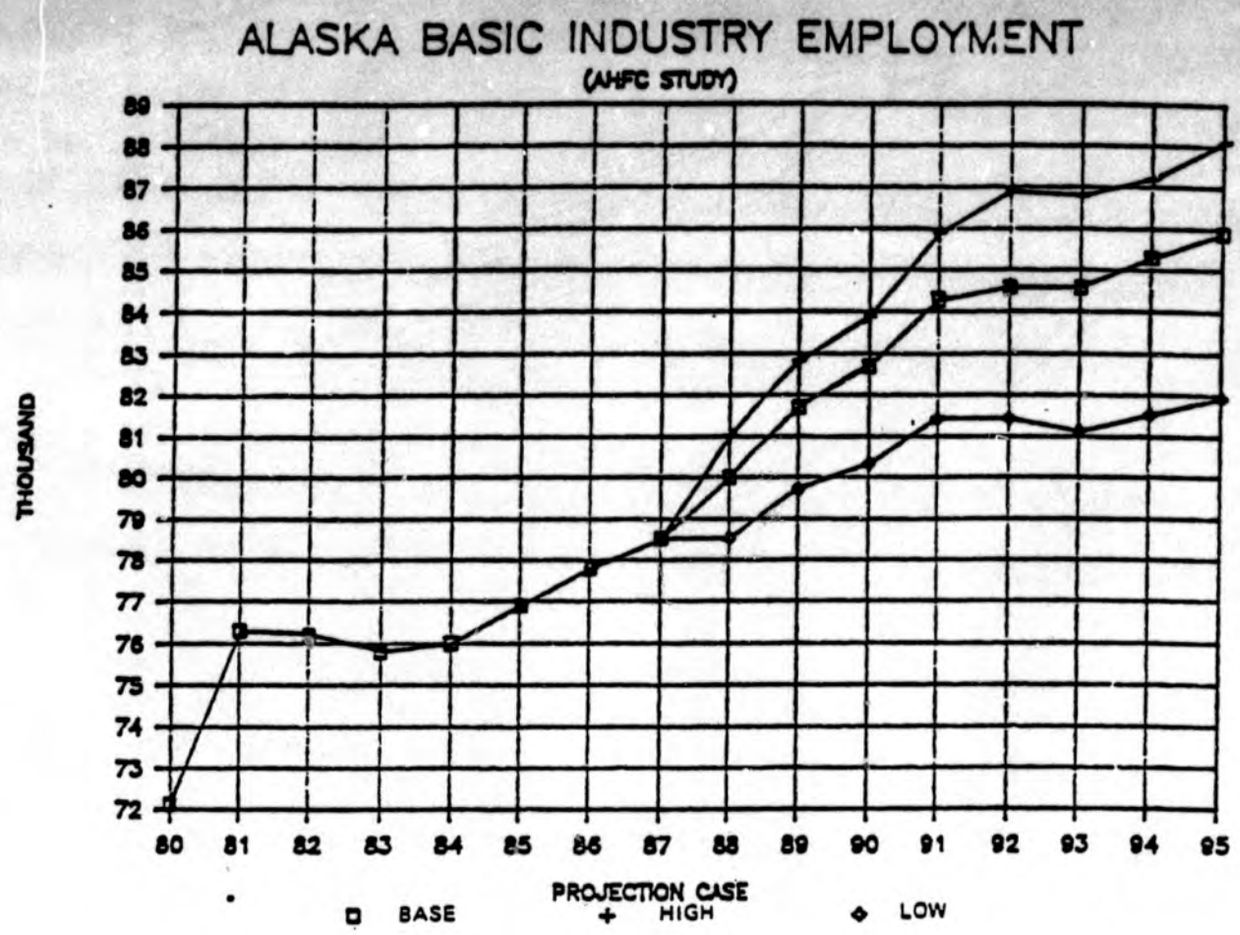


Figure 2.12

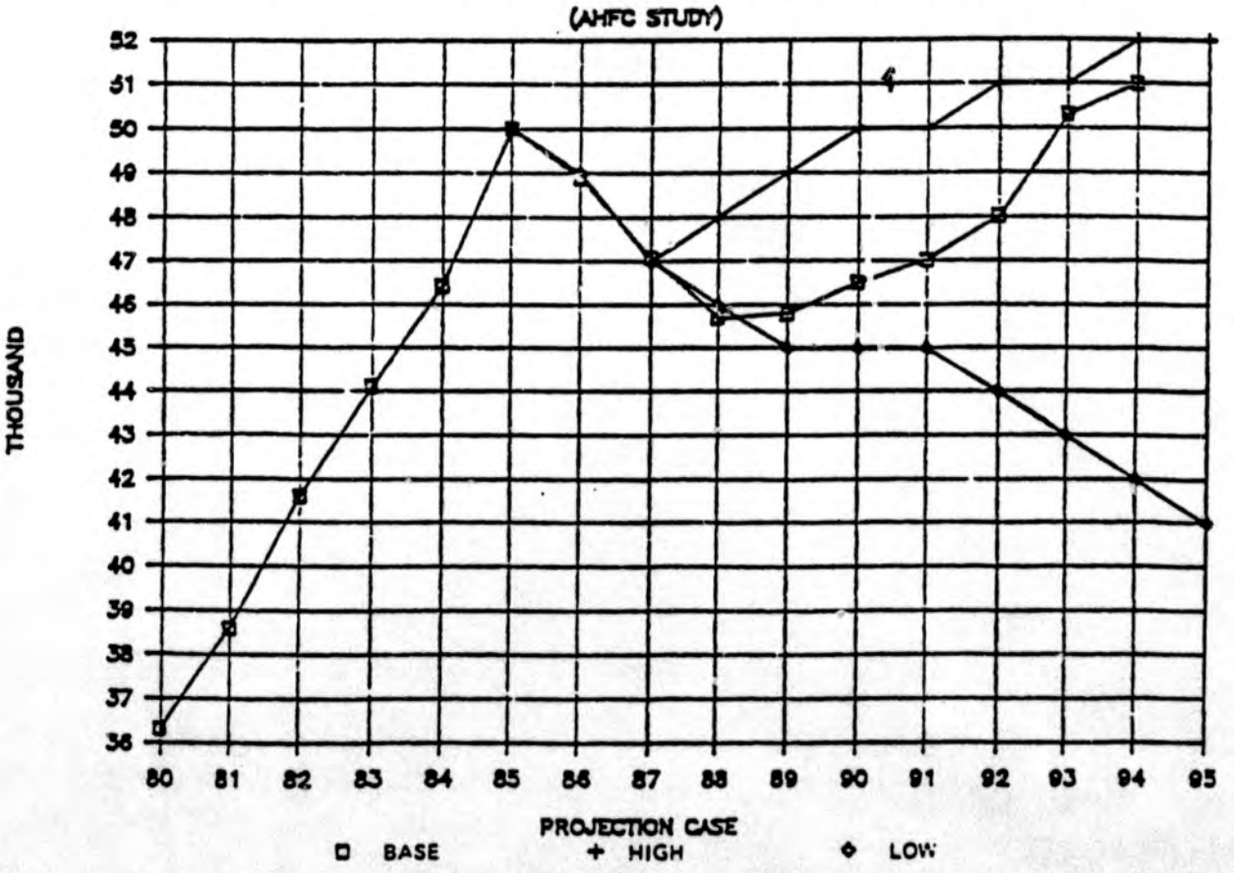


Figure 2.15

ALASKA INFRASTRUCTURE EMPLOYMENT

(AHFC STUDY)

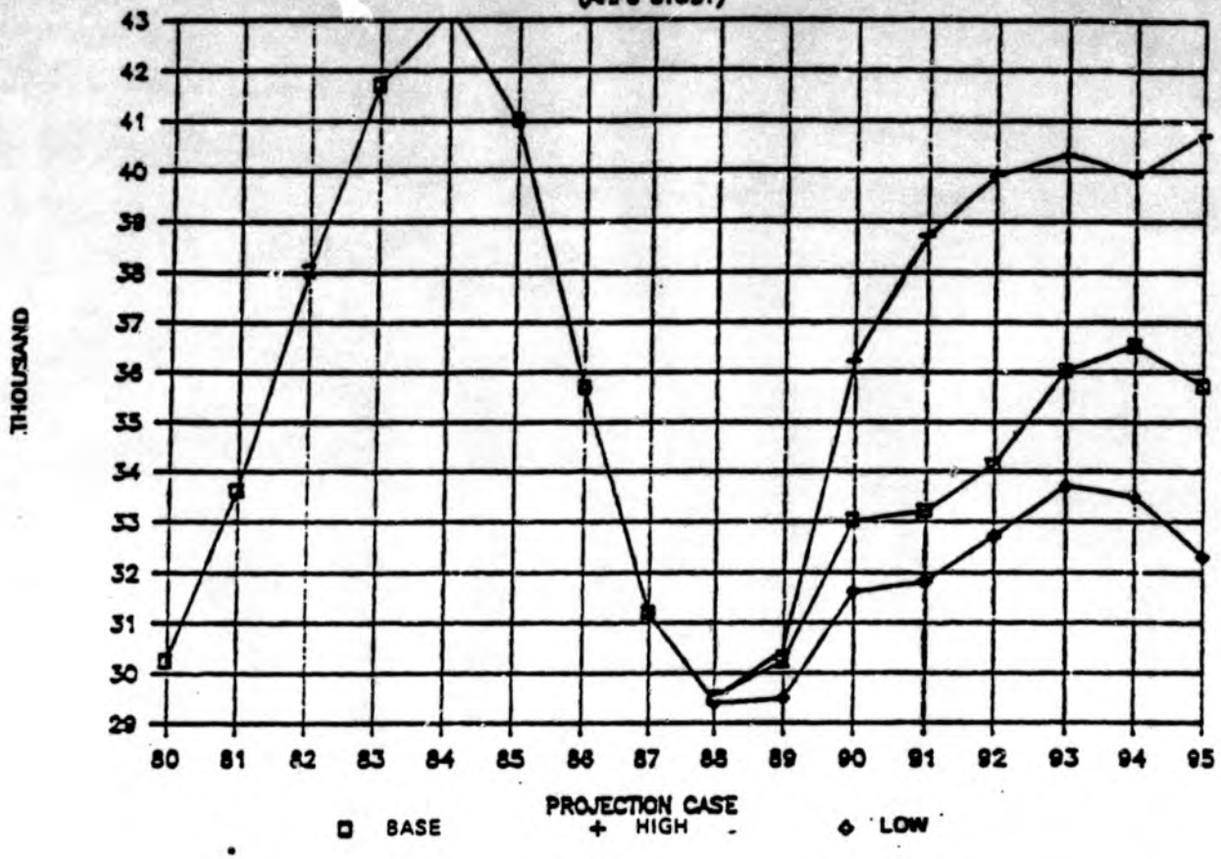
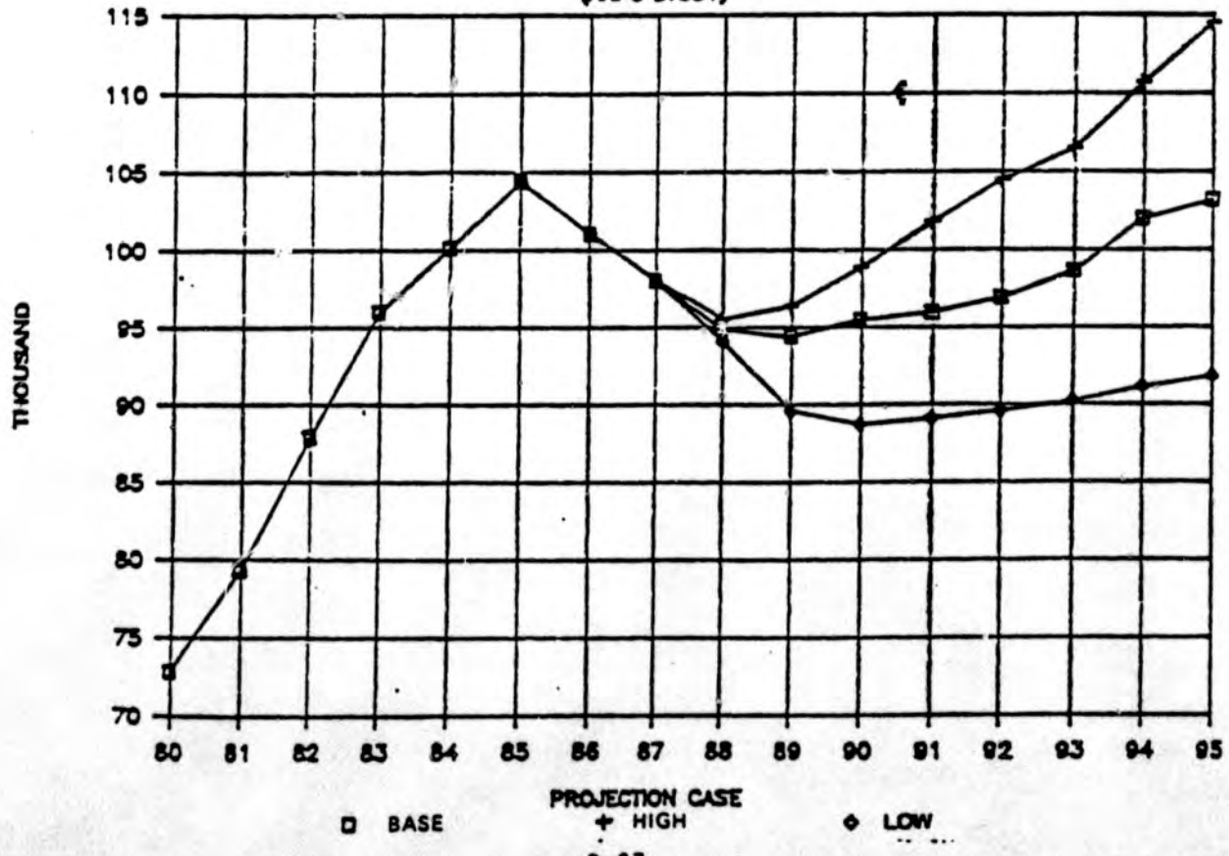


Figure 2.16

ALASKA SUPPORT INDUSTRY EMPLOYMENT

(AHFC STUDY)



ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1561 SCOMM 59. JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1358

Figure 2.17

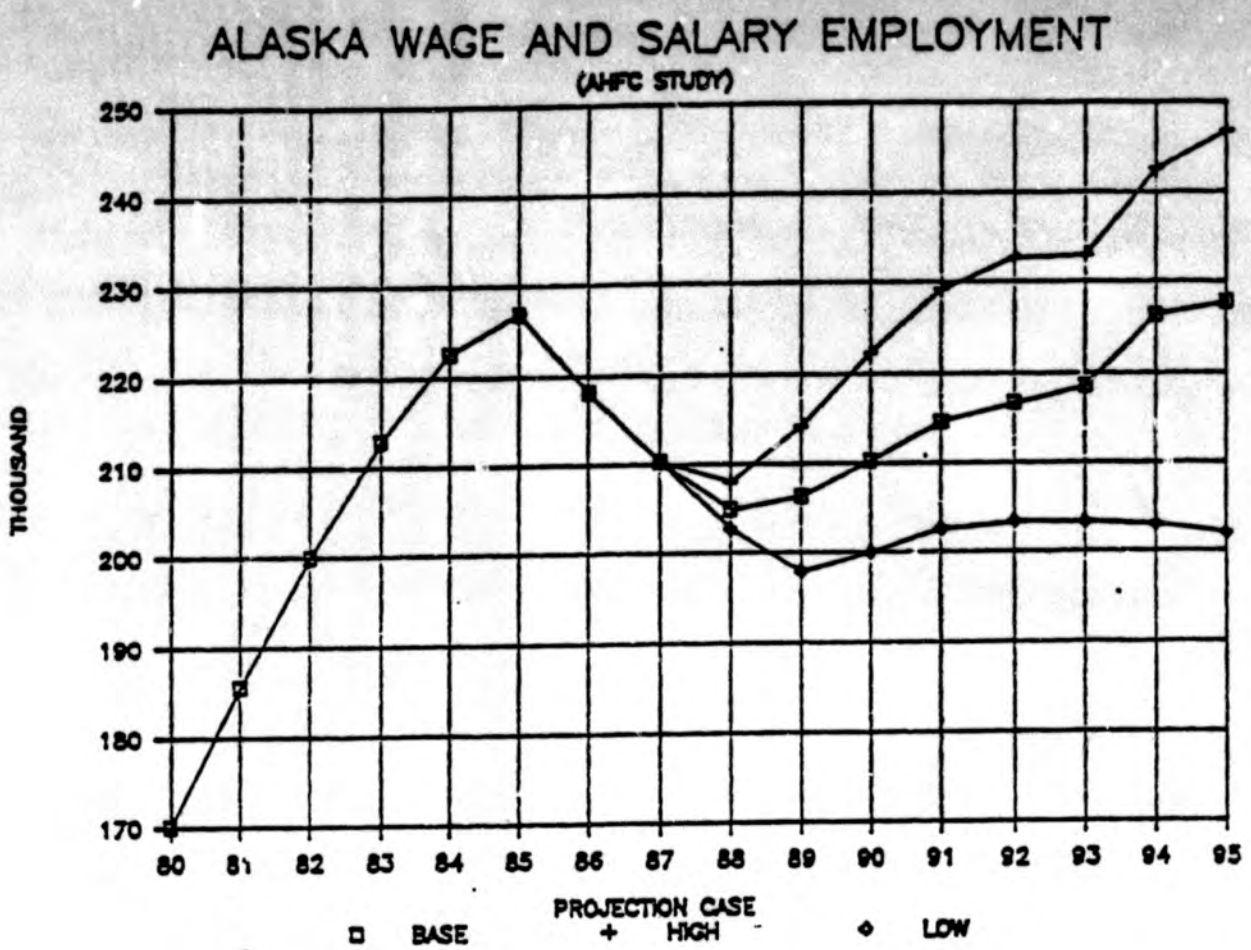


Figure 2.18

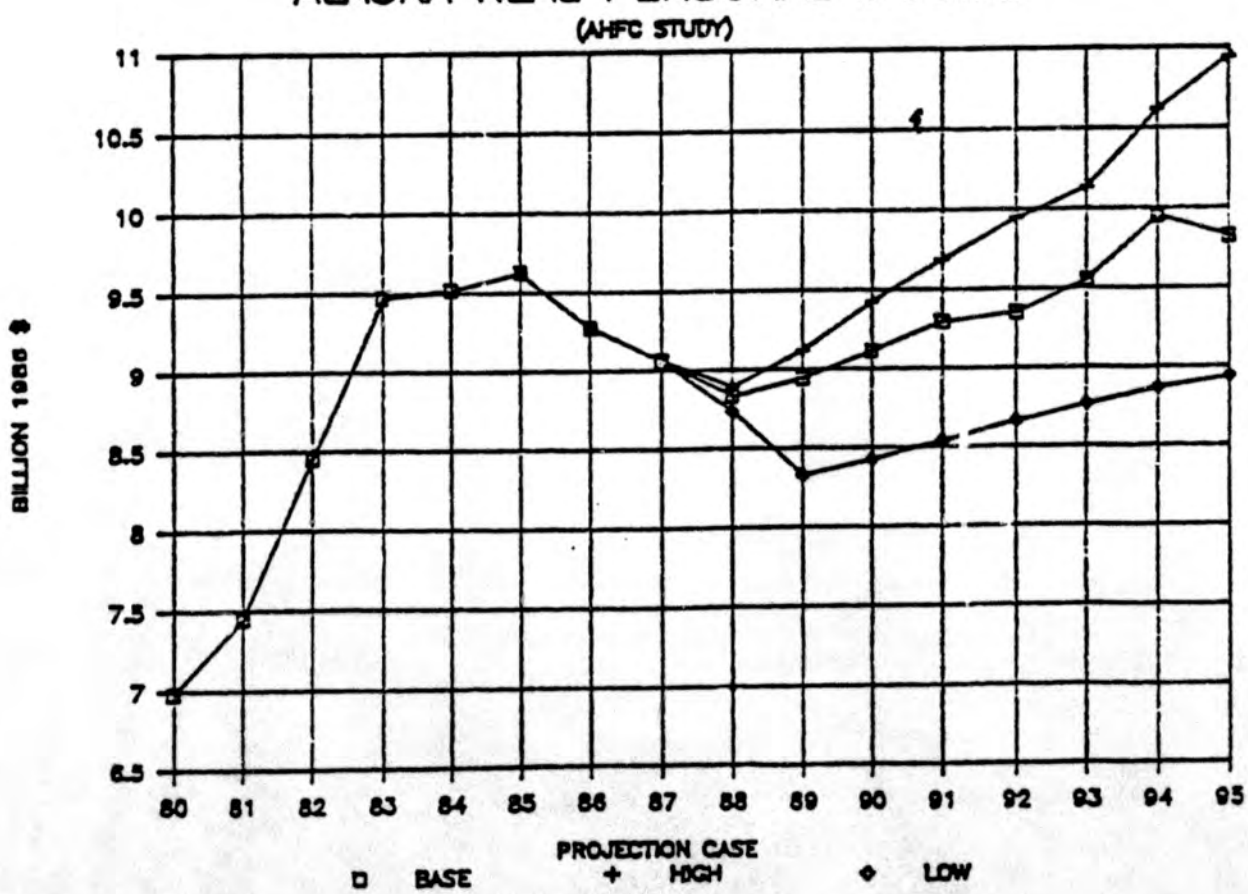


Figure 2.19

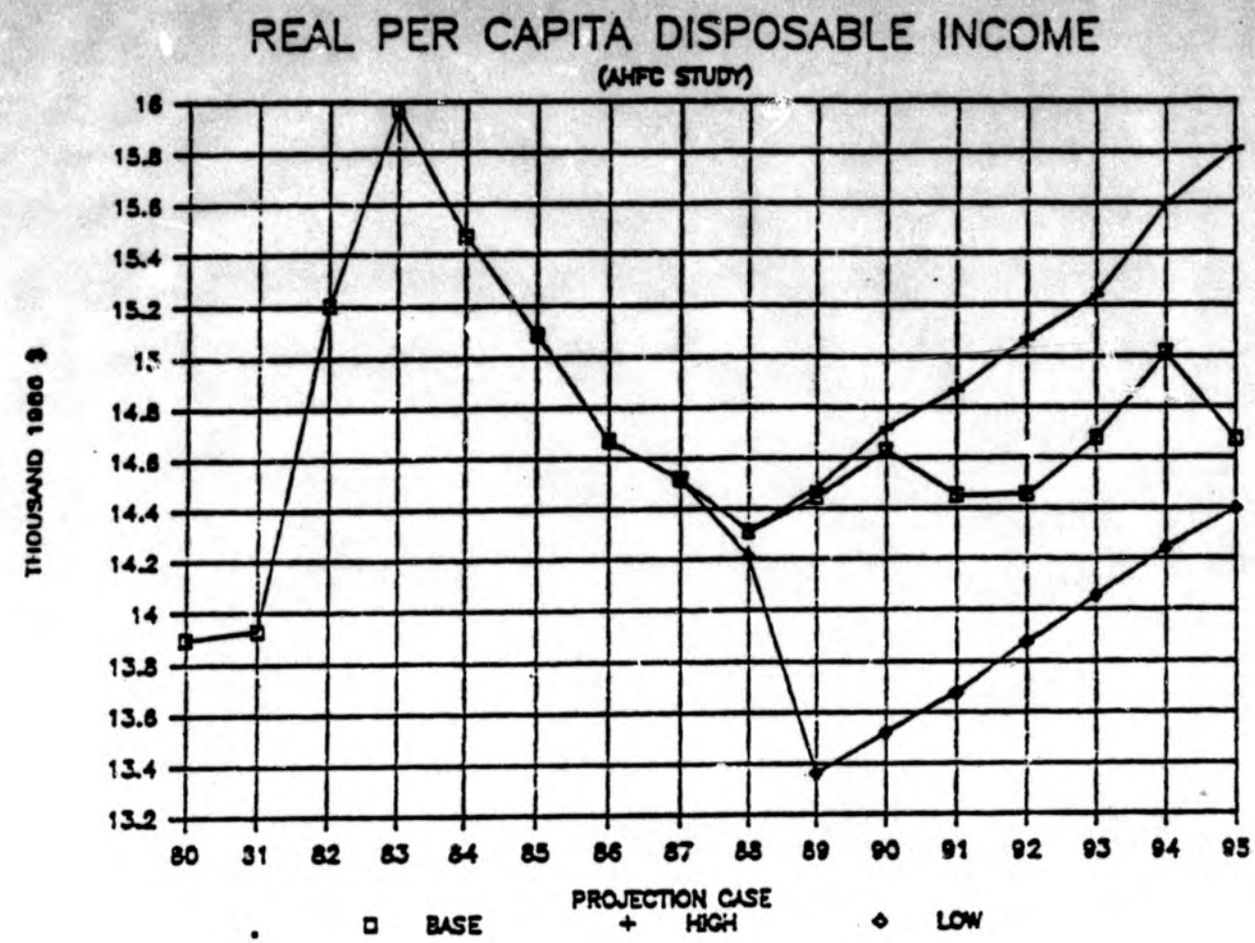

REAL PER CAPITA DISPOSABLE INCOME
(AHFC STUDY)
THOUSAND 1986 $
16
15.8
15.6
15.4
15.2
15
14.8
14.6
14.4
14.2
14
13.8
13.6
13.4
13.2
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95
PROJECTION CASE
BASE
HIGH
LOW

Figure 2.20

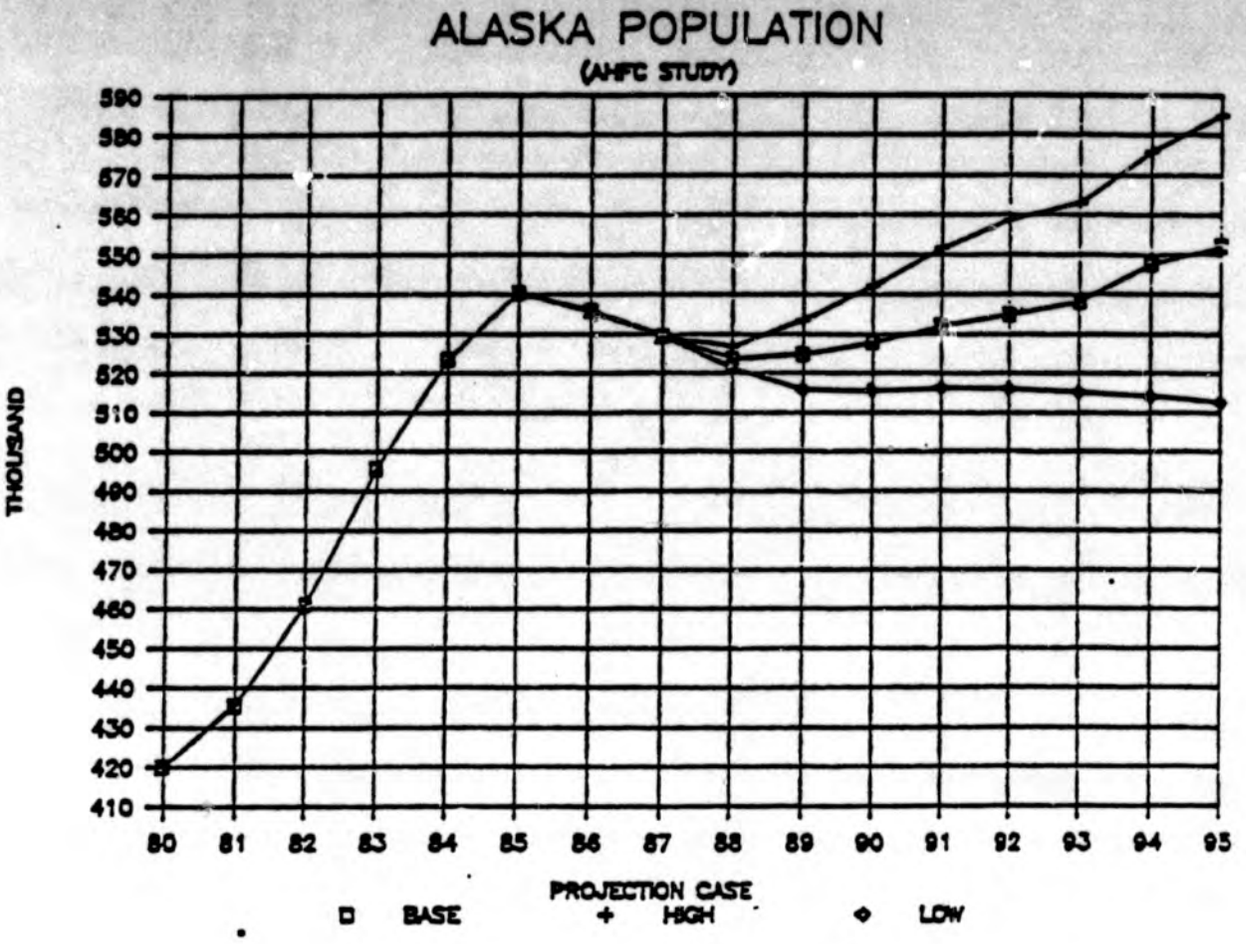


Figure 2.21

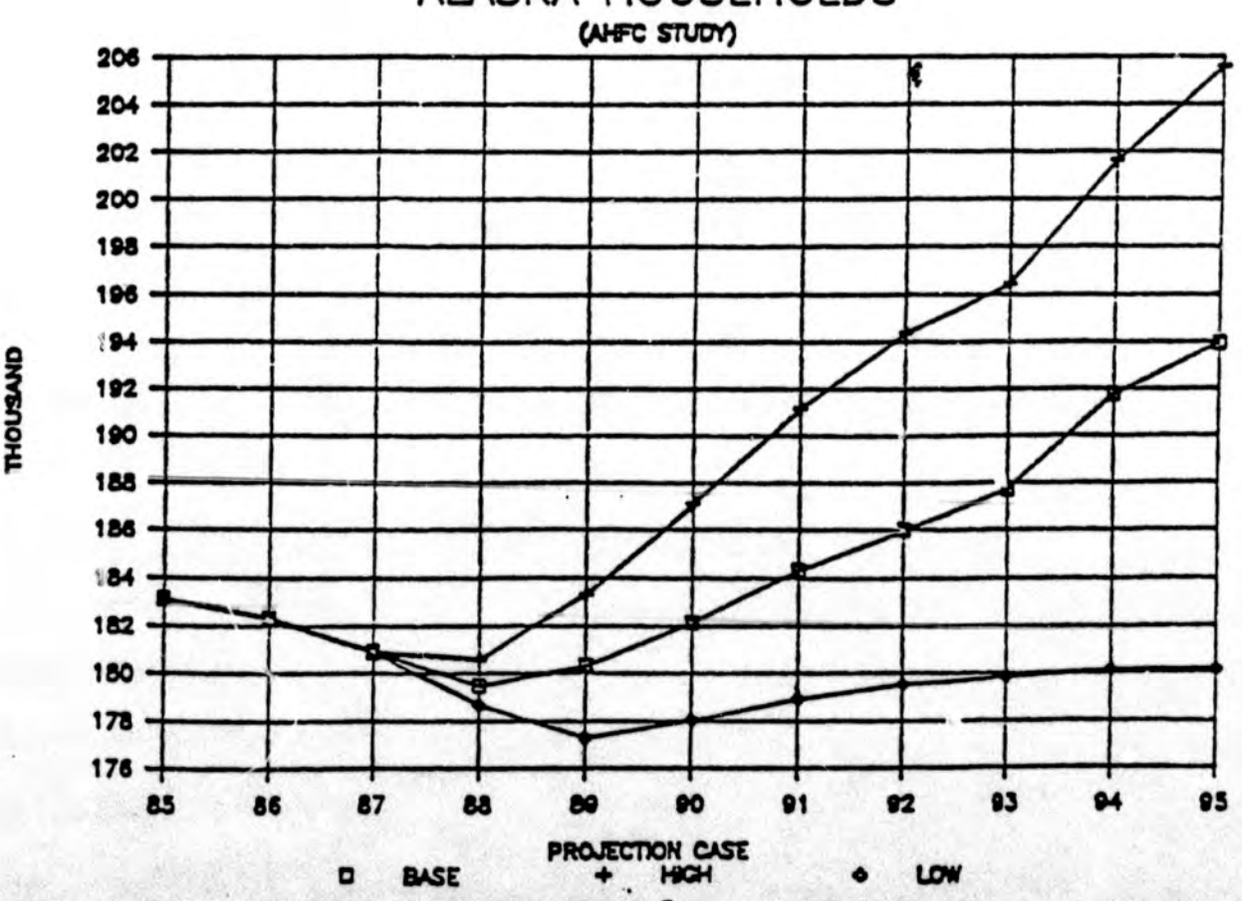


Figure 2.13

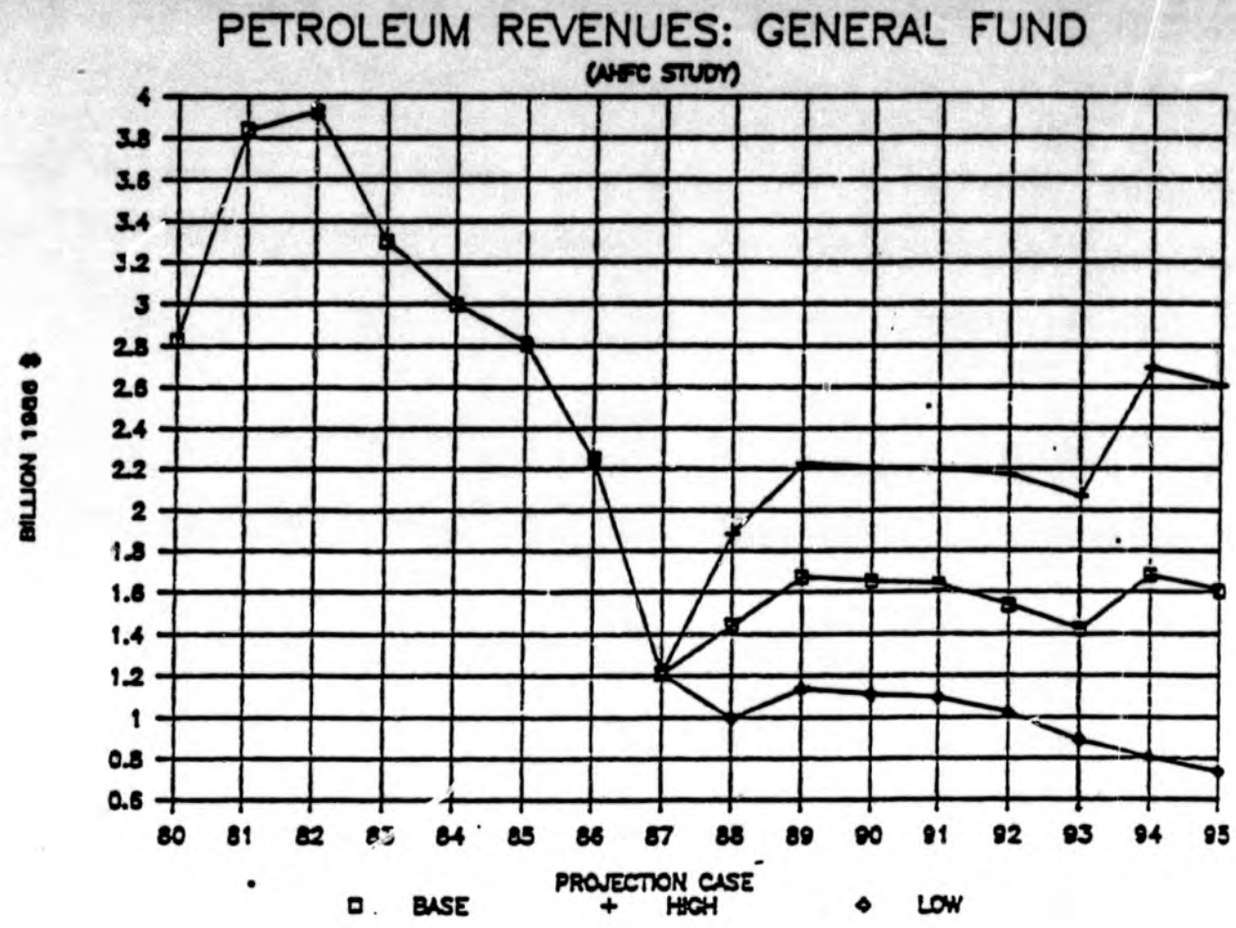


Figure 2.14

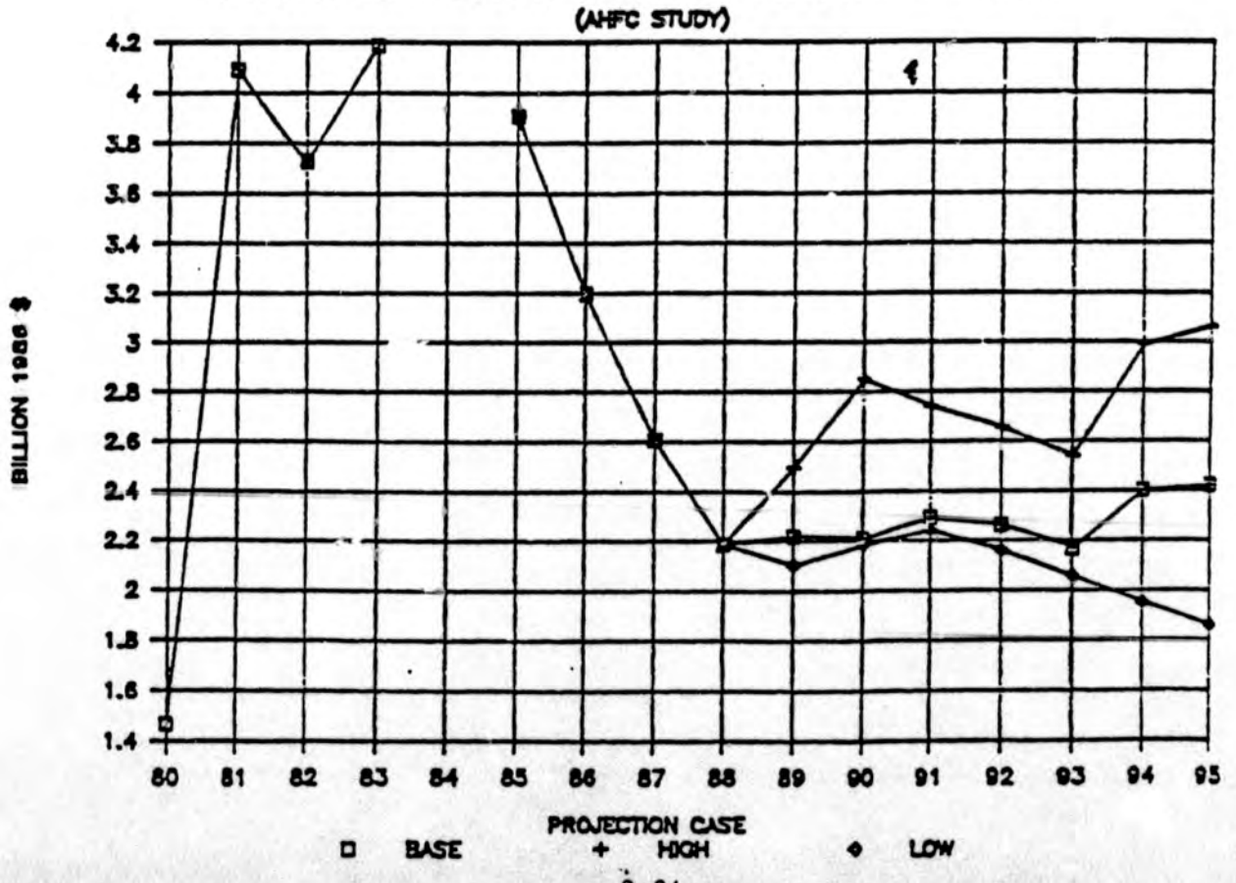


Figure 2.26

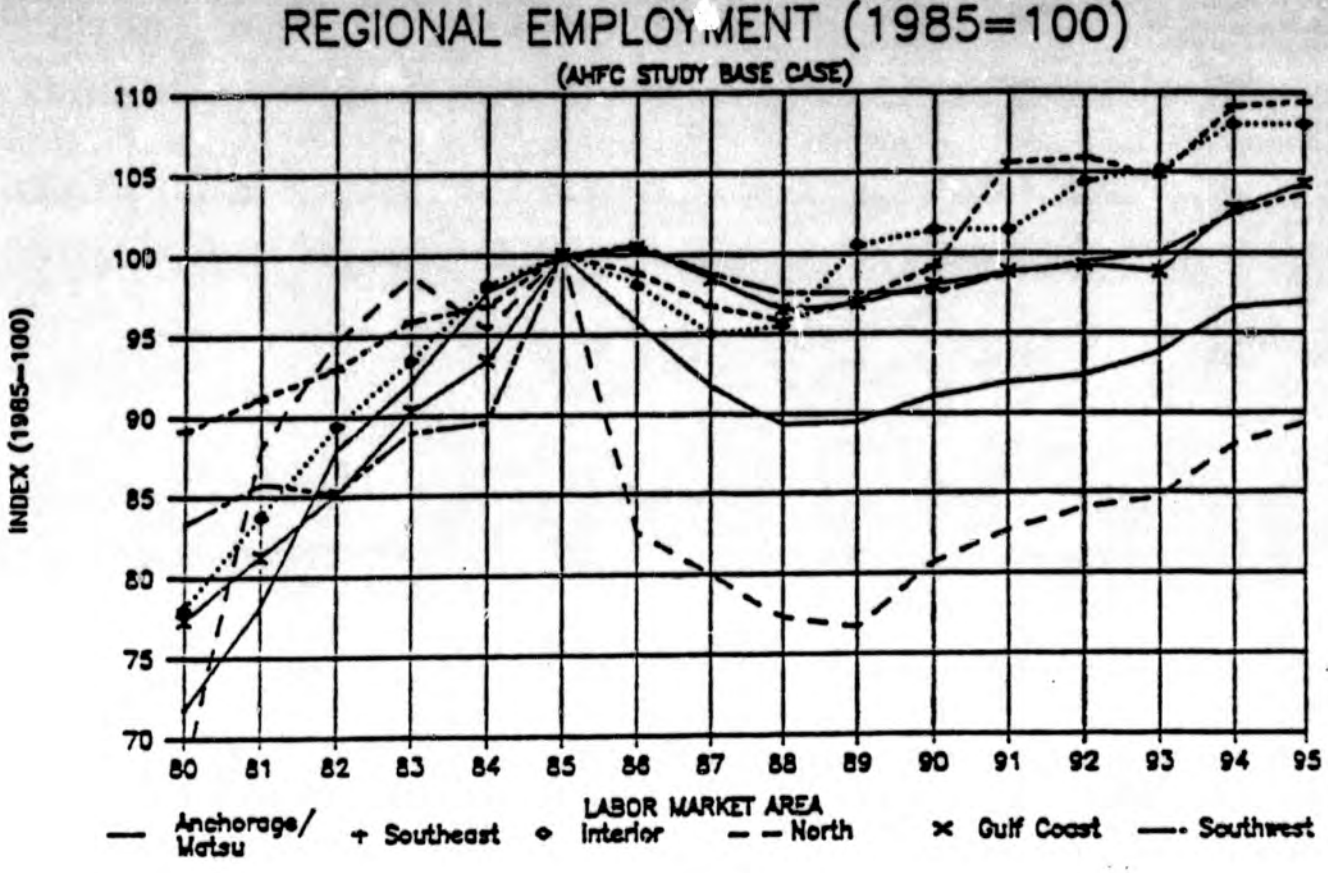


Figure 2.27

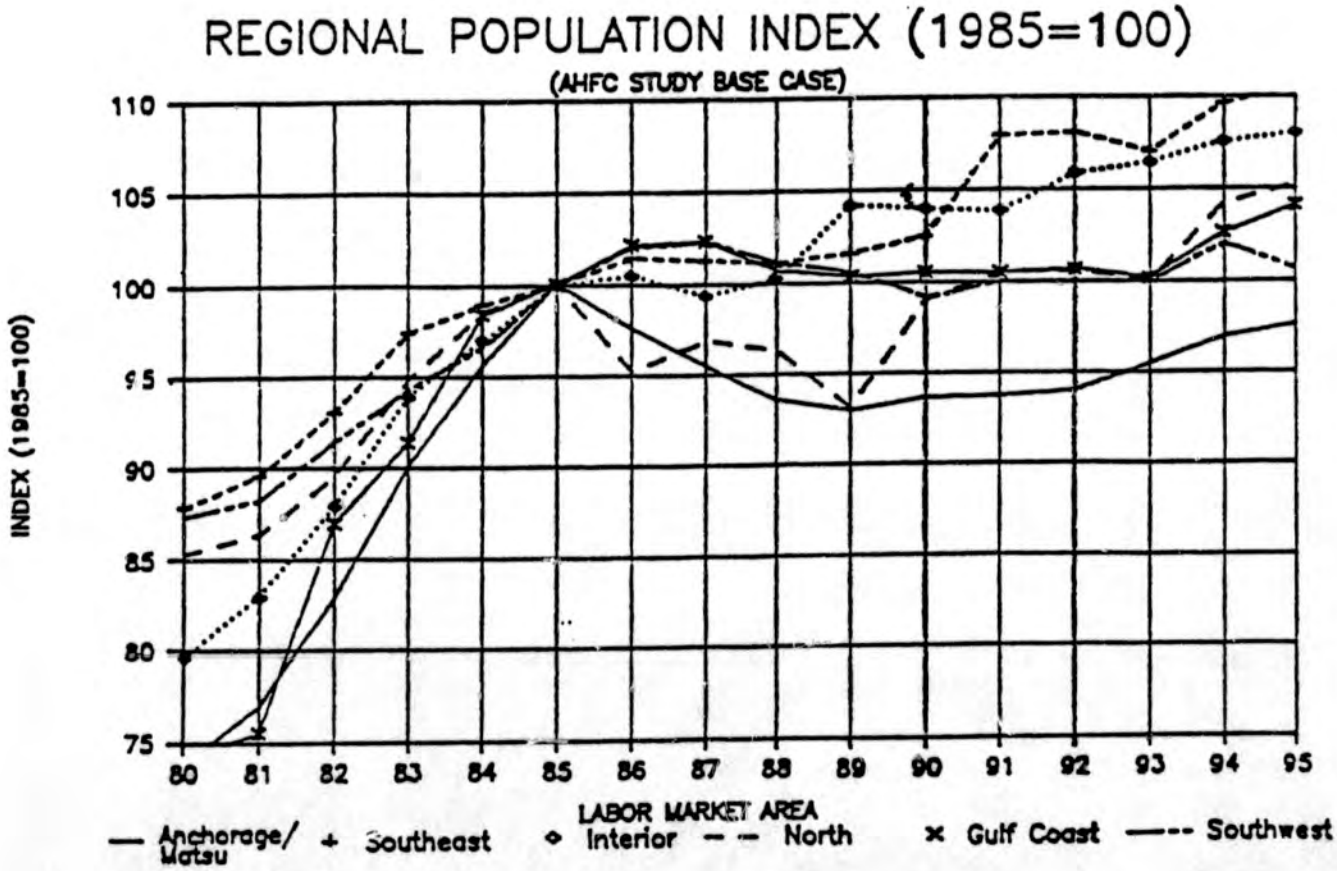


Figure 2.28

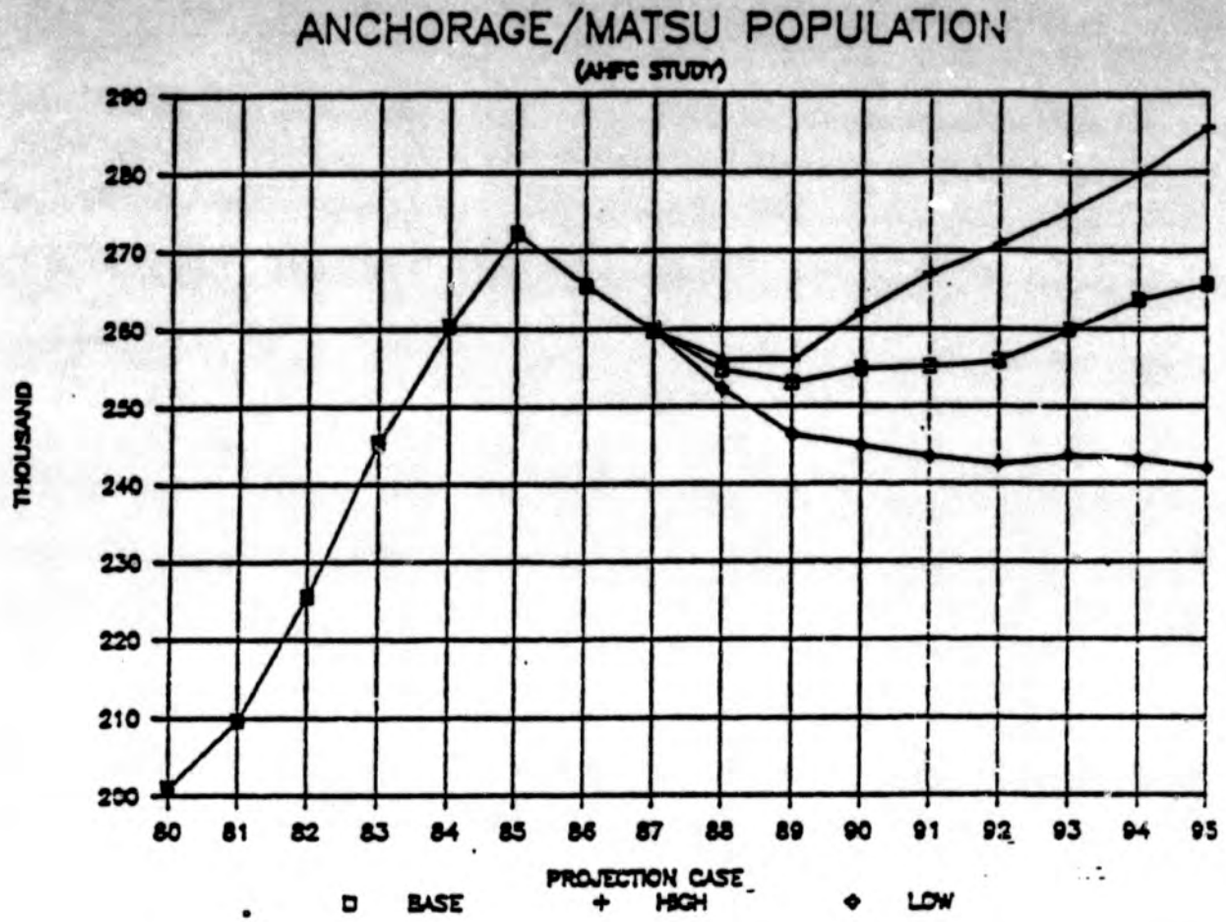
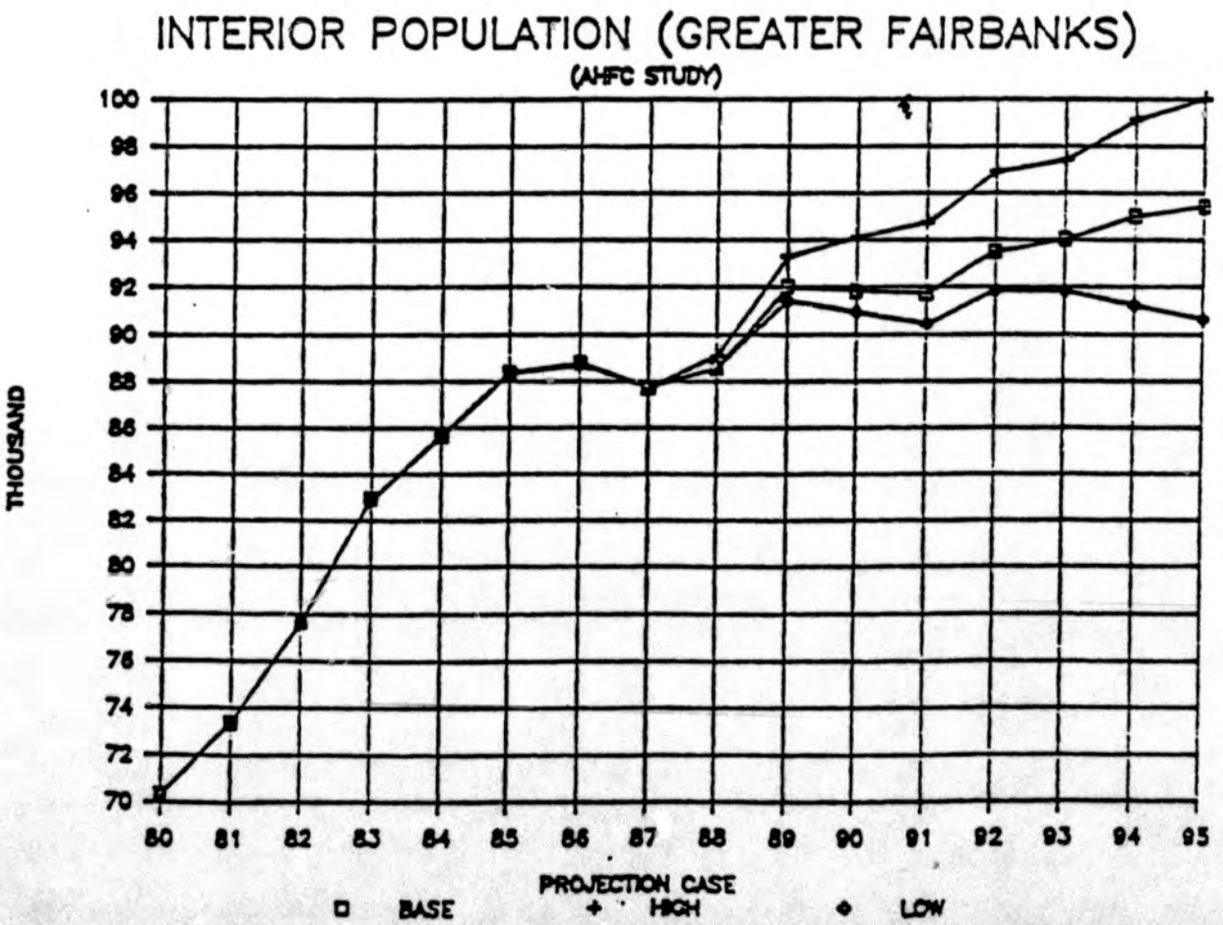


Figure 2.29



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, Revenue Sources (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, Revenue Sources (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].
B.2. Permanent Fund	
10. Permanent Fund Principal	Continuous accumulation from petroleum revenues [EXPF1]; 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].
B.3. Revenues	
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 development 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 development activity associated with Bering Sea and Arctic areas peaks at about 7,000 in 2005. Direct employment continues through the following decade at a level of about 3,000 (OCS.6NGT -12).
5. Oil Industry Headquarters	Oil company headquarters employment in Anchorage remains at about 3,900 through 2010 (OHQ.S86).
6. Healy Coal Mining	Export of approximately 1 million tons of coal annually adds 25 new workers to current base of 100 by 1986 (HCL.84X).
7. Beluga Chuitna Coal Production	Development of a 4.4 million ton/year mine for export beginning in 1989 provides employment of 524 (BCL.04T -4).
8. U.S. Borax	The U.S. Borax mine near Ketchikan is brought into production with operating employment of 685 beginning in 1993 and eventually increasing to 1,020 (BXM.F84-4).

9. Greens Creek Mine	Production from the Greens Creek Mine on Admiralty Island results in employment of 150 people from 1988 through 2003 (GCM.F84).
10. Red Dog Mine	The Red Dog Mine in the Western Brooks Range begins operation in 1991 with production employment of 393 rising to 428 (RED.F84-1).
11. Other Mining Activity	Mining employment not included in special projects increases from current level at 1 percent annually (OMN.S86).
12. Agriculture	Reduction in state support results in constant employment in agriculture (AGR.S86).
13. Logging and Sawmills	Logging for export by Native corporations expands employment to 3,100 by 1992 before declining at 1% annually due to productivity gains (FLL.S87).
14. Pulp Mills	Productivity gains result in employment declines at a rate of 1 percent per year after 1991 from the present level of 600 (FPU.S86).
15. Commercial Fish Harvesting--Nonbottomfish	Employment levels in traditional fisheries harvest remain constant at 7,500 through 2010 (TCF.S86).
16. Commercial Fish Processing--Nonbottomfish	Employment in processing traditional fisheries harvest remains at 7,000 (TFP.S87).
17. Commercial Fishing--Bottomfish	The total U.S. bottomfish catch expands at a constant rate to allowable catch in 2000, with Alaska resident harvesting employment rising to 1.033 thousand. Onshore processing capacity expands in the Aleutians and Kodiak census divisions to provide total resident employment of 1.471 thousand by 2000 (BCF.S86).
18. Federal Military Employment	Employment declines at 1 percent per year, consistent with the long-term trend since 1960 (GFM.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.

Alaska State Legislature

Senate Advisory Council

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

MEMORANDUM

TO: Senator A. Sturgulewski/Senator L. Jones
Co-Chairmen, Committee on Economic Recovery

FROM: Lee Ann Lucas
Administrative Officer

DATE: February 4, 1988

SUBJECT: Economic Development

Attached for your information, is a list of pending legislation in all fifty states related to economic development. Each entry indicates state, house and bill number, title and sponsor. The "PYB" stands for previous year bill.

If you would like more detailed information on any specific bill, please contact Lee Ann Lucas or Julie Sparks at 465-3114.

LAL:jts
Attachment

SCO=GLOBAL
FOR=B
SUB=3090
PRI=OVE
REPORT FORMATS .. B
.....

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REPORT FORMAT - B

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AK-CCH 68	ECON DEVELOPMENT	By: GOVERNORJ
AK-HBN 15	ENTERPRISE ZONES	By: MARTIN
AK-HBN 60	INDUST DEVELOP	By: MARTIN ET AL
AK-HBN 185	LOAN PROGRAMS	By: RULES COMM
AK-HBN 263	STATE AGENCIES	By: RULES COMM.
AK-HBN 267	COMMERCE/ECON. DEPT.	By: BROWN ET. AL.
AK-HBN 278	RESIDENT EMPLOYMENT	By: CATO
AK-HBN 350	BUSINESS LICENSING	By: RULES COMM
AK-HCR 21	AK PRODUCTS/SERVICES	By: POURCHOT ET AL
AK-HCR 32	ECONOMIC RECOVERY	By: RULES COMM
AK-SBN 64	EXPORT ENTERPRISE	By: KELLY ET AL
AK-SBN 94	MINERAL POLICY	By: COGHILL ET AL
AK-SBN 166	SMALL BUSINESS/MUNIC	By: FAHRENKAMP
AK-SBN 249	EMPL. PREFERENCE	By: COGHILL
AK-SBN 257	BUSINESS LICENSES AC	By: RULES COMM.
AK-SBN 300	BUILDING CODES	By: FAIKS
AK-SBN 329	BUSINESS LICENSES	By: RULES COMM
AK-SBN 345	RESOURCE DEVELOPMENT	By: SZYMANSKI
AK-SJR 23	RURAL DEVELOPMENT	By: STURAULEWSKI ET AL
AK-SRN 3	SENATE TRADE COM	By: VEHLING
AK-SRN 9	ECON OPPORTUNITY	By: RULES COMM
AK-SRN 28	RESOURCE DEVELOPMENT	By: RULES COMMITTEE
PYBAL-HBN 66	VENTURE CAPITAL	By: BUSKEY
PYBAL-HBN 542	DEVELOPMENT BONDS	By: ADAMS
PYBAL-HBN 719	ECONOMIC DEVELOPMENT	By: HOOPER ET AL
PYBAL-HBN 742	ECONOMIC DEVELOPMENT	By: MELTON
PYBAL-HBN 1007	DOWNTOWN REDEVELOP	By: TURNHAM
PYBAL-HJR 522	UNEMP. COMP.	By: JOHNSON
PYBAL-SBN 273	REDEVELOPMENT AREAS	By: HILLIARD
PYBAL-SBN 274	TAX INCREMENT DISTRI	By: HILLIARD
PYBAL-SBN 382	INDUSTRIAL DEVELOPME	By: MANLEY
PYBAL-SBN 533	TAX-EXEMPT BONDS	By: HAND
PYBAL-SBN 579	BONDS	By: MANLEY
PYBAL-SJR 119	CHILD DAY CARE	By: SANDERS ET AL
PYBAR-HBN 1327	SCIENCE AUTHORITY	By: LIPTON ET AL
PYBAR-HBN 1365	INTERIM COMMITTEES	By: FLANAGIN
PYBAR-HBN 1366	INTERIM COMMITTEES	By: FLANAGIN
PYBAR-HBN 1367	INTERIM COMMITTEES	By: FLANAGIN
PYBAR-HBN 1368	ADMINISTRATIVE RULES	By: FLANAGIN
PYBAR-HBN 1413	INDUST DEVELOPMENT	By: GLOVER ET AL
PYBAR-HBN 1844	INDUSTRIAL DEVELOPME	By: JT. BUDGET COMM.
PYBAR-HBN 2023	ECONOMIC DEVELOPMENT	By: SCHEXNAYDER/NORTHCUT
PYBAR-HBN 2037	REVENUE BONDS	By: J. MILLER

PYBAR-HBN 2059	INDUSTRIAL ENTERPRIS	By: RAMSEY
PYBAR-HCR 1024	HIGHWAY DEPT	By: SCHEXNAYDER
PYBAR-HCR 1038	AGRICULTURE STUDY	By: FLANAGIN
PYBAR-HCR 1078	BUILDING LOAN FUND	By: ARNOLD
PYBAR-HCR 1092	SMALL BUSINESS STUDY	By: HOGUE
PYBAR-HCR 1099	SMALL BUSINESS STUDY	By: HOGUS
PYBAR-SBN 544	INDUSTRIAL DEVELOP	By: GIBSON
PYBAR-SBN 578	INDUSTRIAL DEVELOPME	By: BUDGET COMM
PYBAR-SBN 627	MINORITY BUSINESS	By: JEWELL
PYBAR-SBN 647	DEVELOPMENT BONDS	By: GIBSON/BRADFORD
PYBAR-SBN 657	ECONOMIC DEVELOPMENT	By: MALONE
PYBAR-SBN 662	SMALL BUSINESS	By: LUELF
PYBAR-SRN 12		By: WOOD
PYBAZ-HBN 2107	ENTERPRISES ZONES	By: GIORDANO
PYBAZ-HBN 2383	BANKING FEES	By: WHITE ET AL
PYBAZ-HBN 2409	PUBLIC BONDING	By: HAWKE
PYBAZ-SBN 1088	ENTERPRISE BOARD	By: MAWHINNEY
PYBAZ-SBN 1254	ENTERPRISE ZONES	By: HIGUERS
PYBAZ-SBN 1275	RURAL DEVELOPMENT	By: LUNN/MACDONALD
PYBAZ-SBN 1276	STATE PROMOTION	By: LUNN/MACDONALD
PYBAZ-SBN 1277	PUBLIC REDEVELOPMENT	By: LUNN/MACDONALD
CA-ABN 7	FILM INDUSTRY	By: FARR ET AL
CA-ABN 25	EMPLOYMENT STUDIES	By: FARR
CA-ABN 26	RURAL DEVELOPMENT	By: FARR
CA-ABN 143	STATE CONTRACTS	By: MOLINA
CA-ABN 248	SAN DIEGO BAY	By: STIRLING
CA-ABN 390	STOCK DEDUCTION	By: KOTZ
CA-ABN 650	PUBLIC FINANCE	By: COSTA ET AL
CA-ABN 760	SMALL BUSINESS	By: BATES
CA-ABN 861	INDUSTRIAL MARKETING	By: QUACKENBUSH
CA-ABN 864	SMALL BUSINESS	By: QUACKENBUSH
CA-ABN 916	REDEVELOPMENT	By: GRISHAM
CA-ABN 944	COMMERCE DEPT STUDY	By: SEASTRAND ET AL
CA-ABN 962	ECONOMIC DEVELOPMENT	By: CHACON
CA-ABN 1030	CHILD CARE OFFICE	By: BATES
CA-ABN 1122	DEVELOPMENT FUND	By: ZELTNER
CA-ABN 1350	SURPLUS LAND	By: CORTESE
CA-ABN 1354	PUB EMP RETIREMENT	By: WRIGHT
CA-ABN 1456	INDUSTRIAL BONDS	By: FARR
CA-ABN 1470	ECON DEVELOPMENT	By: FLOYD
CA-ABN 1486	DEVELOPMENT PROJECTS	By: SHER
CA-ABN 1752	STATE CONTRACTS	By:
CA-ABN 1769	ENTERPRISE ZONES	By: NOLAN
CA-ABN 1810	ECONOMIC DEVELOPMENT	By: AGNOS
CA-ABN 1859	GOVERNMENT/TERRITORY	By: WATERS
CA-ABN 1915	SUBDIVISIONS, ECONOM	By: HARRIS
CA-ABN 1939	INDUSTRIAL DEVT.	By: QUACKENBUSH
CA-ABN 2070	RESTRUCTURING OF THE	By: HAUSER
CA-ABN 2145	RURAL ECONOMIC DEVEL	By: JONES
CA-ABN 2178	HOUSING BONDS	By: POLANCO
CA-ABN 2270	COORDINATION OF INFO	By: FERGUSON
CA-ABN 2343	WORLD TRADE COMMISSI	By: KILLEA
CA-ABN 2349	EXPORT FINANCE	By: A
CA-ABN 2350	EXPORT FINANCING	By: KILLEA

CA-ABN 2352	ENTERPRISE ZONES	By: KILLEA
CA-ABN 2353	SMALL BUSINESSES	By: KILLEA
CA-ABN 2552	STATE CONTRACTS	By: HARRIS
CA-ABN 2566	DIRECT LOANS TO FARM	By: FARR
CA-ABN 2603	DISPUTE SETTLEMENT A	By: HAUSER
CA-ABN 2735	TAX CONFORMITY	By: WATERS
CA-ABN 2737	YOUTH CENTERS	By: WATERS
CA-ABN 2764	ENTERPRISE ZONES	By: NOLAN
CA-ABN 2771	SMALL BUSINESS	By: CHACON
CA-ACR 25	TOURIST REST INFO	By: STATHAM
CA-AJR 42	DEPT OF ENERGY FUNDS	By: ZELTNER ET AL
CA-SBN 80	SMALL BUSINESS DEVLP	By: GARAMENDI
CA-SBN 368	ENTERPRISE ZONES	By: DILLS
CA-SBN 700	SMALL BUSINESS	By: ROBBINS
CA-SBN 899	LAND USE	By: CAMPBELL
CA-SBN 1138	SM. BUSINESS DEVELOP	By: ROYCE
CA-SBN 1139	JUVENILE COURT LAW	By: ROYCE
CA-SBN 1255	REDEFINES DUTIES OF	By: ROBERTI
CA-SBN 1650	SMALL BUSINESS DEVEL	By: MARKS
CA-SBN 1797	SMALL BUS. INCUBATOR	By: TORRES
CA-SCR 41	HAZARDOUS WASTE	By: ROBERTI
CA-SCR 48	PENSION INVESTMENTS	By: KEENE ET AL
*01CA-ABN 7	DISASTER RELIEF	By: HILL
CO-HBN 1005	ECONOMIC DEVELOPMENT	By: BERRY
CO-HBN 1028	SMALL BUSINESS	By: HERNANDEZ
CO-HBN 1182	IMPROVEMENT DISTRICT	By: AMENT
CO-SBN 29	STRATEGIC SEED FUND	By: RIZZUTO
PYBCO-HBN 1033	SMALL BUSINESS DEVEL	By: HERNANDEZ
PYBCO-HBN 1092	CONVENTION CENTER	By: ALLISON
PYBCO-HBN 1245	ECONOMIC DEVELOPMENT	By: BERRY
PYBCO-HBN 1264	ECONOMIC ASSISTANCE	By: WEBB
PYBCO-HBN 1274	ENTERPRISE ZONES	By: AMENT
PYBCO-HBN 1309	TELECOMMUNICATIONS	By: GREEN
PYBCO-HBN 1366	ECONOMIC DEVEL COMM	By: ARMSTRONG
PYBCO-HJR 1032	HOUSE STUDIES	By: PAULSON
PYBCO-SBN 5	CAPITAL DEVELOPMENT	By: LEE
PYBCO-SBN 119	ECONOMIC DEVELOPMENT	By: TRAYLOR
PYBCO-SBN 129	ECONOMIC DEVELOPMENT	By: MCCAULEY
PYBCO-SBN 146	HOUSING AUTHORITY	By: BIRD
PYBCO-SBN 147	FINANCE AUTHORITY	By: BIRD
PYBCO-SBN 148	ENTERPRISE ZONES	By: PASTORE
PYBCO-SBN 162	ECONOMIC DEVELOPMENT	By: LEE ET AL
PYBCO-SBN 219	VESTED PROPERTY	By: FENLON
PYBCT-HBN 6334	JOB PROTECTION	By: TABORSAK
PYBCT-HBN 6641	SMALL BUSINESS	By: MEYER
PYBCT-HBN 6724	HOUSING INVESTMENTS	By: HOUSING
PYBCT-HBN 6757	INDUSTRIAL CENTER	By: BEAMON
PYBCT-HBN 6761	ENTERPRIZE ZONES	By: LUBY
PYBCT-HBN 6767	ECONOMIC DEVEL	By: LANGLOIS
PYBCT-HBN 6884	DEVELOPMENT PROJECTS	By: BELDEN
PYBCT-HBN 6952	MUNI DEVELOPMENT	By: COLEMAN
PYBCT-HBN 7035	ENTERPRISE ZONE	By: TABORSAK
PYBCT-HBN 7288	ECONOMIC DEVELOPMENT	By: APPROPRIATIONS
PYBCT-HBN 7383	CEMETERY DEVELOPMENT	By: PLANNING

PYBCT-HBN 7440	MINORITY CONTRACTS	By: PLANNING
PYBCT-HBN 7619	ECONOMIC DEVELOPMENT	By: PLANNING
PYBCT-HBN 7644	BUSINESS LOANS	By: PLANNING
PYBCT-SBN 474	ECON DEVELOPMENT	By: BARROWS
PYBCT-SBN 477	NEW JOBS	By: BARROWS
PYBCT-SBN 479	JOBS PILOT PROGRAM	By: DIBELLA
PYBCT-SBN 707	BUSINESS ASSISTANCE	By: MALONEY
PYBCT-SBN 808	TUITION WAIVER	By: EDUCATION
PYBCT-SBN 886	RESEARCH ASSISTANCE	By: STOLBERG ET AL
DE-HBN 114	REINVESTMENT	By: SILLS ET AL
DE-HBN 206	ENTERPRISE ZONES	By: PLANT, ET AL
DE-HBN 224	DEVELOPMENT NOTICE	By: CLARK ET AL
DE-SBN 162	COMMUNITY REINVEST	By: MCDOWELL, ET AL
DE-SBN 294	BOND ISSUES	By: COOK ET AL
FL-HBN 46	STATE REVENUE LIMIT	By: SAMPLE
FL-HBN 126	SMALL CITIES GRANT	By: LOGAN
PYBFL-HBN 124	CONTRACTS	By: BURNSED
PYBFL-HBN 308	SMALL CITIES GRANT	By: LOGAN
PYBFL-HBN 399	DOWNTOWN AREAS	By: WALLACE
PYBFL-HBN 437	HORSE RACING	By: SILVER
PYBFL-HBN 732	BREVARD COUNTY	By: GARDNER
PYBFL-HBN 748	REGIONAL DEVELOPMENT	By: DUNBAR
PYBFL-HBN 807	HIALEAH RACE COURSE	By: MEFFERT
PYBFL-HBN 867	MINORITY ENTERPRISES	By: REAVES
PYBFL-HBN 890	DOWNTOWN DEVELOP	By: TOBIN
PYBFL-HBN 892	INDUSTRIAL DEVELOPME	By: CANADY
PYBFL-HBN 957	DOWNTOWN DEVELOP	By: PRESS
PYBFL-HBN 995	ECONOMIC DEVELOP	By: SANSOM
PYBFL-HBN 1043	ECONOMIC DEVELOP	By: HARGETT
PYBFL-HBN 1193	ENTERPRISE ZONES	By: BLOOM
PYBFL-HBN 1215	GROWTH INCREMENT DIS	By: KING
PYBFL-HBN 1290	REVISERS BILL	By: RULES
PYBFL-HBN 1291	REVISERS BILL	By: RULES
PYBFL-HBN 1293	REVISERS BILL	By: RULES
PYBFL-HBN 1299	FAR EAST COUNCIL	By: INTERNATIONAL TRADE
PYBFL-HBN 1308	AGRICULTURAL DEVELOP	By: AGRICULTURE
PYBFL-HBN 1451	REORGANIZE GOVT.	By: APPROPRIATIONS
PYBFL-HBN 1467	CRIME PREVENTION	By: CRIMINAL JUSTICE
PYBFL-HBN 1480	GOVT REORGANIZATION	By: GOVT OPERATIONS
PYBFL-SBN 388	DEVELOP DOWNTOWN	By: FRANK
PYBFL-SBN 479	REVISER'S BILL	By: BARRON
PYBFL-SBN 709	ECONOMIC DEVELOPMENT	By: DERATANY
PYBFL-SBN 733	ENERGY GOALS	By: KISER
PYBFL-SBN 759	REGIONAL DEVELOPMENT	By: KISER
PYBFL-SBN 958	HIALEAH RACE COURSE	By: THURMAN
PYBFL-SBN 1049	CORPORATE TAX	By: DERATANY
PYBFL-SBN 1058	INDUSTRIAL DEVELOPME	By: HAIR
PYBFL-SBN 1140	MINORITY ENTERPRISES	By: MEEK
PYBFL-SBN 1168	AGRICULTUREL DEVELOP	By: HOLLINGSWORTH
PYBFL-SBN 1229	FAR EAST COUNCIL	By: PETERSON
PYBFL-SBN 1326	REORGANIZE GOVT.	By: APPROPRIATONS
PYBFL-SBN 1352	ECONOMIC DEVELOP	By: DERATANY
GA-HBN 23	CODE REVISION	By: THOMAS ET AL
GA-HBN 211	CITY REDEVELOPMENT	By: WALKER

GA-HBN 281	METROPOLITAN AREA	By: ADAMS/ISAKSON
GA-HBN 295	MUNICIPAL LEVY	By: STANCIL
GA-HBN 330	LAND USE PLANNING	By: LAWLER ET AL
GA-HBN 362	INDUSTRIAL BUILDING	By: CLARK/JAMIESON
GA-HBN 400	CITY TAX LEVY	By: BRANCH
GA-HBN 561	REDEVELOPMENT	By: COUCH ET AL
GA-HBN 619	BOND ISSUES	By: SMYRE ET AL
GA-HBN 720	BUSINESS LOANS	By: PINKSTON
GA-HBN 762	MUNICIPAL LEVY	By: RAMSELY ET AL
GA-HBN 953	DEVT AUTHORITY	By: GROOVER ET AL
GA-HBN 1026	COMMUNITY DEVT	By: SHEPARD ET AL
GA-HBN 1035	TRADE SHOWS FACILITY	By: MCDONALD ET AL
GA-HBN 1036	COMMUNITY DEVT	By: MCDONALD ET AL
GA-HBN 1303	CHARITABLE CORP	By: ROBINSON
GA-HBN 1309	MINORITY BUSINESS	By: WALKER ET AL
GA-HBN 1310	MINORITY BUSINESS	By: WALKER ET AL
GA-HBN 1403	VOCATIONAL ED	By: SMYRE ET AL
GA-HBN 1442	CITY BUSINESS	By: RAINEY ET AL
GA-HBN 1502	DOWNTOWN DEVT.	By: MCKINNEY
GA-HRN 77	ECONOMIC DEVELOPMENT	By: HOLMES ET AL
GA-HRN 329	ECONOMIC DEVELOPMENT	By: JOHNSON ET AL
GA-HRN 580	VOCATIONAL ED.	By: WILSON ET AL
GA-SBN 85	URBAN DEVELOPMENT	By: LANGFORD COVERDELL
GA-SBN 95	LAGRANGE CO DEV	By: BALDWIN
GA-SBN 181	INDUSTRIAL DEVELOP	By: BOWEN
GA-SBN 191	DEVELOPMENT COMMISSN	By: FOSTER ET AL
GA-SBN 263	GOVT CONTRACTS	By: LANGFORD ET AL
GA-SBN 267	ECONOMIC DEVELOPMENT	By: BROUN ET AL
GA-SBN 268	ECONOMIC DEVELOPMENT	By: BROUN ET AL
GA-SBN 331	COUNTY DEVELOPMENT	By: TOLLESON ET AL
GA-SBN 475	COMMUNITY AFFAIRS	By: DEAN ETAL
GA-SRN 164	ECONOMIC DEVELOPMENT	By: KIDD
GA-SRN 174	ECONOMIC DEVELOPMENT	By: KIDD
HI-HBN 33	ECONOMIC COUNCIL	By: LEVIN ET AL
HI-HBN 36	INDUSTRIAL CORP	By: LEVIN ET AL
HI-HBN 38	SMALL BUSINESS	By: IGE ET AL
HI-HBN 39	AREA DEVELOPMENT	By: IGE ET AL
HI-HBN 184	ECONOMIC DEVELOPMENT	By: BUNDA
HI-HBN 309	REVENUE BONDS	By: KAWAKAMI
HI-HBN 310	REVENUE BONDS	By: KAWAKAMI
HI-HBN 311	DISTRICT IMPROVEMENT	By: KAWAKAMI
HI-HBN 461	INDUSTRIAL BONDS	By: KANOHO ET AL
HI-HBN 462	INDUSTRIAL BONDS	By: KANOHO ET AL
HI-HBN 552	INTL BUSINESS MART	By: LEVIN
HI-HBN 676	COMMUNITY DEVT	By: SHITO
HI-HBN 727	COMMUNITY DEVT	By: SHITO
HI-HBN 758	NEIGHBORHOODS	By: SHON ET AL
HI-HBN 769	EXPORTS	By: SAY ET AL
HI-HBN 781	ECONOMIC DEVELOPMENT	By: LEVIN
HI-HBN 782	ECONOMIC DEVELOPMENT	By: LEVIN
HI-HBN 783	ECONOMIC DEVELOPMENT	By: LEVIN
HI-HBN 784	ECONOMIC DEVELOPMENT	By: LEVIN
HI-HBN 795	SPACE INDUSTRIES	By: HEMMINGS ET AL
HI-HBN 820	VISTOR INDUSTRY	By: YOSHIMURA ET AL

HI-HBN 875	DEPT OF AGRICULTURE	By: KAWAKAMI
HI-HBN 950	PLANNING	By: ANDREWS
HI-HBN 1016	DEVELOPMENT OFFICES	By: OKAMURA
HI-HBN 1029	PERMIT PROCESSING	By: ANDREWS
HI-HBN 1033	VISITORS BUREAU	By: SOUKI
HI-HBN 1077	DEPT OF PLANNING	By: TAM ET AL
HI-HBN 1167	DEVEL AUTHORITY	By: CROZIER
HI-HBN 1243	ALOHA TOWER	By: SAY ET AL
HI-HBN 1326	ECONOMIC DEVELOPMENT	By: KOWAKAMI
HI-HBN 1354	REVENUE BONDS	By: TAJIRI ET AL
HI-HBN 1386	OCEAN RESOURCES	By: BUNDA
HI-HBN 1501	SPACE TECHNOLOGY	By: KAWAKAMI
HI-HBN 1503	PLANNING DEPT	By: KAWAKAMI
HI-HBN 1626	INTL BUSINESS CENTR	By: LEVIN
HI-HBN 1637	PURCHASE OF SERVICE	By: CACHOLA ET AL
HI-HBN 1766	VENTURE CAPITAL	By: FUKUNAGA
HI-HBN 1898	REVENUE BONDS	By: APO
HI-HBN 1899	COMMUNITY DEVELOP	By: METCALF ET AL
HI-HBN 1903	REVENUE BONDS	By: METCALF ET AL
HI-HBN 2001	ECONOMIC DEVELOPMENT	By: ASHIRO ET AL
HI-HBN 2003	ECONOMIC DEVELOPMENT	By: METCALF ET AL
HI-HBN 2019	ECONOMIC DEVELOPMENT	By: LEVIN ET AL
HI-HBN 2021	BUSINESS FINANCING	By: LEVIN ET AL
HI-HBN 2022	BUSINESS PERMITS	By: LEVIN ET AL
HI-HBN 2023	SMALL BUSINESSES	By: LEVIN ET AL
HI-HBN 2024	WATERFRONT PLANNING	By: LEVIN ET AL
HI-HBN 2027	ECONOMIC DEVELOPMENT	By: LEVIN ET AL
HI-HBN 2028	ECONOMIC DEVELOPMENT	By: LEVIN ET AL
HI-HBN 2031	INTERNAT'L SERVICES	By: LEVIN ET AL
HI-HBN 2032	TELECOMMUMICATIONS	By: LEVIN ET AL
HI-HBN 2038	EMERGENCY FUND	By: SOUKI ET AL
HI-HBN 2039	ECONOMIC DEVELOPMENT	By: BUNDA ET AL
HI-HBN 2061	ECONOMIC DEVELOPMENT	By: CACHOLA
HI-SBN 130	FOREIGN INVESTMENT	By: CHANG
HI-SBN 134	BUSINESS PROCUREMENT	By: CHANG
HI-SBN 145	TRADE CENTER	By: CHANG
HI-SBN 388	INTL TRADE	By: IKEDA ET AL
HI-SBN 511	REVENUE BONDS	By: MATSUURA ET AL
HI-SBN 717	INTERNATIONAL TRADE	By: HENDERSON ET AL
HI-SBN 934	PERMIT PROCESS	By: HAGINO
HI-SBN 1075	COMMUNITY DEV	By: AKI ET AL
HI-SBN 1110	INCUBATOR FACILITIY	By: MATSUURA ET AL
HI-SBN 1154	HAWAIIAN ECONOMY	By: WONG
HI-SBN 1178	CONVENTION CENTER	By: MCMURDO ET AL
HI-SBN 1185	ECONOMIC DEVELOPMENT	By: KURODE
HI-SBN 1190	TOURIST BUREAUS	By: HOLT ET AL
HI-SBN 1294	ECONOMIC DEVELOPMENT	By: CHANG ET AL
HI-SBN 1295	EXCHANGE PROGRAM	By: CHANG
HI-SBN 1326	LAND USE	By: FERNANDES-SALLING
HI-SBN 1334	ECONOMIC PROSPERITY	By: CHANG ET AL
HI-SBN 1394	CONVENTION CENTER	By: NAKASATO ET AL
HI-SBN 1517	BUSINESS DEVELOP	By: WONG
HI-SBN 1711	AGRICULTURAL PARKS	By: WONG
HI-SBN 1747	PLANNING	By: WONG

HI-SBN 1755	TRAINING PROGRAM	By: WONG
HI-SBN 2024	OCEAN RESOURCES	By: MATSURRA ET AL
PYBHI-HRN 43	FILM PRODUCTION	By: LEVIN ET AL
PYBHI-HRN 109	ECON DEVELOPMENT	By: LEVIN ET AL
PYBHI-HRN 143	SPACE DEVELOPMENT	By: LEVIN ET AL
PYBHI-HRN 178	MINORITY BUSINESS	By: TOM
PYBHI-HRN 260	SMALL BUSINESS	By: YOSHIMURA ET AL
PYBHI-HRN 269	MOLOKAI STUDY	By: PFEIL
PYBHI-HRN 329	ECON DEVELOPMENT	By: LEVIN ET AL
PYBHI-HRN 382	BUSINESS MART	By: LEVIN
PYBHI-SRN 47	MOLOKAI LOCAL GOVT.	By: REED ET AL
PYBHI-SRN 131	JOB TRAINING	By: SOLOMO ET AL
IA-HBN 223	PAY/PREVAILING RATE	By: OSTERBERG
IA-HBN 298	COMMO ECO BETTERMENT	By: PLATT
IA-HBN 320	ECONOMIC DEVELOPMENT	By: SHONING
IA-HBN 365	MUN UTILITY REVENUE	By: DIEMER
IA-HBN 383	URBAN RENEWAL	By: BISIGNANO/HATCH
IA-HBN 497	ECO DEVELOP/TAX LEVY	By: ECONOMIC DEVELOPMENT
IA-HBN 540	WELCOME CENTERS	By: ECONOMIC DEVELOPMENT
IA-HBN 555	VENTURE CAPITAL COMP	By: DAGGETT ET AL
IA-HBN 592	SM. BUSINESS DEVELOP	By: SMALL BUSINESS
IA-HBN 636	INTERNATIONAL TRADE	By: ECONOMIC DEVELOP
IA-HBN 644	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOP.
IA-HCR 22	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOPMENT
IA-HCR 32	CREDIT MECHANISMS	By: SWARTZ
IA-HCR 33	WELFARE SYSTEMS	By: HUMAN RESOURCES
IA-HCR 38	STATE PROGRAMS	By: RUNNING ET AL
IA-SBN 44	ECO DEVELOP BOARD	By: WELLS
IA-SBN 47	ENTERPRISE ZONES	By: HOLDEN ET AL
IA-SBN 139	ECO DEVELOPMENT PROJ	By: HUTCHINS
IA-SBN 171	PAY/PREVAILING RATE	By: PETERSON
IA-SBN 180	ECO CRISIS RELIEF	By: SMALL BUSINESS
IA-SBN 207	ST EMP LOAN PROGRAM	By: MURPHY
IA-SBN 233	ENTERPRISE ZONES	By: VANDE HOEF ET AL
IA-SBN 301	PILOT PROGRAM	By: HANNON ET AL
IA-SBN 361	BANKING	By: GRONSTAL ET AL
IA-SBN 369	VENTURE CAPITAL CO	By: BODWELL
IA-SBN 374	STATUTORY CORRECTION	By: JUDICIARY
IA-SBN 395	ECO DEVELOPMENT	By: SMALL BUSINESS
IA-SBN 402	ECO BETTERMENT FUND	By: LOCAL GOVT
IA-SBN 431	INSURANCE/BENEFITS F	By: MURPHY
IA-SBN 432	GUARANTY FUND	By: PALMER
IA-SBN 453	URBAN RENEWAL AND UR	By: LOCAL GOVT.
IA-SBN 463	ECONOMIC ASSISTANCE	By: AGRICULTURE
IA-SBN 487	INVESTMENT POOLS	By: SMALL BUSINESS
IA-SBN 491	JOB TRAINING PROG	By: SMALL BUSINESS
IA-SBN 493	SMALL BUSINESS ECONO	By: SMALL BUSINESS
IA-SBN 501	ST GOVT/PROCEDURES	By: HUTCHINS
IA-SBN 508	INVESTMENT POOLS	By: WAYS & MEANS
IA-SBN 517	PETROLEUM OVERCHARGE	By: APPROPRIATIONS
IA-SBN 2072	LOTTERY REVENUES	By: MILLER ET AL
IA-SCR 33	WELFARE SYSTEM	By: HUMAN RESOURCES
IA-SCR 36	STATE PROGRAMS	By: CARR, ET AL
PYBID-HBN 46	IMPROVEMENT DIST	By: REVENUE

PYBID-SBN 1116	SMALL BUSINESS	By: COMMERCE
PYBID-SBN 1128	IDAHO BIDCO ACT	By: COMMERCE
PYBID-SBN 1191	URBAN RENEWAL AGENCY	By: STATE AFFAIRS
PYBID-SCR 118	EXPORT MARKETS	By: JUDICIARY
IL-HBN 301	DEVELOPMENT AUTHORIT	By: MCPIKE ET AL
IL-HBN 308	SEWER BONDS	By: MCPIKE
IL-HBN 839	WEST SIDE DEVEL COMM	By: HUFF
IL-HBN 888	CREATES URBAN DEVELO	By: YOUNGE
IL-HBN 928	DEMOLISHED FACTORY G	By: STANGE
IL-HBN 1194	MINORITY BUSINESS	By: BRAUN ET AL
IL-HBN 1494	ENTERPRISE ZONES	By: BLACK
IL-HBN 1681	INDUSTRY ASSISTANCE	By: MAUTINO
IL-HBN 1791	SCIENCE FOUNDATION	By: CURRIE
IL-HBN 1859	DEVELOPMENT FINANCE	By: MCPIKE
IL-HBN 1965	ZONE GRANTS	By: HULTGREN
IL-HBN 1966	ENTERPRISE ZONES	By: HULTGREN
IL-HBN 1967	REDEVELOPMENT	By: HULTGREN
IL-HBN 1971	SELF-RELIANCE CENTER	By: YOUNG
IL-HBN 1973	CAPITAL RESOURCES	By: YOUNG
IL-HBN 2102	ENTERPRIZE ZONE	By: GRANBERG
IL-HBN 2205	PUBLIC CONTRACTS	By: A. YOUNG
IL-HBN 2406	QUAD CITIES AUTHORIT	By: DEJAEGHER ET AL
IL-HBN 2407	ZONE PROMOTION	By: WAIT
IL-HBN 2459	ZONE LOANS	By: REA
IL-HBN 2464	URBAN DEVEL DEPT	By: YOUNGE
IL-HBN 2474	URBAN REDEVELOPMENT	By: KUBIK
IL-HBN 2489	TECHNO. FINANCE CORP	By: MORROW
IL-HBN 2555	INDUSTRIAL LOANS	By: DEJAEGHER ET AL
IL-HBN 2626	REGIONAL DEVELOPMENT	By: CHURCHILL ET AL
IL-HBN 2866	DEFINES ZONES	By: BLACK
IL-HRN 629	ECON DEVEL TASK FORC	By: EWING
IL-SBN 1	TRADE NEGOTIATIONS	By: SEVERENS
IL-SBN 57	LOTTERY DISTRIBUTION	By: BROOKING ET AL
IL-SBN 59	LOTTERY REVENUE	By: BROOKINS ET AL
IL-SBN 144	EXPORT DEVELOPMENT	By: DEMUZIO
IL-SBN 200	FOREIGN BUSINESS	By: HOLMBERG
IL-SBN 486	ZONE DECERTIF.	By: KARPIEL ET AL
IL-SBN 493	SMALL BUSINESS	By: HALL ET AL
IL-SBN 503	ENTERPRISE ZONE	By: WOODYARD
IL-SBN 559	ELECTRICITY CONTRACT	By: JOYCE
IL-SBN 848	QUAD CITIES DEVLPMT	By: JACOBS
IL-SBN 884	RURAL BUSINESSES	By: DEMUZIO
IL-SBN 885	ECONOMIC DEVELOPMENT	By: DEMUZIO
IL-SBN 981	ENTERPRISE ZONE AREA	By: WOODYARD
IL-SBN 1055	REGIONAL DEVELOPMENT	By: POSHARD
IL-SBN 1085	1987 REVISORY ACT	By: WELCH ET AL
IL-SBN 1086	ENTERPRISE ZONE	By: WOODYARD
IL-SBN 1112	PUB. CORP.-BONDS	By: LUFT
IL-SBN 1239	MANUF. ASSIST.	By: DEANGELIS
IL-SBN 1258	COUNCIL APPOINTMENTS	By: ROCK
IL-SBN 1300	ECON DEVELOPMENT	By: ROCK ET AL
IL-SBN 1357	EVIDENCE	By: DUNN
IL-SBN 1534	TIF DEFINITION	By: ROCK
IL-SBN 1561	BUSINESS INNOVATION	By: HOLMBERG ET AL

IL-SRN 151	ECONOMIC DEVELOPMENT	By: ROCK
IN-HBN 1097	ECON IMPROVEMENT	By: MISHLER
IN-HBN 1151	ECONOMIC DEVELOPMENT	By: POOL
IN-HBN 1195	SMALL BUSINESS	By: GOODALL ET AL
IN-HBN 1279	ECONOMIC REVITALIZAT	By: BUELL
IN-HBN 1288	AID TO BUSINESS	By: BAUER
IN-HBN 1315	MINORITY BUSINESS	By: HARRIS
IN-HBN 1364	MUNICIPAL BONDS	By: LEEUW
IN-HBN 1370	ECONOMIC IMPROVE	By: AYRES
IN-HBN 1432	MARITIME DISTRICTS	By: BUDAK
IN-SBN 61	SMALL BUSINESS LOAN	By: O'BANNON
IN-SBN 221	MARION COUNTY	By: SOARDS ET AL
IN-SBN 245	EDUCATION FUNDING	By: MILLS
IN-SBN 246	FOREIGN TRADE SHOWS	By: MILLS
IN-SBN 289	INVESTMENT CAPITAL	By: MILLS
IN-SBN 309	ECONOMIC DEVEL	By: MOSBY
IN-SBN 323	REDEVELOPMENT COMM	By: HUNT
IN-SBN 346	ECONOMIC DEVEL	By: O'BANNON
IN-SBN 355	EXPORT AUTHORITY	By: BORST
IN-SBN 368	PRIVATE ENTERPRISE	By: CORCORAN
PYBIN-HBN 1626	SEED LOAN FUND	By: HARPER
PYBIN-HBN 1646	SMALL BUSINESS	By: GOODALL/BECKER
PYBIN-HBN 1684	TAX FINANCE	By: POOL
PYBIN-HBN 1706	ECONOMIC GROWTH	By: ESPICH ET AL
PYBIN-HBN 1725	ECON DEV FUND	By: BAUER/COCHRAN
PYBIN-HBN 1727	ECONOMIC DEVELOP	By: BAUER
PYBIN-HBN 1742	ECONOMIC DEVELOP	By: SPENCER
PYBIN-HBN 1753	INDUSTRIAL DEVELOP	By: ESPICH
PYBIN-HBN 1759	ECONOMIC DEVELOP	By: POOL
PYBIN-HBN 1776	ECONOMIC DEVELOP	By: PHILLIPS
PYBIN-HBN 1801	EMPLOYEMENT COMM	By: DELLINGER/DAVIS
PYBIN-HBN 1840	BUSINESS INCENTIVES	By: BODIKER
PYBIN-HCR 21	ENTERPRISE ZONES	By: BODIKER
PYBIN-SBN 185	INTERNATIONAL FUTURE	By: BORST
PYBIN-SBN 217	INCUBATOR LOAN FUND	By: O'BANNON
PYBIN-SBN 296	BUSINESS ASSISTANCE	By: MOSBY
PYBIN-SBN 303	SMALL BUSINESS	By: KEARNS
PYBIN-SBN 442	ENTERPRISE ZONE	By: SINKS
PYBIN-SBN 452	REDEVELOPMENT COMM	By: HUNT
PYBIN-SBN 462	AG RESEARCH	By: JESSUP ET AL
PYBIN-SCR 13	CENTRAL HIGHWAY	By: JUSTICE
KS-HBN 2357	BUSINESS DISTRICTS	By: ROY/ACHESON
KS-HCR 5033	ECONOMIC DEVELOPMENT	By: ECONIMIC DEVELOP
KS-SBN 42	EASEMENT RESTRICTION	By: ENERGY & NAT RES COM
KS-SBN 70	VENTURE CAPITAL	By: ECON DEVELOP COMM
KS-SBN 73	FINANCE AUTHORITY	By: ECON DEVELOP COMM
KS-SBN 176	BUSINESS LOAN FUND	By: ANDERSON
KS-SBN 243	VENTURE CAPITAL	By: ECONOMIC DEVELOPMT T
KS-SBN 250	INTERLOCAL AGREEMENT	By: LOCAL GOVT
KS-SBN 470	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOP
KY-HBN 19	INVESTMENT TAX CREDI	By: MORRIS ET AL
KY-HBN 99	ECONOMIC ASSISTANCE	By: BROWN ET AL
K.-HBN 164	AREA DEVELOPMENT	By: GREGORY
KY-HBN 244	DEVELOPMENT BONDS	By: LONG

KY-HBN 420	ECONOMIC ASSISTANCE	By: STRONG, ET AL
KY-HCR 48	FOREIGN TRADE ISSUES	By: O'BRIEN ET AL
KY-HJR 28	ECONOMIC PLANS	By: BURCH
KY-HRN 2	DEVELOPMENT OFFICE	By: SMITH
KY-SBN 133	STATE TAX CREDIT	By: QUINLAN
PYBLA-HBN 91	ECON DEVELOPMENT	By: JETSON
PYBLA-HBN 502	MINORITY BUSINESSES	By: CARTER
PYBLA-HBN 657	TOURISM DEVELOPMENT	By: CARTER
PYBLA-HBN 736	WOMEN/BUSINESSES	By: BLANCO
PYBLA-HBN 755	VACATED STATE PROP.	By: LABORDE ET AL
PYBLA-HBN 767	MINORITY BUSINESS	By: SINGLETON
PYBLA-HBN 905	SMALL BUSINESS	By: BRADLEY
PYBLA-HBN 987	EDUCATION DEVELOPMEN	By: LONG
PYBLA-HBN 1089	ECONOMIC DEVELOPMENT	By: ALARIO
PYBLA-HBN 1359	CORRECTNAL FACILITIE	By: DELPIT
PYBLA-HBN 1362	INDUS DEVELOPMENT	By: DOUCET
PYBLA-HBN 1405	TAX INCENTIVES	By: DASTUGUE
PYBLA-HBN 1485	ECONOMIC DEVELOPMENT	By: DEANO
PYBLA-HBN 1519	REGIONAL PLANNING	By: JONES
PYBLA-HBN 1541	AEROSJPACE DEVELOPME	By: ALARIO ET AL
PYBLA-HBN 1599	ECONOMIC DEVELOP	By: LEACH ET AL
PYBLA-HBN 1606	WOMEN BUSINESS	By: FERNANDEZ
PYBLA-HBN 1630	RETIREMENT SYSTEMS	By: LEACH ET AL
PYBLA-HBN 1695	HOTEL & FOOD TAX	By: COPELINE, ET AL
PYBLA-SBN 46	OIL REVENUE FUND	By: CASEY
PYBLA-SBN 151	INDUSTRIAL, EXEMPTIO	By: JOHNSON
PYBLA-SBN 261	MINORITY BUSINESSES	By: JOHNSON
PYBLA-SBN 339	AEROSPACE DEVELOPMEN	By: NUNEZ ET AL
PYBLA-SBN 345	PORT INDUS DISTRICTS	By: LAURICELLA
PYBLA-SBN 433	ENTERPRISE ZONES	By: HUDSON
PYBLA-SBN 439	ECONOMIC INCENTIVES	By: HUDSON
PYBLA-SBN 573	INDUSTRIAL DEVELPMT	By: MCPHERSON
PYBLA-SBN 587	ECON. DEVELOPMENT	By: JOHNSON
PYBLA-SBN 590	MINORITY BUSINESS	By: JOHNSON
PYBLA-SBN 616	MINORITY BUSINESSES	By: JEFFERSON ET AL
PYBLA-SBN 647	ECON. DEVELOPMENT	By: HUDSON ET AL
PYBLA-SBN 760	ECON. DEVELOPMENT	By: LAURICELLA
PYBLA-SCR 139	BUSINESS DEVELOPMENT	By: HUDSON
PYBLA-SCR 160	BUSINESS INCENTIVES	By: JOHNSON
PYBLA-SRN 13	ECONOMIC DEVELOPMENT	By: HUDSON
MA-HBN 324	BUSINESS ASSISTANCE	By: MURRAY
MA-HBN 696	EDUCATION FUND	By: LAWRENCE
MA-HBN 847	MINORITY ENTERPRISES	By: ASSOC CONTRACTORS
MA-HBN 851	STATE PROCUREMENTS	By: SCACCIA
MA-HBN 890	ECONOMIC DEVELOPMENT	By: FINNERAN
MA-HBN 892	WOMEN BUSINESS	By: GRAY
MA-HBN 893	WOMEN ENTERPRISES	By: GRAY
MA-HBN 1061	CONVENTION CENTERS	By: SCACCIA
MA-HBN 1071	SMALL BUSINESS STUDY	By: ALEXANDER ET AL
MA-HBN 1126	REVOLVING LOAN FUND	By: GRAY
MA-HBN 1270	SMALL BUSINESS	By: MORIN
MA-HBN 1464	BUSINESS EXPANSION	By: LORING
MA-HBN 1465	TECHNOLOGICAL FUND	By: ALF-CIO
MA-SBN 49	SMALL BUSINESS EQUIT	By: BRENNAN

MA-SBN 81	APPAREL LOAN BOARD	By: NORTON
MA-SBN 85	FOREIGN SALES CORP	By: PINES ET AL
MA-SBN 87	PROMOTIONAL CAMPAIGN	By: PINES ET AL
MA-SBN 88	ECONOMIC DEVELOPMENT	By: PINES ET AL
MA-SBN 92	ECONOMIC DEVELOPMENT	By: PINES ET AL
MA-SBN 93	ECONOMIC DEVELOPMENT	By: PINES ET AL
MA-SBN 97	EXPORT FINANCE BOARD	By: SHEEHY
MA-SBN 100	SHELL BUILDINGS	By: WEBBER
MA-SBN 102	ECONOMIC DEVELOPMENT	By: WEBBER
MA-SBN 105	ECONOMIC DEVELOPMENT	By: WETMORE
MA-SBN 107	SMALL BUSINESSES	By: WETMORE
MA-SBN 939	AID TO BUSINESSES	By: COSTELLO
MA-SBN 1162	REGIONAL DEVELOPMENT	By: BOLLING, ET AL
MA-SBN 1175	JOB OPPORTUNITIES	By: CELLUCCI, ET AL
MA-SBN 1206	STATE AUTHORITIES	By: MCGOVERN
MA-SBN 1242	EXPANSION ZONES	By: BRENNAN
MA-SBN 1307	LOCAL AID PROGRAMS	By: KRAUS
PYBMA-HBN 276	BUSINESS ASSISTANCE	By: MURRAY
PYBMA-HBN 787	SIGNIFICANT IMPACT	By: HYNES
PYBMA-HBN 841	STATE PROCUREMENTS	By: SCACCIA
PYBMA-HBN 1017	NEW DEVELOPMENTS	By: GRAY
PYBMA-HBN 1114	VETERAN BUSINESS	By: LEMANSKI
PYBMA-HBN 1241	SUB-BIDDERS	By: GENERAL CONTRACT
PYBMA-HBN 1268	FINANCE CORPORATION	By: GRAHAM
PYBMA-HBN 1484	ECONOMIC DEVELOPMENT	By: LEMANSKI
PYBMA-HBN 1633	MINORITY BUSINESS	By: FOX ET AL
PYBMA-HBN 1634	UNEMPLOYMENT PROG	By: FOX ET AL
PYBMA-HBN 1764	TAX INCREMENT	By: BLANCHETTE
PYBMA-HBN 2481	WOMEN BUSINESS	By: GRAY ET AL
PYBMA-HBN 2482	WOMEN BUSINESS	By: GRAY ET AL
PYBMA-HBN 2484	ECONOMIC DEVELOPMENT	By: LEMANSKI
PYBMA-HBN 2538	URBAN REDEVELOPMENT	By: FITZGERALD
PYBMA-HBN 2539	URBAN RENEWAL	By: FITZGERALD
PYBMA-HBN 2541	PUBLIC PROJECTS	By: FITZGERALD
PYBMA-HBN 2667	TAX INCREMENT	By: FLOOD ET AL
PYBMA-HBN 2901	ECONOMIC DEVELOP	By: FITZGERALD
PYBMA-HBN 3075	BUSINESS INCUBATOR	By: ALEXANDER ET AL
PYBMA-HBN 3090	LAND BANK	By: LEMANSKI ET AL
PYBMA-HBN 3099	ECONOMIC DEVELOPMENT	By: LEMANSKI/MORIN
PYBMA-HBN 3104	SMALL BUSINESSES	By: LEMANSKI/MORIN
PYBMA-HBN 3442	EXPANMSION OF BUSINE	By: HOLLAND ET AL
PYBMA-HBN 4141	MINORITY BUSINESS	By: DIMASI/PALUMBO
PYBMA-HBN 4182	STATE PROJECTS	By: MOORE
PYBMA-HBN 4504	YOUTH ENTREPRENEUR	By: GRAHAM ET AL
PYBMA-HBN 4508	EMPLOYEE ASSISTANCE	By: MAGNANI
PYBMA-HBN 4655	COMMONWEALTH GROWTH	By: BUELL
PYBMA-HBN 4887	LOW INCOME HOUSING	By: FITZGERALD
PYBMA-HBN 4893	ECONOMIC DEVELOPMENT	By: FITZGERALD ET AL
PYBMA-HBN 4895	RURAL DEVELOPMENT	By: HEALY
PYBMA-HBN 5236	BUSINESS INCUBATOR	By: FLOOR
PYBMA-HBN 5351	UNPAID BILLS	By: FLOOR
PYBMA-HBN 5435	PUBLIC CONSTRUCTION	By: FLOOR
PYBMA-HBN 5437	PUBLIC CONTRACTS	By: FLOOR
PYBMA-HBN 5530	ECONOMIC DEVELOPMENT	By: FLOOR

PYBMA-HBN 5535	BUSINESS LAWS	By: FLOOR
PYBMA-HBN 5755	EMPLOYMENT/TRAINING	By: FLOOR
PYBMA-HBN 5801	PROTECT ENVIRONMENT	By: FLOOR
PYBMA-HBN 5899	ECON DEVELOPMENT	By: FLOOR
PYBMA-HBN 5903	INTEREST ON BILLS	By: FLOOR
PYBMA-HBN 5981	WATERTOWN REDEVELOP	By:
PYBMA-HBN 5992	BUSINESS EXPANSION	By: PIERCE
PYBMA-HBN 5996	LAWS CHANGES	By: KENNEALLY JR ET AL
PYBMA-HBN 5997	BUSINESS DEVELOPMENT	By: GOVERNOR
PYBMA-HBN 6002	ZONING	By: FLOOR
PYBMA-HBN 6048	ECONOMIC AFFAIRS	By: GOVERNOR
PYBMA-HBN 6200	ENTERPRISE DEVELOPME	By: FLOOR
PYBMA-HBN 6217	BUSINESS DEVELOPMENT	By: GOVERNOR
PYBMA-HBN 6219	DEVELOPMENT PATTERNS	By: FLOOR
PYBMA-HBN 6232	BUSINESS INCUBATOR	By: FLOOR
PYBMA-HBN 6319	BOND ISSUE	By: FLOOR
PYBMA-SBN 52	BUSINESS EQUITY	By: BRENNAN
PYBMA-SBN 83	APPAREL INDUSTRY	By: NORTON
PYBMA-SBN 88	INCENTIVES TO FIRMS	By: SCOTI
PYBMA-SBN 89	EXPORT DEVELOPMENT	By: PINES
PYBMA-SBN 91	INTL PROMOTION PROG	By: PINES
PYBMA-SBN 92	FOREIGN SALES CORP	By: PINES
PYBMA-SBN 101	SHELL BUILDINGS	By: WEBBER
PYBMA-SBN 762	INDUSTRIAL DEVELOP	By: BUELL ET AL
PYBMA-SBN 958	DEVELOPMENT DISTRICT	By: COSTELLO
PYBMA-SBN 959	REGIONAL GROWTH	By: GOLDEN
PYBMA-SBN 1239	SMALL BUSINESS	By: ALBANO
PYBMA-SBN 1246	ECONOMIC DEVELOPMENT	By: BOLLING
PYBMA-SBN 1325	ECONOMIC DEVELOPMENT	By: BOLLING
PYBMA-SBN 1338	JOB EXPANSION ZONES	By: BRENNAN
PYBMA-SBN 1488	LAND BANK	By: WETMORE
PYBMA-SBN 1602	SMALL BUSINESSES	By: COSTELLO
PYBMA-SBN 1637	LAND BANK	By: FLOOR
PYBMA-SBN 1672	SMALL BUSINESSES	By: WETMORE
PYBMA-SBN 1797	INTL PROMOTION PROG	By: FLOOR
PYBMA-SBN 1811	INTERNATIONAL TRADE	By: FLOOR
PYBMA-SBN 1813	FOREIGN CORP TAX	By: FLOOR
PYBMA-SBN 1940	BOND ISSUE	By: FLOOR
PYBMA-SBN 2096	THRIFT FUND DIRECTOR	By: FLOOR
MD-HBN 1	PROCUREMENT LAW	By: SPEAKER
MD-HBN 161	ECONOMIC DEVELOPMENT	By: WASHINGTON COUNTY
MD-HBN 269	COMMUNITY DEVELOPMEN	By: TAYLOR
MD-HBN 280	INDUSTRIAL LAND ACT	By: TAYLOR
MD-HBN 474	ECONOMIC DEVELOPMENT	By: SHAPIRO
MD-HBN 483	STATE ACTION LOANS	By: TAYLOR
MD-HBN 564	ECONOMIC DEVELOPMENT	By: THE SPEAKER
MD-HBN 566	ECONOMIC DEVELOPMENT	By: TAYLOR
MD-SBN 1	GENRAL TAX REVISION	By: PRESIDENT
MD-SBN 60	MINORITY BUSINESS	By: TROTTER
MD-SBN 95	SPORTS ADVISORY COMM	By: RILEY
MD-SBN 96	SMALL BUSINESS FINAN	By: RILEY
MD-SBN 97	INDUSTRIAL DEVELOPMT	By: RILEY
MD-SBN 150	INDUSTRIAL DEVEL	By: LEVITAN
MD-SBN 151	INDUSTRIAL DEVEL	By: LEVITAN

MD-SBN 152	ECONOMIC DEVEL	By: LEVITAN
MD-SBN 209	STATUTE CORRECTION	By: THE PRESIDENT
MD-SBN 225	ECONOMIC DEVELOPMENT	By: RILEY
MD-SBN 312	ECONOMIC DEVELOPMENT	By: THE PRESIDENT
MD-SBN 350	INDUSTRIAL DEVELOPME	By: RILEY
MD-SBN 366	COMMUNITY REINVESTME	By: WYNN
PYBMD-HBN 117	SMALL BUSINESS	By: TAYLOR/CUMMINGS
PYBMD-HBN 257	CORRECTIVE BILL	By: THE SPEAKER
PYBMD-HBN 426	BUSINESS DEVELOPMENT	By: RYAN
PYBMD-HBN 427	COMMERCIAL REDEVELOP	By: RYAN
PYBMD-HBN 502	BUSINESS DEVELOPMENT	By: TAYLOR
PYBMD-HBN 503	EQUITY PARTICIPATION	By: TAYLOR
PYBMD-HBN 728	MINORITY BUSINESS	By: MONTGOMERY COUNTY
PYBMD-HBN 748	MINORITY CONTRACTS	By: MONTGOMERY/PRINCE GE
PYBMD-HBN 777	SPORTS DEVELOPMENT	By: MCCAFFREY/DONALDSON
PYBMD-HBN 854	SURETY BOND GUARANTY	By: EXUM ET AL
PYBMD-HBN 873		By: RAWLINGS
PYBMD-HBN 1079	REINVESTMENT	By: MONTAGUE ET AL
PYBMD-HBN 1150	LOCAL DEVELOPMENT	By: YOUNG
PYBMD-HBN 1153	LOCAL DEVELOPMENT	By: YOUNG
PYBMD-HBN 1156	EMINENT DOMAIN	By: YOUNG
PYBMD-HBN 1159	RETENTION INDUSTRY	By: YOUNG
PYBMD-HBN 1175	ECON DEVELOPMENT	By: SPEAKER
PYBMD-HBN 1188	BANK REINVESTMENT	By: OAKS ET AL
PYBMD-HBN 1191	SMALL BUSINESS LOAN	By: OAK ET AL
PYBMD-HBN 1194	BUSINESS DEVELOP	By: OAKS ET AL
PYBMD-HBN 1227	EMPLOYMENT INCENTIVE	By: LITTRELL ET AL
PYBMD-HBN 1527	REDEVELOPMENT BOND A	By: WEISENGOFF
PYBMD-HJR 39	MINORITY BUSINESS	By: OAKS ET AL
PYBMD-HJR 43	WOMEN ENTREPRENEURS	By: REHRMANN ET AL
PYBMD-SBN 28	LOCAL DEVELOPMENT	By: PICA
PYBMD-SBN 39	LOCAL DEVELOPMENT	By: PICA
PYBMD-SBN 210	SMALL BUSINESS	By: RILEY
PYBMD-SBN 211	SMALL BUSINESS BOND	By: RILEY
PYBMD-SBN 517	UTILITY RATES	By: BAKER
PYBMD-SBN 538	BUSINESS SURETY BOND	By: LEVITAN
PYBMD-SBN 540	REDEVELOPMENT FUND	By: LEVITAN
PYBMD-SBN 580	EMINENT DOMAIN	By: PICA
PYBMD-SBN 587	LOCAL DEVELOPMENT	By: PICA
PYBMD-SBN 592	LOCAL DEVELOPMENT	By: PICA
PYBMD-SBN 615	MINORITY BUSINESS	By: MITCHELL
PYBMD-SBN 665	COMM DEVELOPMENT	By: BLOUNT
PYBMD-SBN 673	PRIVATE ACTIVITY BON	By: PRESIDENT
PYBMD-SBN 699	ECON DEVELOPMENT	By: PRESIDENT
PYBMD-SBN 713	ECON DEVELOPMENT	By: PICA
PYBMD-SBN 750	REINVESTMENT	By: CUSHWA
PYBMD-SBN 861	SMALL BUSINESS	By: WYNN
PYBMD-SBN 993	INFRASTRUCTURE	By: WINEGRAD ET AL
PYBMD-SBN 1038	SMALL BUSINESS DEVEL	By: WYNN
PYBMD-SBN 1060	INDUSTRIAL DEVELOPME	By: PICA
PYBMD-SBN 1064	REDEVELOPMENT	By: PICA
PYBMD-SJR 3	VETERAN BUSINESSES	By: KOMENDA
PYBMD-SJR 25	ECONOMIC DEVELOP	By: WYNN
PYBMD-SJR 30	WOMEN ENTREPRENEURS	By: HOFFMAN ET AL

ME-HBN 197	PRODUCT DEVELOPMENT	By: CARTER ET AL
ME-HBN 735	ECON DEVELOP AND EDU	By: ECONOMIC DEVELOPMENT
ME-HBN 761	ME FILM-MAKING	By: DIAMOND ET AL
ME-HBN 857	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOPMENT
ME-HBN 878	DEVELOPMENT TAXES	By: CONNELLY ET AL
ME-HBN 891	JOB DEV. TRAINING	By: RUHLIN ET AL
ME-HBN 938	HUMAN RESOURCE DEVEL	By: ECONOMIC DEVELOPMENT
ME-HBN 1057	JOB OP ZONES	By: BAILEY ET AL
ME-HBN 1116	JOB OPPORTUNITY ZONE	By: BAILEY ET AL
ME-HBN 1141	CHILD CARE	By: PRIEST
ME-HBN 1277	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOPMENT
ME-HBN 1312	JOB OPPORTUNITY ZONE	By: ECON. DEVELOPMENT
ME-HBN 1313	STATE SERVICE	By: ECON. DEVELOPMENT
ME-HBN 1324	ECONOMIC DEVELOPMENT	By: CROWLEY
ME-SBN 220	ECON DEVELOP BONDS	By: PRAY ET AL
ME-SBN 232	FUTURE COMMISSION	By: PRAY ET AL
ME-SBN 234	ADULT EDUCATION	By: PRAY ET AL
ME-SBN 258	BUSINESS ADVISORY BD	By: TUTTLE ET AL
ME-SBN 288	LABOR MARKET AID	By: PRAY ET AL
ME-SBN 298	BUSINESS ADVOCATE	By: TUTTLE ET AL
ME-SBN 313	BOND ISSUES	By: CARTER ET AL
ME-SBN 353	ECONOMIC DEVELOPMENT	By: TUTTLE ET AL
ME-SBN 401	CAPITALIZATION	By: TWITCHELL ET AL
ME-SBN 417	JOB TRAINING	By: PRAY ET AL
ME-SBN 419	CAPITAL CORP	By: TWITCHELL
ME-SBN 479	COMMUNITY DEVELOPMEN	By: ANDREWS ET AL
ME-SBN 491	DEVELOPMENT ACTIVITY	By: WHITMORE ET AL
ME-SBN 592	LABOR MARKET AID	By: ECONOMIC DEVELOPMENT
ME-SBN 598	TRANSPORTATION	By: THERIAULT ET AL
ME-SBN 601	COMMUNITY DEVELOPMEN	By: TUTTLE
ME-SBN 628	FREEDOM OF ACCESS	By: BRANNIGAN
ME-SBN 657	STUDY COMMISSIONS	By: PRAY ET AL
MI-HBN 4016	ENTERPRISE ZONE ACT	By: STACEY
MI-HBN 4209	MINORITY BUSINESS	By: YOUNG ET AL
MI-HBN 4210	MINORITY BUSINESS	By: YOUNG ET AL
MI-HBN 4528	DOWNTOWN DEVELOPMENT	By: VAN SINGEL ET AL
MI-HBN 4529	ECONOMIC DEVELOPMENT	By: VAN SINGEL ET AL
MI-HBN 4530	TAX INCREMENT FINANC	By: VAN SINGEL, ET AL
MI-HBN 4735	ECONOMIC DEVELOPMENT	By: HERTEL ET AL
MI-HBN 4849	COMMERCIAL REDEVELOP	By: STRAND ET AL
MI-HBN 5144	ECONOMIC DEVELOPMENT	By: SMITH
MI-SBN 142	ETHNIC RESEARCH ACT	By: VAUGHN
MI-SBN 158	LOCAL ROAD AGENCIES	By: FESSLER
MI-SBN 278	PLANT REHAB DISTRICT	By: SHINKLE
MI-SBN 321	TRANSPORTATION FUND	By: FESSLER
MI-SBN 495	TRANSPORTATION FUND	By: BINSFELD
MN-HBN 2	RURAL DEVELOPMENT	By: SCHOENFIELD ET AL
MN-HBN 82	WHITE BEAR LAKE	By: STANIUS
MN-HBN 92	PROTECTION TRUST	By: MINNE ET AL
MN-HBN 133	ENTERPRISE ZONE	By: REDING
MN-HBN 254	BRAINERD PORT AUTHOR	By: WENZEL
MN-HBN 280	ST PAUL AUTHORITY	By: OSTHOFF
MN-HBN 289	ST PAUL BONDS	By: KELLY ER AL
MN-HBN 345	ADVERTISING OF CITY	By: WENZEL

MN-HBN 363	DISLOCATED WORKERS	By: CLARK
MN-HBN 475	URBAN PROGRAM	By: O'CONNOR ET AL
MN-HBN 476	URBAN PROGRAM	By: CLARK ET AL
MN-HBN 609	EMPLOYMENT DATA	By: SHAKOREE
MN-HBN 616	CORPORATE TAXES	By: VOSS ET AL
MN-HBN 649	PLANT CLOSINGS	By: OGREN ET AL
MN-HBN 713	REVISOR'S BILL	By: REST ET AL
MN-HBN 749	DEVELOPMENT PANELS	By: LIEDER ET AL
MN-HBN 759	LAKE SUPERIOR ZOO	By: MUNGER ET AL
MN-HBN 795	LOCAL DEVELOPMENT	By: REST ET AL
MN-HBN 799	KOOCHICHING AUTHORIT	By: LOCAL AFFAIRS
MN-HBN 803	GOVERNMENT/BUSINESS	By: SPARBY ET AL
MN-HBN 832	PORT AUTHORITY	By: SVIGGUM
MN-HBN 856	SERVICE BLOCK GRANTS	By: BISHOP ET AL
MN-HBN 916	ADMINISTRATION DEPT	By: LASLEY ET AL
MN-HBN 928	ENTERPRISE ZONE	By: RICHTER
MN-HBN 929	SMALL BUSINESS LOANS	By: OTIS
MN-HBN 930	SM BUSINESS GRANTS	By: OTIS
MN-HBN 934	INTEREST REDUCTION	By: SCHEID
MN-HBN 1023	DISTRESSED COUNTIES	By: NELSON ET AL
MN-HBN 1074	BUSINESS ASSISTANCE	By: OTIS ET AL
MN-HBN 1095	ECONOMIC DEVELOPMENT	By: G. ANDERSON
MN-HBN 1098	BUILDING CONTRACTS	By: REDING
MN-HBN 1109	COUNCIL ON QUALITY &	By: OTIS
MN-HBN 1138	SMALL BUSINESS SERVI	By: KLUDT
MN-HBN 1150	HERMAN TOWN PROPERTY	By: MURPHY
MN-HBN 1151	PUBLICLY HELD LAND	By: MURPHY
MN-HBN 1173	STATE CONTRACT BIDDI	By: RUKAVINA ET AL
MN-HBN 1187	ECONOMIC OPPORTUNITY	By: JEFFERSON ET AL
MN-HBN 1224	COOK COUNTY AUTHORIT	By: BATTAGLIA ET AL
MN-HBN 1237	ENTERPRISE ZONES	By: KLUDT
MN-HBN 1270	STATE LOTTERY	By: ANDERSON ET AL
MN-HBN 1279	RURAL DEVELOPMENT CO	By: JENNINGS ET AL
MN-HBN 1298	BORROWING AUTHORITY	By: REST ET AL
MN-HBN 1302	ITASCA COUNTY TAX	By: SOLBERG
MN-HBN 1355	MINNEAPOLIS PROMOTIO	By: GREENFIELD
MN-HBN 1380	INVENTION INSTITUTE	By: REDING ET AL
MN-HBN 1399	LOANS/SECURITIES	By: OTIS
MN-HBN 1413	REDWOOD FALLS DISTRI	By: MILLER
MN-HBN 1447	TACONITE TAX	By: BEGICH ET AL
MN-HBN 1453	SCIENCE/TECHNOLOGY	By: REDING
MN-HBN 1465	HOSPITALITY HOSTS	By: RUKAVINA ET AL
MN-HBN 1478	MANKATO SERVICE DIST	By: DORN ET AL
MN-HBN 1504	DEVELOPMENT CORPORAT	By: JOHNSON ET AL
MN-HBN 1505	MUSIC ARTS CENTER	By: LARSEN
MN-HBN 1545	IRON RANGE DEVELOPME	By: BEGICH ET AL
MN-HBN 1548	STATE FEES	By: CARLSON
MN-HBN 1620	MINNESOTA LOGO	By: WENZEL
MN-HBN 1649	HAZARDOUS SUBSTANTES	By: JEFFERSON
MN-SBN 1	RURAL DEVELOPMENT	By: MOE
MN-SBN 19	SM BUSINESS GRANTS	By: DAHL
MN-SBN 82	VENTURE CAPITAL	By: DAHL/FRANK
MN-SBN 84	SMALL BUSINESS LOANS	By: DAHL/FRANK
MN-SBN 122	PROTECTION TRUST	By: DICKLICH ET AL



MN-SBN 129	ENTERPRISE ZONE	By: PIPER
MN-SBN 164	ADVERTISING OF CITY	By: SAMUELSON
MN-SBN 170	LOCAL DEVELOPMENT	By: POGEMILLER
MN-SBN 197	BUSINESS PROGRAM	By: COHEN
MN-SBN 233	BRAINERD PORT AUTHOR	By: SAMUELSON
MN-SBN 384	DISLOCATED WORKERS	By: DICKLICH
MN-SBN 401	ST PAUL AUTHORITY	By: MARTY/LANTRY
MN-SBN 468	INVENTION INSTITUTE	By: DICKLICH ET AL
MN-SBN 485	WHITE BEAR LAKE	By: KNAAK
MN-SBN 486	LAKE SUPERIOR ZOO	By: SOLON/GUSTAFSON
MN-SBN 510	ST PAUL BONDS	By: LANTRY ET AL
MN-SBN 521	URBAN PROGRAM	By: BERGLIN ET AL
MN-SBN 533	HERMANTOWN PROPERTY	By: GUSTAFSON/SOLON
MN-SBN 638	CORPORATE TAXES	By: JOHNSON
MN-SBN 707	INTEREST REDUCTION	By: POSEMILLER
MN-SBN 711	KOOCHICHING AUTHORIT	By: LESSARD
MN-SBN 727	STATE LOTTERY	By: LESSARD
MN-SBN 734	GOVERNMENT AND BUSIN	By: METZEN ET AL
MN-SBN 765	PORT AUTHORITY	By: MEHRKENS
MN-SBN 854	EMPLOYMENT DATA	By: COHEN ET AL
MN-SBN 892	PLANT CLOSINGS	By: CHMIELEWSKI ET AL
MN-SBN 898	RURAL INITIATIVES	By: CHMIELEWSKI
MN-SBN 906	ENTERPRISE ZONE	By: ANDERSON
MN-SBN 921	SERVICE BLOCK GRANTS	By: PTPER ET AL
MN-SBN 971	BORROWING AUTHORITY	By: POGEMILLER/REICHGOTT
MN-SBN 1016	RURAL DEVELOPMENT CO	By: DAVIS ET AL
MN-SBN 1111	IRON RANGE DEVELOP	By: EICKLICH ET AL
MN-SBN 1186	COOK COUNTY AUTHORIT	By: JOHNSON
MN-SBN 1195	STATE CONTRACT BIDDI	By: DICKLICH
MN-SBN 1203	DEPARTMENTS OF TRADE	By: LUTHER ET AL
MN-SBN 1224	ITASCA COUNTY TAX	By: LESSARD
MN-SBN 1226	DEVELOPMENT CORPORAT	By: WILLET
MN-SBN 1249	SMALL BUSINESS SERVI	By: PETERSON ET AL
MN-SBN 1297	REDWOOD FALLS DISTRI	By: FREDERICKSON
MN-SBN 1332	ECONOMIC DEVELOPMENT	By: DAHL
MN-SBN 1352	PUBLICLY HELD LAND	By: GUSTAFSON
MN-SBN 1359	LOTTERY REVENUES	By: LESSARD ET AL
MN-SBN 1360	ECONOMIC OPPORTUNITY	By: POGEMILLER
MN-SBN 1365	HOSPITALITY HOSTS	By: DICKLICH
MN-SBN 1375	MINNESOTA LOGO	By: MORSE ET AL
MN-SBN 1399	LOTTERY REVENUES	By: VICKERMAN ET AL
MN-SBN 1417	LOANS/SECURITIES	By: DAHL
MN-SBN 1437	SCIENCE/TECHNOLOGY	By: BRANDL
MN-SBN 1439	TACONITE TAX	By: DICKLICH
MN-SBN 1454	BUSINESS ASSISTANCE	By: BECKMAN ET AL
MN-SBN 1468	MUSIC ARTS CENTER	By: POGEMILLER
MN-SBN 1471	MANKATO SERVICE DIST	By: TAYLOR
MN-SBN 1479	COUNCIL ON QUALITY A	By: L:UTHER
MN-SBN 1530	CAPITAL BONDING	By: MERRIAM
MN-SBN 1548	COMMODITY CODE	By: BERG
MO-HBN 940	ENTERPRISE ZONES	By: NILGES
MO-HBN 1095	DEVEL CORPORATION	By: RAUCH
MO-HBN 1201	ECON DEVELOPMENT	By: RIBAUDO
MO-HBN 1209	ENTERPRISE ZONE	By:

MO-HBN 1223	MAIN STREE PROGRAM	By: CARROLL ET AL
MO-HBN 1245	ENTERPRISE ZONES	By: BARNES
MO-HBN 1246	MAIN STREET PROGRAM	By: BARNES
MO-HBN 1250	EXPORT DEVELOPMENT	By: BANTON
MO-HBN 1329	ECONOMIC DEVELOPMENT	By: BARNES
MO-HBN 1330	URBAN REDEVELOPMENT	By: SCHELLHORN
MO-HBN 1339	R.R. GRANT PROGRAM	By: DRISKILL
MO-HBN 1491	ECON DEVELOPMENT	By: DRISKILL, ET AL
MO-HJR 56	PUBLIC MONEY GRANTS	By: RAUCH
MO-HJR 60	CASH OPERATING FUND	By: RAUCH
MO-SBN 450	LINKED DEPOSIT LOANS	By: SCOTT
MO-SBN 520	URBAN DEVELOPMENT	By: DOCTORIAN
MO-SBN 570	ECON DEVELOPMENT	By: MERRELL ET AL
MO-SBN 619	ENTERPRIZE ZONES	By: BANKS
MO-SBN 674	PRESERVATION PROJECT	By: BANKS
PYBMO-HBN 141	ENTERPRISE ZONES	By: NILGES
PYBMO-HBN 223	URBAN REDEVELOPMENT	By: TREADWAY
PYBMO-HBN 271	INDUSTRIAL DEVELOP	By: BARNES
PYBMO-HBN 294	LINKED DEPOSIT	By: BURCH/LYNN
PYBMO-HBN 401	ECONOMIC RESEARCH	By: JACOB
PYBMO-HBN 410	ENTERPRIZE ZONES	By: COPELAND
PYBMO-HBN 479	ECONOMIC DEVELOP	By: BANTON ET AL
PYBMO-HBN 729	ENTERPRISE ZONES	By: SCOTT
PYBMO-HBN 769	ECONOMIC DEVELOPMENT	By: SCOVILLE
PYBMO-HBN 849	SALES AND USE TAX	By: MCQUITTY
PYBMO-HBN 853	INCOME TAX REVENUES	By: PROFFER
PYBMO-HBN 880	INDUSTRIAL DEVELOPME	By: BANTON ET AL
PYBMO-HBN 881	ENTERPRISE ZONES	By: COPELAND
PYBMO-HBN 892	OFFICE OF RURAL DEVE	By: DRISKILL ET AL
PYBMO-SBN 8	INDUST DEVELOP	By: MERRELL
PYBMO-SBN 61	TRANSPORTATION DEPT	By: WEBSTER
PYBMO-SBN 134	MAIN STREET PROGRAM	By: MERRELL
PYBMO-SBN 179	RESEARCH PROJECTS	By: MERRELL
PYBMO-SBN 288	ENTERPRISE ZONES	By: RUSSELL
PYBMO-SBN 304	SMALL BUSINESS PROG	By: BASS
PYBMO-SBN 316	LICENSING BOARD	By: DIRCK
PYBMO-SBN 351	ECON DEV BONDS	By: MERRELL
PYBMO-SBN 367	ECONOMIC DEVELOPMENT	By: MCCARTHY
PYBMO-SBN 421	ENTERPRISE ZONES	By: DENNIS
MS-HBN 48	ENERGY ASSISTANCE	By: SHEPPHARD
MS-HBN 98		By: SHEPPARD
MS-HBN 248	ENTERPRISE ZONES	By: WARREN
MS-HBN 253	ECONOMIC DEVELOPMENT	By: HINES
MS-HBN 316	MINORITY BUSINESSES	By: BLACKMON ET AL
MS-HBN 372	INDUSTRIAL DEVELOP	By: BRYAN
MS-HBN 407	SMALL BUSINESS	By: SHAPPHARD ET AL
MS-HBN 475	INDUSTRIAL SERVICES	By: SAVAGE ET AL
MS-HRN 8	ECONOMIC DEVELOPMENT	By: WADKINS
MS-HRN 13	ECONOMIC DEVELOPMENT	By: FORTENBERRY ET AL
MS-SBN 2089	ENTERPRISE ZONES	By: SHOWS
MS-SBN 2127	BUSINESS ASSISTANCE	By: MONTGOMERY
MS-SBN 2128	HOUSING AUTHORITY	By: MONTGOMERY
MS-SBN 2130	ECONOMIC DEVT	By: MONTGOMERY
MS-SBN 2131	URBAN RENEWAL	By: MONTGOMERY

MS-SBN 2239	STATE LIABILITY	By: CROOK
MS-SBN 2251	TRANSFER STUDENTS	By: BENJAMIN
MS-SBN 2257	SMALL BUSINESS LOAN	By: MONTGOMERY
PYBMS-HBN 194	COMMUNITY DEVELOPMNT	By: FORTENBERRY
PYBMS-HBN 249	ECONOMIC DEVELOP	By: JUNKIN
PYBMS-HBN 437	ECON DEV AUTHORITY	By: STEVENS
PYBMS-HBN 512	FURNITURE RESEARCH	By: SCOTT
PYBMS-HBN 514	ECONOMIC DEVELOPMENT	By: FORD
PYBMS-HBN 520	AGRICULTURAL PROGRAM	By: SCOTT ET AL
PYBMS-HBN 537	ECONOMIC COMMITTEE	By: HALL
PYBMS-HBN 649	TOURISM	By: SIMPSON
PYBMS-HBN 650	PRIVATE COMPANY	By: SIMPSON
PYBMS-HBN 653	MINORITY BUSINESS	By: SHEPPARD
PYBMS-HBN 922	PRIVATE CO INVESTMEN	By: ENDRIS
PYBMS-HBN 924	ECONOMIC DEVELOPMENT	By: WILKERSON ET AL
PYBMS-HBN 999	WATERWAY AREA	By: MOSS
PYBMS-HBN 1107	BUSINESS INVESTMENT	By: SIMPSON
PYBMS-HBN 1206	HIGHWAY CONSTRUCTION	By: PENNEBAKER/MCCOY
PYBMS-HBN 1229	COMMERCIAL DISTRICT	By: SAVAGE
PYBMS-HBN 1251	INDUSTRIAL AUTHORITY	By: REYNOLDS ET AL
PYBMS-SBN 2146	SURETY BONDS	By: MORGAN
PYBMS-SBN 2147	SURETY BONDS	By: GORDON
PYBMS-SBN 2341	RESEARCH & DEVELOPME	By: MONTGOMERY
PYBMS-SBN 2342	SMALL BUSINESS	By: MONTGOMERY
PYBMS-SBN 2343	TOURISM	By: MONTGOMERY
PYBMS-SBN 2345	BUSINESS INVESTMENT	By: MONTGOMERY
PYBMS-SBN 2346	ARTS ENTERPRISES	By: MONTGOMERY
PYBMS-SBN 2356	IMPROVEMENT BONDS	By: FORTENBERRY
PYBMS-SBN 2400	INDUSTRIAL DEVELOP	By: MONTGOMEY
PYBMS-SBN 2444	STATE TREASURY FUND	By: SMITH ET AL
PYBMS-SBN 2620	SMALL BUSINESS	By: WHITE
PYBMS-SBN 2699	POLLUTION CONTROL	By: ROSENBLATT
PYBMS-SBN 2751	MARKETING DEPT	By: SMITH
PYBMS-SBN 2779	ECONOMIC DEPARTMENT	By: MONTGOMERY
PYBMS-SBN 2839	ECONOMIC DEVELOPMENT	By: MONTGOMERY
PYBMT-HBN 9	JOBS INVESTMENT ACT/	By: VINCENT
PYBMT-HBN 53	CODE REVISION	By: EUDAILY
PYBMT-HBN 97	COAL GRANTS	By: ASAY ET AL
PYBMT-HBN 593	PRIVATE ENTERPRISE	By: BROWN
PYBMT-HBN 700	CAPITAL FUND BONDS	By: BRADLEY
PYBMT-HBN 765	JOBS ACT	By: VINCENT
PYBMT-HBN 790	ATTORNEY FEES	By: REHBERG
PYBMT-HBN 809	SUBDIVISION DEVELOP	By: IVERSON
PYBMT-HBN 817	SMALL BUSINESS	By: GLASER
PYBMT-HBN 862	DEVELOPMENT ACT	By: WINSLOW
PYBMT-HBN 889	CREATES MONTANA AGRI	By: WINSLOW
PYBMT-HBN 899	ECONOMIC DEVELOPMENT	By: COBB
PYBMT-HBN 905	ECONOMIC DEVELOPMENT	By: WINSLOW
PYBMT-SBN 1	INTERSTATE COMPACT	By: ANDERSON
PYBMT-SBN 22	FIREARMS	By: HALLIGAN
PYBMT-SBN 83	ECONOMIC DEVELOPMENT	By: MAZUREK
PYBMT-SBN 110	CAPITAL COMANIES	By: THAYER
PYBMT-SBN 263	TAXABLE BONDS	By: WILLIAMS B
PYBMT-SBN 298	INVESTMENTS BOARD	By: NEUMAN

PYBMT-SBN 373	RECLAMATION GRANTS	By: BLAYLOCK
NC-HBN 115	CLEAN WATER FUND	By: COCHRANE
NC-HBN 415	MINORITY/WOMEN BUSIN	By: KENNEDY
NC-HBN 679	TECHNOLOGICAL DEVELO	By: BOB ETHERIDGE
NC-HBN 708	ECONOMIC DEVELOPMENT	By: BARBEE
NC-HBN 798	INDUSTRIAL DEVELOPME	By: YOUNG ET AL
NC-HBN 1097	ECONOMIC DEVEL	By: HIGHTOWER ET AL
NC-HBN 1122	DEVELOP PROJECT	By: THOMPSON
NC-HBN 1251	ECONOMIC DEVELOPMENT	By: STAMEY
NC-HBN 2164	PUBLIC RECORDS	By: MILLER
NC-SBN 206	ECONOMIC DEVELOPMENT	By: STATON
NC-SBN 208	ECONOMIC DEVELOPMENT	By: STATON
NC-SBN 290	CITY CONTRACTS	By: RICHARDSON
NC-SBN 317	CAPITAL CORPORATIONS	By: WALKER
NC-SBN 318	ECONOMIC DEVELOPMENT	By: STATON
NC-SBN 399	MINORITY/WOMENS BUSI	By: HUNT
NC-SBN 407	ECONOMIC DEVELOPMENT	By: WARREN
NC-SBN 421	DOWNTOWN DEVELOPMENT	By: STATON
NC-SBN 518	SALISBURY CHARTER	By: SMITH
NC-SBN 554	SMALL BUSINESS	By: STATON
NC-SBN 610	ECONOMIC DEVELOPMENT	By: HUNT
NC-SBN 753	FOREIGN SALES CORP.	By: BLOCK
NC-SBN 965	GROWTH COMMISSION	By: ROYALL ET AL
PYBND-HBN 1110	ECON DEVELOPMENT	By: INDUSTRY
PYBND-HBN 1202	ECONOMIC COMMISSION	By: INDUSTRY COMM
PYBND-HBN 1449	MUNICIPAL LEVIES	By: WALD ET AL
PYBND-HBN 1543	CAPITAL INVESTMENT	By: THOMPSON
PYBND-HBN 1615	BUSINESS DEVELOPMENT	By: HAUSAUER
PYBND-HBN 1624	JOB DEVELOPMENT	By: ULMER
PYBND-HBN 1628	ECON DEVELPMT	By: STRINDEN
PYBND-HBN 1633	LEGAL INVESTMENTS	By: STRINDEN
PYBND-HBN 1634	ECON DEVELOPMENT	By: STRINDEN
PYBND-HCR 3005	JOB DEVELOPMENT	By: LEGISLATIVE COUNCIL
PYBND-SBN 2050	INDUST DEVEL BONDS	By: LEGISLATIVE COUNCIL
PYBND-SBN 2051	FUND INVESTMENT	By: LEGISLATIVE COUNCIL
PYBND-SBN 2190	REGIONAL PLANNING	By: POLITICAL SUBDIVISIO
PYBND-SBN 2264	JOB DEVELOPMENT	By: POLITICAL SUB DIV
PYBND-SBN 2477	FARM TAX RELIEF	By: KELSH ET AL
PYBND-SBN 2516	BUSINESS LOANS	By: WALDERA ET AL
PYBND-SCR 4011	COMMERCIAL DEVELOP	By: WOGSLAND ET AL
PYBND-SCR 4048	OUTDOOR RECREATION	By: INGSTAD ET AL
NE-LBN 23	APPLIANCE SALES	By: MARSH
NE-LBN 141	ECONOMIC DEVELOPMENT	By: ABBOUD
NE-LBN 163	VENUTRE CAPITAL ACT	By: ABBOUD
NE-LBN 247	INVESTMENT CREDIT	By: ABBOUD
NE-LBN 491	STATE EMP BENEFITS	By: LANDIS
NE-LBN 707	ECONOMIC DEVELOPMENT	By: SCHMIT
NE-LBN 736	BUSINESS DEVELOPMENT	By: SCOFIELD ET AL
NE-LBN 740	ECONOMIC DEVELOPMENT	By: LANDIS ET AL
NE-LBN 742	ECONOMIC DEVELOPMENT	By: LANDIS ET AL
NE-LBN 743	ECONOMIC DEVELOP	By: LANDIS ET AL
NE-LBN 745	ECONOMIC DEVELOPMENT	By: LANDIS ET AL
NE-LBN 748	ECONOMIC DEVELOPMENT	By: WESELY
NE-LBN 749	DISTRESSED AREAS	By: HARRIS

NE-LBN 775	INVESTMENT GROWTH	By: BARRETT
NE-LBN 915	SMALL BUSINESS	By: ABBOUD
NE-LBN 1072	APPLICATION CHANGE	By: WESELY
NE-LBN 1082	COMMUNITY PROGRAMS	By: LANDIS
NE-LBN 1171	VENTURE CAPITAL	By: WESELY
NE-LRN 21	LOCAL INDUST DEV	By: URBAN AFFRS COMM
NE-LRN 207	CORPORATIONS	By: PIRSCH
NE-LRN 212	ECON DEVELOPMENT	By: WESELY
NH-HBN 271	LOCAL PROMOTIONS	By: JEAN
NH-HBN 321	CT RIVER VALLEY AUTH	By: MILLER ET AL
NH-HBN 381	RESIDENTIAL GROWTH	By: GAGE
NH-HBN 470	COMMERCE DEPT	By: WARD ET AL
NH-HBN 570	NATURAL RESOURCES	By: MCCAIN ET AL
NH-HBN 1062	ECON DEVELOP COMM	By: GRODIN ET AL
NH-HRN 54	LOW INCOME HOUSING	By: WEDDLE
NH-SBN 1	LAND CONSERVATION	By: BLAISDELL ET AL
NH-SBN 102	ENTERPRISE ZONES	By: BOND
NH-SBN 144	INDUS DEV MARKETING	By: BOND ET AL
NH-SBN 335	MUNICIPAL LEVIS	By: NELSON ET AL
NJ-ABN 111	VENTURE FUND	By: VILLANE
NJ-ABN 304	ENTERPRISE ZONES	By: SALMON
NJ-ABN 310	ENTERPRIZE ZONES	By: VILLANE
NJ-ABN 404	SMALL BUSINESSES	By: KALIK
NJ-ABN 492	SMALL BUSINESS	By: SCHUBER
NJ-ABN 532	UTILIZATION GOALS	By: SCHUBER
NJ-ABN 554	SMALL BUSINESS	By: GENOVA
NJ-ABN 1011	EXPORT FINANCE	By: COLLINS
NJ-ABN 1161	STATE CONTRACTS	By: BRYANT
NJ-ABN 1173	SPORTS EXPENDITURES	By: BRYANT
NJ-ABN 1174	SPORTS CONCESSIONS	By: BRYANT
NJ-ABN 1179	FRAUDULENT BUSINESS	By: BRYANT
NJ-ABN 1188	ENTERPRISE ZONES	By: BRYANT
NJ-ABN 1251	BUSINESS INCUBATORS	By: ROONEY
NJ-ABN 1308	ENTERPRISE ZONE	By: GILL
NJ-ABN 1489	ECONOMIC DEVELOPMENT	By: SALMON
NJ-ABN 1805	ENTERPRISE ZONE	By: CHARLEA/
NJ-ABN 2046	MEADOWLANDS DEVELOP	By: MCENROE
NJ-ABN 2052	DEVELOPMENT NOTICE	By: MCENROE
NJ-ABN 2172	EXPORT TRADING	By: HARDWICK
NJ-ABN 2199	EMPLOYMENT DEVELOPME	By: LITTELL
NJ-SBN 68	BAY DEVELOPMENT	By: VANWAGNER
NJ-SBN 97	ENTER ZONE/SALES TAX	By: LESNIAK
NJ-SBN 235	ECON DEV LIABILITY	By: O'CONNOR
NJ-SBN 566	INTERNATIONAL CENTER	By: BROWN
NJ-SBN 578	EXPORT FINANCE	By: BROWN
NJ-SBN 653	TUITION PAYMENTS	By: COWAN
NJ-SBN 654	ENTERPRISE ZONE	By: COWAN
NJ-SBN 748	SALES TAX EXEMPTION	By: CODEY
NJ-SBN 949	SALES TAX	By: HURLEY
NJ-SBN 1006	CORPORATE TAX CREDIT	By: LIPMAN
NJ-SBN 1017	ENTERPRISE ZONE	By: LIPMAN
NJ-SBN 1028	SET-ASIDE CONTRACT	By: LIPMAN
NJ-SBN 1126	BUSINESS DEVELOPMT	By: CARDINALE
NJ-SBN 1364	PLANNING BOARD	By: STOCKMAN

NJ-SBN 1468	STATE DEVELOPMENT	By: ZANE
NJ-SBN 1524	ENTERPRISE ZONES	By: PALLONE
NJ-SBN 1533	SHORE DEVELOPMENT	By: PALLONE
NJ-SBN 1823		By: DORSEY
NJ-SBN 1837	DEVELOPMENT BOND ACT	By: DORSEY
NJ-SBN 1838	DEVELOPMENT RIGHTS	By: DORSEY
NJ-SBN 1839	DEVELOPMENT RIGHTS	By: DORSEY
NJ-SBN 1896	REDEVELOPMENT BONDS	By: LYNCH
NJ-SBN 1915	MEADOWLANDS DEVELOP	By: AMBROSIO
PYBNJ-ABN 28	BOND ACT	By: SCHWARTZ
PYBNJ-ABN 89	STATE CONTRACTS	By: BROWN
PYBNJ-ABN 90	SMALL BUSINESS	By: BROWN
PYBNJ-ABN 92	STATE INVESTMENTS	By: BROWN
PYBNJ-ABN 94	MUNICIPAL CONTRACTS	By: BROWN
PYBNJ-ABN 95	COUNTY FINANCING	By: BROWN
PYBNJ-ABN 96	SMALL BUSINESS	By: BROWN
PYBNJ-ABN 180	ENTERPRISE ZONE	By: VILLANE
PYBNJ-ABN 449	ECONOMIC DEVELOPMENT	By: MUZIANI
PYBNJ-ABN 471	URBAN LOAN AUTHORITY	By: MUZIANI
PYBNJ-ABN 571	MINORITY BUSINESS	By: BRYANT
PYBNJ-ABN 591	DEVELOPMENT LOANS	By: BRYANT
PYBNJ-ABN 592	WOMEN BUSINESS	By: BRYANT
PYBNJ-ABN 594	MINORITY BUS AUTH	By: BRYANT
PYBNJ-ABN 617	BUSINESS DEVELOP	By: BRYANT
PYBNJ-ABN 625	ENTERPRISE ZONES	By: BRYANT
PYBNJ-ABN 638	DEVELOPMENT ADS	By: RANDALL
PYBNJ-ABN 924	BUSS IMPROVEMENT	By: COOPER
PYBNJ-ABN 949	SMALL BUSINESS ASSIS	By: SCHUBER
PYBNJ-ABN 1111	OFF TRACT IMPROVE	By: OGDEN
PYBNJ-ABN 1134	SMALL BUSINESS	By: OGDEN
PYBNJ-ABN 1385	CASINO MONEYS	By: DOYLE
PYBNJ-ABN 1543	DEVELOP CONTRIBUTION	By: NAPLES
PYBNJ-ABN 1640	ECON DEVELOP COMM	By: MCENROE
PYBNJ-ABN 1670	BUSINESS ASSISTANCE	By: KALIK
PYBNJ-ABN 1694	URBAN ENTERPROSE	By: AZZOLINA
PYBNJ-ABN 1703	ENTERPRISE ZONES	By: DIGAETANO
PYBNJ-ABN 1711	URBAN TRUST FUND	By: BRYANT
PYBNJ-ABN 1837	URBAN ENTERPRISE	By: SCHWARTZ
PYBNJ-ABN 1858	DISTRESSED CITIES	By: LITTELL
PYBNJ-ABN 1865	ECON DEVELOPMENT	By: SCHWARTZ
PYBNJ-ABN 1886	ECON DEV PROFITS	By: CHINNICI
PYBNJ-ABN 2019	ENERGY DEPT	By: HAYTAIAN ET AL
PYBNJ-ABN 2028	BUSINESS FRAUD	By: BRYANT
PYBNJ-ABN 2051	SMALL BUSINESS	By: DONOVAN
PYBNJ-ABN 2061	DEVELOPMENT LOANS	By: FOY
PYBNJ-ABN 2100	DEVELOP DISTRICT	By: DARIO
PYBNJ-ABN 2106	ENTERPRISE ZONES	By: DARIO
PYBNJ-ABN 2179	CAPITOL REDEVELOPMEN	By: WATSON
PYBNJ-ABN 2224	URBAN ENTERPRISE	By: DARIO
PYBNJ-ABN 2318	LAND WAIVERS	By: SCHUBER
PYBNJ-ABN 2413	SM BUSINESS DIV	By: BRYANT
PYBNJ-ABN 2476	ENTERPRISE ZONE	By: CHARLES/DARIO
PYBNJ-ABN 2514	CAFRA PERMITS	By: HENDRICKSON/MORAN
PYBNJ-ABN 2550	ENTERP ZONES	By: SCHWARTZ/SMITH

PYBNJ-ABN 2560	URBAN ENTERPRISE	By: MUZIANI ET AL
PYBNJ-ABN 2592	HACKENSACK TAX SHAR	By: DONOVAN/DIGAETANO
PYBNJ-ABN 2665	URBAN AID	By: COLLINS/STUHLTRAGER
PYBNJ-ABN 2677	ENTERPRISE ZONE AID	By: SCHWARTZ/SMITH
PYBNJ-ABN 2679	URBAN AID LOANS	By: DARIO/ARANGO
PYBNJ-ABN 2711	COMMUNITY LOANS	By: WATSON
PYBNJ-ABN 2874	ENTERPRISE STUDY	By: DARIO
PYBNJ-ABN 2880	SMALL BUSINESS	By: ARANGO/DARIO
PYBNJ-ABN 3074	SMALL BUSINESS FUND	By: CHARLES
PYBNJ-ABN 3113	SMALL BUSINESS FUND	By: BRYANT/WATSON
PYBNJ-ABN 3129	ENTERPRISE SALES TAX	By: MCENROE
PYBNJ-ABN 3151	BUSINESS ARRANGEMENT	By: ZIMMER/AZZOLINA
PYBNJ-ABN 3216	MEADOWLANDS DISTRICT	By: GARGIULO/CATRILLO
PYBNJ-ABN 3282	TECHNOLOGY FUND	By: AZZOLINA ET AL
PYBNJ-ABN 3378	EXPORT PROGRAM	By: AZZOLINA/COLLINS
PYBNJ-ABN 3472	BUSINESS GRANT	By: BROWN
PYBNJ-ABN 3499	CASINO SET ASIDES	By: SCHUBER/DIGAETANO
PYBNJ-ABN 3500	DEVELOPMENT APPL	By: DOYLE
PYBNJ-ABN 3668	MINORITY SET ASIDES	By: AZZOLINA/CATRILLO
PYBNJ-ABN 3685	DEVELOP AGREEMENTS	By: HAYTAIAN
PYBNJ-ABN 3780	ENTER ZONE SALES TAX	By: MUZIANI/CHINNIC
PYBNJ-ABN 3919	DEVELOPMENT TAX	By: RAFFERTY
PYBNJ-ABN 4002	REDEVELOPMENT PLAN	By: FRANCK
PYBNJ-ABN 4022	REDEVELOPMENT PLAN	By: HAYTAIAN
PYBNJ-ABN 4041	VET BUSINESS AID	By: GENOVA
PYBNJ-ABN 4053	SM BUSINESS PAY	By: SHUSTED
PYBNJ-ABN 4170	BUSINESS INCUBATORS	By: ROONEY
PYBNJ-ABN 4216	SMALL BUSINESSES	By: KALIK
PYBNJ-ABN 4331	SMALL FIRS.	By: MARSELLA ET AL
PYBNJ-ABN 4710	BUSINESS INCUBATORS	By: ROONEY
PYBNJ-AJR 49	HEALTH ZONES	By: FELICE
PYBNJ-AJR 50	NJ MANUFACTURING	By: FRANKS
PYBNJ-SBN 271	END COMMERCE DEPT	By: DUMONT
PYBNJ-SBN 421	ECONOMIC DEVELOPMENT	By: GARIBALDI
PYBNJ-SBN 468	EMPLOYMENT RETENTION	By: GARIBALDI
PYBNJ-SBN 543	STATE PROMOTION	By: CARDINALE
PYBNJ-SBN 575	ECONOMIC DEVELOPMENT	By: BASSANO
PYBNJ-SBN 699	RARITAN BAY PLANNING	By: VANWAGNER
PYBNJ-SBN 1186	HIGH TECH ENDEAVORS	By: OCONNOR
PYBNJ-SBN 1442	CONTRIBUTION	By: STOCKMAN
PYBNJ-SBN 1457	ENTERPRIZE ZONES	By: PALLONE
PYBNJ-SBN 1592	URBAN ENTERPRISE	By: LYNCH
PYBNJ-SBN 1641	CAPITAL REDEVELOPMEN	By: STOCKMAN
PYBNJ-SBN 1686	URBAN LOANS	By: RUSSO
PYBNJ-SBN 1697	SMALL BUSINESS	By: GAGLIANO
PYBNJ-SBN 1709	SMALL BUSINESSES	By: LIPMAN
PYBNJ-SBN 1768	SHORE FRONT DEVEL	By: PALLONE
PYBNJ-SBN 1807	LAND DEVELOPMENT	By: COWAN
PYBNJ-SBN 1885	DEVELOP TAX SHARING	By: HIRKALA
PYBNJ-SBN 1886	ENTERPRISE SALES TAX	By: LESNIAK
PYBNJ-SBN 1890	DEVELOPMENT NOTICE	By: HIRKALA
PYBNJ-SBN 1969	BUSINESS ASISTANCE	By: RUSSO
PYBNJ-SBN 2004	INCUBATORS	By: DIFRANCESCO
PYBNJ-SBN 2160	COMMUNITY DEVELOP	By: RUSSO ET AL

PYBNJ-SBN 2195	URBAN DEVELOPMENT	By: BUBBA ET AL
PYBNJ-SBN 2303	MINORITY BUSINESSES	By: LYNCH
PYBNJ-SBN 2324	ENTERPRISE ZONE	By: COWAN
PYBNJ-SBN 2626	REGIONAL PLANNING	By: COWAN ET AL
PYBNJ-SBN 2711	ENTERPRISE ZONE PROP	By: LIPMAN
PYBNJ-SBN 2881	CASINO SET ASIDES	By: LIPMAN
PYBNJ-SBN 2947	EXPORT PROGRAM	By: DORSEY
PYBNJ-SBN 2963	SET-ASIDE PROGRAMS	By: RICE
PYBNJ-SBN 2966	DEVELOP AGREEMENTS	By: VANWAGNER
PYBNJ-SBN 3104	MINORITY CONTRACTS	By: LIPMAN
PYBNJ-SBN 3156	EXECUTIVE DEPTS.	By: LYNCH
PYBNJ-SBN 3270	SALES TAX EXEMPTION	By: CODEY
PYBNJ-SBN 3398	COUNTY PLANNING	By: VAN WAGNER
PYBNJ-SBN 3426	STATE PLAN	By: LIPMAN
PYBNJ-SBN 3432	STATE PLAN	By: ZANE
PYBNJ-SBN 3445	ENTERPRISE ZONES	By: LYNCH
PYBNJ-SBN 3548	DEVELOPMENT PERMITS	By: CONNORS
PYBNJ-SBN 3704	DEVELOPMENT RIGHTS	By: DORSEY
PYBNJ-SBN 3724	DEVELOPMENTAL RIGHTS	By: DORSEY
PYBNJ-SCR 125	DEVELOPMENT CONTROLS	By: DORSEY
NM-HBN 13	ENTERPRISE ZONES	By: CASEY
NM-HBN 87	ECON DEVELOPMENT	By: ROBBINS
NM-HMN 14	GOVERNMENT PROPERTY	By: VARELA
NM-SBN 1	ECONOMIC DEVELOPMENT	By: CHAVEZ
NM-SBN 16	PROMOTION AREAS	By: CHANDLER ET AL
PYBNM-HBN 62	TECHNICAL CENTERS	By: SALAZAR ET AL
PYBNM-HBN 362	ENTERPRISE ZONES	By: CASEY ET AL
PYBNM-HBN 444	GAS CARRIAGE	By: HILL
PYBNM-HBN 516	PROCUREMENT DATA BAS	By: SMITH
PYBNM-HBN 645	ECON DEVELOPMENT	By: MADALENA
PYBNM-HJM 5	TECHNOLOGY	By: SALAZAR ET AL
PYBNM-HMN 74	BUSINESS DISTRICTS	By: MCSORLEY
PYBNM-SBN 2	ENCONOMIC DEVELOPMEN	By: COSNER ET AL
PYBNM-SBN 4	TECHNOLOGY COMMITTEE	By: COSNER ET AL
PYBNM-SBN 274	TOURISM BOARD	By: KAMERMAN
PYBNM-SBN 325	ECONOMIC ADVANCEMENT	By: HARVEY ET AL
PYBNM-SBN 514	ECON DEVELOPMENT	By: MAES ET AL
PYBNM-SMN 86	BUSINESS DISTRICTS	By: RUTHERFORD ET AL
PYBNV-ABN 5	REGIONAL PLANNING	By: NICHOLAS ET AL
PYBNV-ABN 241	PUBLIC RECORD	By: HALLER
PYBNV-ABN 243	CODE REVISION	By: JUDICIARY
PYBNV-ABN 373	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOPMENT
PYBNV-ABN 403	SMALL BUSINESS DEVT.	By: PRICE ET AL
PYBNV-ABN 492	ECONOMIC DEVELOPMENT	By: DINI ET AL
PYBNV-ABN 501	ECONOMIC DEVELOPMENT	By: PRICE ET AL
PYBNV-ABN 506	ECONOMIC DEVELOPMENT	By: PRICE ET AL
PYBNV-ABN 598	SUPERCOLLIDER	By: PRICE, ET AL
PYBNV-ABN 669	BUSINESS INVESTMENTS	By: WILLIAMS, ET AL
PYBNV-ABN 717	ECONOMIC DEVELOPMENT	By: ECONOMIC DEVELOPMENT
PYBNV-ABN 770	REDEVELOPMENT AREA	By: GOVT. AFFAIRS
PYBNV-ABN 779	STATUTE REVISION	By: GOVT. AFFAIRS
PYBNV-ABN 790	STATUTE REVISION	By: JUDICIARY
PYBNV-ABN 795	STATE INVESTMENTS	By: HUMKE ET AL
PYBNV-ACR 18	ECONOMIC DEVELOPMENT	By: WILLIAMS ET AL

PYBNV-ACR 19	ECONOMIC DEVELOPMENT	By: HALLER
PYBNV-SBN 56	ECONOMIC DEVELOPMENT	By: BEYER/HORN
PYBNV-SBN 301	TAHOE COMPACT	By: NATURAL RESOURCES
PYBNV-SBN 399	ECONOMIC DEVELOPMENT	By: HUMAN RESOURCES
NY-ABN 258	INT TRADE	By: GRIFFITH ET AL
NY-ABN 504	DEVELOPMENT ACT	By: HARRIS ET AL
NY-ABN 807	EXPORT TRADE LOANS	By: GORSKI
NY-ABN 863	URBAN RENEWAL	By: DEARIE
NY-ABN 1145	ECON DEVELOPMENT	By: PATTON ET AL
NY-ABN 1163	JOB DEVELOPMENT	By: GORSKI
NY-ABN 1170	WORKING CAPITAL	By: ROBACH
NY-ABN 1171	INDUSTRIAL DEVELOPMN	By: ROBACH
NY-ABN 1173	SMALL BUSINESS CASES	By: SCHIMMINGER ET AL
NY-ABN 1174	INDUST DEVELOPMENT	By: SHEFFER
NY-ABN 1232	URBAN DEVELOPMENT	By: SULLIVAN
NY-ABN 1277	INDUSTRIAL AGENCY	By: WALSH
NY-ABN 1597	ECON DEVELOPMENT	By: EVE
NY-ABN 1718	ECONOMIC DEVELOP	By: CATAPANO
NY-ABN 1734	TECHNOLOGY DEVELOP	By: HEALEY
NY-ABN 1768	MINORITY BUSINESSES	By: EVE
NY-ABN 1857	HOUSING ASSISTANCE	By: BOYLAND ET AL
NY-ABN 1924	DISCRIMINATION	By: BOYLAND ET AL
NY-ABN 1940	PUBLIC PENSION FUNDS	By: HEALEY ET AL
NY-ABN 2322	TAX EXEMPT CONSTRUC	By: HARENBERG ET AL
NY-ABN 2696	LOW COST POWER	By: HOYT ET AL
NY-ABN 2770	PUBLICLY AIDED CONST	By: EVE ET AL
NY-ABN 2776	MINORITY BANKS	By: EVE ET AL
NY-ABN 2796	LAND DEVELOPMENT	By: JACOBS
NY-ABN 3316	INDUSTRIAL DEVEL	By: HARENBERG ET AL
NY-ABN 3378	SMALL BUSINESS LOAN	By: SCHIMMINGER ET AL
NY-ABN 3675	ECON DEVELOPMENT	By: GOTTFRIED ET AL
NY-ABN 3841	URBAN DEVELOPMENT	By: WEINSTEIN ET AL
NY-ABN 3959	ECONOMIC DEVELOPMENT	By: WERTZ ET AL
NY-ABN 4282	SMALL BUSINESS	By: O'NEIL ET AL
NY-ABN 4335	EXPORTS	By: HINCHEY
NY-ABN 4569	DEPT TERMINATION	By: BEHAN ET AL
NY-ABN 4571	JOB DEVELOPMENT	By: BEHAN ET AL
NY-ABN 4605	JOB DEVELOPMENT	By: HALPIN ET AL
NY-ABN 4652	SMALL BUSINESS	By: VITALIANO ET AL
NY-ABN 4792	SMALL BUSINESS	By: SCHIMMINGER ET AL
NY-ABN 4793	STATE CONTRACTS	By: GORSKI
NY-ABN 4826	DEVELOPMENT ZONE	By: GORSKI
NY-ABN 5358	PROCUREMENT CONTRACT	By: SULLIVAN ET AL
NY-ABN 5359	PROCUREMENT CONTRACT	By: SULLIVAN ET AL
NY-ABN 5388	EXPANSION POWER	By: BRODSKY ET AL
NY-ABN 5492	IMPROVEMENT DISTRICT	By: DINAPOLI
NY-ABN 5509	VENTURE CAPITAL	By: EANNACE ET AL
NY-ABN 5563	RURAL DEVELOPMENT	By: PARMENT
NY-ABN 5730	MINORITY BUSINESS	By: GREEN ET AL
NY-ABN 5744	FRANCHISE TAX	By: SCHIMMINGER ET AL
NY-ABN 5798	INDUST DEVEL BONDS	By: YOUNG ET AL
NY-ABN 5891	JOB STABILIZATION	By: BARBARO
NY-ABN 5905	CIVIC FACILITY	By: CONNELLY
NY-ABN 5919	HOUSING ENTERPRISE Z	By: YOUNG

NY-ABN 6081	EQUITY CAPITAL	By: ROBACH ET AL
NY-ABN 6177	INFRASTRUCTURE	By: ROBACH
NY-ABN 6178	INDUST MODERNIZATION	By: ROBACH
NY-ABN 6355	INDUSTRY ASSISTANCE	By: SCHIMMINGER
NY-ABN 6390	STATE BONDS	By: ZALLESKI
NY-ABN 6417	BUSINESS DEVELOPMENT	By: RULES COM
NY-ABN 6526	VENTURE CAPITAL FUND	By: FRISA ET AL
NY-ABN 6527	WORKING CAPITAL LOAN	By: FRISA ET AL
NY-ABN 6529	BUSINESS INNOVATION	By: FRISA ET AL
NY-ABN 6634	HOSPITAL BONDS	By: SIEGEL ET AL
NY-ABN 6653	INCENTIVE RATES	By: HOYT ET AL
NY-ABN 6788	INNOVATION DEVEL	By: ROBACH
NY-ABN 6791	TECHNOLOGY DEVELOPME	By: ROBACH
NY-ABN 6839	TECHNOLOGY CENTERS	By: ROBACH ET AL
NY-ABN 6861	ECONOMIC DISTRESS	By: YEVOLI ET AL
NY-ABN 6892	BOND VOLUME CEILING	By: GORSKI, ET AL
NY-ABN 7447	MINORITY ENTERPRISES	By: RULES COMM
NY-ABN 7623	ECONOMIC DEVELOPMENT	By: RULES COM
NY-ABN 7638	URBAN DEVELOPMENT	By: RULES COMM
NY-ABN 7700	ECONOMIC GROWTH ACT	By: RULES COM
NY-ABN 7831	SECONDARY MATERIALS	By: RULES COMM
NY-ABN 7859	URBAN DEVELOPMENT	By: RULES COMM
NY-ABN 7863	IMPROVEMENT DISTRICT	By: RULES COMM
NY-ABN 8007	URBAN DEVELOPMENT	By: RULES COMM
NY-ABN 8098	URBAN DEVELOPMENT	By: RULES COMM
NY-ABN 8370	ECONOMIC DFVELOPMENT	By: RULES
NY-ABN 8372	ECON DEVELOPMENT	By: RULES
NY-ABN 8420	ECONOMIC DEVELOPMENT	By: RULES
NY-ABN 8443	ECONOMIC DEVELOPMENT	By: RULES
NY-ABN 8591	ECONOMIC DEVELOPMENT	By: RULES COM
NY-ABN 8745	ECONOMIC DEVELOP	By: BRODSKY
NY-ABN 8810	DEVELOPMENT AGENCY	By: PILLITTERE
NY-ABN 11759	NUCLEAR POWER SALE	By: RULES
NY-SBN 350	DEVELOPMENT ACT	By: STAFFORD
NY-SBN 482	EXPORT TRADE LOANS	By: FLOSS ET AL
NY-SBN 675	JOB DEVELOPMENT	By: FLOSS ET AL
NY-SBN 676	INDUSTRIAL DEVELOPME	By: FLOSS ET AL
NY-SBN 677	INDUST DEVELOPMENT	By: FLOSS ET AL
NY-SBN 680	WORKING CAPITAL	By: FLOSS ET AL
NY-SBN 681	SMALL BUSINESS CASES	By: FLOSS ET AL
NY-SBN 730	INDUSTRIAL AGENCY	By: PRESENT
NY-SBN 856	URBAN RENEWAL	By: JENKINS
NY-SBN 868	INDUST DEVELOPMENT	By: JENKINS
NY-SBN 1098	HOUSING ASSISTANCE	By: JENKINS
NY-SBN 1801	COMMUNITY RENEWAL	By: DALY ET AL
NY-SBN 1859	DEVELOPMENT RIGHTS	By: ONORATO ET AL
NY-SBN 1875	LOW COST POWER	By: DALY ET AL
NY-SBN 1950	JOB DEVELOPMENT	By: FLOSS
NY-SBN 2272	MINORITY BUSINESS	By: BARTOSIEWICZ
NY-SBN 2292	SMALL BUSINESS	By: FLOSS
NY-SBN 2469	INDUSTRIAL DEV	By: TRUNZO ET AL
NY-SBN 2619	PUBLIC WORKS	By: JOHNSON ET AL
NY-SBN 2733	ECON DEVELOPMENT	By: FLOSS ET AL
NY-SBN 2769	TOURISM INDUSTRY	By: MCHUGH ET AL

NY-SBN 2895	ECON DEVELOPMENT	By: LACK
NY-SBN 2983	URBAN DEVELOPMENT	By: OPPENHEIMER ET AL
NY-SBN 2998	BUSINESS DEVELOPMENT	By: FLOSS
NY-SBN 3181	EXPORTS	By: FARLEY
NY-SBN 3381	INNOVATION DEVEL	By: FLOSS
NY-SBN 3395	DEVELOPMENT ZONE	By: MASIELLO ET AL
NY-SBN 3479	PROCUREMENT CONTRACT	By: FLOSS
NY-SBN 3480	PROCUREMENT CONTRACT	By: FLOSS
NY-SBN 3501	EXPANSION POWER	By: LACK ET AL
NY-SBN 3556	IMPROVEMENT DISTRICT	By: TULLY ET AL
NY-SBN 3572	RURAL DEVELOPMENT	By: COOK
NY-SBN 3642	DISCRIMINATION	By: JENKINS
NY-SBN 3643	HOUSING ASSISTANCE	By: JENKINS
NY-SBN 3785	MINORITY BUSINESS	By: JENKINS
NY-SBN 3791	FRANCHISE TAX	By: LEVY ET AL
NY-SBN 3943	INDUSTRY ASSISTANCE	By: FLOSS
NY-SBN 4049	URBAN DEVELOPMENT CO	By: LEICHTER
NY-SBN 4174	"CIVIC FACILITY"	By: MARCHI
NY-SBN 4178	HOUSING ENTERPRISE Z	By: SPANO ET AL
NY-SBN 4179	HOUSING ENTERPRISE Z	By: SPANO ET AL
NY-SBN 4421	TECHNOLOGY DEVELOPME	By: FLOSS
NY-SBN 4537	STATE BONDS	By: VELELLA
NY-SBN 4896	IMPROVEMENT DISTRICT	By: COOK
NY-SBN 5091	TAX EXEMPT CONSTRUC	By: TRUNZO
NY-SBN 5113	BUSINESS INCENTIVES	By: LOMBARDI
NY-SBN 5248	ENTERPRISE ZONES	By: GALIBER
NY-SBN 5249	CONSTRUCTN CONTRACTS	By: GALIBER
NY-SBN 5280	BOND VOLUME CEILING	By: MARCHI
NY-SBN 5465	ECON DEVELOPMENT	By: SEWARD
NY-SBN 5500	HIGH TECH INCUBATORS	By: FLOSS
NY-SBN 5508	REDEVELOPMENT CONTRA	By: LEICHTER
NY-SBN 5510	SMALL BUSINESS	By: LEICHTER
NY-SBN 5560	URBAN DEVELOPMENT	By: TRUNZO
NY-SBN 5734	SECONDARY MATERIALS	By: BRUNO
NY-SBN 5754	URBAN DEVELOPMENT	By: DALY
NY-SBN 5792	ECON DEVELOPMENT	By: LOMBARDI
NY-SBN 5824	ECON DEVELOPMENT	By: PADAVAN
NY-SBN 5880	ECONOMIC DEVELOPMENT	By: VOLKER
NY-SBN 6027	ECON DEVELOPMENT	By: RULES COMM
NY-SBN 6256	ECON DEVELOPMENT	By: RULES
NY-SBN 6367	ECONOMIC DEVELOPMENT	By: PATERSON
NY-SBN 6495	ECONOMIC DEVELOPMENT	By: ANDERSON ET AL
NY-SBN 6668	ECON DEVELOPMENT	By: FLOSS
NY-SBN 6805	DEVELOPMENT AGENCY	By: DALY
NY-SBN 6811	FREE TRADE STUDY	By: MASIELLO
OH-HBN 76	PRIVATE CARRIERS	By: BEATTY
OH-HBN 153	RURAL JOBS	By: CERA ET AL
OH-HBN 292	ECONOMIC DEVELOPMENT	By: CERA ET AL
OH-HBN 509	STEEL FUTURES	By: VERICH ET AL
OH-HBN 692	ECONOMIC DEVELOPMENT	By: HUGHES ET AL
OH-HBN 708	REVISONS BILL	By: SHIVERS
OH-HBN 713	ECONOMIC DEVELOPMENT	By: THOMPSON ET AL
OH-HBN 714	PUBLIC FUNDS	By: SCHUCK
OH-HBN 715	ECONOMIC DEVELOPMENT	By: SCHUCK

OH-HJR 15	LAKE REDEVELOPMENT	By: BARA
OH-SBN 9	ENTERPRISE ZONE	By: SUHADOLNIK
OH-SBN 160	ECONOMIC DEVELOPMENT	By: BURCH ET AL
OH-SBN 215	STATE BOARDS	By: BURCH, ET AL
OH-SBN 233	STEEL FUTURES PROGRA	By: LEVEY
OH-SBN 321	ECONOMIC DEVELOPMENT	By: CUPP ET AL
OH-SJR 11	BLACK UNEMPLOYMENT	By: BOWEN ET AL
OK-HBN 1082	ECONOMIC DEVELOPMENT	By: ROSS
OK-HBN 1145	WORLD TRADE	By: CRAIGHEAD
OK-HBN 1334	INDUSTRIAL LOANS	By: BREWSTER
OK-HBN 1416	STATE ARTS COUNCIL	By: MC CORKELL
OK-HBN 1442	SMALL BUSINESSES	By: MCCORKELL
OK-HBN 1444	ECONOMIC RECOVERY	By: BARKER
OK-HBN 1447	HIGHER EDUCATION	By: HILL
OK-HBN 1465	INTERNATIONAL TRADE	By: BARKER/CRAIGHEAD
OK-HBN 1470	ENERGY CONSERVATION	By: HOBSON
OK-HBN 1498	PUBLIC FINANCE	By: COTNER
OK-HCR 1045	STATE TAXATION	By: GISH ET AL
OK-HJR 1029	PLEDGES OR LOANS	By: BARKER ET AL
OK-SBN 31	VENTURE CAPITAL	By: STIPE/ROBERTS
OK-SBN 77	ECONOMIC DEVELOP	By: CULLISON ET AL
OK-SBN 120	BUSINESS ENTERPRISE	By: HORNER
OK-SBN 448	JOB TRAINING	By: SCHUELEIN
OK-SCR 47	STATE FARM INSUR	By: WRIGHT ET AL
OK-SRN 8	TOURISM ENTERPRISES	By: FLOYD
OK-SRN 9	EXPANDING BUSINESS	By: HOOPER/SODLER
PYBOR-HBN 2178	ENTERPRISE INCENTIVE	By: ECONOMIC DEVELOPMENT
PYBOR-HBN 2247	INDUSTRIAL MARKETING	By: TRADE/ECON DEVLPMT
PYBOR-HBN 2248	ENTERPRISE ZONE	By: TRADE/ECON DEVLMT
PYBOR-HBN 2249	NONPROFIT CORPS	By: TRADE/ECON DEVLPMT
PYBOR-HBN 2250	OREGON MARKETPLACE	By: TRADE/ECON DEVLPMT
PYBOR-HBN 2409	GENDER CHANGES	By: JUDICIARY
PYBOR-HBN 2491	AREA TAX CREDIT	By: ANDERSON
PYBOR-HBN 2552	CREDIT CARDS	By: JUDICIARY
PYBOR-HBN 2611	PORT PROJECT FUND	By: TRADE DEVELOP
PYBOR-HBN 2612	PORT COMMISSION	By: TRADE DEVELOP
PYBOR-HBN 2641	BUSINES INCUBATOR	By: KOTULSKI ET AL
PYBOR-HBN 3010	ECON DEVEL DEPT	By: TRADE DEVELOP COMM
PYBOR-HBN 3011	ECONOMIC DEVELOPMENT	By: TRADE COMMITTEE
PYBOR-HBN 3020	SMALL BUSINESSES	By: DIX ET AL
PYBOR-HBN 3122	ECONOMIC INTERGRATIO	By: GOLD
PYBOR-HBN 3140	SMALL BUSINESS	By: EACHUS ET AL
PYBOR-HBN 3182	BUSINESS CORP LICENS	By: FAWBUSH
PYBOR-HBN 3288	SMALL BUSINESSES	By: DIX
PYBOR-HBN 3289	ECON DEVELOPMENT	By: DIX ET AL
PYBOR-HBN 3334	PORT COMMISION	By: HANLON ET AL
PYBOR-HBN 3364	MINORITY BUSINESS	By: CARTER ET AL
PYBOR-SBN 113	PUBLIC WORKS FUND	By: EXECUTIVE DEPT
PYBOR-SBN 129	EXEMPT REVENUE BONDS	By: REVENUE DEPT
PYBOR-SBN 164	BUILD BOND PROGRAM	By: TREASURY
PYBOR-SBN 281	ECON DEVELOPMENT	By: TRADE DEVELOP
PYBOR-SBN 282	DEVELOPMENT CORP	By: TRADE DEVELOP
PYBOR-SBN 283	FINANCE AUTHORITY	By: TRADE DEVELOP
PYBOR-SBN 378	TOURISM PROMOTION	By: HAMBY ET AL

PYBOR-SBN 389	SUPER COLLIDER	By: YIH ET AL
PYBOR-SBN 428	RURAL HOSPITAL	By: TIMMS ET AL
PYBOR-SBN 465	WAGE INCENTIVE	By: KERANS ET AL
PYBOR-SBN 698	STATE CONTRACTS	By: OLSON ET AL
PYBOR-SBN 701	EMPLOYEE-OWNED BUS	By: HILL
PYBOR-SBN 821	MINORITY BUSINESSES	By: MCCOY ET AL
PYBOR-SBN 871	DVELOPMENT FUND	By: DERANS
PYBOR-SBN 886	SOFTWARE DEVELOPMENT	By: KERANS ET AL
PYBOR-SBN 949	SMALL BUSINESS TRAIN	By: RULES COMM
PYBOR-SBN 950	ECONOMIC DEVEL	By: RULES
PYBOR-SBN 953	INVESTMENT RECORD DI	By: RULES COMM.
PYBOR-SBN 955	PROPERTY TAX EXEMPT	By: RULES
PYBOR-SBN 956	PRIVATE BUSINESS MAT	By: RULES
PYBOR-SBN 957	ECONOMIC DEVEL	By: RULES
PYBOR-SBN 963	HELP SMALL BUSINESS	By: TRADE DEVELOP
PYBOR-SBN 966	FOREIGN SALES CORPOR	By: TRADE DEVELOP
PYBOR-SBN 1012	WATER MANAGEMENT PLA	By: BROCKMAN ET AL
PYBOR-SBN 1034	ADMINISTRATIVE BOARD	By: RULES
PYBOR-SJR 25	MINORITY BUSINESS	By: RULES
PA-CCH 10	INDUSTRY DEV BOARD	By: GENERAL ASSEMBLY
PA-CCH 11	MINORITY BUSINESS	By: GENERAL ASSEMBLY
PA-HBN 1	ECON. DEVELOPMENT	By: MANDERINO ET AL
PA-HBN 2	POOL BONDS	By: SWEET ET AL
PA-HBN 3	DISTRESSED INDUSTRY	By: YANDRISEVITS ET AL
PA-HBN 4	EMPLOYMENT OPS	By: FATTAH ET AL
PA-HBN 5	COAL USE	By: LLOYD ET AL
PA-HBN 91	PRODUCT DEVELOP	By: HALUSKA
PA-HBN 246	SMALL BUSINESS	By: LLOYD ET AL
PA-HBN 389	ECON REVITALIZATION	By: REBER ET AL
PA-HBN 575	VENTURE CAPITAL	By: DORR ET AL
PA-HBN 576	SMALL BUSINESSES	By: DORR ET AL
PA-HBN 580	INDUS DEVELOPMENT	By: DORR ET AL
PA-HBN 717	DEVELOPMENT FINANCE	By: SWEET ET AL
PA-HBN 735	PLANT SHUTDOWN	By: RICHARDSON ET AL
PA-HBN 763	REDEVELOPMENT	By: LAUGHLIN ET AL
PA-HBN 815	REVITALIZATION RATES	By: BURNS
PA-HBN 823	INFRASATRUCTURE	By: LASHINGER ET AL
PA-HBN 893	SMALL BUSINESS	By: COY
PA-HBN 931	BLIGHTED PROPERTY	By: COWELL ET AL
PA-HBN 1149	INDUSTRIAL DEVELOPME	By: BELFANTI, ET AL
PA-HBN 1370	ECONOMIC DEVELOPMENT	By: LAGROTTA, ET AL
PA-HBN 1400	INDUSTRIAL DEVELOPME	By: SWEET, ET AL
PA-HBN 1435	ECONOMIC ADJUSTMENT	By: KUKOVICH ET AL
PA-HBN 1727	DEVELOPMENT ACT	By: DUFFY ET AL
PA-HBN 1940	INDUSTRIAL DEVELOPME	By: SWEET ET AL
PA-HBN 2056	SMALL BUSINESS	By: HERSHEY ET AL
PA-HBN 2072	INDUSTRIAL DEVELOP	By: BUSINESS & COMMERCE
PA-HRN 40	LOWER UTILITY COST	By: BURN
PA-HRN 55	COAL PRODUCTS	By: DALEY ET AL
PA-SBN 10	INSURANCE INVESTMENT	By: HOLL
PA-SBN 300	CAPITAL IMPROVEMENTS	By: ZEMPRELLI
PA-SBN 460	EXEC REORGANIZATION	By: SHAFFER ET AL
PA-SBN 551	RURAL DEVELOPMENT	By: PETERSON ET AL
PA-SBN 634	PRODUCT DEVELOPMENT	By: AFFLERBACH ET AL

PA-SBN 703	TECHNICAL ASSISTANCE	By: SHAFFER ET AL
PA-SBN 728	HOUSING SERVICES	By: JONES ET AL
PA-SBN 750	ECON DEVELOPMENT	By: ZEMPRELLI ET AL
PA-SBN 774	INDUSTRIAL PROJECTS	By: ROMANELLI ET AL
PA-SBN 940	SMALL BUSINESS INCUB	By: MOORE ET AL
PA-SBN 941	BUSINESS INFRASTRUCT	By: SHAFFER ET AL
PA-SBN 1082	MINORITY BUSINESS	By: HANKINS ET AL
PA-SBN 1115	REDEVELOPMENT AID	By: SCANLON ET AL
PA-SBN 1209	INDUSTRIAL DEVELOPME	By: RHOADES ET AL
PA-SBN 1210	FOREIGN EXPORTS	By: SHAFFER ET AL
PA-SBN 1211	TRADE FAIRS	By: SHAFFER ET AL
PA-SBN 1214	SMALL BUSINESS	By: SHUMAKER ET AL
PA-SBN 1241	SMALL BUSINESS	By: STAPLETON ET AL
*01PA-SBN 6	DISTRESSED COMMUNITI	By: LEWIS
*01PA-SBN 7	LOCAL TAX FUND	By: LEWIS ET AL
*01PA-SBN 29	ECONOMIC DEVELOPMENT	By: LEWIS
RI-HBN 5112	STATE REDEVELOPMENT	By: ROSSI/ANDERSON
RI-HBN 5279	ECONOMIC DEVELOPMENT	By: EGAN ET AL
RI-HBN 5464	CHILD CARE FUND	By: MCDERMOTT ET AL
RI-HBN 5742	DEFENSE CUTBACKS	By: TSIONGAS ET AL
RI-HBN 6317	INCREMENT FINANCING	By: JABOUR ET AL
RI-HBN 6449	BUILDING AUTHORITY	By: LAMB
RI-HBN 6465	SMALL BUSINESS AWARD	By: CASINELLI
RI-HBN 6510	FAIR EMPLOYMENT PRAC	By: BATASTINI
RI-HBN 6590	NEWPORT TOURISM	By: CROWLEY/BOYLE
RI-HBN 6654	ECONOMIC DEVELOPMENT	By: LAMB
RI-HBN 6776	COMPREHENSIVE ZONING	By: GORHAM ET AL
RI-HBN 6777	INDUSTRIAL BUILDING	By: GORHAM
RI-HBN 7684	REDEVELOPMENT ACTS	By: ROSSI ET AL
RI-HBN 10510	FAIR EMPLOYMENT PRAC	By: BATASTINI
RI-SBN 250	CHILD CARE FUND	By: REED
RI-SBN 276	ADVOCACY COUNCIL	By: GANNON
RI-SBN 927	BUILDING AUTHORITY	By: FARNUM/STEWART
RI-SBN 939	BUILDING AUTHORITY	By: GANNON ET AL
RI-SBN 960	SMALL BUSINESS	By: REED ET AL
RI-SBN 964	INDUSTRIAL PARK	By: PEDERZANI
RI-SBN 1045	ZONING ACT	By: FARNUM
SC-HBN 2336	SMALL BUSINESS	By: GREGORY
SC-HBN 2374	AGENCY TERMINATION	By: GREGORY ET AL
SC-HBN 2590	APPROPRIATIONS BILL	By: WAYS & MEANS
SC-HBN 2869	GASOLINE TAXES	By: SHEHEEN ET AL
SC-HBN 3020	ECONOMIC DEVELOPMENT	By: LABOR
SC-HBN 3176	ECONOMIC DEVELOPMENT	By: LEWIS ET AL
SC-HBN 3208	JOBS DEVELOPMENT	By: LABOR
SC-HBN 3546	TRUCKING INDUSTRY	By: ROGERS
SC-SBN 206	ECONOMIC DEVELOPMENT	By: STATON
SC-SBN 314	SMALL BUSINESS	By: DRUMMOND
SC-SBN 333	AGENCY TERMINATION	By: DRUMMOND
SC-SBN 520	HIGHWAY FUNDS	By: FIELDING ET AL
SC-SBN 627	ECONOMIC DEVELOPMENT	By: WADDELL
SC-SBN 817	JOBS DEVELOPMENT	By: LABOR
SC-SBN 863	PARI-MUTUEL BETTING	By: LONG
SD-HBN 1019	ECON TAX INCREASE	By: OIEN
SD-SBN 7	INDIAN BUSINESS	By: STOICK ET AL

SD-SBN 109	ECON DEVELOPMENT	By: HARDING ET AL
PYBSD-HBN 1330	ECONOMIC DEVELOPMENT	By: MICKELSON ET AL
PYBSD-HBN 1344	EXPORT BOARD	By: LAMMERS
PYBSD-SBN 197	DEVELOPMENT AUTHORIT	By: HARDING ET AL
PYBSD-SBN 253	ECONOMIC DEVELOPMENT	By: STATE AFFAIRS
PYBSD-SBN 268	DEVELOPMENT BOARD	By: MINER ET AL
TN-HBN 183	ECONOMIC DEVEL	By: BRAGG
TN-HBN 221	BUSINESS ENTERPRISE	By: KING ET AL
TN-HBN 479	IMPACT FEES	By: FRENSLEY
TN-HBN 494	PHYSICAL HANDICAP	By: TANNER ET AL
TN-HBN 604	ECONOMIC DEVEL	By: HURLEY ET AL
TN-HBN 630	SURETY BONDS	By: JONES
TN-HBN 747	ECONOMIC DEVEL	By: DIXON ET AL
TN-HBN 749	ECONOMIC DEVELOPMENT	By: DIXON ET AL
TN-HBN 752	SURETY BONDS	By: DIXON ET AL
TN-HBN 753	SURETY BONDS	By: DIXON ET AL
TN-HBN 754	EDUCATIONAL SYSTEMS	By: DIXON ET AL
TN-HBN 761	ENTERPRISE ZONE	By: DIXON
TN-HBN 848	ECONOMIC DEVEL	By: WINNINGHAM
TN-HBN 1102	ECONOMIC DEVELOPMENT	By: NAIFEH ET AL
TN-HBN 1421	BUSINESS ENTERPRISE	By: KING
TN-HBN 1535	ECONOMIC DEVELOPMENT	By: LOVE
TN-HBN 1600	ECONOMIC DEVELOPMENT	By: TURNER
TN-HBN 1758	ECONOMIC DEVELOPMENT	By: DREW
TN-HBN 1760	INDUSTRIAL DEVEL	By: WINNINGHAM
TN-HJR 6	NASHVILLE OLYMPICS	By: WEST
TN-HJR 445	ECONOMIC DEVELOPMENT	By: DREW
TN-HJR 451	MINORITY BUSINESS	By: LOVE
TN-HRN 19	ECONOMIC DEVELOPMENT	By: NAIFEH ET AL
TN-SBN 146	IMPACT FEES	By: RICHARDSON
TN-SBN 259	ENTERPRISE ZONE	By: FORD
TN-SBN 386	SURETY BONDS	By: DAVIS
TN-SBN 398	SURETY BONDS	By: FORD
TN-SBN 402	ECONOMIC DEVELOPMENT	By: FORD
TN-SBN 416	BUSINESS ENTERPRISE	By: RICHARDSON
TN-SBN 686	ECONOMIC DEVELOP	By: FORD
TN-SBN 717	ECONOMIC DEVEL	By: MOORE
TN-SBN 780	SURETY BONDS	By: DAVIS
TN-SBN 841	EDUCATIONAL SYSTEMS	By: FORD
TN-SBN 893	PHYSICAL HANDICAP	By: HAMILTON
TN-SBN 896	WATERSHED DEVEL	By: RICHARDSON
TN-SBN 1017	ECONOMIC DEVEL	By: O'BRIEN
TN-SBN 1095	ECONOMIC DEVEL	By: ARNOLD
TN-SBN 1122	ECONOMIC DEVELOPMENT	By: WILDER
TN-SBN 1456	BUSINESS ENTERPRISE	By: RICHARDSON
TN-SBN 1671	INDUSTRIAL DEVEL	By: O'BRIEN
TN-SBN 1841	ECONOMIC DEVELOPMENT	By: FORD
TN-SBN 1866	ENTERPRISE ZONE	By: WILLIAMS
TN-SBN 1867	ECONOMIC DEVELOPMENT	By: WILLIAMS
TN-SBN 1941	ECONOMIC DEVELOPMENT	By: KYLE
TN-SBN 2008	ECONOMIC DEVELOPMENT	By: DAVIS
TN-SBN 2112	REGIONAL COUNCIL	By: HAYNES
TN-SJR 175	PLANT CLOSINGS	By: DAVIS
PYBTX-HBN 3	ECONOMIC DEVELOPMENT	By: HACKNEY ET AL

PYBTX-HBN 4	DEPT OF COMMERCE	By: SMITH ET AL
PYBTX-HBN 5	SMALL BUSINESSES	By: HACKNEY
PYBTX-HBN 12	STATE LOTTERY	By: EVANS
PYBTX-HBN 395	BORDER DEVELOPMENT	By: PEREZ
PYBTX-HBN 564	TORT REFORM	By: TOOMEY ET AL
PYBTX-HBN 751	PUBLIC BID	By: WILSON
PYBTX-HBN 752	ENTERPRISE ZONES	By: HINOJOSA
PYBTX-HBN 1281	SCHOOL DISTRICT TAX	By: WALDROP
PYBTX-HBN 1373	AGRI DIVERSIFICATION	By: HARRISON
PYBTX-HBN 1405	ECON DIVERSIFICATION	By: RICHARDSON
PYBTX-HBN 1406	ECONOMIC DATABASE	By: COLBERT
PYBTX-HBN 1407	MANUFAC SCIENCES	By: BLACKWOOD
PYBTX-HBN 1533	INDUST DEVELOPMENT	By: LARRY
PYBTX-HBN 1941	R & D AUTHORITIES	By: MADLA ET AL
PYBTX-HBN 1987	FOREIGN SALES	By: MELTON
PYBTX-HBN 2008	DEVELOPMENT AGENCY	By: BERLANGA
PYBTX-HBN 2270	ECONOMIC DEVELOPMENT	By: LUNA
PYBTX-HBN 2346	REINVESTMENT ZONES	By: LUNA
PYBTX-HBN 2494	ECONOMIC DEVELOPMENT	By: SHINE
PYBTX-HCR 36	EFFICIENCY STUDY	By: STILES
PYBTX-HJR 3	TEXAS GROWTH FUND	By: SCHLUETER
PYBTX-HJR 4	STATE DEVELOPMENT	By: COLBERT
PYBTX-HJR 5	ECONOMIC DEVELOPMENT	By: SMITH
PYBTX-HJR 58	AG BUSINESS	By: GIBSON
PYBTX-HJR 102	SMALL BUSINESS	By: HINOJOSA
PYBTX-HRN 68	ECONOMIC INNOVATION	By: LUNA
PYBTX-HRN 105	SELF-EMPLOYMENT	By: EVANS
PYBTX-HRN 373	ENTERPRISE ZONES	By: EVANS OF HARRIS ETAL
PYBTX-SBN 87	ENTERPRISE ZONES	By: URIBE
PYBTX-SBN 90	BORDER DEVELOPMENT	By: URIBE
PYBTX-SBN 166	INT'L AGR COMMERCE	By: SARPALIUS
PYBTX-SBN 287	TORT REFORM	By: MONTFORD
PYBTX-SBN 336	IMPACT FEES	By: FARABEE
PYBTX-SBN 585	WATER BONDS	By: SANTIESTEBAN
PYBTX-SBN 705	RESEARCH AUTHORITIES	By: TEJEDA
PYBTX-SBN 776	ECONOMIC DATABASE	By: EDWARDS
PYBTX-SBN 788	ECON DIVERSIFICATION	By: CAPERTON
PYBTX-SBN 1225	REINVESTMENT ZONES	By: HENDERSON
PYBTX-SBN 1258	AGRI DIVERSIFICATION	By: EDWARDS
PYBTX-SBN 1345	COURT PARTICIPATION	By: WASHINGTON
PYBTX-SBN 1397	VENTURE CAPITAL	By: PARMER
PYBTX-SJR 10	TEXAS GROWTH FUND	By: EDWARDS
PYBTX-SJR 46	SMALL BUSINESS	By: ANDERSON
PYBTX-SJR 49	AG BUSINESS	By: EDWARDS
UT-HBN 51	INTERPRISE ZONES	By: NIELSEN ET AL
UT-HJR 20	ECONOMIC DEVELOPMENT	By: BURNINGHAM
PYBUT-HBN 88	REVISORS STATUTE	By: MOODY ET AL
PYBUT-HBN 90	NEIGHBORHOOD DEVEL	By: PETERSON
PYBUT-HCR 5	ECONOMIC DEVEL	By: CHRISTENSEN ET AL
PYBUT-HJR 21	INTERIM STUDIES	By: KARRAS
PYBUT-SBN 43	SUNSET DATES	By: CARLING
PYBUT-SBN 67	REDEVELOPMENT TAX	By: BARLOW
PYBUT-SBN 231	ECONOMIC DEVELOPMENT	By: CARLING
PYBUT-SBN 235	ECONOMIC DEVELOPMENT	By: CORNABY

VA-HBN 301	SMALL BUSINESS	By: DIAMONSTEIN
VA-HBN 587	ECONOMIC DEVELOP	By: QUILLEN ET AL
VA-HJR 21	ECONOMIC DEVELOPMENT	By: DIAMONSTEINETAL
PYBVA-HBN 147	INDUSTRIAL BONDS	By: WILSON ET AL
PYBVA-HBN 695	ECONOMIC DEVELOPMENT	By: LACY/ROBINSON
PYBVA-HBN 787	ADVISORY BOARDS	By: WILSON ETAL
PYBVA-HBN 788	EXECUTIVE BOARDS	By: WILSON ETAL
PYBVA-HBN 924	INDUSTRIAL BOARD	By: DIAMONSTEIN ET AL
PYBVA-HBN 1144	SMALL BUSINESS BOARD	By: DIAMONSTEIN ET AL
PYBVA-HBN 1145	MINORITY BUSINESS	By: MELVIN ET AL
PYBVA-HBN 1299	INDUSTRIAL AUTHORITY	By: STIEFFEN ET AL
PYBVA-HBN 1354	ECONOMIC DEVELOPMENT	By: QUILLEN ET AL
PYBVA-HBN 1643	FIDUCIARIES INVEST	By: DIAMONSTEIN
PYBVA-HJR 6	NEW BUSINESS VENTURE	By: SAUNDERS ET AL
PYBVA-HJR 13	PROMOTING TOURISM	By: BALL ET AL
PYBVA-HJR 132	ECONOMIC DEVELOPMENT	By: DIAMONSTEIN
PYBVA-SBN 148	SMALL BUSINESSES	By: HOLLAND
PYBVA-SBN 354	HAARDOUS WASTE ETC	By: ANDREWS ET AL
PYBVA-SBN 438	ENTERPRIZE ZONES	By: MARYE/LACY
PYBVA-SBN 498	STATE PARK LEASES	By: DUVAL
PYBVA-SBN 649	ECONOMIC DEVELOPMENT	By: JONES ET AL
VT-HBN 126	RAPID GROWTH AREAS	By: CARSE ET AL
VT-HBN 162	CAPACITY STUDIES	By: REYNES ET AL
VT-HBN 248	ENTERPRISE CENTERS	By: OBUCHOWSKI ET AL
VT-HBN 258	INDUSTRIAL DEVELOP	By: VALSANGIACOMO ET AL
VT-HBN 272	DEVELOPMENT FOUNDATN	By: OBUCHOWSKI
VT-HBN 443	VENTURE CAPITAL	By: OBUCHOWSKI
VT-HBN 539	ECON COMPETITION	By: PORTER
VT-HBN 551	JOB ZONES	By: OBUCHOWSKI
VT-HBN 593	LAND DEVELOPMENT	By: WAITE
VT-SBN 66	DAY CARE FACILITIES	By: WELCH
VT-SBN 106	DEVELOPMENT FINANCE	By: PARKER
VT-SBN 186	STATE AGENCY PLANS	By: BONGARTZ ET AL
VT-SBN 198	RAPID GROWTH AREAS	By: WELCH ET AL
VT-SBN 263	HIGHWAY/DEVELOPMENT	By: WEBSTER ET AL
VT-SBN 282	REGIONAL PLANNING	By: BONGARTZ ET AL
WA-HBN 322	PUBLIC ASSISTANCE	By: JACOBSEN ET AL
WA-HBN 323	TELECOMMUNICATIONS	By: JACOBSEN ET AL
WA-HBN 334	MINORITY BUSINESS	By: BELCHER ET AL
WA-HBN 354	MINORITY BUSINESS	By: WINEBERRY ET AL
WA-HBN 355	MINORITY BUSINESS	By: SOMMERS ET AL
WA-HBN 373	TELECOMMUNICATIONS	By: GRANT ET AL
WA-HBN 502	ECONOMIC DEVELOPMENT	By: BRADDOCK ET AL
WA-HBN 576	EMPLOYEE BUSINESS	By: JACOBSEN ET AL
WA-HBN 610	BUSINESS LOANS	By: SILER ET AL
WA-HBN 743	ECON REVITALIZATION	By: CANTWELL ET AL
WA-HBN 885	DISTRESSED AREA	By: BROOKS ET AL
WA-HBN 911	EMPLOYMENT DATA	By: WANG ET AL
WA-HBN 973	SEED CAPITAL CORP	By: DAY ET AL
WA-HBN 1018	REGULATORY REFORM	By: SOMMERS ET AL
WA-HBN 1119	ECON DEVELOPMENT	By: BECK ET AL
WA-HBN 1124	INDUTRIAL DEVELOP CO	By: DAY ET AL
WA-HBN 1132	ECONOMIC DEVELOPMENT	By: JESERNING ET AL
WA-HBN 1142	BUSINESS DEVELOPMENT	By: WINEBERRY ET AL

WA-HBN 1143	CAPITAL POOLS	By: DAY ET AL
WA-HBN 1153	SMALL BUSINESSES	By: WILLIANS ET AL
WA-HBN 1155	UNDEREMPLOYMENT	By: VEKICH ET AL
WA-HBN 1156	DISTRESSED AREAS	By: VEKICH ET AL
WA-HBN 1176	SEED CAPITAL	By: DAY ET AL
WA-HBN 1189	RURAL BUSINESSES	By: HOLM ET AL
WA-HBN 1259	ECONOMIC DEVELOP	By: SCHOON ET AL
WA-HBN 1358	BUSINESS/CORP	By: DAY ET AL
WA-HBN 1382	SUNSET REVIEW	By: HANKINS ET AL
WA-HBN 1437	TRADE LEADS	By: HEAVEY, ET AL
WA-HBN 1438	JOB RETENTION	By: VEKICH, ET AL
WA-HBN 1496	TRADE OFFICES	By: KREMEN, ET AL
WA-HBN 1516	MARKETPLACE PROG	By: BASICH, ET AL
WA-HBN 1582	SEED CAPITAL POOLS	By: DAY
WA-HJM 4030	ECON DEVELOPMENT	By: WINEBERRY
WA-SBN 5131	EMPLOYMENT DATA	By: WARNKE ET AL
WA-SBN 5202	MINORITY BUSINESS	By: TALMADGE ET AL
WA-SBN 5296	ECONOMIC DEVELOPMENT	By: HAYNER
WA-SBN 5328	DISABLED PERSONS	By: GARRETT
WA-SBN 5398	INDUSTRIAL CORP	By: HALSAN ET AL
WA-SBN 5469	ECONOMIC DEVELOPMENT	By: TALMADGE ET AL
WA-SBN 5528	SMALL BUS COUNCIL	By: FLEMING ET AL
WA-SBN 5529	BUSINESS ENTERPRISES	By: FLEMING
WA-SBN 5530	SMALL BUSINESSES	By: FLEMING
WA-SBN 5566	MINORITY BUSINESS	By: FLEMING ET AL
WA-SBN 5567	MINORITY BUSINESS	By: FLEMING ET AL
WA-SBN 5588	SMALL BUSINESS LOANS	By: SMITHERMAN ET AL
WA-SBN 5589	INVESTMENT OPPS	By: FLEMING ET AL
WA-SBN 5665	LOCAL DEVELOPMENT	By: SMITHERMAN ET AL
WA-SBN 5743	INDUSTRIAL INCENTIVE	By: LEE ET AL
WA-SBN 5776	ECON REVITALIZATION	By: WARNKE ET AL
WA-SBN 5806	SMALL BUSINESS	By: WARNKE
WA-SBN 5816	SMALL BUSINESS	By: WARNKE
WA-SBN 5817	ECONOMIC DEVELOPMENT	By: WARNKE
WA-SBN 5831	SMALL BUSINESSES	By: WOJAHN/ETAL
WA-SBN 5832	CAPITAL PROJECTS	By: BENDER
WA-SBN 6044	ECONOMIC DEVELOPMENT	By: WARNKE
WA-SBN 6050	JOB RETENTION	By: WARNKE
WA-SBN 6063	PROMOTE PRODUCTS	By: BAILEY/BENDER
WA-SBN 6124	RURAL HEALTH CARE	By: DECCIO ET AL
WA-SBN 6125	RURAL HOSPITALS	By: DECCIO ET AL
WA-SBN 6220	DEVELOPMENT CORPS	By: ANDERSON ET AL
WA-SBN 6222	EXPORT ASSISTANCE	By: ANDERSON, ET AL
WA-SBN 6223	INTERNATIONAL TRADE	By: WEST, ET AL
WA-SBN 6272	INVESTMENT OPP	By: ANDERSON, ET AL
WA-SBN 6273	FOREIGN SALES	By: LEE, ET AL
WA-SBN 6274	SMALL BUSINESS	By: FLEMING, ET AL
WA-SBN 6275	SMALL BUSINESS LOANS	By: SMITHERMAN, ET AL
WA-SBN 6276	ENTREPRENEUR DEVELOP	By: WARNKE, ET AL
WA-SBN 6277	JOB RETENTION	By: WARNKE, ET AL
WA-SBN 6284	ECONOMIC DEVELOPMENT	By: BENDER ET AL
WA-SBN 6290	ECONOMIC DEVELOPMENT	By: LEE, ET AL
WA-SCR 8412	TRADE CENTER	By: TALMADGE ET AL
*01WA-HBN 1250	SHORELINE MANAGEMENT	By: WILSON ET AL

WI-ABN 67	ENTERPRISE ZONE TAX	By: TREGONING
WI-ABN 222	DEVELOPMENT ZONES; I	By: RADTKE
WI-ABN 254	CAPITAL DEVELOPMENT	By: LEGISLATIVE COUNCIL
WI-ABN 442	ADMINISTRATION DEPT.	By: LAW REVISION
WI-ABN 626	ECONOMIC DEVELOPMENT	By: COGGS ET AL
WI-ABN 658	EXPORT DEVELOPMENT	By: BARCA ET AL
WI-ABN 665	WELFARE SYSTEM	By: CHILDREN
WI-ABN 681	ECONOMIC DEVELOP	By: LEWIS ET AL
WI-ABN 710	WELFARE	By: LOFTUS
WI-ABN 738	ENTREPRENEURS	By: LEG CNCL
WI-ABN 745	BUS/DEVELOP CORP	By: LEWIS ET AL
WI-ABN 815	ECON DEVELOP BONDS	By: HOLPERIN ET AL
WI-SBN 100	BUDGET BILL	By: FINANCE
WI-SBN 118	ENTERPRISE ZONES	By: STITT
WI-SBN 196	STATE DEPARTMENTS	By: LAW REVISION
WI-SBN 259	HISTORIC PRESERVATIO	By: ULICHNY ET AL
WI-SBN 285	MAIN STREET PROGRAM	By: ULICHNY, ET AL
*02WI-SBN 1	FAMILY AID	By: SENATE ORGANIZATION
WV-HBN 2105	LOTTERY REVENUE	By: MCKINLEY
WV-HBN 2317	DEPRESSED REGIONS DE	By: KNIGHT
WV-HBN 2353	LINKED DEPOSIT LOANS	By: FULLEN
WV-HBN 2462	ENTITIES TERMINATION	By: MCCORMICK/MCKINLEY
WV-HBN 2485	ECONOMIC DEVELOPMENT	By: FLANIGAN
WV-HBN 2516	RECREATION RESOURCE	By: SOUTHERN
WV-HBN 2566	JOBS DEVELOPMENT	By: KNIGHT
WV-HBN 2611	REINVESTMENT	By: KNIGHT
WV-HBN 2629	ENTERPRISE ZONE	By: SPEAKER
WV-HBN 2714	FUNDING OF COLLEGES	By: MCKINLEY
WV-HBN 2819	ECONOMIC DEVELOP	By: CHAMBERS
WV-HBN 2823	TRADE SECRETS	By: CHAMBERS/SWANN
WV-HBN 2831	BOND CEILING	By: CHAMBERS/SWANN
WV-HBN 2969	DEVELOPMENT CORP	By: CHAMBERS/SWANN
WV-HBN 3040	ECONOMIC DEVELOPMENT	By: WILLIAMS
WV-HBN 4073	TOURIST TRAIN	By: FLANIGAN
WV-HBN 4094	INDUSTRY CORP	By: CHAMBERS ET AL
WV-SBN 56	JOB CORPORATION	By: TUCKER
WV-SBN 152	BUSINESS CREDIT	By: JONES
WV-SBN 198	TOURIST TRAIN	By: WHITLOW
WV-SBN 223	INDUSTRY DEVELOPMENT	By: TONKOVICH ET AL
WV-SBN 277	ECONOMIC DEVELOPMENT	By: WILLIAMS ET AL
PYBWV-SBN 292	INDUSTRIAL DEVELOPME	By: TONKOVICH
PYBWV-SBN 319	ECON DEVELOP ACT	By: BOETTNER ET AL
PYBWV-SBN 326	JOB DEVELOPMENT	By: TUCKER
PYBWV-SBN 385	ENTERPRISE ZONE	By: TONKOVICH
PYBWV-SBN 512	BUSINESS ASSISTANCE	By: TONKOVICH
PYBWV-SBN 581	JOB DEVELOPMENT	By: TONKOVICH
PYBWV-SBN 748	ADMINISTRATIVE RULES	By: JUDICIARY COMM.
PYBWV-SBN 761	ADMINISTRATIVE RULES	By: TUCKER
PYBWV-SJR 18	TAX EXEMPTION	By: BOETTNER
PYBWY-HBN 4	DEVELOPMENT LOANS	By: COMMERCE ET AL
PYBWY-HBN 78	WATER SUPPLY	By: MINES COMM ET AL
PYBWY-HBN 229	GOVERNORS APPTS	By: HANSEN ET AL
PYBWY-HBN 316	SEVERANCE TAX	By: FREUDENTHAL ET AL
PYBWY-HBN 320	LOAN PROGRAM	By: GERINGER ET AL

PYBWY-HBN 335	SM BUSINESS INVEST	By: PERKINS ET AL
PYBWY-HBN 414	INDUSTRIAL DEVELOP	By: WEAVER
PYBWY-SBN 61	SM BUSINESS FUNDS	By: WIEDERSPAHN
PYBWY-SBN 63	DOWNTOWN DEVELOP	By: WIEDERSPAHN ET AL
PYBWY-SBN 191	FARM BOARD LOANS	By: VINICH
PYBWY-SBN 206	GOVERNORS APPTS	By: ARNEY ET AL
PYBWY-SBN 227	ECONOMIC DEVELOPMENT	By: BURNETT ET AL
PYBWY-SBN 277	ECON DEVELOPMENT	By: ZIMMER

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The Effects of Alaska's Economic Recession on Anchorage Households

Why Anchorage?

Over the past two years a strong recession has choked the Alaska economy. All Alaska communities have been hurt by it. But Anchorage and other communities in southcentral Alaska have seen the sharpest economic decline and the biggest population drain.

Those southcentral communities grew the fastest in the early 1980s, and they have come down the hardest. Anchorage is the state's major commercial center and is home to more than 40 percent of Alaskans. Anchorage's economic recovery will be an important measure of the state's overall recovery.

Because the Anchorage economy is such a big part of the state economy and it has been hit so hard by the recession, this publication looks specifically at the effects of the recession on Anchorage. By looking only at Anchorage, we're not implying that the recession has left other communities untouched.

This publication is based on two large telephone surveys of Anchorage households done in June and November 1987. Household surveys show us the human dimension of the recession: how different kinds of households have been affected by the recession, as described by the household residents themselves. We asked residents questions about their incomes, housing status, employment, occupations, moving plans, and expectations about their own financial futures.

The recession that started at the end of 1985 has been much harder on some Anchorage residents than on others. Some have lost--or are near losing--homes, jobs, businesses. Some have watched the value of their properties shrink but have reasonably steady incomes that help them hold on, waiting for better times. Some who lived here two years ago have left, looking for brighter prospects. And some--particularly those who arrived after the recession started--are seeing the bright spot on the dark landscape: lower rents and bargain prices for houses, with plenty of choices--and, in general, higher paying jobs than in the lower 48.

In this *Review,* we tell the story of a city in recession. Who has been most affected and who least? Who is leaving, and who is staying? Who has moved into Anchorage in the past couple of years? How much are people moving around within the city? How many households have been touched by unemployment? How much income have we lost? How many homeowners paid more than their properties will sell for today? Who feels most optimistic about the future and who least? On page 3 we highlight the survey findings that are discussed in detail in later pages.

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The Effects of Alaska's Economic Recession on Anchorage Households

This publication is based on telephone surveys of Anchorage households conducted by ISER in June and November 1987. The authors are ISER staff members Karen Foster, Linda Leask, and Teresa Hull.

Survey Methods

In June we developed a random telephone sample of 551 Anchorage households; a random sample is designed to capture the characteristics of the population at large.[1] In November we tried to call the same households again. By November we lost some of the households in our original sample, either because they left Anchorage, moved within the city and changed phone numbers, declined to answer the survey questions the second time, or couldn't be reached for the second survey.[2]

Despite the smaller sample size, the November survey still provides a good representation of the Anchorage population as a whole.[3] Combined, the two surveys give us information that a single survey or two independent surveys couldn't. For example, in June we asked how many households had plans to move within the next three months; in November we were able to trace how many had actually moved and what their characteristics were.

We hope to continue these surveys over time, to monitor change as Anchorage climbs out of the recession. If oil prices hold somewhere in the range of $16 to $20 a barrel, we expect the number of jobs to stop shrinking and the recession to end toward the latter part of this year.[4] But unfortunately not all the effects of the recession--particularly on the housing market--will disappear as soon as the economy turns around. We hope to document the course of the recovery.

Presentation of Findings

We collected a great deal of information in the two surveys; our biggest problem has been sorting through the results and deciding how to present them so they give the most interesting and useful picture of Anchorage households in 1987, without drowning readers in a sea of statistics. We finally settled on several summaries and comparisons that seem to us the most revealing. In looking at the survey results presented in the following pages, keep this in mind: each time we break the whole sample

(Continued on page 4)

Highlights of Findings

Migration: In and Out

- Close to 13 percent of our survey households left Anchorage between our June and November surveys. If we apply that percentage to all Anchorage households, it amounts to about 10,000 households. This is not a net loss of households, however, as people were still arriving in the city, although in smaller numbers than in past years.
- Those who left Anchorage between our two surveys were more likely to be younger, to be out of work, to have lower incomes, to be renters, to be in the military, and to have lived in Anchorage fewer years than those who stayed.
- Households that left the city were twice as likely to have one or more members unemployed as those who remained. About 20 percent of households that left had reported someone in the household was out of work in June, as compared with 11 percent among those who stayed.
- About 13 percent of households we surveyed in mid-1987 said that they had plans to leave Anchorage within a year. That was twice the percentage that had plans to leave the city in 1976, when pipeline construction was winding down.

Anchorage Housing Status

- About 80 percent of those who own single-family houses in Anchorage could probably cover their mortgage debt if they had to sell today. However, nearly half of single-family homeowners paid more than their homes are worth today.
- Nearly 70 percent of condominium owners--those who bought between 1982 and 1986--owe more than their properties are worth now.
- Half the renters we surveyed in 1987 said they were considering buying homes in Anchorage. Almost all of them said they would prefer to buy single-family houses.
- More than 65 percent of renters surveyed had moved in Anchorage within the past 18 months and 35 percent had moved within the past six months.
- Only 7 percent of homeowners we interviewed had plans to move within the city in the coming year, and only 11 percent had bought their houses in the previous 18 months.

Profile of Anchorage Households

- People who came to Anchorage during the boom years of the early 1980s are among those hardest hit by the recession. Many are in occupations that have been hurt by the real estate slide; one in four had 1986 household incomes below $20,000; more own mobile homes; they are also among the most likely to have bought houses and condominiums when prices were at their peak.
- Long-time residents--those who have been here longer than 8 years--are also being hit hard by the recession. Around 40 percent reported that they were worse off financially in 1987 than they had been in 1986, even though most still had their jobs and reasonably steady incomes.
- New arrivals to the city are the clear winners during the recession. Most came with jobs, they can buy or rent their homes at bargain prices, and they are overwhelmingly optimistic about their financial futures.
- Roughly 40 percent of households that had reported having at least one member out of work in June had found work by November. Another 20 percent of those households had left the city by November.

Expectations for the Future

- Anchorage residents as a whole became more optimistic about the economy between June and November: one in four felt more optimistic about their own financial outlooks in November than they had in June. And many Anchorage households think better times are coming: about 45 percent thought their own finances would improve during the coming year, in contrast to only 16 percent who thought their finances would worsen.

then fell into recession at the end of the year.

Further evidence of net out-migration from Anchorage can be seen in our finding that military households made up only about 17 percent of the households that left Anchorage in the last half of 1987. If we assume that about the same number of military people transfer in as transfer out at any given time, we can see that the overall number of people leaving the city in recent times has been much larger than the number coming in.

Plans and Reasons for Moving

People move for various reasons, but the recession has naturally focused attention on those who move because they can't make a living in Anchorage. In our June survey we asked households to tell us not only whether they were likely to move in the coming year, but where they were likely to move and why, and whether they were homeowners or renters. Table 6 and Figures 1 and 2 show plans for moving and reasons.

Table 6 shows that 16 percent of households said they were likely to move in Anchorage in the coming year, 4 percent said they were likely to move somewhere else in Alaska, and 13 percent said they were likely to leave the state. As we noted above, the percentage of people who thought they were likely to move Outside was considerably higher in 1987 than it had been in earlier times. But nearly 70 percent of all households said they were not likely to move at all in the coming year.

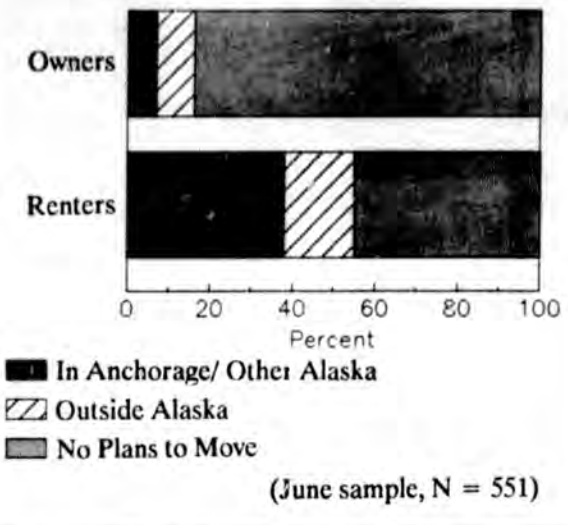
Table 6
Households Likely to Move Within a Year

	Percent
Likely, within Anchorage	16
Likely, within Alaska	4
Likely, outside Alaska	13
Not likely to move	67
	100

(June sample, N = 551)

Figure 1 shows what we would expect--that renters are far more likely to move both within the city and from the city than are homeowners: 7 percent of homeowners and 38 percent of

Figure 1
Plans to Move Within One Year, by Owner/Renter Status

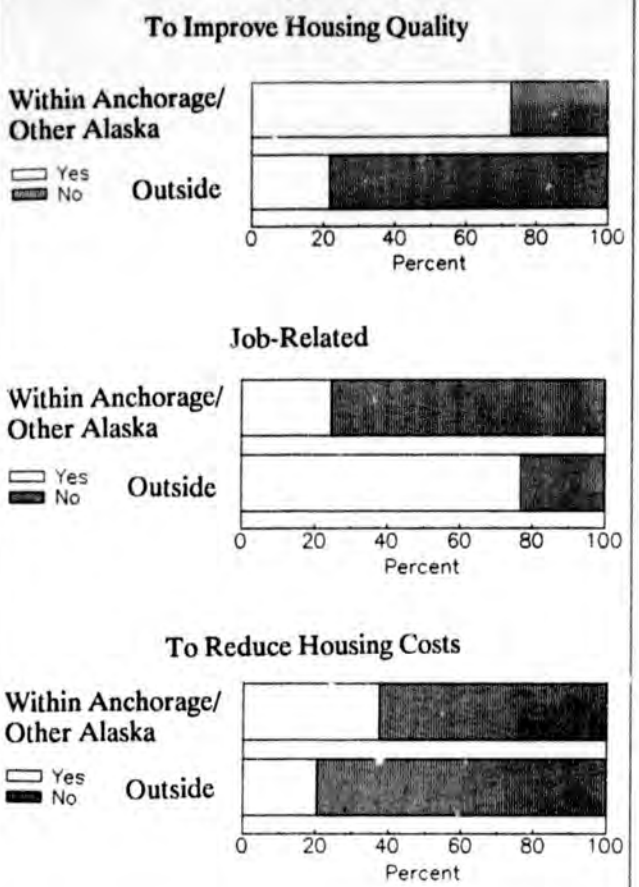


(June sample, N = 551)

renters said they were likely to move in Anchorage within a year; 9 percent of homeowners and 17 percent of renters said they were likely to leave Alaska in the coming year. Though renters in any American city are more likely to move than people who own homes, in Anchorage the difference is greater because the mobility of homeowners has been hampered in recent years by depressed housing prices, as we discuss further in the housing section. So it seems probable that if we had taken a similar survey in the early 1980s, when housing prices were rising, a larger share of homeowners would have had plans to move.

Figure 2 shows why households planned to move. This figure supports the popular opinion in Anchorage that those people who can move freely--mostly renters--are taking advantage of reduced rents and lower housing prices to move into better-quality homes. Nearly three in four households with plans to move in Anchorage said the move would be at least partly to improve housing quality. (Those we surveyed could cite more than one reason why they were moving, so the categories in Figure 2 aren't mutually exclusive.) And of those likely to move Outside, more than 75 percent said the move was job-related. Figure 3 profiles those households that actually left Anchorage between June and November 1987--as opposed to those that simply said they were likely to move--and looks at unemployment, occupa-

Figure 2
Reasons for Planned Moves*



*These are not households that did move, but those who said in June that they were likely to move within a year, and the percentages who cited these specific reasons.

(June sample, N = 179)

tions and many other characteristics of the households that left.

Who Left? Who Stayed?

Between June and November 1987 we lost about 13 percent of our original household sample because those households had their phones disconnected and had no new listings in the city.[6] There could be several reasons why those households no longer had phones: people who had once had phones listed in their names moved to households where the phones were listed in other names; the households could no longer afford phones or their service was cut off; or, the households were no longer in Anchorage.

We weren't able to get information on the percentage of Anchorage telephones that were disconnected in 1987 because the householders didn't pay their telephone bills, but we know that in general most people will try to hold onto their phones as long as they can. It's also impossible to trace how many people who once had phones listed in their names have moved into places where the phone is listed in someone else's name.

But we believe that such instances would be relatively few, and that all or almost all of the households whose phones were disconnected and who had no new listings as of November left Anchorage. We know that thousands of people did leave the city in 1987. We know that if households with school-age children are planning to move they often do so in the summer, after school lets out.

If we take that 13 percent and apply it to all Anchorage households as of mid-1987, that would mean about 10,000 households--including a significant share of households made up of just one person--left the city in the last half of 1987. Given what we know from other sources, such a number does not seem unreasonable. Keep in mind that this *does not mean* that Anchorage saw a net loss of that many households: households were still moving into the city, although fewer were moving in than moving out. (See Table 2; the municipality estimates that for every 5 persons who left Anchorage between 1985 and 1987, 3 arrived.)

Figure 3 compares households that left Anchorage between June and November with those that stayed. How were those who left different from those who stayed?

- Unemployment. *Households that left were nearly twice as likely as those who stayed to have one or more member unemployed.*

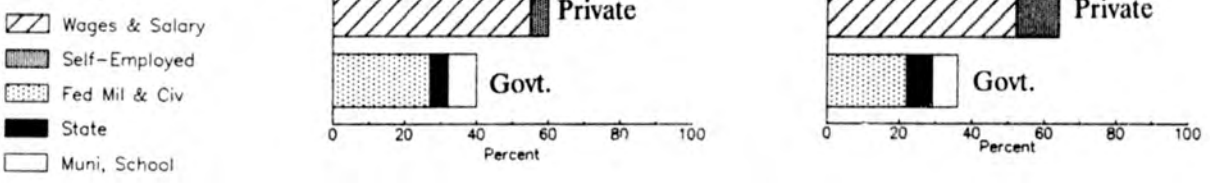
In June 1987, 20 percent of the households that later left Anchorage reported that at least one adult in the household--either the principal wage earner or another adult--was out of work. Among those who stayed, 11 percent said at least one adult in the household was unemployed.

Similarly, the primary wage earners[7] in households that left Anchorage had unemployment rates more than twice as high as among

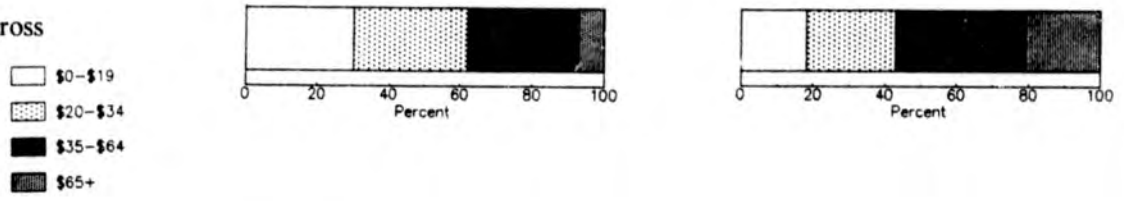
Figure 3. Who Left[a] Anchorage an

	Those Who Left	Those Who Stayed
What share of surveyed Anchorage households did they represent?	13%	87%
How many households had at least one member unemployed in June?	20%	11%
What were occupations of the primary wage earners?	Military 17% Const.-related (Const., trans., labor) 17% Others 66%	Military 11% Const.-related (Const., trans, labor) 12% Others 77%

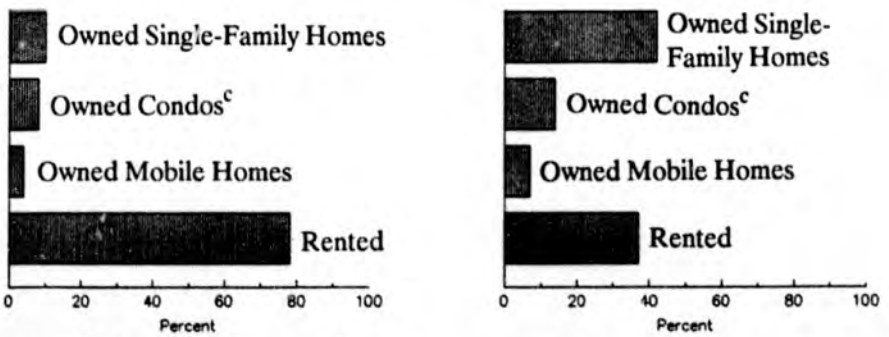
Did the primary wage earners work for government or private industry?



What were their 1986 gross household incomes?



Where did they live?



[a]Based on households with disconnected phones and no new listings, n = 74.
[b]n = 477.
[c]Actually includes other attached housing but is largely condominiums and townhouses.

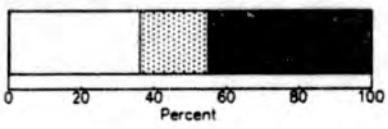
Who Stayed,[b] June – November, 1987

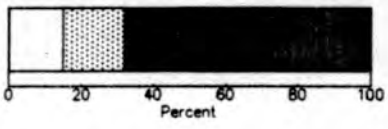
Those Who Left

Those Who Stayed

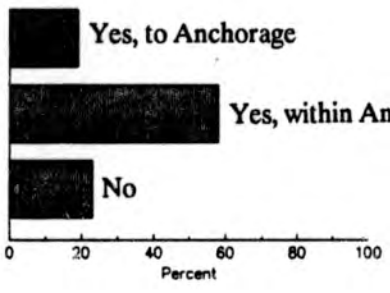
As of June 1987, how long had the households lived at their current address?

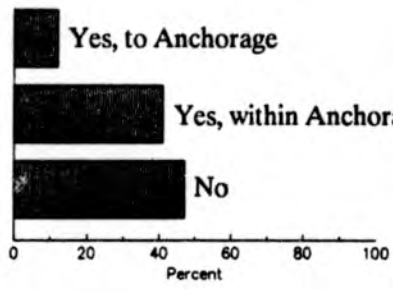




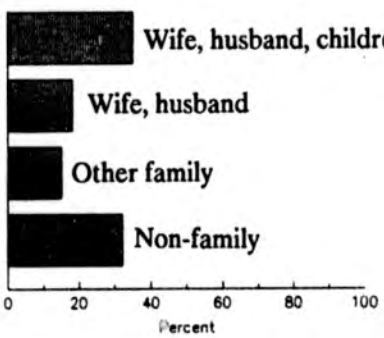


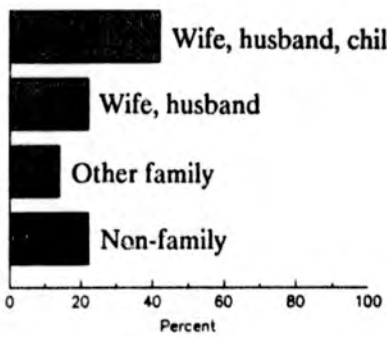
Had the households moved during the 3 years before June 1987?



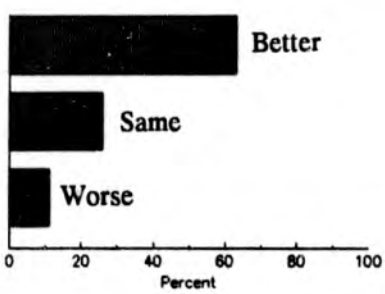


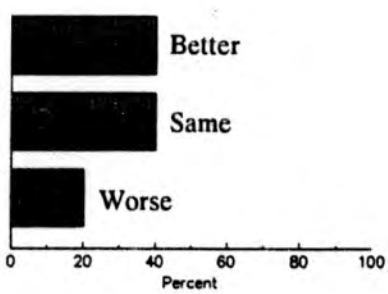
What type of households were they?





Did they expect their households to be better or worse off financial ly by June 1988?





How old were they?
(Primary wage earners)

Under 35	65%	39%
35-54	34	47
55 & over	1	14

How long had they lived in Alaska?
(Primary wage earners)

0-3 yrs.	33%	8-17 yrs	21%	0-3 yrs.	20%	8-17 yrs.	32%
4-7 yrs.	21%	18+ yrs.	26%	4-7 yrs.	19%	18+ yrs.	29%

those who stayed: 7 percent as compared with 3 percent.

So while unemployment undoubtedly influenced one fifth or more of the households that left--and certainly could have influenced others who may have lost their jobs after June--the majority of those who left had jobs in June.

- Occupations of Primary Wage Earners. *Military personnel and workers with construction-related jobs made up the largest percentages of primary wage earners among those who left. Movers did not differ significantly from stayers in other occupations.*

As stated above, military people rotating to and from Anchorage's army and air force bases have historically made up a significant share of Anchorage population turnover. During our survey period, military personnel made up 17 percent of households that left and they accounted for roughly 10 percent of those who stayed.

The construction industry has been the hardest hit by the current recession; statewide about 11,000 construction jobs disappeared between 1984 and 1987. Workers in construction-related jobs (we are including those who described themselves as construction workers, laborers, and transportation workers) accounted for another 17 percent of the households that left. Among those who stayed, construction-related workers made up about 12 percent of the work force.

- Government versus Private Industry Workers. *The proportions of primary wage earners working in government and private industry were roughly the same among those who left and those who stayed.*

Among those who left, 60 percent had worked for private industry and 40 percent for government. Most of the private workers who left were wage or salary workers; only a few (5 percent) were self-employed. Of the private workers who stayed, a bigger share (12 percent) were self-employed--which makes sense if you assume that many self-employed people have their own businesses and are more likely to try to stick it out than are those who work for wages.

The biggest share--27 percent--of government workers who left were military and federal civilian employees, and we can assume that all or almost all of those were transferring to jobs elsewhere. But another 13 percent of those who left had worked for either state or local government in Alaska--a percentage that wasn't significantly different than it was among those who stayed.

- Incomes. *More of the households that left had low or modest incomes and fewer had high incomes.*

These generally lower incomes make sense, in light of the fact that many of those who left were in the military, where pay scales have historically been lower than civilian wages.

More than 60 percent of the households that left earned less than $34,000 in 1986, and 30 percent made less than $20,000. Only 7 percent had household incomes at the top end--$65,000 or more. By comparison, about 43 percent of households that stayed in Anchorage during our survey period had incomes below $34,000, and 21 percent made more than $65,000 in 1986.

- Homeownership. *Not everyone leaving Alaska is leaving a foreclosed house behind--in fact, only 22 percent of those households that left had even owned homes.*

The households that left were much more likely to have rented homes when they lived in Anchorage: among households that left the city, 78 percent were renters, 10 percent owned single-family houses, 8 percent owned condominiums, and 4 percent owned mobile homes. By contrast, among households that stayed, 37 percent were renters, 42 percent owned single-family houses, 14 percent owned condominiums, and 7 percent owned mobile homes.

- Mobility. *In a city where there has historically been a lot of moving, the households that left the city moved even more than the average.*

Three in four of the households that left had moved to or within Anchorage during the three years before June 1987. And more than one-third of them had lived at their current addresses less than 6 months as of June.

Among those who stayed, more than 60 percent had moved to or within Anchorage in the previous three years, but only about 15 percent had lived at their current addresses less than six months--a substantially smaller figure than among those who left.

- Family Status. *Fewer of those who left were families with children and more were non-family households.*

Among the households that left, 53 percent were married couples with or without children, compared with 64 percent among those who stayed. Another 15 percent who left were other kinds of families--single parents with children, for instance, or households with at least some related members; that percentage was roughly the same among those who stayed. And the other 32 percent of those who left were non-family households--many of them likely just one-person households.[8] Among those who stayed, only 22 percent were non-family households.

- Financial Expectations. *The chance to improve their financial condition was evident in some people's decisions about leaving Anchorage.*

Whereas six in ten of the households that left predicted they would be better off financially by June 1988, only 4 in 10 of those who stayed saw better times on the horizon. Similarly, only 11 percent of those who left foresaw being worse off in a year's time, as compared with 20 percent among those who stayed.

- Age. *Young people were chiefly the ones who left. Sixty-five percent of the heads of households that left were under 35.*

In our sample, only one head of a household that left was over 55 years old.By comparison, 39 percent of the heads of our sample households that remained in the city were under 35, and 14 percent were 55 or older.

- Length of Residence. *Those who left were somewhat more likely to be short-term residents, but one in four had lived in Alaska 18 years or longer.*

Figure 3 shows that primary wage earners in the households that left Anchorage were split almost evenly among shorter and longer term residents. That doesn't mean, however, that older people were leaving the city, since most of those who left were under 35. What it means is that some people who left had probably been born in Alaska or come here when they were very young. Many of those young but long-term residents who left were construction workers--not surprising, considering the hit construction has taken in the recession.

A primary effect of the Alaska economic recession on Anchorage is this loss of population--something the city has not experienced in many years. The exodus of households from the city occurring on the heels of a real estate boom has left behind vacant housing, resulting in a secondary effect of the recession--the real estate crash. In the next section, we discuss what our survey results tell us about the Anchorage housing situation in 1987.

Anchorage Housing Status

For Anchorage property owners these days, the term "depressed housing market" isn't just an economic condition they read about in the newspapers: it's the reality they face if they need or want to sell their houses, condominiums, or mobile homes. Prices of residential property have dropped anywhere from 15 to 50 percent or more in the past two years.

The causes of the housing market crash are plain. As shown in earlier tables, Anchorage population and number of households have declined, while the number of housing units has remained essentially fixed. In mid-1987 close to 14,000 housing units in the city stood vacant--15 percent of all the housing stock in the city.[9] And for certain kinds of properties--big apartment complexes and mobile homes, for instance--the vacancy rate was much higher. Compounding the situation, many Anchorage residents have lost their jobs or watched their incomes fall. The

combination of declining population and lower incomes has pushed thousands of homeowners into foreclosure. Reduced demand has made it much harder to sell properties, and reduced incomes have made it hard for some homeowners to make their mortgage payments. The soft housing market has driven housing prices down--which has put more homeowners in the position of owing more on their properties than the properties will sell for.

For renters, a depressed housing market means something very different: it means lower rents and the chance to pick and choose, to move into nicer apartments or houses. And lower housing prices mean more renters can afford to buy.

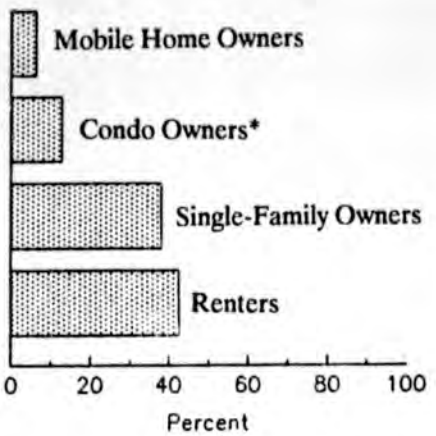
Homeownership and Mobility

In several tables and figures that follow, we examine the status of housing in Anchorage in 1987, and discuss what the figures tell us about the effects of the recession.

Figure 4 shows the shares of Anchorage households that owned mobile homes, condominiums, and single-family houses in mid-1987, and how many households rented. About 57 percent of our survey households owned their own homes in 1987, with the biggest share of those--38 percent--in single-family houses, 13 percent in condominiums and townhouses, and 6 percent in mobile homes. Among the 43 percent of households that were renters, most lived in apartments but some rented houses and a few rented mobile homes.

Table 7 shows the relative mobility of renters and owners in Anchorage in 1987 by how long they had lived at their current addresses. Renters naturally move more often, but what is striking in this table is just how often: 35 percent of the renters in our sample had lived at their current addresses less than 6 months at the time of our survey, and another 31 percent had moved within the previous 18 months. Some of those renters were undoubtedly new arrivals in Anchorage, but we know that fewer people have been arriving in the past couple of years--so we assume that many renters have in fact been moving around within the city to take advantage of nicer apartments and houses available at lower rents--the much-discussed "flight to quality." Only two in ten renters in Anchorage at the time of our survey had lived at their current addresses for as long as two and a half years.

Figure 4
Anchorage Owners and Renters, by Type of Housing, 1987



*Actually includes other attached housing but is largely condominiums and townhouses.

(June sample, N = 551)

Homeowners, as Table 7 shows, are more sedentary: half of them had owned their homes for more than four and a half years. And only 11 percent of the homeowners in our sample had bought their houses during 1986 or the first half of 1987. We know of course that fewer people have bought houses during the recession--partly because there are fewer prospective buyers and partly because some people who could buy are wary of getting into the market. But we also think that the low proportion of new homeowners may show another effect of the recession. Many Anchorage homeowners aren't able to sell their current homes and move into

Table 7
Length of Residence in Current Home by Owner/Renter Status, 1987

	6 months or less	7 - 18 mos.	1.5 - 2.5 yrs.	2.5 - 4.5 yrs	More than 4.5 yrs.
Own	5%	6%	13%	23%	53%
Rent	35	31	14	9	10

(June sample, N = 551)

bigger or better homes, despite lower prices. Ironically it is those lower prices that are keeping many current owners from taking advantage of lower prices. The fall in prices means that many now owe more on their properties than the properties will sell for.

Table 8 provides some more evidence of the effects of the recession on mobility of homeowners in Anchorage. It compares the shares of owners and renters who had lived at their current addresses less than a year and a half as of 1980 and as of 1987. Renters in 1980 were very mobile, as they remained in 1987--although we believe that in 1980 more renters had recently arrived in Anchorage than was true in 1987.

Table 8
Percentage of Households at Their Current Address Less Than 1.5 Years

	1980[a]	1987[b]
Owners	22%	11%
Renters	66%	66%

[a]U.S. Department of Commerce, Bureau of the Census, 1980 census of population. This actually represents households that had lived at their current addresses 15 months or less in March 1980.
[b]ISER household survey for Alaska Housing Finance Corporation, June 1987.

But in 1980 owners were twice as likely to be recent buyers than were owners in 1987. During 1979 and early 1980, the big influx of people into Anchorage had not yet really begun, and mortgage interest rates were high. Still, 22 percent of Anchorage homeowners reported in March 1980 that they had bought their homes in 1979 or 1980. At least part of those new homeowners were people who had sold houses within Anchorage and bought new ones.

And we know that during the boom years of the early 1980s, thousands of people were moving into Anchorage and many Anchorage homeowners were selling their homes and moving into bigger or better houses--so if we had figures from, say, 1983, we would expect the share of new homeowners to be much higher. By contrast, in mid-1987, only 11 percent of homeowners had bought in the previous 18 months.

Even in times of dwindling population, there are prospective homebuyers, and renters are an important part of that group--particularly now, when lower housing prices are putting homeownership within the reach of more people. In our June survey we asked renters whether they were considering buying homes, and if so, what kind. Table 9 shows that close to half the renters surveyed said they were thinking about buying. Of those, almost all--80 percent--said they were thinking about buying single-family houses. Another 12 percent were considering buying condominiums, 5 percent other kinds of attached housing, and just 2 percent mobile homes.

Table 9
Renters Considering Buying, 1987

If you currently rent a home, are you considering buying?	Yes	49%
	No	51%

If you are considering buying a home, what kind?

Single-Family House	80%
Condominium	12
Mobile Home	2
Other	5

(June sample, N = 97)

That obvious preference of buyers for single-family houses is reflected by the fact that houses have held their value much better than condominiums or mobile homes, although values of all kinds of properties have dropped. One of the big subjects of conversation in Anchorage lately has been just how many homeowners are underwater in this submerged market--how many owe more on their properties than they would sell for today?

Homeowners: How Are They Doing?

Figures 5 and 6 give us a measure of how owners of houses and condominiums are doing by comparing prices paid by homeowners and estimated average outstanding mortgages with the average 1987 prices of houses and condominiums.[10] The figures show the average prices paid by homeowners who bought in each year from 1980 through 1987, as well as what percentage bought their homes in any given

CORRECTION

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HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02-576(2/77)

bigger or better homes, despite lower prices. Ironically it is those lower prices that are keeping many current owners from taking advantage of lower prices. The fall in prices means that many now owe more on their properties than the properties will sell for.

Table 8 provides some more evidence of the effects of the recession on mobility of homeowners in Anchorage. It compares the shares of owners and renters who had lived at their current addresses less than a year and a half as of 1980 and as of 1987. Renters in 1980 were very mobile, as they remained in 1987--although we believe that in 1980 more renters had recently arrived in Anchorage than was true in 1987.

Table 8
Percentage of Households at Their Current Address Less Than 1.5 Years

	1980[a]	1987[b]
Owners	22%	11%
Renters	66%	66%

[a]U.S. Department of Commerce, Bureau of the Census, 1980 census of population. This actually represents households that had lived at their current addresses 15 months or less in March 1980.
[b]ISER household survey for Alaska Housing Finance Corporation, June 1987.

But in 1980 owners were twice as likely to be recent buyers than were owners in 1987. During 1979 and early 1980, the big influx of people into Anchorage had not yet really begun, and mortgage interest rates were high. Still, 22 percent of Anchorage homeowners reported in March 1980 that they had bought their homes in 1979 or 1980. At least part of those new homeowners were people who had sold houses within Anchorage and bought new ones.

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year. So, for example, Figure 5 shows that just over 4 percent of all those who owned homes in 1987 bought their houses in 1980, that they paid an average of around $104,000, and they had outstanding mortgages of about $93,000. (We assume, for the sake of simplicity, that all buyers paid 10 percent down; actual down payments of course can vary from zero to 20 percent or more of the purchase price.)

The Anchorage Multiple Listing Service (MLS) reports that in 1987 single-family houses sold for an average $127,150 and condominiums for an average $68,800. Remember that these are *averages*, calculated simply by totalling sale prices for all units sold during the year and then dividing by the number of units. Of course some units sell for much more than the average and some for much less.

Figure 5 shows that 65 percent of all those who owned single-family houses in Anchorage in 1987 had bought those houses since 1980. The biggest years for homebuying were 1983 and 1985. Average prices during the 1980s have ranged from a low of $104,000 in 1980 to a high of $152,000 in 1985--an increase of nearly 50 percent in five years. Prices began to drop in 1986, and in 1987 the average price homebuyers in our survey sample paid was around $128,000--which was very close to the MLS average of $127,000 for all homes sold in Anchorage last year. So average house prices in Anchorage dropped more than 15 percent between 1985 and 1987.

The top line on Figure 5 shows average price paid by year; the second line is an estimate of outstanding mortgage size by year. The straight line indicates average price of houses sold in 1987. What the figure tells us is that the average homeowner who bought in 1980 or earlier, or in 1982 when prices temporarily dipped, could probably sell his house for as much or more than he paid for it. About 47 percent of those who own single-family houses in Anchorage bought in 1980 or earlier or in 1982. An additional 5 percent in our sample bought in 1987. So roughly 52 percent of home owners could likely sell their houses for at least as much as they *paid* for them.

If we also look at who could at least cover their outstanding mortgage debt--assuming the average buyer put 10 percent down--the average buyer through 1984 could come close. This means that on average, those who bought in 1981, 1983, and 1984 could probably sell their houses for close to what they still *owe* on them, but lose part or all of what they had already paid on the principal.

If we combine those homeowners who probably could sell their houses for at least what they paid for them and those who could at least cover their outstanding mortgages, that amounts to around 80 percent of those who own single-family houses. It is the nearly 20 percent of homeowners who bought in 1985 and 1986 that would face the biggest losses if they had to sell today: the average outstanding mortgage on houses bought in 1985 and 1986 would exceed the average 1987 sales price by something in the neighborhood of $10,000.

The news is worse for condominium owners, as Figure 6 tells us. Relatively few condominiums were built in Anchorage before 1980, and we don't have good figures on average prices paid by those who bought condominiums before 1980 and were still living in them in 1987. The Multiple Listing Service (MLS) reports that in 1980 the average price of condominiums sold in the city was about $69,000. Prices went up from there, peaking at an average close to $100,000 in 1985. We know that the bottom began to fall out of condominium prices in 1986, but that fall is not reflected in the average price of condominiums sold that year. Prices of condominiums sold in 1986 remained near the 1985 level. We think what happened in 1986 was that only better-quality (and therefore higher priced) condominiums sold. By 1987, the lenders holding hundreds of foreclosed condominiums were putting big efforts into selling them and the re-sale of some of those foreclosed units meant that the 1987 average price of less than $69,000 better reflected the drop in condominium values.

The top line in Figure 6 is the average price condominium owners paid by year, and the second line is the estimated average outstanding mortgage, assuming buyers put 10 percent down. The straight line is the average price, as reported by the Anchorage Multiple Listing Service, for condominiums sold in Anchorage in 1987: less than $69,000, as we noted above.

What the figure tells us is no surprise--a lot of

Figure 5. Anchorage Single-Family Houses, Average Prices,[a] 1980-1987

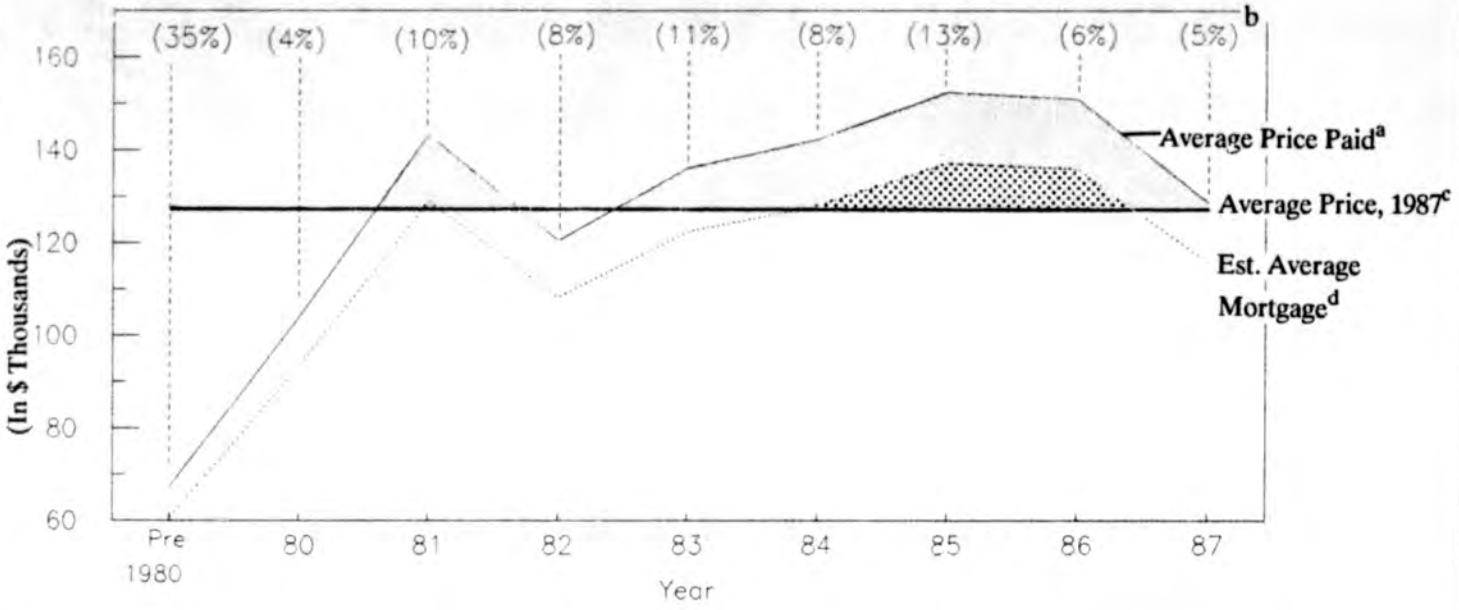
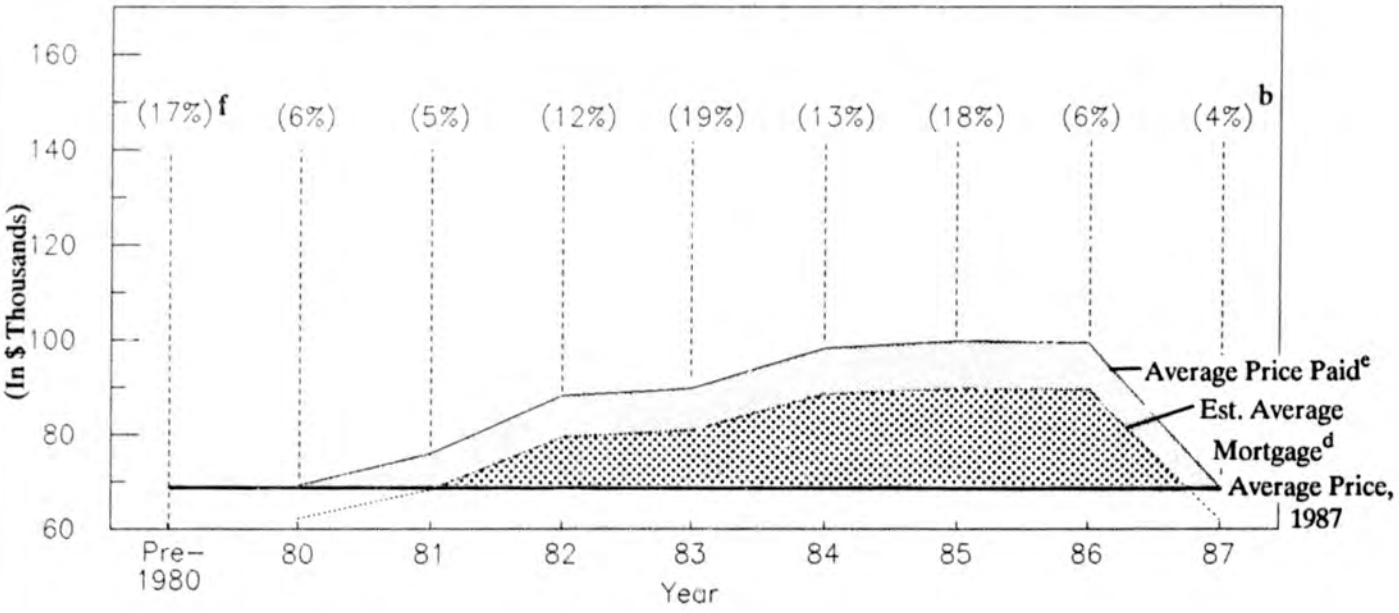


Figure 6. Anchorage Condominiums, Average Prices,[e] 1980-1987



[a]Owner-occupied houses only; based on responses in June 1987 ISER survey.
[b]Numbers in parentheses are the percentages of all single-family houses (or condominiums in Figure 6) still owned in 1987, by year of purchase.
[c]Annual average for all single-family houses sold through Anchorage Multiple Listing Service in 1987.
[d]Assuming all buyers paid 10 percent down.
[e]Average prices for all condominiums sold through Anchorage Multiple Listing Service in each year; small sub-sample numbers in our survey caused large deviations from the average.
[f]Pre-1980 price information for condominiums not available.

Key: Price higher than 1987 prices. Mortgage debt higher than 1987 prices.

condominium owners would be in trouble if they had to sell at today's prices. If we assume that the 17 percent of condominium owners who bought before 1980 have positive equity, and that those who bought in 1980 and 1987 could likely sell for about what they paid, then about 27 percent of those who owned condominiums in 1987 could probably get as much or more than they paid for their condominiums. If we consider those who could probably at least cover their mortgage debt, we would add in those who bought in 1981. So roughly 32 percent of those who owned condominiums in 1987 could at least cover their mortgage debt at today's average prices.

So how much negative equity is there among Anchorage homeowners, if we use the average 1987 average prices of houses and condominiums as a measure of current market value? We use two measures of negative equity: (l) the difference between *outstanding mortgage debt* and average 1987 prices; and (2) the difference between *average prices paid* in earlier years and average 1987 prices. Table 10 makes some very rough estimates of these two groups.

The first set of numbers in Table 10 looks at house and condominium owners whose mortgage debt exceeds the current market value of their houses, as measured by 1987 average prices.

Approximately 19 percent of owners of single-family houses--those who bought in 1985 and 1986--have mortgage debt that exceeds current market value. That amounts to around 4,300 homeowners in the city, and the difference between what these homeowners owe and 1987 average house prices is around $9,600. If we multiply that average $9,600 deficit by 4,300, we see that the difference between the total outstanding mortgage debt held by these homeowners and the 1987 market value of their properties is about $41 million. Looking at it another way, if all these homeowners had to sell--or defaulted--at current market value, the overall mortgage losses to them and their insurers would be $41 million. (These figures do not include any costs of foreclosing on or holding properties--just the amount by which outstanding mortgage debt exceeds current market value of single-family houses bought in 1985 and 1986.)

Among condominium owners, roughly 68 percent owe more than the 1987 average price of condominiums. That amounts to about 6,300 condominium owners in Anchorage, and the difference between their average mortgage debt and 1987 value is $16,400. The total difference between mortgage debt held by these condominium owners and current market values of their properties is around $103 million.

Adding together "underwater" mortgage debt of house and condominium owners, we estimate that amounted to about $145 million at the end of 1987.

But there is a larger group also facing losses: those who paid more than their properties would sell for today. This group includes not only those we described above, but also others who could likely cover their mortgage debt but would lose all or part of their down payments and any additional payments on principal if they had to sell at today's prices. The second part of Table 10 looks at that larger group.

Among owners of single-family houses, we estimate that 48 percent paid more than current market value for their houses. That amounts to around 13,300 homeowners. We estimate the difference between the average price those people paid and the average 1987 price is roughly $17,700. If we multiply 13,300 homeowners by $17,700, we see that the total difference between what these homeowners paid and what their properties would sell for today is about $235 million.

About 73 percent of condominium owners--6,800--paid more than their properties would sell for now, with an average difference of approximately $24,500. If we multiply 6,800 condominium owners by $24,500, we see that the total difference between what they owners paid and the 1987 value of their properties is about $167 million.

Together, the difference between what house and condominium owners paid and what they could sell their properties for today is about $400 million.

In summary, Figures 5 and 6 and Table 10 tell us most owners of houses could at least cover

Table 10

Estimated Negative Equity Among Anchorage Homeowners, December 1987

Single-Family Houses	Condominiums
Percentage of Anchorage homeowners whose mortgage debt exceeds 1987 average price: 19%[a]	**Percentage of Anchorage condo owners whose mortgage debt exceeds 1987 average price: 68%[a]**
No. of homeowners whose mortgage debt exceeds 1987 average price: 4,300[b]	No. of condo owners whose mortgage debt exceeds 1987 average price: 6,300[g]
Average difference, mortgage debt and 1987 average price: -$9,600[c]	Average difference, mortgage debt and 1987 average price: -$16,400[h]
Total potential mortgage loss to 1985-86 buyers or insurers: $41 million [4,300 x $9,600]	Total potential mortgage loss to 1982-86 buyers or insurers: $103 million [6,300 x $16,400]
Percentage of Anchorage homeowners who paid more than average 1987 price: 48%[d]	Percentage of Anchorage condo owners who paid more than the 1987 average price: 73%[d]
No. of homeowners who paid more than average 1987 price: 13,300[e]	No. of Anchorage condo owners who paid more than 1987 average price: 6,800[i]
Average difference, purchase price and average 1987 price: -$17,700[f]	Average difference, purchase price and 1987 average price: -$24,500[j]
Total potential price loss to buyers and insurers: $235 million [13,300 x $17,700]	Total potential price loss to buyers & insurers: $167 million [6,800 x $24,500]

[a]From Figures 5 and 6. Mortgage debt was assumed to equal 90 percent of the average sale price at the time of purchase. "Condominium" calculations are based on estimated numbers of owner-occupied condominiums, townhouses, and zero-lot line units.

[b]Calculated by multiplying total owner-occupied houses as of mid-1987 by 19% and subtracting estimated number of houses foreclosed on between June and December 1987.

[c]Calculated by taking a weighted average of 1985 and 1986 estimated mortgages and average 1987 price.

[d]From Figures 5 and 6.

[e]Calculated by multiplying total owner-occupied houses as of mid-1987 by 48% and subtracting estimated number of houses foreclosed on between June and December 1987.

[f]Calculated by taking a weighted average of 1981 and 1983-86 prices and subtracting average 1987 price.

[g]Calculated by multiplying total owner-occupied condominiums as of mid-1987 by 68% and subtracting estimated number of condominiums foreclosed on between June and December 1987.

[h]Calculated by taking a weighted average of 1982-86 estimated mortgages and the average 1987 price.

[i]Calculated by multiplying total owner-occupied condominiums as of mid-1987 by 73% and subtracting estimated number of condominiums foreclosed on between June and November 1987.

[j]Calculated by taking a weighted average of the 1981-86 purchase prices and subtracting 1987 average price.

their mortgage debt if they had to sell at today's prices, and close to half could get about as much as they paid. Among condominium owners, only around 32 percent could cover their mortgage debt and 27 percent could recoup at least as much as they paid.

Profile: Anchorage Households, November 1987

In this section we report what the households in our November 1987 survey sample looked like. We start by briefly describing some broad characteristics of Anchorage households at the end of 1987--household composition, income distribution, labor force participation, and expectations about income. Those broad characteristics are shown in Figure 7. Then we divide the households up and look at them by length of residence.

General Characteristics

As Figure 7 shows, a majority (63 percent) of Anchorage households we surveyed in November were married couples, either with or without children. Married couples with children made up 41 percent of all Anchorage households and 53 percent of all families in our survey. Non-family households made up the next largest category with 22 percent of all households. These figures are not much different from the nationwide pattern and show little change from what Anchorage looked like in the 1980 census.

Households with two adults, including those with children, made up by far the largest share of all households we surveyed--65 percent--and in most of those both adults were in the labor force.[11] As the figure shows, 45 percent of all Anchorage households had two adults with both in the labor force. In 20 percent more households, only one of the two adults was in the labor force. We can't tell whether the recession has changed labor force participation among Anchorage households--we don't know, for instance, what household labor force participation looked like in 1985. It might be that the share of households with two workers has dropped as the recession cost some people their jobs. On the other hand, the recession may have forced some households to send a second adult out to look for work, to make ends meet. We'll keep monitoring this labor force participation in future surveys.

Anchorage households we surveyed in November reported a median gross 1986 income of around $38,000. The distribution in Figure 7 shows that nearly 14 percent of Anchorage households made less than $14,000 in 1986, while just about as many made $75,000 or more. About 45 percent of all households reported 1986 incomes between $15,000 and $44,000.

Most of the households we surveyed near the end of 1987 estimated their 1987 incomes would be at least as high or higher than their 1986 incomes. Thirty-eight percent expected higher incomes, 40 percent the same, and 22 percent lower. This supports the notion that household incomes overall were at least holding steady in Anchorage in the second half of 1987.

But when we asked a related question--is your household better or worse off financially now than it was a year ago?--more households reported being worse off than we would expect, based on just the income figures. While only 22 percent reported that their incomes had dropped between 1986 and 1987, 35 percent reported they were worse off financially than a year earlier. This finding indicates that some households were taking into account things other than just income in deciding if they were better or worse off. For instance, some households likely classified themselves as worse off because they had lost such non-income services as fringe benefits or because the value of their properties had dropped so much.

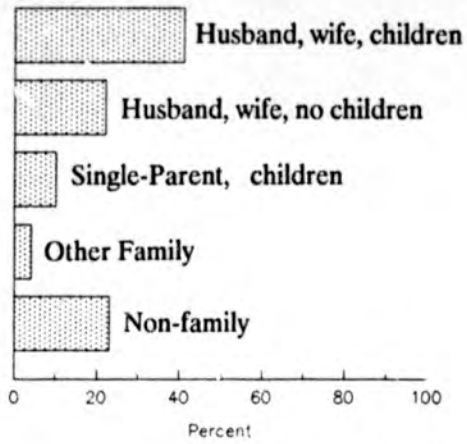
Households by Length of Residence

In an Alaska conversation, you're just as likely to be asked how long you've lived in the state as what kind of work you do or whether you have children: length of residence has always been an important piece of information among Alaskans.

When we were sorting through our survey data, looking for ways to assess the effects of the recession on different households in Anchorage, we tried a number of comparisons among households. We found that the old Alaska stand-by--how long have you been here?--gave us some of the most revealing comparisons

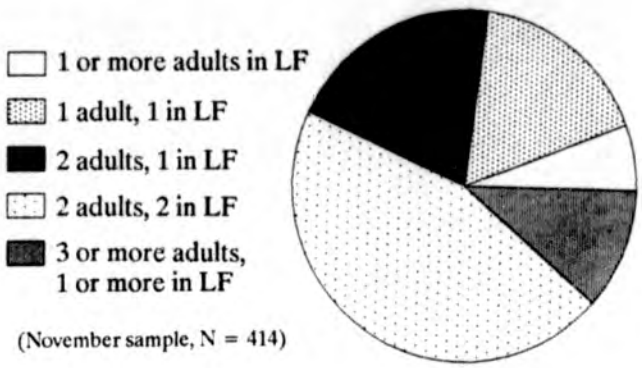
Figure 7. Selected Characteristics of Anchorage Households, 1987

Household Composition



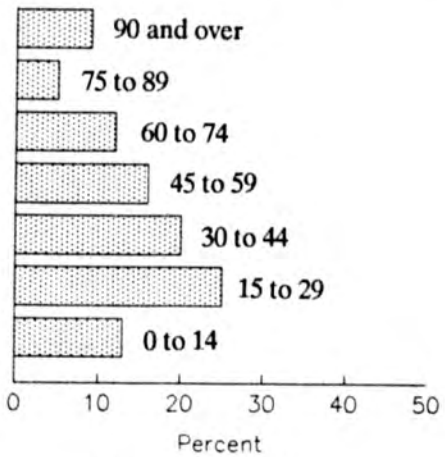
(June sample, N = 551)

Household Labor Force Participation



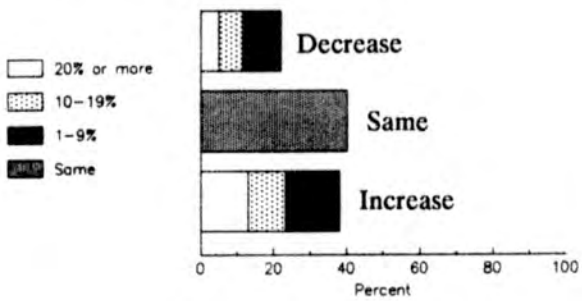
(November sample, N = 414)

What was your gross household income in 1986? (in $ thousands)



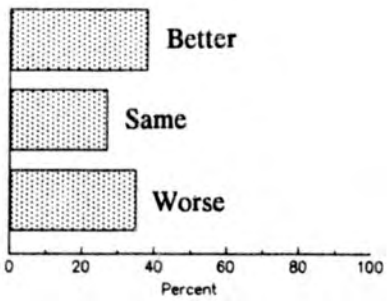
(June sample, N = 551)

Do you estimate your 1987 household income will be higher or lower than your 1986 income?



(November sample, N = 414)

Is your household better or worse off than it was a year ago?



(November sample, N = 414)

among households--not only about how the recession has affected different types of households but more broadly about various characteristics of shorter and longer term residents. Figure 8 presents a profile of Anchorage households by length of residence from our November 1987 survey. Here's what the figure tells us:

Government and Private Industry Workers

- Anchorage's newest households (those that have been here less than 3 years) are most likely to be headed by military men and women--which reflects the fact that fewer nonmilitary households have been arriving in Anchorage since the recession started.

- At least one in eight of the heads of households across all residence groups are federal civilian employees. But if we calculate government employment *excluding* military households--which make up a very big share of new households but none of the longer term ones--we see that federal civilian workers head almost one in four of Anchorage's newest nonmilitary households. That too corresponds with what we know of the recession: that it has not affected federal employment in the state, and that a good share of those arriving in Anchorage in the past three years came with federal civilian jobs.[12]

- Few of the heads of Anchorage's newer households work for the state government--which reflects the cutbacks in state hiring in recent years. State workers are much more likely to be long-term residents; in our sample, 15 percent of the heads of households that had been in Anchorage 18 or more years were state workers.

- The municipal government and the school district have hired some workers since 1985--as shown by the fact that some heads of Anchorage's newer households work for local government--but the percentages of local government workers are higher among the longer term residents. For example, municipal and school district workers account for 3 percent of the primary wage earners in households that had been in the city 4-7 years, but 12 percent of those in households that have been here longer than 18 years.

- The share of self-employed people is biggest among those who have been here longest--which is what we would expect, if many of those self-employed people own businesses: 22 percent of the heads of households that have been in Anchorage 18 years or more are self-employed. By contrast, wage and salary workers make up almost all of the private workers among households that have been here less than 3 years.

Occupations

- If we exclude military personnel, professional and technical workers make up the most common occupation group among the city's newest households--nearly 50 percent of the heads of non-military households that arrived in Anchorage within the past three years are in professional or technical occupations. This indicates that in recent years proportionally fewer people have come to and remained in Anchorage for construction, service-related, and other jobs than have for professional jobs. For example, only 6 percent of the 0 to 3 year residents have construction-related jobs and only 3 percent marketing and sales jobs.

- Among households that arrived in the city during the boom years (4 to 7 years ago), marketing and sales and construction-related jobs--which made up about 14 percent each of the occupations of heads of households--are more common than among newer residents. Remember that this survey was done in November--after, as we discussed earlier, a substantial number of construction workers had already left the city. That there were still such a significant percentage of construction workers left among those who had been in the city 4 to

7 years shows that before the recession began construction workers must have made up a very big share of those who came to the city in the early 1980s. Also, the fact that marketing and sales show up as among the most common occupations among the 4-7 year residents--and not among other newer or longer-term households--indicates that many people in these service-related occupations were also drawn to Anchorage by the real estate boom of the early 1980s.

- One in three of the heads of households that have been in the city longest (18 years or more) are in executive, administrative, and managerial jobs. That high percentage shows that not all executives and managers are short-term residents, transferred in from outside the state--many are long-time Alaskans who have worked their way up.

Homeownership

- No one in our sample who arrived in Anchorage within the past 3 years owns a mobile home. By contrast, 13 percent of those who came to Anchorage 4-7 years ago own mobile homes--a bigger share of mobile home owners than in any other group. As much as anything else, those figures tell us about the rise and fall of the real estate market in Anchorage in the 1980s. In the early 1980s, when thousands of people were arriving in the city, housing prices were high, and vacancies were few, mobile homes became the only alternative for many people who wanted to own homes but couldn't afford houses or condominiums. But when vacancies increased and prices began to slide, the first to slide were mobile home prices. Most people prefer something other than a mobile home if they can afford it--and in a market of falling prices and abundant supplies of houses, more people can afford to bypass mobile homes.

- Another sign of the times in the Anchorage real estate market is that only 6 percent of those who have been here less than 3 years own condominiums, while 21 percent own single-family houses. Buyers prefer houses--and more of the smaller number of buyers in Anchorage in the past couple of years have bought houses. By comparison, among those who arrived in the city 4-7 years ago--during the boom years--14 percent own condominiums and just 17 percent own single-family houses.

- Most long-time residents own single-family houses: roughly 6 in 10 of those who have been here at least 8 years own houses. About 20 percent of these long-time residents still rent--as compared with more than 55 percent among those who have been in the city 4-7 years.

Incomes and Financial Well-Being

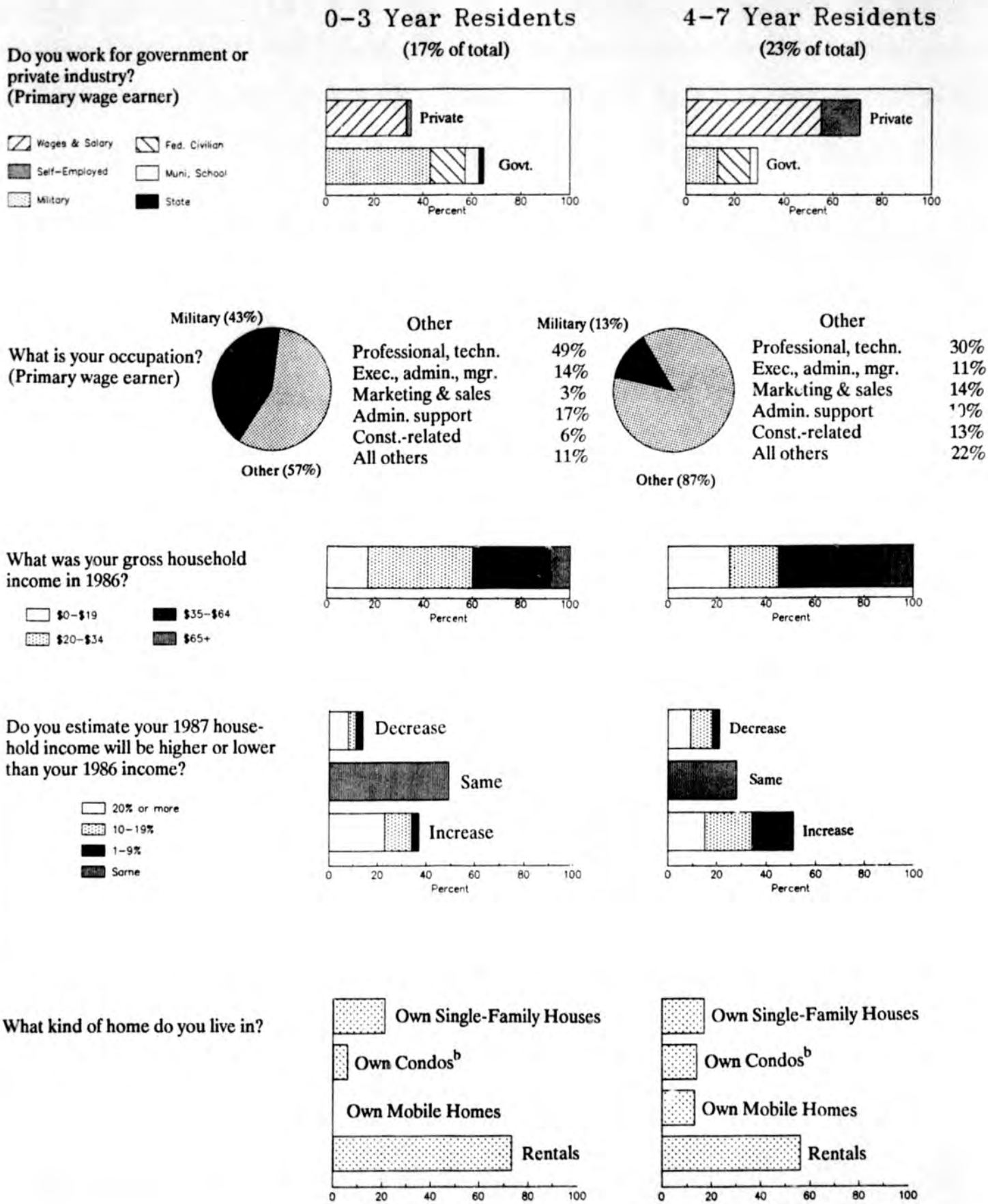
- Many Anchorage households earned less than $20,000 in 1986, but that share was largest among those who had been in Anchorage between 4 and 7 years--25 percent in that group earned less than $20,000 in 1986.

- More than 60 percent of Anchorage's newest households (0-3 year residents) took in less than $34,000 in 1986. Those incomes concentrated at the low end are due at least in part to the fact that many of those households are military--and military pay is typically lower than civilian pay. Also, in 1986 some of those households were still in the lower 48--where pay rates are generally lower.

- About one in four of Anchorage's longer-term households (those that have been here 8 years or more) had 1986 household incomes that exceeded $65,000. That makes sense, given that longer term residents are more likely to be older, to have been in their occupations longer, to have worked their way up the pay scale, and to hold executive or managerial jobs.

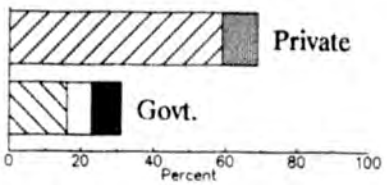
- Most residents in all categories expected their 1987 incomes to be at least as high or higher than their 1986 incomes. But the newest residents were the most optimistic: 23 percent of the heads of households that

Figure 8. Profile 1987: Anchorage



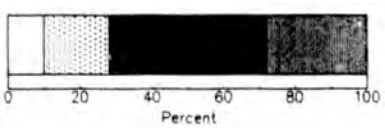
Residents by Time Lived in City*

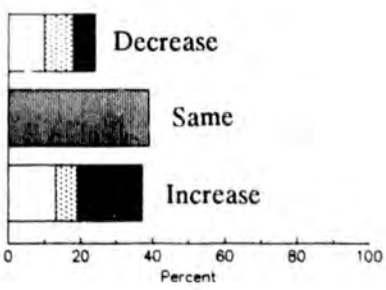
8–17 Year Residents
(31% of total)

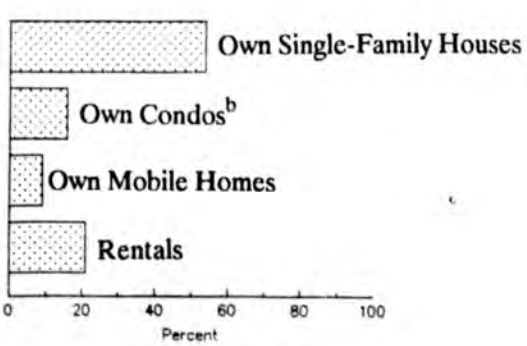


(No Military)

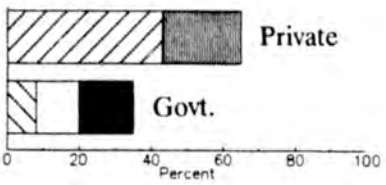
Professional, techn.	27%
Exec., admin., mgr.	25%
Marketing & sales	8%
Admin. support	10%
Const.-related	12%
All others	18%





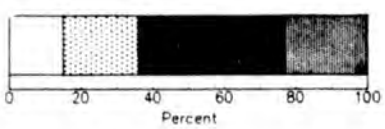


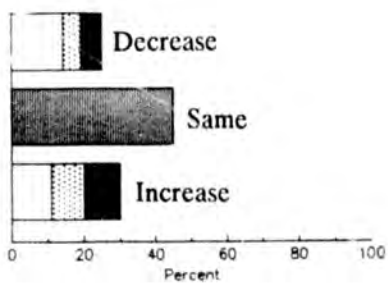
18+ Year Residents
(29% of total)



(No Military)[a]

Professional, techn.	29%
Exec., admin, mgr.	32%
Marketing & sales	6%
Admin. support	11%
Const.-related	9%
All others	13%





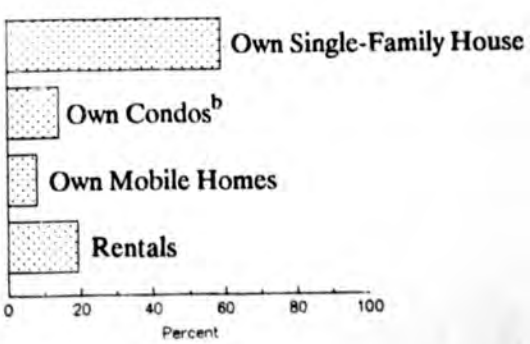
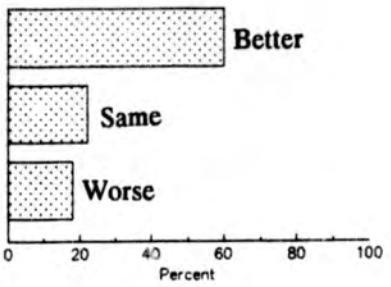
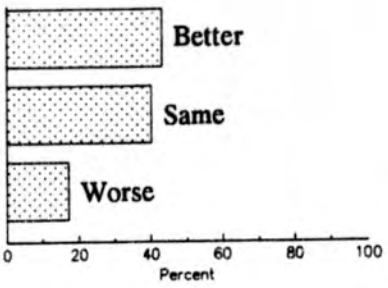
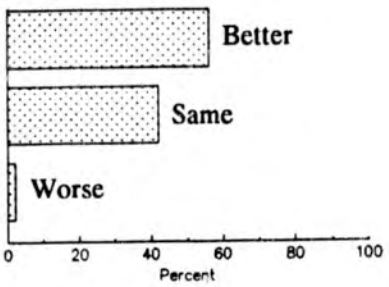
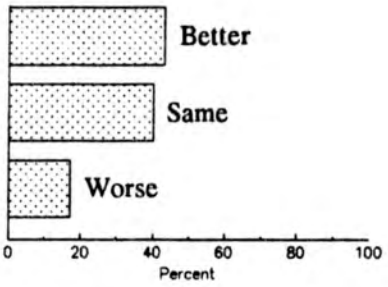
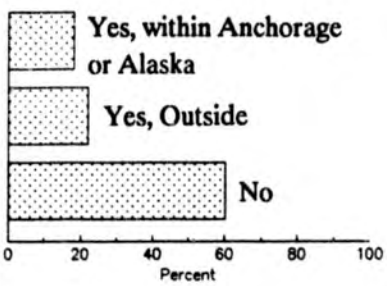
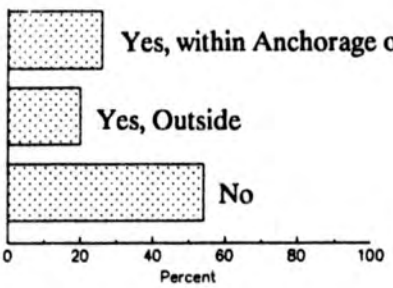


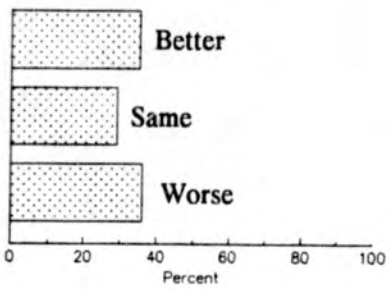
Figure 8. (cont.) Profile 1987: Anchorage Residents

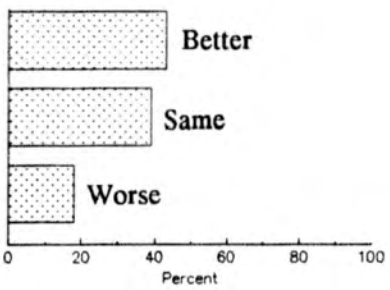
	0–3 Year Residents	4–7 Year Residents
Is anybody in your household currently unemployed?	Yes 10.3%	Yes 12.1%
Is your household better or worse off financially now than a year ago?		
Do you expect your household to be better or worse off financially a year from now?		
Is your household likely to move in the next year?		

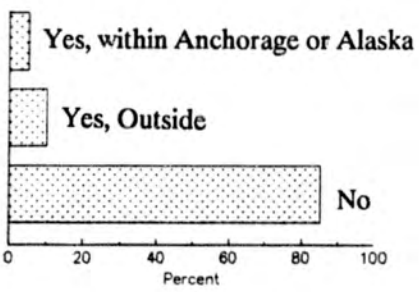
by Time Lived in City*

8–17 Year Residents

Yes 9.8%

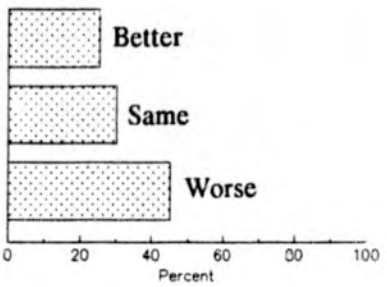


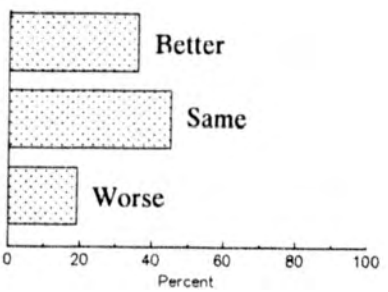


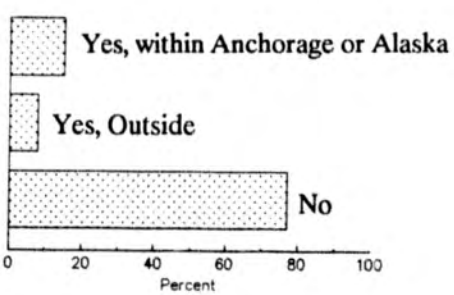


18+ Year Residents

Yes 11.4%







[a]Does not take into account National Guard; just full-time military.
[b]Actually includes other attached housing but is mostly condominums and townhouses.

had been here less than 3 years expected their incomes to be 20 percent or more higher than in the previous year. Those great expectations could have been the result of many things--including the fact that those who came to Alaska with jobs are likely earning more here than they earned in the lower 48.

- Householders who had been here longer--8 years or more--were somewhat more likely to to say they expected their incomes to drop. And of those long-term residents who expected increased incomes, most foresaw small increases; for example, about 20 percent of households that had been here 8-17 years expected their incomes to increase by 1 to 9 percent. The more negative expectations of longer-term residents could have various causes. We've seen that many of these long-term residents were in the higher income brackets in 1986--some of them may have felt that they were already at the top of their pay scales; some may have taken pay cuts. Also, more people who have been here longer own real estate--and if that real estate is income-producing, it's likely producing less income than it used to.

- Looking back on the previous year, the newest residents were by far the most likely to say they were better off financially in 1987 than they had been in 1986, and the longest residents were most likely to say they were worse off. About 60 percent of the households that had been in Anchorage less than 3 years reported they were better off at the time of the survey than they had been a year earlier. That probably reflects the fact that most newer residents came here with jobs, and most don't own real estate--and those who do bought when prices were lower rather than higher.

- Among those who have been here 18 years or more, 45 percent said they were financially worse off in 1987 than they had been in 1986. That response helps us get at a measure of financial well-being beyond income: we know that people who have been here longer are more likely to own residential and commercial real estate. The value of that real estate may have dropped anywhere from 15 to 50 percent or more in the past two years--and certainly those who have lost the equity in their properties, who may in fact owe more than the properties are worth, and who may have to meet large payments on vacant properties, would be financially worse off than they were earlier.

Household Unemployment

- Households that have just arrived and those that have been here for a long time suffered just about equally from unemployment at the end of 1987. Around 10 percent of households in all categories reported at least one adult unemployed as of November. Households that had been here 4-7 years reported slightly higher unemployment--more than 12 percent. That might indicate people in that residence category are more concentrated in the kinds of jobs--construction, for instance--that have been hurt the most by the recession, but the difference is not large enough to make much of. Remember, however, that these were unemployment figures as of November--and we know from our earlier discussion that unemployed people made up a substantial share of those who left Anchorage between June and November.

Financial Expectations

- Households in all the various residence groups are generally optimistic about their future finances--at least 80 percent of all households in every category said in November 1987 that they would be at least as well off or better off in a year's time. Those responses reflect a widespread belief--and widespread hope--that the recession is coming to an end.

- Following the trend we have already seen above, the newest residents are the most optimistic and the longest residents the least. More than half--56 percent--of those

who had been in Anchorage less than 3 years believe they will be better off financially in a year's time. That optimism is probably attributable to the same reasons why most newcomers felt they were better off at the time of the survey than they had been in the past: they came to Anchorage with jobs; they were enjoying lower rents and cheaper housing prices; and they were less likely to be carrying real estate debt than were residents who had been here longer.

- And although most long-time residents agree that better times are ahead, 20 percent still believe that their finances will be worse in a year's time--and that pessimism probably also reflects the fact that many longer term residents own properties or businesses that have been hurt by the recession and which will not recover immediately.

Moving Plans

- Not everyone is planning to pack up and leave Anchorage: a majority of households in every residence category had no plans to leave the city in 1988. But one in four of the newer households--those that had been in the city less than 7 years--do plan to leave Anchorage within the next year. Some of those households--particularly among those who have been here less than 3 years--are military households, anticipating their regular transfers to other posts. A portion of the nonmilitary households would also likely have plans to leave the city, even if there were no recession--as we saw in Table 2, substantial numbers of people left the city even during the economic boom times. But some are undoubtedly planning to leave because their job prospects here are still poor.

- And a substantial number of households--26 percent among households that had been here 4-7 years--say they plan to move within Anchorage in the coming year. We saw in earlier tables that the chief reason people move in the city is to get better-quality housing--so it seems that in fact many newer residents are planning to take advantage of lower prices and abundant supplies of housing. Longer-term residents are more likely to be homeowners, some of whom are constrained by having negative equity in their current homes.

Changes in Employment and Expectations, June-November

In this final section we look specifically at the way two indicators of the state of the economy--employment and expectations about the future--changed between our June and our November surveys.

We report employment measures in Table 11: among households where someone was out of work in June and, conversely, where no one was out of work in June, what had happened by November? And were there any significant labor force changes between June and November?

The table shows that of the households where there was unemployment in June, most had either found jobs (42 percent) or left the city (22 percent) by November. Only about one in four households that reported unemployment in June still reported unemployment 5 months later--which is grim evidence of the duration of unemployment among some households. But overall the table shows that many of those out of work in mid-1987 were able to find work by later in the year, or had left the city to look elsewhere.

The second part of Table 11 shows what had happened by November in households that reported no one unemployed (full employment) in June. Most of them--70 percent--were still experiencing full employment. Only 5 percent had someone unemployed in November, and much of that was probably loss of seasonal jobs.

The last part of Table 11 shows that there were only slight changes in labor force participation between June and November: about 98 percent of all household heads had jobs in June, as compared with 94 percent in November; in June 93 percent of all people in the labor force had jobs, as compared with 92 percent in November.

At first glance, the table seems to show that

Table 11
Employment Comparisons, June and November

Households Experiencing Unemployment in June (12.2% of Respondents)

	Number	Percent
Total number of households w/unemployment in June	67	100%
As of November:		
HH still experiencing unemployment	19	28
HH no longer experiencing unemployment	28	42
HH moved from Anchorage	15	22
Non-response	5	8

Households Experiencing Full Employment in June (87.8% of Respondents)

	Number	Percent
Total no. of households withfull employment in June	484	100%
As of November:		
HH still experiencing full employment	341	70
HH experiencing un-employment	26	5
HH moved from Anchorage	59	13
Non-response	68	12

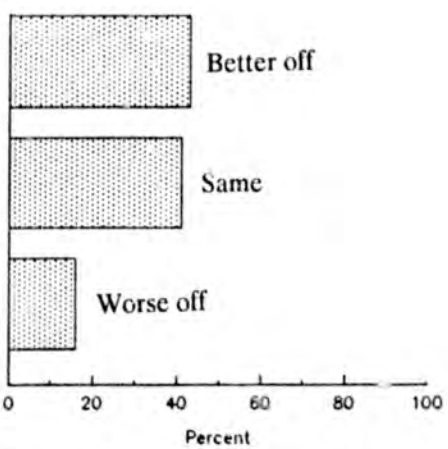
Labor Force Changes

	June No.	June %	November No.	November %
Percent employed of primary wage earners in the labor force:	493	98%	363	94%
Percent employed of all wage earners in the labor force:	873	93%	647	92%
1 or more household members expect job to end within 3 mos.:	66	12%	19	5%

things were slightly better in June--but in fact what it mainly shows is a normal seasonal variation. The last part of Table 11 illustrates this point--in June 12 percent of households had someone who expected his job to end within three months and in November the number was just 5 percent. Many Alaska jobs are just summer jobs that disappear long before November. However, the very normality of these figures is a sign that the recession was slowing down in the second half of 1987--that the change in employment was due mainly to the expected loss of summer jobs.

Finally, Figures 9 and 10 show that most households we surveyed were at least as optimistic or more optimistic about the economy in November than they had been in June. In both June and November, respondents were asked if they expected their household finances to be better, worse, or the same in a year's time. In November, close to 45 percent of households we surveyed said they expected to better off financially in a year's time; another 40 percent expected to be doing at least as well. Only 15 percent of household's expected to be doing

Figure 9
Household Financial Expectations, November 1987

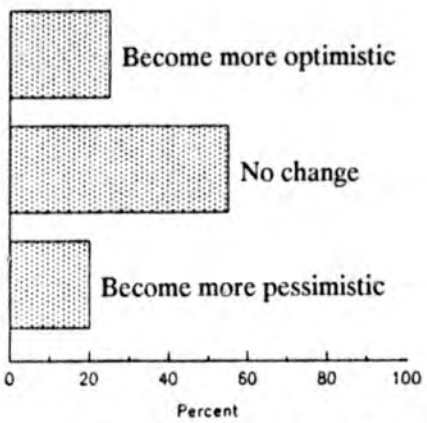


(November sample, N = 414)

worse a year down the road.

Figure 10 illustrates changes in respondents' expectations for household finances between June and November. Did people become more optimistic about the year ahead, more pessimistic, or have about the same expectations? To answer this, we categorized as "more optimistic" those people whose outlook for their financial future had improved, i.e., they had expected things to get worse or stay the same in June and changed their answer to "better" in November, or said "worse" in June and changed to "same" in the November survey. The "more pessimistic" respondents did the opposite, i.e., they changed from saying in June that things would get better or stay the same to "worse" in November, or changed from saying "better" in June to answering "same" in November. Respondents whose answers did not change between the two surveys were put in the "no change" category. The resulting table shows that the financial expectations of about 25 percent of households improved between June and November, 55 percent stayed the same, and 20 percent grew more pessimistic. It's interesting to point out that very few respondents (8 percent) said in both June and November that they expected their finances to worsen over the next year. In fact, close to half answered in both surveys that they expected household finances to stay the same or to get better--25 and 22 percent, respectively.

Figure 10
Changes in Household Financial Expectations, June to November*



(June and November, N = 414)

*See text explanation of categories.

We don't want to put too much emphasis on such slight evidence--but it does show a turn toward optimism: the Anchorage households that had made it to the end of 1987 were beginning to see--or at least hoped to see--better things on the horizon.

Endnotes

[1]We realize that one shortcoming of telephone surveys is obvious: they don't reach people without phones. Most Anchorage households do have phones, but some don't; our surveys may therefore under-represent some of the poorest or most transient residents.

[2]We continue to be grateful that most households we call are willing to answer our questions carefully and thoughtfully.

[3]Our sample size in November was 414 households; we analyzed the June and November samples and found no significant differences in household characteristics between the two.

[4]See Scott Goldsmith, "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions,* Vol. XXIV, No. 2, University of Alaska Anchorage, Institute of Social and Economic Research, December 1987.

[5]Figures from the Municipality of Anchorage.

[6]ISER thanks the Anchorage Telephone Utility for its help in determining how many households with disconnected phones had no new listings in the city. ATU provided this information while maintaining the confidentiality of its phone subscribers.

[7]The primary wage earner, also referred to as the head of household, is defined as the adult earning the highest wages or, if wages are equal or no adults are currently working, it is the oldest person in the household. We identified the primary wage earner based on the June data and referred to the same person in analyses of the November data.

[8]The Municipality of Anchorage has found that single men have left the city at a much higher rate than single women during the recession. See the municipality's *1987 Anchorage Population Profile* (December 1987). Another good source of information on the sex, age, education, and other characteristics of Anchorage residents in late 1987 is *The Belden Continuing Market Survey 1988,* done for the *Anchorage Daily News*--which reported the results in a series of articles by Bill White from March 20 through March 25, 1988.

[9]Vacancies as reported by the Municipality of Anchorage; some of those structures may not have been available for occupancy.

[10]Although there are some shortcomings in using average 1987 prices of units sold to reflect market values, we believe this measure better reflects market value than does assessed valuation.

[11]A person is defined as being in the labor force if he or she has a job or is looking for one. Persons without jobs but who are not looking for work are considered out of the labor force.

[12]Federal employment in Anchorage has, however, been affected in 1988 by federal budget cuts; some civilian employees of Anchorage's army and air force bases are losing their jobs this year.

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.

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.

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, on-going 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 Van Vactor. 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.

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.

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 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.

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RAILBELT ECONOMIC ASSESSMENT SURVEY

JANUARY 1988

PREPARED FOR

THE LEADERSHIP OF THE
ALASKA STATE SENATE

DITTMAN RESEARCH CORPORATION OF ALASKA
DRC BUILDING
8115 JEWEL LAKE
ANCHORAGE, ALASKA 99502
243-3345

TABLE OF CONTENTS

	Page Number
Methodology	i
Research Design	i
Sample Design	i
Sample Error	i
Processing the Data	ii
Findings	1 - 15
Summary	16 - 18
Conclusions	19 - 20

Crosstabulations Section

(This section presents all findings by the individual geographic regions and demographic characteristics)

Appendix (Questionnaire)

METHODOLOGY

During the period of January 19 through January 28, 1988, 1,002 residents of twenty-seven Alaskan railbelt communities were personally contacted by telephone by professional interviewing employees of the Dittman Research Corporation of Alaska. The findings of this report are presented in four regions -- Fairbanks/Central, Anchorage, Matanuska Valley, Kenai Peninsula. The views and opinions of the railbelt area residents were recorded on a strictly confidential basis.

Research Design - A random sample design was featured which provided that all adult residents of communities included had essentially an equal chance of being interviewed.

Sample Selection - The sample was randomly selected from current telephone subscribers listed in the most current directory for each community.

Sample Error - Samples of 1,000 may have a sample error of approximately 1-3%.

PROCESSING THE DATA

Dittman Research employees completed coding, editing, data entry and verification, while data processing was completed through the in-house Dittman Research Corporation Computer system featuring the Statistical Package for the Social Sciences (SPSS/PC+) programs. The SPSS program is one of the most sophisticated research-oriented data processing and analytical systems available, and is designed specifically for the processing and analysis of survey research data.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1562 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1359

FINDINGS

RAILBELT ECONOMIC ASSESSMENT SURVEY

JANUARY 1988

(Random Sample of 1,002 Residents
of Alaska Railbelt Region)

The overall economic assessment of Alaskans in the railbelt region is clearly on the troublesome side...

"Overall, what is your opinion of the economy in the area where you live -- is it very good, pretty good, so-so, pretty bad, or very bad?"

1%	Very good
11%	Pretty good
36%	So-so
34%	Pretty bad
19%	Very bad

...and the situation has definitely not gotten better during the past year...

"Is this a change from a year ago -- has the economic situation in your area gotten better, worse or stayed about the same over the past year?"

7%	Better
50%	Worse
43%	Stayed same

...with over half (54%) reporting their family unit has faced wage cuts, reduced work hours or lay-offs...

"Have you or members of your family who live with you taken a salary or wage cut, had work hours reduced or been laid off from work during the past two years?"

54%	Yes
46%	No

Sixty percent (60%) are making payments on a home in Alaska...

"Are you making payments on a home in Alaska?"

60% Yes
40% No

...and over one-third (35%) reported it is getting more difficult to make the payments...

"Is it getting easier or harder to make the payments, or is it staying about the same?"

7% Easier
35% Harder
58% About the same

...with one-half (50%) of that number saying they are beginning to be concerned about being able to continue making their home payments...

"Are you beginning to be concerned that you might not be able to keep up with the payments?"

50% Yes
50% No

...and one out of four (26%) home owners who declared it harder to make the payments, reported they have seriously thought about letting their house go back to the bank or mortgage company...

"Have you seriously thought about letting the house go back to the bank or mortgage company?"

26% Yes
73% No

Additionally, twenty-five percent (25%) said they have been making payments on real estate or raw land investments...

"Do you have real estate or raw land investments in Alaska that you're making payments on (other than your home if "yes" to Q.9)?"

25% Yes
75% No

...with nearly half (44%) reporting making those payments is getting to be more difficult...

"Is it getting easier or harder to make the payments, or is it staying about the same?"

4% Easier
44% Harder
51% About the same

...and well over half (57%) said they are beginning to be concerned about being able to keep up...

"Are you beginning to be concerned that you might not be able to keep up with the payments?"

57% Yes
43% No

...which leads to 28% of those who say it's getting harder to make those payments seriously thinking about letting their investments go back to the bank or mortgage company...

"Have you seriously thought about letting it/them go back to the bank or mortgage company?"

28% Yes
69% No

On an overall basis, approximately one-out-of-six railbelt residents (17%) say their personal economic condition is on the bad side -- with over one-third (37%) describing their personal economic situation as "so-so"...

"How would you describe your personal economic situation at the present time -- is it very good, pretty good, so-so, pretty bad, or very bad?"

10%	Very good
36%	Pretty good
37%	So-so
11%	Pretty bad
6%	Very bad

...and over half (54%) don't see things getting any better in the near future...

"What do you see looking into the future for the next two years -- will things get better, worse or stay about the same as they are now?"

44%	Better
16%	Worse
38%	Stay the same

With this in mind, it s not too surprising that approximately one-out-of-four (24%) railbelt respondents reported they have seriously considered leaving Alaska due to the economy here...

"Have you seriously considered leaving Alaska and moving somewhere else to live because of the economy here?"

24%	Yes
76%	No

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02–576(2/77)

On an overall basis, approximately one-out-of-six railbelt residents (17%) say their personal economic condition is on the bad side -- with over one-third (37%) describing their personal economic situation as "so-so"...

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6%	Very bad

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44%	Better
16%	Worse
38%	Stay the same

With this in mind, it's not too surprising that approximately one-out-of-four (24%) railbelt respondents reported they have seriously considered leaving Alaska due to the economy here...

"Have you seriously considered leaving Alaska and moving somewhere else to live because of the economy here?"

24%	Yes
76%	No

...and nearly one-out-of-five (19%) said they are "quite" or "very likely" to move to another state within the next two years...

"How likely do you think it is that you will move to another state within the next two years -- very likely, quite likely, not too likely, or not at all likely?"

8%	Very likely
11%	Quite likely
20%	Not too likely
60%	Not at all likely

Sixty-one percent (61%) say that Alaska's current economy is a special situation which requires special attention...

"Do you feel Alaska's economy is or is not a special situation that warrants special government attention?"

61%	Is
36%	Is not

...and two-out-of-three (66%) said they feel the damage has been worse among average citizens...

"As far as the economy is concerned, where do you think the worst damage has occurred -- among real estate speculators or among average citizens?"

30%	Speculators
66%	Average citizens

...so three-out-of-four (75%) believe the state legislature should take action to try to help...

"What do you think should be the state legislature's role -- do you think it should or should not take action and try to help?"

75%	Should
19%	Should not

Approximately one-out-of-three (36%) railbelt employers said they have reduced the number of their employees during the past year...

"During the past year, have you increased or reduced the number of employees -- or have they stayed the same?"

18% Increased
36% Reduced
46% Stayed the same

...and one-out-of-four (23%) have reduced wages and salaries...

"Have you increased or reduced the wages and salaries or have they stayed about the same?"

17% Increased
23% Reduced
57% Stayed about the same

Looking ahead, the employment situation probably won't improve very much -- three-out-of-four employers (76%) expect to reduce or maintain their number of employees...

"Looking ahead for the next 12 months, do you expect to increase or reduce the number of employees who work for you -- or will it stay about the same?"

21% Increased
12% Reduced
64% Stayed about the same

...and a similar percentage (78%) don't expect to increase wages and salaries in 1988...

"...and what about salaries and wages -- do you expect to increase them, decrease them or have them stay at the current level?"

19% Increase
10% Decrease
68% Stay at current level

In summary, the economic condition of the railbelt region is clearly on the serious side -- with over one-third of home-owners reporting it is getting difficult to make payments. In addition, approximately one-fourth (24%) of all respondents report they have seriously considered leaving Alaska, and one-out-of-five (19%) say they are likely to leave within the next two years.

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The seriousness of the situation is clear -- now, what were the causes, and what should be done?

First of all, railbelt residents see "oil" and "government" as the primary culprits...

"Who do you think is mainly responsible for Alaska's current economic situation?"

33%	State government/legislature/politicians/ federal government/local government/Sheffield/ Cowper *
30%	Oil prices/OPEC/oil companies *
13%	Everyone
5%	No one
3%	World economy
5%	Miscellaneous
11%	Unsure

* State gov't (13%); legislature (8%); politicians (3%); federal government (3%); Sheffield (3%); Cowper (2%); local government (1%)

Oil prices (22%); oil companies (6%); OPEC (2%)

...and based on descriptions of the specific cases, it appears the blame is related to the prior abundance of money...

"What did they do to help cause it?"

46%	Spent too much/over-stimuated economy/no planning/ spent money on wrong things/poor management
23%	Let oil prices go down
10%	Too dependent on one industry
6%	Money goes out of state/no local hire
4%	Regulations/restrictions/barriers to economic development
3%	World situation
2%	It's natural
2%	Miscellaneous
4%	Unsure

As far as solutions are concerned, railbelt residents most strongly support the strongest possible constitutional local hire law...

"Do you support or oppose the tightest possible law to require local hire that is still constitutional?"

88%	Support
10%	Oppose

...and they also want to eliminate higher taxes and utility charges...

"Would you support or oppose the state not allowing any new or increased taxes or utility charges for the next two years?"

75%	Support
22%	Oppose

Reducing interest rates are seen as being helpful...

"Would you support or oppose reducing the interest rate on all Alaska Housing Finance Corporation (AHFC) home mortgages by 2% for the next two years?"

79% Support
16% Oppose

...and opening additional areas of Alaska to oil and gas exploration are highly recommended...

"Do you support or oppose immediately opening "ANN-WHAR," the Arctic National Wildlife Refuge on Alaska's North Slope, to oil and gas exploration?"

71% Support
24% Oppose

A "jobs bill" -- spending money to provide jobs -- is strongly supported...

"Would you support or oppose the state spending 150 million dollars to provide jobs for people who would perform deferred maintenance for roads, schools and other public buildings?"

69% Support
22% Oppose

...and eliminating general business taxes is seen as a helpful step...

"Would you support or oppose reducing or eliminating general business taxes to encourage businesses to locate here?"

65% Support
29% Oppose

...reducing commercial loan rates is also seen as being helpful...

"Would you support or oppose reducing the interest rate on all Alaska Industrial Development Authority (AIDA) commercial loans by 2% for the next two years?"

65% Support
27% Oppose

Removing excess AHFC-owned mobile homes is recommeded...

"Would you support or oppose having the AHFC ship the excess mobile homes it owns to the lower 48 and selling them down there?"

59% Support
32% Oppose

...and then spending money to encourage a U.S. Navy presence would be a good step...

"Would you support or oppose spending up to 100 million dollars to upgrade Southcentral Alaska ports so they could serve as the home port for large Navy ships?"

57% Support
29% Oppose

Over half (53%) support another Permanent Fund dividend check early this year...

"Would you support or oppose having the state issue another Permanent Fund Dividend check early this year to get more money in the economy?"

53% Support
42% Oppose

...demolishing sub-standard public housing is also supported, with a subsequent utilization of repossessed condominiums...

"Would you support or oppose having the state tear down the older sub-standard public housing it owns and replacing it with repossessed condominiums?"

53% Support
36% Oppose

...a majority support halting mortgage loan foreclosures...

"Would you support or oppose the state halting foreclosure on people who aren't paying their mortgage loans?"

53% Support
38% Oppose

...maybe because by over a 2:1 ratio, there is a feeling that non-Alaskans may be taking control of Alaskan real estate and commercial properties...

"Do you believe there is or is not a danger of too many non-Alaskans taking control of Alaskan real estate and commercial buildings by buying up property at auctions and low forced-sale prices?"

62% Is danger
30% Is not danger

Paying off school construction bonds also seems to be a good idea...

"Would you support or oppose the state paying off school construction bonds which are now being paid for through property taxes?"

53% Support
40% Oppose

...on the other hand, paying off local government bonds is supported by less than half the respondents...

"Would you support or oppose having the state pay off local government bonds to lower local taxes and user fees?"

46% Support
42% Oppose

Real estate auctions are not widely supported or opposed...

"Would you support or oppose the state not allowing real estate auctions of foreclosed properties for the next two years?"

46% Support
47% Oppose

...and sentiment regarding using condominiums for UAA student housing is slightly on the opposed side...

"Would you support or oppose the state providing money to the University of Alaska to buy condominiums for student housing?"

44% Support
49% Oppose

Public sentiment opposes the state tearing down strip malls and paying off the loans...

"Would you support or oppose the state reducing excess office and commercial space by tearing down strip malls and old commercial buildings and paying off the loans?"

34% Support
55% Oppose

...and using the Permanent Fund principal to invest in excess commercial properties is strongly opposed...

"Would you support or oppose using the Permanent Fund principal to buy excess commercial properties and hold them as investments until the prices go up?"

21% Support
76% Oppose

Overall recommendations for the legislature are primarily on the "growth" side ("create jobs," "help business," "encourage new businesses," "spend on construction," etc.), however another large bloc is on the other side ("spend less money" and "do nothing")...

"Now that we've gone through a fairly long list of possible economic steps that could be taken, what are your thoughts -- what are your overall recommendations for the legislature?"

36% Encourage business/create jobs/spend more money/help new business/diversify

22% Spend less money/do nothing

12% Work together/help people who are struggling

5% Guard the Permanent Fund

4% Find new sources of money

1% Spend more on education

2% Miscellaneous

17% Unsure

Regarding sources of money to accomplish economic enhancement projects, by a 2:1 ratio, railbelt residents reported they would probably vote for using undistributed Permanent Fund earnings...

"There is currently approximately 490 million dollars in unspent earnings from the Permanent Fund -- this is money left over after dividends and inflation proofing have been paid. If the issue were on the ballot, would you probably vote for or against using the undistributed Permanent Fund earnings money to help pay for programs to help the economy?"

64% Support
32% Oppose

...however, even if the economy declined further, a majority oppose using the Permanent Fund principal to help...

"If the Alaskan economy declines further, would you support or oppose a constitutional amendment which would allow some of the money within the principal of the Permanent Fund to be taken out and used for programs to help the economy?"

43% Support
54% Oppose

Well over half (55%) also feel the Railbelt Energy Fund should be used to provide electrical energy to railbelt communities rather than being used for other construction projects...

"There is currently approximately 230 million dollars set aside in the Railbelt Energy Fund to provide electrical energy for communities along the railbelt from the Kenai Peninsula to Fairbanks. Would you support using the money for that purpose, or would you support using the money for other capital construction projects around the state?"

55% Provide electrical energy
35% Provide other capital construction

...and when it is all put together, support for various possible sources of funds is fairly broadly distributed...

"Nearly all of the programs to help the Alaskan economy will require money. If something is going to be done to help the economy, where should the money come from?"

21% Use Permanent Fund earnings (490 million)
19% Use windfall lawsuit money (150 million)
13% Use Railbelt Energy Fund (234 million)
8% Use Alaska Industrial Development Authority Fund (270 million)
8% Use Permanent Fund principal (9 billion)
7% Use Alaska Housing Finance Corporation Revolving Fund (1.5 billion)
3% Sales and/or income taxes
2% Anything, but not the Permanent Fund

Support for education is high -- in fact, by nearly a 2:1 ratio, railbelt residents support the idea of an educational endowment fund...

"Do you support or oppose setting aside 700 million dollars as a "mini"-permanent fund, with the earnings -- which may be 50-70 million dollars per year -- to be added to the 400 million dollar public education budget?"

59% Support
32% Oppose

...and a slightly smaller majority also support scientific research in Alaska...

"Do you support or oppose establishing a 100 million dollar science and applied technology fund to encourage scientific research in Alaska?"

54% Support
39% Oppose

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SUMMARY

RAILBELT ECONOMIC ASSESSMENT SURVEY

On a overall basis, the economic situation in the railbelt region is probably worse than previously assumed...

** Over fifty percent (53%) report the economy is "bad" in their area.

** And it's not getting better -- half (50%) reported their economic condition has changed for the worse compared to a year ago.

** Although there is some optimism -- 44% report they feel things will get better within the next two years -- a substantial majority (54%) see things staying about the same or getting even worse.

** And this is serious because the same percentage (54%) reported their family unit has already faced wage and salary cuts, reduced work hours and layoffs.

** With over half of railbelt families realizing reduced incomes, it's not surprising that one-third (35%) of railbelt homeowners said it is getting more difficult to make their mortgage payments.

** One-half (50%) of that number report they are concerned about being able to continue; and approximately one-out-of-four (26%) said they have seriously thought about letting their house go back to the bank or mortgage company.

** And the situation is even worse for those who are making payments on real estate or raw land investments -- nearly half (44%) say it is getting harder to make the payments.

** And within that group, nearly three-out-of-five (57%) are concerned that they may not be able to continue making payments, with over one-fourth (28%) seriously thinking about letting their investments go back to the bank or mortgage company.

** If the economic condition of railbelt residents doesn't improve, a significant population exodus may occur -- approximately one-out-of-four railbelt respondents (24%) reported that they have seriously considered leaving Alaska and moving somewhere else to live because of the economy here.

** And going beyond "seriously considering" leaving Alaska, nearly one-out-of-five (19%) said it is likely that they will be gone within the next two years.

Again, from the railbelt residents' point-of-view, the economic situation is serious -- so what's the solution?

** First of all, over three-out-of-five (61%) feel Alaska's economy is a special situation which warrants special attention, and three-out-of-four (75%) feel the legislature should take action and try to help.

So the question is: "what kind of help?" -- what should be done...

** First of all, pass the strongest possible local hire law that is constitutional (81%).

** Then reduce AHFC home mortgage rates by 2% for the next two years (79%).

** Next, eliminate any idea of new or increased taxes or utility charges for the next two years (75%).

** Support opening the Arctic National Wildlife Refuge to oil and gas exploration (71%).

** Pass the "jobs bill" to provide money for deferred maintenance projects (69%).

** And reduce or eliminate general business taxes in order to provide incentives for businesses to locate in Alaska (65%).

** Also, reduce AIDA commercial loan rates by 2% (65%).

** Sending AHFC-owned mobile homes south for sale is widely supported (59%).

** And bringing the Navy north is also supported by a strong majority (57%).

** An additional Permanent Fund dividend check is supported by over half (53%).

** Then consider tearing down older, sub-standard state-owned public housing, and replace it with state-owned condominiums (53%).

** There is some concern that too many non-Alaskans are taking control of local real estate by buying up property at auctions and low forced-sale prices (61%).

** So a little over half (53%) would support a state moratorium on foreclosures for people who can't pay their mortgage loans; and a little under half (46%) would support a moratorium on real estate auctions for the next two years.

** Paying off school construction bonds (53%) and local government bonds (46%), are supported if it would provide property tax relief or lower user fees.

At the other end of the scale, there are some things that the state should probably stay away from...

** In this case, there is more opposition (49%) than support (44%) for the idea of the University of Alaska buying condominiums for student housing.

** And only 34% support the idea of razing excess commercial buildings and strip malls and paying off the loans.

** Forty-three percent (43%) would support using some of the Permanent Fund <u>principal</u> to help the economy, however, the main thing to stay away from is any idea of using the <u>principal</u> of the Permanent Fund to take excess commercial properties off the market (76% oppose).

If the principal of the Permanent Fund isn't used, where is the money going to come from?

** Nearly two-thirds (64%) reported they would probably vote in support of using the 490 million dollars in Permanent Fund <u>earnings</u> to help pay for programs to help the economy.

** Another possible source is the "windfall" lawsuit money ($150,000,000).

** And the 234 million dollar Railbelt Energy Fund was also recommended, however, by a 20% margin (55% to 35%), railbelt residents reported they would rather use the money to provide electrical energy for communities along the railbelt.

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CONCLUSIONS

RAILBELT ECONOMIC ASSESSMENT SURVEY

After talking with 1,002 randomly selected railbelt respondents regarding their personal economic condition on a strictly confidential basis, it's clear that the region as a whole is facing serious economic problems. And if things don't materially improve, a substantial exodus of up to 20% could take place during the next two years.

** The top six recommendations for immediate action are quite clear:

1) Local hire, local hire and local hire
2) Lower home mortgage rates
3) No new taxes or utility increases
4) Pass the "jobs bill"
5) Reduce the cost of doing business for employers
6) Upgrade ports for general Navy use

** Opening ANWR is strongly supported, but is a much longer-term project.

** Recommended actions with economic consequences, but of a lower priority are:

1) Additional Permanent Fund dividend
2) Replace sub-standard AHFC housing with repossessed state-owned buildings
3) Pay off school construction and local government bonds if it will lower property taxes
4) Provide a moratorium on foreclosures and real estate auctions

While the railbelt economic condition is seriously on the troubled side for many, it should be remembered that support for state action is still not unanimous -- approximately one-out-of-four (22%) said the state should spend less money or do nothing, and 5% basically stated "I don't care what you do, just don't touch the Permanent Fund."

On the other hand, a much larger number say the state should take direct action, with 40% supporting the idea of encouraging business, creating jobs, spending more money, diversifying, and finding new sources of money; and an additional 12% feel we should all work together and help people who are struggling.

As far as funding is concerned, nearly two-out-of-three respondents (64%) reported they would probably support using Permanent Fund earnings to help the economy, and there appears to be little objection to using the "windfall" lawsuit money. Use of the AHFC and AIDA funds will require some explanation; use of the Railbelt Energy Fund will meet opposition; use of the Permanent Fund principal to "help" is generally opposed (by 54%); and using the Permanent Fund principal specifically for Alaskan real estate investments is out of the question.

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WHAT IS YOUR OPINION OF THE ECONOMY IN THE AREA WHERE YOU LIVE?

DEMOGRAPHICS	OAECONMY				
	VERYGOOD	PRTYGOOD	SOSO	PRTYBAD	VERYBAD
TOTAL	1%	11%	36%	34%	19%
LOCATION					
CENTRAL	0%	11%	39%	31%	18%
MATVALLEY	1%	9%	31%	36%	23%
ANCHORAGE	1%	11%	34%	36%	18%
KENAIPEN	1%	11%	41%	31%	16%
REGISTER					
DEMOCRAT	0%	10%	39%	34%	17%
REPBLCAN	0%	9%	34%	38%	19%
NONPART	1%	10%	35%	35%	19%
NOTREGIS	2%	22%	43%	12%	22%
SEX					
MALE	1%	9%	35%	32%	23%
FEMALE	1%	12%	36%	36%	15%
AGE					
18-24YRS OF AGE	0%	21%	50%	28%	2%
25-40	1%	10%	43%	32%	15%
41-55	0%	10%	29%	37%	24%
56+ YRS	2%	10%	23%	38%	27%
INCOME					
N-R	0%	9%	30%	40%	21%
TO$20000 INCOME	0%	10%	36%	26%	28%
$20,000-$40,000	1%	9%	37%	37%	16%
$40,000-$60,000	1%	11%	36%	33%	19%
$60,000+	0%	14%	35%	36%	15%
WORKFOR					
FEDERAL	0%	13%	46%	27%	13%
STATE	0%	18%	37%	32%	13%
LOCAL	1%	9%	40%	38%	11%
PRIVATE	1%	10%	35%	35%	19%
NOTWORK	1%	10%	32%	33%	25%
TIMEINAK					
UNDER1YR IN AK	0%	0%	33%	33%	33%
1-4 YRS	0%	19%	43%	28%	10%
5-9 YRS	1%	11%	40%	31%	16%
10-14YRS	1%	9%	40%	32%	19%
15+ YRS	1%	10%	31%	37%	21%

IS THIS A CHANGE FROM 1 YEAR AGO? IS THE ECONOMIC SITUATION IN YOUR AREA...

DEMOGRAPHICS	PASTYEAR			
	UNSURE	BETTER	WORSE	SAME
TOTAL.....	1%	7%	50%	43%
LOCATION				
CENTRAL.....	1%	11%	42%	46%
MATVALLEY.....	0%	4%	51%	45%
ANCHORAGE.....	1%	5%	55%	39%
KENAIPEN.....	3%	6%	54%	37%
REGISTER				
DEMOCRAT.....	0%	6%	52%	42%
REPBLCAN.....	0%	7%	50%	43%
NONPART.....	1%	7%	51%	41%
NOTREGIS.....	2%	6%	32%	60%
SEX				
MALE.....	1%	6%	47%	45%
FEMALE.....	1%	7%	52%	40%
AGE				
18-24YRS OF AGE.	2%	14%	34%	50%
25-40.....	0%	6%	50%	44%
41-55.....	2%	6%	51%	41%
56+ YRS.....	0%	8%	53%	40%
INCOME				
N-R.....	0%	2%	53%	44%
TO$20000 INCOME.	1%	7%	49%	43%
$20,000-$40,000.	1%	7%	50%	43%
$40,000-$60,000.	0%	6%	51%	43%
$60,000+.....	1%	9%	49%	41%
WORKFOR				
FEDERAL.....	1%	7%	43%	49%
STATE.....	1%	5%	44%	49%
LOCAL.....	0%	7%	52%	41%
PRIVATE.....	1%	8%	48%	44%
NOTWORK.....	0%	6%	56%	38%
TIMEINAK				
UNDER1YR IN AK..	33%	33%	0%	33%
1-4 YRS.....	0%	4%	39%	57%
5-9 YRS.....	1%	8%	52%	39%
10-14YRS.....	1%	6%	52%	41%
15+ YRS.....	1%	7%	51%	41%

WHAT DO YOU SEE LOOKING INTO THE FUTURE FOR THE NEXT TWO YEARS?

DEMOGRAPHICS	NEXTTWO			
	UNSURE	BETTER	WORSE	SAME
TOTAL.....	3%	44%	15%	38%
LOCATION				
CENTRAL.....	1%	50%	11%	39%
MATVALLEY.....	5%	38%	17%	41%
ANCHORAGE.....	3%	39%	20%	39%
KENAIPEN.....	3%	50%	15%	32%
REGISTER				
DEMOCRAT.....	1%	44%	15%	40%
REPBLCAN.....	2%	48%	13%	37%
NONPART.....	3%	43%	17%	38%
NOTREGIS.....	9%	29%	15%	46%
SEX				
MALE.....	1%	42%	15%	42%
FEMALE.....	4%	46%	16%	35%
AGE				
18-24YRS OF AGE.	0%	53%	14%	33%
25-40.....	3%	44%	14%	39%
41-55.....	2%	42%	17%	39%
56+ YRS.....	3%	43%	18%	37%
INCOME				
N-R.....	7%	37%	26%	30%
TO$20000 INCOME.	2%	45%	18%	35%
$20,000-$40,000.	4%	43%	17%	36%
$40,000-$60,000.	1%	43%	12%	43%
$60,000+.....	2%	45%	13%	39%
WORKFOR				
FEDERAL.....	2%	37%	13%	48%
STATE.....	2%	45%	16%	36%
LOCAL.....	1%	34%	16%	48%
PRIVATE.....	2%	48%	12%	37%
NOTWORK.....	4%	40%	20%	35%
TIMEINAK				
UNDER1YR IN AK..	0%	33%	0%	67%
1-4 YRS.....	4%	49%	16%	32%
5-9 YRS.....	4%	42%	17%	37%
10-14YRS.....	2%	45%	13%	40%
15+ YRS.....	2%	43%	16%	39%

WHAT SHOULD BE THE ROLE OF THE LEGISLATURE -- TAKE ACTION AND TRY TO HELP?

DEMOGRAPHICS	LEGIROLE			
	UNSURE	SHOULD	SHULDNOT	3
TOTAL.....	6%	75%	19%	0%
LOCATION				
CENTRAL.....	5%	76%	19%	0%
MATVALLEY.....	5%	76%	19%	0%
ANCHORAGE.....	4%	75%	21%	0%
KENAIPEN.....	17%	69%	15%	0%
REGISTER				
DEMOCRAT.....	9%	79%	12%	0%
REPBLCAN.....	3%	78%	18%	0%
NONPART.....	5%	72%	23%	0%
NOTREGIS.....	14%	74%	12%	0%
SEX				
MALE.....	4%	73%	23%	0%
FEMALE.....	8%	77%	15%	0%
AGE				
18-24YRS OF AGE.	7%	79%	14%	0%
25-40.....	6%	78%	16%	0%
41-55.....	5%	73%	22%	0%
56+ YRS.....	7%	69%	25%	0%
INCOME				
N-R.....	7%	74%	19%	0%
TO$20000 INCOME.	9%	76%	16%	0%
$20,000-$40,000.	6%	76%	19%	0%
$40,000-$60,000.	4%	78%	18%	0%
$60,000+.....	7%	70%	23%	0%
WORKFOR				
FEDERAL.....	5%	79%	17%	0%
STATE.....	9%	65%	26%	0%
LOCAL.....	2%	78%	20%	0%
PRIVATE.....	5%	77%	18%	0%
NOTWORK.....	7%	74%	19%	0%
TIMEINAK				
UNDER1YR IN AK..	33%	33%	33%	0%
1-4 YRS.....	12%	78%	10%	0%
5-9 YRS.....	6%	81%	13%	0%
10-14YRS.....	5%	73%	22%	1%
15+ YRS.....	5%	73%	22%	0%

WHAT IS THE MAIN THING YOU WOULD LIKE TO SEE THEM DO?

DEMOGRAPHICS	THINGDO							
	UNSURE	CREATE JOBS	HELPBUSI	HELPEOPL	NEWBUSI	SPENDLESS	DO NOTHIN	NEWMONEY
TOTAL.....	11%	23%	7%	8%	17%	9%	2%	2%
LOCATION								
CENTRAL.....	8%	22%	10%	9%	18%	7%	2%	3%
MATVALLEY.....	13%	27%	6%	4%	19%	8%	1%	2%
ANCHORAGE.....	13%	18%	5%	11%	16%	10%	4%	2%
KENAIPEN.....	5%	30%	8%	5%	11%	13%	0%	3%
REGISTER								
DEMOCRAT.....	11%	31%	3%	6%	15%	8%	1%	2%
REPBLCAN.....	10%	16%	9%	7%	21%	10%	2%	2%
NONPART.....	10%	21%	8%	10%	17%	9%	3%	2%
NOTREGIS.....	17%	33%	4%	2%	8%	8%	0%	4%
SEX								
MALE.....	8%	23%	7%	5%	19%	9%	3%	2%
FEMALE.....	13%	22%	7%	11%	16%	8%	1%	2%
AGE								
18-24YRS OF AGE.	20%	30%	7%	13%	11%	2%	0%	2%
25-40.....	11%	26%	7%	8%	17%	7%	2%	1%
41-55.....	9%	17%	10%	7%	19%	10%	3%	3%
56+ YRS.....	7%	21%	4%	10%	16%	14%	2%	4%
INCOME								
N-R.....	9%	16%	9%	9%	19%	13%	0%	3%
TO$20000 INCOME.	12%	29%	7%	7%	13%	7%	0%	2%
$20,000-$40,000.	9%	23%	6%	7%	19%	10%	2%	3%
$40,000-$60,000.	11%	24%	8%	6%	16%	7%	2%	1%
$60,000+.....	11%	16%	7%	12%	19%	8%	3%	1%
WORKFOR								
FEDERAL.....	17%	20%	3%	9%	17%	7%	3%	3%
STATE.....	7%	14%	12%	12%	25%	5%	2%	3%
LOCAL.....	14%	22%	7%	7%	14%	3%	3%	0%
PRIVATE.....	8%	22%	8%	6%	20%	11%	1%	1%
NOTWORK.....	13%	27%	5%	11%	11%	8%	2%	4%
TIMEINAK								
UNDER1YR IN AK..	0%	0%	0%	100%	0%	0%	0%	0%
1-4 YRS.....	15%	26%	7%	11%	25%	4%	0%	1%
5-9 YRS.....	10%	25%	8%	5%	15%	8%	2%	2%
10-14YRS.....	9%	26%	9%	6%	14%	9%	2%	1%
15+ YRS.....	10%	20%	6%	9%	17%	10%	2%	3%

(cont:

WHAT IS THE MAIN THING YOU WOULD LIKE TO SEE THEM DO?

DEMOGRAPHICS	THINGDO				
	SPNDMORE	SPNDONED	WORKTGTH	GRDPFDIV	MISC
TOTAL.....	11%	4%	2%	4%	2%
LOCATION					
CENTRAL.....	8%	7%	1%	4%	2%
MATVALLEY.....	12%	3%	2%	2%	3%
ANCHORAGE.....	11%	0%	3%	5%	2%
KENAIPEN.....	16%	4%	1%	1%	4%
REGISTER					
DEMOCRAT.....	9%	5%	3%	2%	4%
REPBLCAN.....	12%	5%	1%	4%	3%
NONPART.....	11%	2%	2%	4%	1%
NOTREGIS.....	8%	4%	0%	4%	6%
SEX					
MALE.....	15%	2%	2%	5%	1%
FEMALE.....	7%	5%	2%	3%	4%
AGE					
18-24YRS OF AGE.	7%	4%	0%	2%	2%
25-40.....	11%	4%	2%	3%	2%
41-55.....	13%	4%	3%	4%	1%
56+ YRS.....	7%	1%	1%	5%	7%
INCOME					
N-R.....	6%	3%	3%	3%	6%
TO$20000 INCOME.	7%	4%	3%	3%	4%
$20,000-$40,000.	9%	4%	0%	4%	3%
$40,000-$60,000.	12%	4%	1%	4%	1%
$60,000+.....	17%	1%	3%	3%	1%
WORKFOR					
FEDERAL.....	13%	3%	1%	3%	0%
STATE.....	8%	5%	0%	5%	2%
LOCAL.....	13%	10%	6%	0%	0%
PRIVATE.....	13%	2%	2%	4%	2%
NOTWORK.....	7%	3%	1%	4%	5%
TIMEINAK					
UNDER1YR IN AK..	0%	0%	0%	0%	0%
1-4 YRS.....	5%	4%	0%	1%	2%
5-9 YRS.....	12%	6%	2%	5%	1%
10-14YRS.....	13%	4%	1%	2%	3%
15+ YRS.....	11%	2%	2%	4%	3%

HAVE YOU OR FAMILY MEMBERS TAKEN WAGE CUTS, REDUCED HOURS, OR BEEN LAID OFF?

DEMOGRAPHICS	WAGECUT		
	UNSURE	YES	NO
TOTAL.....	0%	54%	45%
LOCATION			
CENTRAL.....	0%	56%	44%
MATVALLEY.....	0%	57%	42%
ANCHORAGE.....	0%	51%	49%
KENAIPEN.....	1%	55%	44%
REGISTER			
DEMOCRAT.....	0%	51%	49%
REPBLCAN.....	0%	56%	44%
NONPART.....	0%	55%	45%
NOTREGIS.....	0%	55%	45%
SEX			
MALE.....	0%	56%	44%
FEMALE.....	0%	53%	47%
AGE			
18-24YRS OF AGE.	0%	57%	43%
25-40.....	0%	58%	42%
41-55.....	0%	60%	40%
56+ YRS.....	0%	33%	67%
INCOME			
N-R.....	0%	42%	58%
TO$20000 INCOME.	0%	56%	44%
$20,000-$40,000.	1%	57%	43%
$40,000-$60,000.	0%	55%	45%
$60,000+.....	0%	52%	48%
WORKFOR			
FEDERAL.....	0%	36%	64%
STATE.....	0%	47%	53%
LOCAL.....	0%	67%	33%
PRIVATE.....	0%	58%	42%
NOTWORK.....	0%	53%	47%
TIMEINAK			
UNDER1YR IN AK..	0%	33%	67%
1-4 YRS.....	0%	53%	47%
5-9 YRS.....	1%	56%	43%
10-14YRS.....	1%	58%	41%
15+ YRS.....	0%	53%	47%

HOW WOULD YOU DESCRIBE YOUR PERSONAL ECONOMIC SITUATION AT THE PRESENT TIME...

DEMOGRAPHICS	PECONMIC					
	UNSURE	VERYGOOD	PRTYGOOD	SOSO	PRTYBAD	VERYBAD
TOTAL.....	0%	10%	36%	37%	11%	6%
LOCATION						
CENTRAL.....	0%	10%	32%	41%	12%	5%
MATVALLEY.....	0%	10%	40%	31%	13%	6%
ANCHORAGE.....	0%	10%	38%	37%	9%	6%
KENAIPEN.....	0%	7%	32%	40%	13%	8%
REGISTER						
DEMOCRAT.....	0%	10%	33%	40%	10%	7%
REPBLCAN.....	0%	10%	39%	36%	10%	5%
NONPART.....	0%	10%	35%	37%	13%	5%
NOTREGIS.....	0%	5%	34%	40%	11%	11%
SEX						
MALE.....	0%	9%	36%	38%	10%	7%
FEMALE.....	0%	10%	36%	37%	13%	5%
AGE						
18-24YRS OF AGE.	0%	2%	34%	47%	10%	7%
25-40.....	0%	11%	37%	36%	11%	5%
41-55.....	0%	8%	34%	38%	12%	8%
56+ YRS.....	1%	11%	35%	38%	9%	6%
INCOME						
N-R.....	2%	2%	47%	40%	9%	0%
TO$20000 INCOME.	0%	1%	18%	41%	23%	18%
$20,000-$40,000.	0%	6%	30%	44%	12%	7%
$40,000-$60,000.	0%	8%	45%	36%	9%	2%
$60,000+.....	0%	24%	45%	26%	3%	1%
WORKFOR						
FEDERAL.....	0%	11%	49%	35%	4%	2%
STATE.....	0%	10%	54%	24%	11%	1%
LOCAL.....	0%	18%	37%	33%	9%	2%
PRIVATE.....	0%	9%	34%	42%	10%	5%
NOTWORK.....	0%	7%	29%	36%	17%	11%
TIMEINAK						
UNDER1YR IN AK..	0%	33%	33%	0%	0%	33%
1-4 YRS.....	0%	10%	38%	38%	10%	3%
5-9 YRS.....	0%	9%	37%	38%	10%	7%
10-14YRS.....	0%	11%	36%	36%	10%	7%
15+ YRS.....	0%	9%	35%	38%	12%	6%

ARE YOU MAKING PAYMENTS ON A HOME IN ALASKA?

DEMOGRAPHICS	PAYHOME		
	UNSURE	YES	NO
TOTAL.....	0%	60%	40%
LOCATION			
CENTRAL.....	0%	54%	46%
MATVALLEY.....	0%	62%	38%
ANCHORAGE.....	0%	67%	33%
KENAIPEN.....	0%	51%	49%
REGISTER			
DEMOCRAT.....	0%	52%	48%
REPBLCAN.....	0%	66%	34%
NONPART.....	0%	63%	37%
NOTREGIS.....	0%	42%	58%
SEX			
MALE.....	0%	59%	41%
FEMALE.....	0%	60%	40%
AGE			
18-24YRS OF AGE.	0%	19%	81%
25-40.....	0%	64%	36%
41-55.....	0%	72%	28%
56+ YRS.....	1%	38%	62%
INCOME			
N-R.....	2%	*	35%
TO$20000 INCOME.	0%	27%	73%
$20,000-$40,000.	0%	52%	48%
$40,000-$60,000.	0%	74%	26%
$60,000+.....	0%	80%	20%
WORKFOR			
FEDERAL.....	0%	67%	33%
STATE.....	0%	60%	40%
LOCAL.....	0%	74%	26%
PRIVATE.....	0%	63%	37%
NOTWORK.....	0%	48%	51%
TIMEINAK			
UNDER1YR IN AK..	0%	0%	100%
1-4 YRS.....	0%	43%	57%
5-9 YRS.....	0%	64%	36%
10-14YRS.....	0%	70%	30%
15+ YRS.....	0%	59%	41%

ARE YOU MAKING PAYMENTS ON REAL ESTATE INVESTMENTS OTHER THAN YOUR HOME?

DEMOGRAPHICS	REALLAND		
	UNSURE	YES	NO
TOTAL.....	0%	25%	75%
LOCATION			
CENTRAL.....	0%	25%	75%
MATVALLEY.....	0%	26%	74%
ANCHORAGE.....	0%	22%	78%
KENAIPEN.....	0%	34%	66%
REGISTER			
DEMOCRAT.....	0%	22%	78%
REPBLCAN.....	0%	26%	74%
NONPART.....	0%	29%	71%
NOTREGIS.....	0%	9%	91%
SEX			
MALE.....	0%	27%	73%
FEMALE.....	0%	24%	76%
AGE			
18-24YRS OF AGE.	0%	19%	81%
25-40.....	0%	24%	76%
41-55.....	0%	33%	67%
56+ YRS.....	1%	16%	83%
INCOME			
N-R.....	2%	16%	81%
TO$20000 INCOME.	0%	18%	83%
$20,000-$40,000.	0%	20%	80%
$40,000-$60,000.	0%	29%	71%
$60,000+.....	0%	37%	63%
WORKFOR			
FEDERAL.....	0%	20%	80%
STATE.....	0%	24%	76%
LOCAL.....	0%	33%	67%
PRIVATE.....	0%	30%	70%
NOTWORK.....	0%	18%	82%
TIMEINAK			
UNDER1YR IN AK..	0%	0%	100%
1-4 YRS.....	0%	7%	93%
5-9 YRS.....	0%	17%	83%
10-14YRS.....	0%	31%	69%
15+ YRS.....	0%	30%	70%

SERIOUSLY CONSIDERED LEAVING ALASKA AND MOVING BECAUSE OF THE ECONOMY HERE?

DEMOGRAPHICS	LEAVEAK			
	UNSURE	YES	NO	&
TOTAL.....	0%	24%	76%	0%
LOCATION				
CENTRAL.....	0%	27%	73%	0%
MATVALLEY.....	0%	24%	76%	0%
ANCHORAGE.....	0%	23%	77%	0%
KENAIPEN.....	0%	17%	83%	0%
REGISTER				
DEMOCRAT.....	0%	26%	74%	0%
REPBLCAN.....	0%	23%	77%	0%
NONPART.....	0%	21%	78%	0%
NOTREGIS.....	0%	38%	62%	0%
SEX				
MALE.....	0%	24%	76%	0%
FEMALE.....	0%	23%	77%	0%
AGE				
18-24YRS OF AGE.	0%	33%	67%	0%
25-40.....	0%	27%	73%	0%
41-55.....	0%	23%	77%	0%
56+ YRS.....	1%	11%	88%	0%
INCOME				
N-R.....	2%	16%	81%	0%
TO$20000 INCOME.	0%	35%	65%	0%
$20,000-$40,000.	0%	25%	75%	0%
$40,000-$60,000.	0%	24%	76%	0%
$60,000+.....	0%	15%	85%	0%
WORKFOR				
FEDERAL.....	0%	21%	79%	0%
STATE.....	0%	24%	76%	0%
LOCAL.....	0%	11%	89%	0%
PRIVATE.....	0%	25%	74%	0%
NOTWORK.....	0%	25%	75%	0%
TIMEINAK				
UNDER1YR IN AK..	0%	67%	33%	0%
1-4 YRS.....	0%	23%	77%	0%
5-9 YRS.....	0%	31%	69%	0%
10-14YRS.....	0%	24%	76%	0%
15+ YRS.....	0%	21%	79%	0%

HOW LIKELY IS IT THAT YOU WILL MOVE TO ANOTHER STATE WITHIN TWO YEARS?

DEMOGRAPHICS	MOVE2YRS				
	UNSURE	VRYLIKLY	QTELIKELY	NOTLIKLY	NOTATALL
TOTAL.....	1%	8%	10%	20%	60%
LOCATION					
CENTRAL.....	2%	10%	11%	24%	53%
MATVALLEY.....	1%	6%	9%	19%	65%
ANCHORAGE.....	1%	9%	12%	18%	59%
KENAIPEN.....	0%	7%	8%	10%	75%
REGISTER					
DEMOCRAT.....	1%	13%	11%	17%	57%
REPBLCAN.....	1%	7%	10%	21%	61%
NONPART.....	2%	7%	10%	19%	63%
NOTREGIS.....	3%	9%	14%	28%	46%
SEX					
MALE.....	2%	8%	12%	19%	58%
FEMALE.....	1%	8%	9%	20%	62%
AGE					
18-24YRS OF AGE.	2%	16%	16%	19%	48%
25-40.....	1%	9%	12%	19%	58%
41-55.....	2%	7%	10%	24%	58%
56+ YRS.....	2%	5%	6%	13%	74%
INCOME					
N-R.....	2%	9%	7%	19%	63%
TO$20000 INCOME.	4%	13%	13%	18%	53%
$20,000-$40,000.	1%	7%	10%	22%	60%
$40,000-$60,000.	0%	8%	11%	23%	58%
$60,000+.....	2%	7%	9%	14%	68%
WORKFOR					
FEDERAL.....	1%	8%	12%	12%	67%
STATE.....	1%	5%	12%	25%	56%
LOCAL.....	5%	5%	9%	16%	66%
PRIVATE.....	1%	9%	11%	21%	59%
NOTWORK.....	1%	10%	10%	19%	60%
TIMEINAK					
UNDER1YR IN AK..	0%	33%	0%	0%	67%
1-4 YRS.....	2%	16%	11%	23%	48%
5-9 YRS.....	1%	12%	12%	21%	53%
10-14YRS.....	2%	6%	13%	23%	56%
15+ YRS.....	2%	6%	9%	17%	66%

OWN OR MANAGE A BUSINESS WHERE YOU ARE RESPONSIBLE FOR STAFF/SALARY DECISIONS?

DEMOGRAPHICS	OWNBUSI	
	YES	NO
TOTAL.....	16%	84%
LOCATION		
CENTRAL.....	17%	83%
MATVALLEY.....	19%	81%
ANCHORAGE.....	14%	86%
KENAIPEN.....	17%	83%
REGISTER		
DEMOCRAT.....	10%	90%
REPBLCAN.....	20%	80%
NONPART.....	19%	81%
NOTREGIS.....	8%	92%
SEX		
MALE.....	20%	80%
FEMALE.....	13%	87%
AGE		
18-24YRS OF AGE.	7%	93%
25-40.....	18%	83%
41-55.....	18%	82%
56+ YRS.....	13%	87%
INCOME		
N-R.....	9%	91%
TO$20000 INCOME.	5%	95%
$20,000-$40,000.	13%	87%
$40,000-$60,000.	17%	83%
$60,000+.....	31%	69%
WORKFOR		
FEDERAL.....	6%	94%
STATE.....	12%	88%
LOCAL.....	3%	97%
PRIVATE.....	30%	70%
NOTWORK.....	3%	97%
TIMEINAK		
UNDER1YR IN AK..	33%	67%
1-4 YRS.....	10%	90%
5-9 YRS.....	13%	87%
10-14YRS.....	16%	84%
15+ YRS.....	19%	81%

WHO IS MAINLY RESPONSIBLE FOR ALASKA'S CURRENT ECONOMIC SITUATION?

DEMOGRAPHICS	WHOFAULT							
	UNSURE	OILPRICE	POLITICN	NOONE	EVERYONE	WORLDECN	MISC	90
TOTAL.....	11%	30%	33%	6%	13%	3%	5%	0%
LOCATION								
CENTRAL.....	9%	26%	40%	3%	14%	2%	6%	0%
MATVALLEY.....	12%	31%	32%	8%	11%	2%	4%	0%
ANCHORAGE.....	12%	35%	27%	6%	12%	3%	7%	0%
KENAIPEN.....	14%	27%	32%	7%	15%	3%	2%	0%
REGISTER								
DEMOCRAT.....	12%	31%	31%	5%	14%	3%	5%	0%
REPBLCAN.....	10%	35%	31%	5%	13%	2%	5%	0%
NONPART.....	10%	28%	34%	7%	12%	3%	6%	0%
NOTREGIS.....	23%	26%	35%	3%	11%	2%	0%	0%
SEX								
MALE.....	7%	34%	35%	5%	11%	2%	5%	0%
FEMALE.....	15%	26%	30%	6%	14%	3%	5%	0%
AGE								
18-24YRS OF AGE.	19%	28%	29%	5%	14%	2%	3%	0%
25-40.....	12%	28%	36%	5%	12%	3%	5%	0%
41-55.....	9%	35%	30%	6%	12%	1%	7%	1%
56+ YRS.....	8%	28%	31%	7%	16%	6%	4%	0%
INCOME								
N-R.....	9%	35%	40%	2%	9%	2%	2%	0%
TO$20000 INCOME.	18%	23%	34%	5%	11%	4%	6%	0%
$20,000-$40,000.	10%	28%	34%	8%	12%	3%	3%	0%
$40,000-$60,000.	8%	32%	34%	4%	13%	2%	6%	0%
$60,000+.....	10%	35%	28%	5%	15%	2%	6%	0%
WORKFOR								
FEDERAL.....	8%	25%	37%	5%	13%	6%	6%	0%
STATE.....	4%	33%	35%	7%	13%	3%	4%	0%
LOCAL.....	11%	36%	32%	2%	14%	2%	2%	0%
PRIVATE.....	11%	33%	31%	6%	12%	1%	6%	0%
NOTWORK.....	14%	24%	36%	7%	14%	3%	5%	0%
TIMEINAK								
UNDER1YR IN AK..	0%	33%	33%	0%	33%	0%	0%	0%
1-4 YRS.....	16%	38%	26%	3%	12%	2%	3%	0%
5-9 YRS.....	11%	32%	31%	6%	11%	3%	6%	0%
10-14YRS.....	12%	30%	29%	6%	14%	2%	7%	1%
15+ YRS.....	10%	28%	36%	6%	13%	3%	5%	0%

WHAT DID THEY DO TO HELP CAUSE ALASKA'S CURRENT ECONOMIC SITUATION?

DEMOGRAPHICS	WHATDO							
	UNSURE	OILDOWN	DEPNDOIL	LOCLHIRE	OUTCNTL	DEVREGS	SPENDING TOOMUCH	BOOMBUST
TOTAL.....	5%	23%	10%	4%	2%	4%	8%	17%
LOCATION								
CENTRAL.....	4%	19%	7%	6%	3%	6%	6%	17%
MATVALLEY.....	5%	25%	15%	2%	1%	4%	8%	12%
ANCHORAGE.....	5%	27%	11%	4%	1%	2%	10%	17%
KENAIPEN.....	7%	19%	8%	3%	4%	2%	10%	24%
REGISTER								
DEMOCRAT..	5%	23%	12%	5%	3%	2%	5%	11%
REPS! AN.....	5%	25%	11%	4%	2%	5%	9%	17%
NONPART.....	4%	22%	8%	3%	2%	4%	9%	20%
NOTREGIS.....	8%	20%	6%	6%	0%	2%	12%	10%
SEX								
MALE.....	3%	25%	10%	3%	2%	4%	7%	16%
FEMALE.....	6%	21%	10%	4%	2%	3%	9%	18%
AGE								
18-24YRS OF AGE.	11%	32%	6%	6%	2%	4%	2%	9%
25-40.....	4%	19%	11%	4%	2%	3%	8%	16%
41-55.....	4%	29%	9%	3%	1%	3%	10%	19%
56+ YRS.....	5%	21%	8%	2%	3%	7%	8%	21%
INCOME								
N-R.....	5%	26%	13%	3%	3%	5%	3%	13%
TO$20000 INCOME.	8%	23%	6%	4%	5%	6%	7%	12%
$20,000-$40,000.	7%	19%	13%	5%	2%	2%	8%	15%
$40,000-$60,000.	3%	25%	6%	3%	0%	4%	9%	20%
$60,000+.....	3%	28%	11%	2%	2%	4%	9%	20%
WORKFOR								
FEDERAL.....	8%	21%	22%	4%	3%	5%	4%	13%
STATE.....	5%	30%	8%	2%	0%	2%	7%	10%
LOCAL.....	3%	24%	8%	1%	1%	1%	9%	13%
PRIVATE.....	5%	23%	8%	5%	2%	3%	8%	20%
NOTWORK.....	4%	21%	11%	3%	2%	4%	9%	18%
TIMEINAK								
UNDER1YR IN AK..	0%	0%	33%	0%	0%	0%	33%	33%
1-4 YRS.....	5%	29%	18%	3%	1%	2%	9%	13%
5-9 YRS.....	2%	26%	10%	5%	1%	3%	7%	14%
10-14YRS.....	5%	26%	9%	4%	1%	4%	8%	15%
15+ YRS.....	5%	20%	8%	4%	3%	4%	8%	19%

(contir

WHAT DID THEY DO TO HELP CAUSE ALASKA'S CURRENT ECONOMIC SITUATION?

DEMOGRAPHICS	WHATDO				
	SPENTMNY WRNGTHNG	NOLRPLAN	INEPT	NATRWRLD	MISC
TOTAL.....	5%	11%	5%	5%	2%
LOCATION					
CENTRAL.....	5%	13%	7%	5%	3%
MATVALLEY.....	5%	9%	7%	9%	1%
ANCHORAGE.....	4%	11%	3%	3%	2%
KENAIPEN.....	7%	8%	4%	2%	1%
REGISTER					
DEMOCRAT.....	3%	15%	6%	6%	3%
REPBLCAN.....	5%	7%	4%	4%	2%
NONPART.....	6%	11%	5%	6%	1%
NOTREGIS.....	4%	6%	16%	4%	6%
SEX					
MALE.....	6%	10%	6%	6%	2%
FEMALE.....	4%	12%	5%	5%	1%
AGE					
18-24YRS OF AGE.	2%	6%	9%	9%	2%
25-40.....	4%	14%	7%	5%	2%
41-55.....	6%	9%	3%	5%	1%
56+ YRS.....	5%	8%	5%	4%	3%
INCOME					
N-R.....	10%	10%	8%	0%	3%
TO$20000 INCOME.	4%	8%	10%	8%	2%
$20,000-$40,000.	5%	9%	6%	5%	3%
$40,000-$60,000.	5%	15%	4%	5%	1%
$60,000+.....	4%	10%	2%	4%	2%
WORKFOR					
FEDERAL.....	3%	9%	6%	3%	1%
STATE.....	6%	16%	5%	8%	1%
LOCAL.....	4%	21%	4%	9%	3%
PRIVATE.....	5%	9%	5%	4%	2%
NOTWORK.....	6%	9%	7%	5%	1%
TIMEINAK					
UNDER1YR IN AK..	0%	0%	0%	0%	0%
1-4 YRS.....	4%	3%	5%	3%	3%
5-9 YRS.....	3%	14%	6%	8%	3%
10-14YRS.....	4%	11%	8%	5%	1%
15+ YRS.....	6%	11%	5%	5%	2%

ANOTHER PF DIVIDEND CHECK EARLY THIS YEAR TO GET MORE MONEY IN THE ECONOMY?

DEMOGRAPHICS	PFCHECK2		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	6%	53%	42%
LOCATION			
CENTRAL.....	4%	53%	43%
MATVALLEY.....	3%	50%	47%
ANCHORAGE.....	8%	55%	37%
KENAIPEN.....	6%	54%	40%
REGISTER			
DEMOCRAT.....	6%	55%	40%
REPBLCAN.....	5%	51%	44%
NONPART.....	5%	52%	43%
NOTREGIS.....	11%	60%	29%
SEX			
MALE.....	4%	50%	46%
FEMALE.....	7%	56%	38%
AGE			
18-24YRS OF AGE.	5%	64%	31%
25-40.....	6%	52%	42%
41-55.....	6%	50%	44%
56+ YRS.....	5%	56%	39%
INCOME			
N-R.....	16%	47%	37%
TO$20000 INCOME.	3%	68%	29%
$20,000-$40,000.	5%	61%	34%
$40,000-$60,000.	5%	46%	49%
$60,000+.....	6%	38%	56%
WORKFOR			
FEDERAL.....	6%	50%	44%
STATE.....	8%	41%	52%
LOCAL.....	5%	41%	54%
PRIVATE.....	6%	52%	42%
NOTWORK.....	5%	62%	34%
TIMEINAK			
UNDER1YR IN AK..	0%	67%	33%
1-4 YRS.....	8%	58%	34%
5-9 YRS.....	4%	53%	43%
10-14YRS.....	7%	47%	46%
15+ YRS.....	5%	53%	41%

REDUCING THE INTEREST RATE ON ALL AHFC HOME MORTGAGES BY 2% FOR TWO YEARS?

DEMOGRAPHICS	AHFCRATE		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	5%	78%	17%
LOCATION			
CENTRAL.....	4%	80%	16%
MATVALLEY.....	5%	81%	14%
ANCHORAGE.....	6%	74%	20%
KENAIPEN.....	5%	82%	13%
REGISTER			
DEMOCRAT.....	9%	77%	14%
REPBLCAN.....	4%	78%	18%
NONPART.....	4%	78%	18%
NOTREGIS.....	5%	83%	12%
SEX			
MALE.....	6%	73%	22%
FEMALE.....	4%	84%	12%
AGE			
18-24YRS OF AGE.	5%	79%	16%
25-40.....	4%	81%	15%
41-55.....	5%	77%	18%
56+ YRS.....	10%	70%	19%
INCOME			
N-R.....	16%	58%	26%
TO$20000 INCOME.	4%	81%	14%
$20,000-$40,000.	5%	79%	15%
$40,000-$60,000.	4%	81%	15%
$60,000+.....	4%	76%	20%
WORKFOR			
FEDERAL.....	5%	80%	15%
STATE.....	5%	74%	21%
LOCAL.....	3%	79%	17%
PRIVATE.....	3%	79%	18%
NOTWORK.....	8%	78%	14%
TIMEINAK			
UNDER1YR IN AK..	33%	67%	0%
1-4 YRS.....	4%	91%	6%
5-9 YRS.....	3%	85%	12%
10-14YRS.....	3%	74%	22%
15+ YRS.....	6%	75%	19%

REDUCING THE INTEREST RATE ON ALL AIDA COMMERCIAL LOANS BY 2% FOR TWO YEARS?

DEMOGRAPHICS	AIDARATE		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	8%	65%	27%
LOCATION			
CENTRAL.....	7%	64%	29%
MATVALLEY.....	7%	69%	24%
ANCHORAGE.....	8%	60%	32%
KENAIPEN.....	11%	71%	17%
REGISTER			
DEMOCRAT.....	9%	63%	28%
REPBLCAN.....	7%	68%	26%
NONPART.....	7%	65%	28%
NOTREGIS.....	12%	58%	29%
SEX			
MALE.....	7%	60%	33%
FEMALE.....	9%	69%	22%
AGE			
18-24YRS OF AGE.	5%	60%	34%
25-40.....	5%	67%	28%
41-55.....	10%	65%	26%
56+ YRS.....	13%	60%	27%
INCOME			
N-R.....	21%	49%	30%
TO$20000 INCOME.	6%	64%	29%
$20,000-$40,000.	7%	67%	25%
$40,000-$60,000.	8%	68%	25%
$60,000+.....	8%	60%	32%
WORKFOR			
FEDERAL.....	13%	57%	30%
STATE.....	12%	58%	30%
LOCAL.....	1%	68%	31%
PRIVATE.....	6%	67%	26%
NOTWORK.....	10%	64%	27%
TIMEINAK			
UNDER1YR IN AK..	33%	33%	33%
1-4 YRS.....	8%	69%	22%
5-9 YRS.....	4%	71%	24%
10-14YRS.....	6%	60%	34%
15+ YRS.....	9%	63%	27%

SPENDING UP TO $100M ON SOUTHCENTRAL PORTS TO SERVE AS HOME FOR NAVY SHIPS?

DEMOGRAPHICS	PORTS		
	UNSURE	SUPPORT	OPPOSE
TOTAL	13%	57%	29%
LOCATION			
CENTRAL	12%	56%	32%
MATVALLEY	12%	68%	21%
ANCHORAGE	14%	62%	25%
KENAIPEN	19%	30%	50%
REGISTER			
DEMOCRAT	13%	57%	30%
REPBLCAN	11%	57%	32%
NONPART	14%	58%	28%
NOTREGIS	18%	55%	26%
SEX			
MALE	8%	62%	30%
FEMALE	18%	53%	28%
AGE			
18-24YRS OF AGE.	7%	78%	16%
25-40	13%	58%	29%
41-55	13%	56%	31%
56+ YRS	18%	50%	32%
INCOME			
N-R	35%	37%	28%
TO$20000 INCOME.	15%	57%	28%
$20,000-$40,000.	11%	59%	30%
$40,000-$60,000.	13%	59%	28%
$60,000+	12%	57%	31%
WORKFOR			
FEDERAL	10%	56%	35%
STATE	13%	51%	36%
LOCAL	9%	66%	25%
PRIVATE	12%	61%	27%
NOTWORK	18%	52%	30%
TIMEINAK			
UNDER1YR IN AK..	0%	33%	67%
1-4 YRS	14%	59%	27%
5-9 YRS	13%	61%	26%
10-14YRS	11%	57%	32%
15+ YRS	14%	56%	29%

STATE TEAR DOWN SUB-STANDARD PUBLIC HOUSING REPLACING WITH REPOSSESSED CONDOS.

DEMOGRAPHICS	REPOCNDO		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	11%	53%	36%
LOCATION			
CENTRAL.....	10%	51%	39%
MATVALLEY.....	7%	58%	35%
ANCHORAGE.....	12%	57%	32%
KENAIPEN.....	20%	37%	43%
REGISTER			
DEMOCRAT.....	11%	52%	37%
REPBLCAN.....	11%	55%	34%
NONPART.....	11%	53%	36%
NOTREGIS.....	9%	49%	42%
SEX			
MALE.....	11%	49%	40%
FEMALE.....	11%	56%	33%
AGE			
18-24YRS OF AGE.	2%	48%	50%
25-40.....	10%	54%	7%
41-55.....	12%	54%	34%
56+ YRS.....	14%	48%	38%
INCOME			
N-R.....	16%	44%	40%
TO$20000 INCOME.	9%	55%	36%
$20,000-$40,000.	11%	49%	40%
$40,000-$60,000.	10%	57%	34%
$60,000+.....	12%	55%	33%
WORKFOR			
FEDERAL.....	10%	61%	30%
STATE.....	12%	55%	33%
LOCAL.....	8%	57%	34%
PRIVATE.....	12%	48%	40%
NOTWORK.....	11%	55%	34%
TIMEINAK			
UNDER1YR IN AK..	0%	67%	33%
1-4 YRS.....	7%	56%	36%
5-9 YRS.....	13%	53%	34%
10-14YRS.....	12%	51%	37%
15+ YRS.....	11%	52%	37%

STATE PROVIDING MONEY TO UAA FOR PURCHASE OF CONDOS FOR STUDENT HOUSING?

DEMOGRAPHICS	UAACONDO		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	7%	44%	49%
LOCATION			
CENTRAL.....	3%	36%	63%
MATVALLEY.....	5%	56%	39%
ANCHORAGE.....	8%	51%	41%
KENAIPEN.....	17%	33%	50%
REGISTER			
DEMOCRAT.....	8%	44%	47%
REPBLCAN.....	6%	44%	50%
NONPART.....	6%	45%	49%
NOTREGIS.....	9%	45%	46%
SEX			
MALE.....	6%	44%	50%
FEMALE.....	8%	45%	48%
AGE			
18-24YRS OF AGE..	3%	43%	53%
25-40.....	7%	44%	49%
41-55.....	4%	50%	46%
56+ YRS.....	11%	36%	52%
INCOME			
N-R.....	5%	28%	67%
TO$20000 INCOME..	9%	43%	48%
$20,000-$40,000..	8%	44%	48%
$40,000-$60,000..	4%	48%	48%
$60,000+.....	8%	45%	47%
WORKFOR			
FEDERAL.....	4%	55%	42%
STATE.....	4%	40%	56%
LOCAL.....	2%	59%	39%
PRIVATE.....	7%	45%	48%
NOTWORK.....	10%	38%	52%
TIMEINAK			
UNDER1YR IN AK..	0%	0%	100%
1-4 YRS.....	13%	37%	50%
5-9 YRS.....	6%	48%	46%
10-14YRS.....	6%	45%	49%
15+ YRS.....	6%	44%	49%

REDUCE EXCESS COMMERCIAL SPACE BY TEARING DOWN STRIP MALLS & PAYING OFF LOANS?

DEMOGRAPHICS	STRPMALL		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	11%	34%	55%
LOCATION			
CENTRAL.....	10%	29%	61%
MATVALLEY.....	11%	36%	53%
ANCHORAGE.....	11%	34%	55%
KENAIPEN.....	16%	43%	41%
REGISTER			
DEMOCRAT.....	11%	40%	50%
REPBLCAN.....	9%	33%	58%
NONPART.....	12%	30%	58%
NOTREGIS.....	17%	45%	38%
SEX			
MALE.....	8%	30%	62%
FEMALE.....	15%	38%	48%
AGE			
18-24YRS OF AGE.	7%	45%	48%
25-40.....	9%	37%	55%
41-55.....	13%	29%	57%
56+ YRS.....	18%	29%	53%
INCOME			
N-R.....	16%	28%	56%
TO$20000 INCOME.	11%	41%	48%
$20,000-$40,000.	11%	34%	55%
$40,000-$60,000.	13%	33%	53%
$60,000+.....	9%	29%	61%
WORKFOR			
FEDERAL.....	12%	32%	56%
STATE.....	11%	21%	68%
LOCAL.....	10%	32%	57%
PRIVATE.....	10%	35%	55%
NOTWORK.....	14%	37%	49%
TIMEINAK			
UNDER1YR IN AK..	33%	33%	33%
1-4 YRS.....	9%	42%	49%
5-9 YRS.....	9%	43%	48%
10-14YRS.....	11%	31%	59%
15+ YRS.....	13%	30%	57%

SPEND $150M FOR JOBS FOR DEFERRED MAINTENANCE TO ROADS, SCHOOLS, PUBLIC BLDGS?

DEMOGRAPHICS	JOBS150M		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	8%	69%	22%
LOCATION			
CENTRAL.....	7%	67%	27%
MATVALLEY.....	6%	69%	25%
ANCHORAGE.....	12%	69%	18%
KENAIPEN.....	6%	78%	16%
REGISTER			
DEMOCRAT.....	7%	75%	18%
REPBLCAN.....	9%	66%	25%
NONPART.....	9%	67%	24%
NOTREGIS.....	3%	82%	15%
SEX			
MALE.....	7%	67%	26%
FEMALE.....	9%	71%	19%
AGE			
18-24YRS OF AGE.	0%	84%	16%
25-40.....	7%	73%	20%
41-55.....	9%	65%	27%
56+ YRS.....	14%	60%	25%
INCOME			
N-R.....	16%	58%	26%
TO$20000 INCOME.	10%	73%	18%
$20,000-$40,000.	5%	73%	21%
$40,000-$60,000.	8%	70%	22%
$60,000+.....	10%	63%	27%
WORKFOR			
FEDERAL.....	10%	73%	18%
STATE.....	7%	66%	27%
LOCAL.....	7%	75%	18%
PRIVATE.....	8%	69%	22%
NOTWORK.....	9%	68%	23%
TIMEINAK			
UNDER1YR IN AK..	33%	67%	0%
1-4 YRS.....	3%	79%	18%
5-9 YRS.....	8%	67%	25%
10-14YRS.....	7%	73%	19%
15+ YRS.....	10%	67%	24%

NOT ALLOWING ANY NEW/INCREASED TAXES OR UTILITY CHARGES FOR NEXT TWO YEARS?

DEMOGRAPHICS	TAXFREZE		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	3%	75%	22%
LOCATION			
CENTRAL.....	3%	67%	30%
MATVALLEY.....	3%	80%	18%
ANCHORAGE.....	4%	74%	22%
KENAIPEN.....	2%	90%	9%
REGISTER			
DEMOCRAT.....	3%	79%	18%
REPBLCAN.....	2%	70%	28%
NONPART.....	4%	74%	23%
NOTREGIS.....	5%	83%	12%
SEX			
MALE.....	3%	70%	27%
FEMALE.....	3%	79%	18%
AGE			
18-24YRS OF AGE.	3%	74%	22%
25-40.....	4%	75%	21%
41-55.....	3%	74%	23%
56+ YRS.....	2%	73%	25%
INCOME			
N-R.....	5%	81%	14%
TO$20000 INCOME.	4%	81%	15%
$20,000-$40,000.	3%	76%	20%
$40,000-$60,000.	2%	74%	25%
$60,000+.....	4%	66%	30%
WORKFOR			
FEDERAL.....	1%	73%	26%
STATE.....	1%	70%	29%
LOCAL.....	6%	70%	24%
PRIVATE.....	3%	77%	21%
NOTWORK.....	4%	74%	22%
TIMEINAK			
UNDER1YR IN AK..	0%	100%	0%
1-4 YRS.....	6%	79%	16%
5-9 YRS.....	4%	74%	22%
10-14YRS.....	2%	72%	26%
15+ YRS.....	2%	75%	23%

STATE NOT ALLOWING REAL ESTATE AUCTIONS OF FORECLOSED PROPERTIES FOR 2 YEARS?

DEMOGRAPHICS	NOAUCTN		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	7%	45%	47%
LOCATION			
CENTRAL.....	7%	41%	52%
MATVALLEY.....	6%	47%	47%
ANCHORAGE.....	8%	45%	48%
KENAIPEN.....	10%	57%	34%
REGISTER			
DEMOCRAT.....	12%	45%	43%
REPBLCAN.....	5%	44%	51%
NONPART.....	6%	45%	49%
NOTREGIS.....	8%	55%	37%
SEX			
MALE.....	5%	43%	52%
FEMALE.....	9%	48%	43%
AGE			
18-24YRS OF AGE.	3%	43%	53%
25-40.....	6%	45%	48%
41-55.....	8%	47%	45%
56+ YRS.....	11%	42%	47%
INCOME			
N-R.....	12%	47%	42%
TO$20000 INCOME.	11%	43%	46%
$20,000-$40,000.	6%	47%	48%
$40,000-$60,000.	8%	47%	45%
$60,000+.....	6%	42%	52%
WORKFOR			
FEDERAL.....	11%	40%	49%
STATE.....	11%	32%	57%
LOCAL.....	6%	47%	47%
PRIVATE.....	6%	47%	48%
NOTWORK.....	8%	48%	44%
TIMEINAK			
UNDER1YR IN AK..	33%	33%	33%
1-4 YRS.....	8%	41%	50%
5-9 YRS.....	6%	45%	49%
10-14YRS.....	8%	43%	49%
15+ YRS.....	7%	47%	46%

CONSTITUTIONAL AMMENDMENT TO USE PF PRINCIPAL FOR PROGRAMS TO HELP ECONOMY?

DEMOGRAPHICS	USEPRCPL		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	3%	43%	56%
LOCATION			
CENTRAL.....	3%	45%	52%
MATVALLEY.....	2%	41%	57%
ANCHORAGE.....	5%	45%	51%
KENAIPEN.....	3%	32%	64%
REGISTER			
DEMOCRAT.....	3%	47%	50%
REPBLCAN.....	2%	38%	60%
NONPART.....	3%	41%	55%
NOTREGIS.....	6%	58%	35%
SEX			
MALE.....	2%	39%	59%
FEMALE.....	4%	47%	49%
AGE			
18-24YRS OF AGE.	2%	66%	33%
25-40.....	3%	47%	50%
41-55.....	3%	43%	56%
56+ YRS.....	4%	20%	75%
INCOME			
N-R.....	9%	30%	60%
TO$20000 INCOME.	2%	43%	55%
$20,000-$40,000.	2%	43%	55%
$40,000-$60,000.	5%	45%	51%
$60,000+.....	3%	41%	56%
WORKFOR			
FEDERAL.....	1%	44%	55%
STATE.....	3%	43%	54%
LOCAL.....	1%	40%	59%
PRIVATE.....	4%	44%	52%
NOTWORK.....	3%	40%	56%
TIMEINAK			
UNDER1YR IN AK..	0%	0%	100%
1-4 YRS.....	5%	56%	39%
5-9 YRS.....	3%	53%	44%
10-14YRS.....	3%	40%	57%
15+ YRS.....	3%	37%	60%

USE PF PRINCIPAL TO BUY EXCESS COMMERCIAL PROPERTY-HOLD UNTIL PRICES GO UP?

DEMOGRAPHICS	BUYEXESS		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	4%	22%	74%
LOCATION			
CENTRAL.....	2%	22%	76%
MATVALLEY.....	3%	17%	80%
ANCHORAGE.....	5%	24%	72%
KENAIPEN.....	3%	15%	82%
REGISTER			
DEMOCRAT.....	4%	21%	75%
REPBLCAN.....	3%	23%	74%
NONPART.....	3%	21%	75%
NOTREGIS.....	8%	23%	69%
SEX			
MALE.....	2%	23%	74%
FEMALE.....	5%	21%	74%
AGE			
18-24YRS OF AGE..	1%	27%	72%
25-40.....	4%	24%	72%
41-55.....	4%	21%	75%
56+ YRS.....	3%	16%	81%
INCOME			
N-R.....	6%	19%	75%
TO$20000 INCOME..	4%	21%	76%
$20,000-$40,000..	4%	22%	74%
$40,000-$60,000..	4%	23%	74%
$60,000+.....	3%	22%	75%
WORKFOR			
FEDERAL.....	5%	22%	73%
STATE.....	4%	17%	79%
LOCAL.....	3%	20%	77%
PRIVATE.....	3%	23%	74%
NOTWORK.....	4%	23%	73%
TIMEINAK			
UNDER1YR IN AK..	0%	0%	100%
1-4 YRS.....	7%	22%	71%
5-9 YRS.....	5%	26%	69%
10-14YRS.....	5%	16%	79%
15+ YRS.....	2%	23%	75%

AHFC SHIP IT'S EXCESS MOBILE HOMES TO THE LOWER 48 TO SELL DOWN THERE?

DEMOGRAPHICS	MOBLHOME		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	9%	59%	32%
LOCATION			
CENTRAL.....	5%	56%	38%
MATVALLEY.....	10%	59%	31%
ANCHORAGE.....	10%	58%	32%
KENAIPEN.....	14%	66%	20%
REGISTER			
DEMOCRAT.....	6%	63%	30%
REPBLCAN.....	8%	64%	28%
NONPART.....	10%	55%	35%
NOTREGIS.....	11%	49%	40%
SEX			
MALE.....	6%	58%	35%
FEMALE.....	11%	59%	29%
AGE			
18-24YRS OF AGE.	5%	62%	33%
25-40.....	8%	62%	30%
41-55.....	8%	58%	34%
56+ YRS.....	14%	50%	36%
INCOME			
N-R.....	14%	51%	35%
TO$20000 INCOME.	14%	46%	40%
$20,000-$40,000.	8%	62%	30%
$40,000-$60,000.	7%	60%	33%
$60,000+.....	9%	63%	28%
WORKFOR			
FEDERAL.....	4%	54%	43%
STATE.....	7%	57%	36%
LOCAL.....	8%	60%	32%
PRIVATE.....	9%	62%	29%
NOTWORK.....	11%	56%	33%
TIMEINAK			
UNDER1YR IN AK..	67%	33%	0%
1-4 YRS.....	10%	55%	35%
5-9 YRS.....	7%	61%	32%
10-14YRS.....	7%	61%	31%
15+ YRS.....	10%	58%	33%

STATE PAY OFF LOCAL GOVERNMENT BONDS TO LOWER LOCAL TAXES AND USER FEES?

DEMOGRAPHICS	PAYBONDS		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	12%	46%	43%
LOCATION			
CENTRAL.....	10%	41%	50%
MATVALLEY.....	12%	48%	41%
ANCHORAGE.....	15%	43%	42%
KENAIPEN.....	10%	62%	28%
REGISTER			
DEMOCRAT.....	13%	45%	42%
REPBLCAN.....	11%	47%	42%
NONPART.....	11%	44%	45%
NOTREGIS.....	20%	54%	26%
SEX			
MALE.....	9%	44%	47%
FEMALE.....	15%	47%	38%
AGE			
18-24YRS OF AGE.	14%	55%	31%
25-40.....	9%	50%	42%
41-55.....	12%	42%	46%
56+ YRS.....	22%	36%	42%
INCOME			
N-R.....	28%	37%	35%
TO$20000 INCOME.	15%	50%	35%
$20,000-$40,000.	10%	50%	40%
$40,000-$60,000.	11%	44%	44%
$60,000+.....	10%	39%	51%
WORKFOR			
FEDERAL.....	11%	37%	52%
STATE.....	9%	30%	62%
LOCAL.....	10%	46%	44%
PRIVATE.....	10%	50%	40%
NOTWORK.....	17%	47%	36%
TIMEINAK			
UNDER1YR IN AK..	33%	0%	67%
1-4 YRS.....	11%	56%	33%
5-9 YRS.....	11%	46%	43%
10-14YRS.....	10%	43%	48%
15+ YRS.....	13%	45%	42%

REDUCING OR ELIMINATING BUSINESS TAXES TO ENCOURAGE BUSINESSES TO LOCATE HERE?

DEMOGRAPHICS	BUSITAX		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	6%	65%	29%
LOCATION			
CENTRAL.....	5%	61%	33%
MATVALLEY.....	5%	72%	23%
ANCHORAGE.....	8%	62%	30%
KENAIPEN.....	9%	70%	22%
REGISTER			
DEMOCRAT.....	6%	63%	31%
REPBLCAN.....	8%	67%	26%
NONPART.....	6%	64%	30%
NOTREGIS.....	6%	68%	26%
SEX			
MALE.....	5%	67%	28%
FEMALE..	8%	63%	30%
AGE			
18-24YRS OF AGE.	3%	67%	29%
25-40.....	6%	65%	30%
41-55.....	7%	67%	26%
56+ YRS.....	9%	60%	31%
INCOME			
N-R.....	21%	53%	26%
TO$20000 INCOME.	8%	65%	28%
$20,000-$40,000.	5%	64%	31%
$40,000-$60,000.	7%	63%	30%
$60,000+.....	4%	71%	25%
WORKFOR			
FEDERAL.....	5%	68%	27%
STATE.....	7%	55%	38%
LOCAL.....	3%	67%	30%
PRIVATE.....	6%	70%	23%
NOTWORK.....	8%	58%	34%
TIMEINAK			
UNDER1YR IN AK..	33%	67%	0%
1-4 YRS.....	8%	64%	27%
5-9 YRS.....	2%	69%	30%
10-14YRS.....	7%	67%	26%
15+ YRS.....	7%	63%	30%

RAILBELT ENERGY FUND USED FOR ENERGY NEEDS OR OTHER CAPITOL CONSTRUCTION?

DEMOGRAPHICS	USEREF		
	UNSURE	ENERGY	CAPCONST
TOTAL.....	11%	55%	34%
LOCATION			
CENTRAL.....	9%	57%	35%
MATVALLEY.....	11%	55%	33%
ANCHORAGE.....	14%	53%	33%
KENAIPEN.....	7%	52%	41%
REGISTER			
DEMOCRAT.....	10%	50%	41%
REPBLCAN.....	11%	56%	32%
NONPART.....	11%	58%	30%
NOTREGIS.....	8%	38%	54%
SEX			
MALE.....	7%	57%	35%
FEMALE.....	14%	53%	33%
AGE			
18-24YRS OF AGE.	7%	50%	43%
25-40.....	10%	53%	37%
41-55.....	10%	58%	32%
56+ YRS.....	15%	57%	28%
INCOME			
N-R.....	12%	74%	14%
TO$20000 INCOME.	13%	53%	34%
$20,000-$40,000.	10%	52%	38%
$40,000-$60,000.	11%	56%	34%
$60,000+.....	10%	56%	34%
WORKFOR			
FEDERAL.....	13%	52%	35%
STATE.....	10%	60%	30%
LOCAL.....	5%	66%	30%
PRIVATE.....	10%	53%	37%
NOTWORK.....	13%	53%	34%
TIMEINAK			
UNDER1YR IN AK..	0%	33%	67%
1-4 YRS.....	17%	39%	44%
5-9 YRS.....	11%	51%	38%
10-14YRS.....	11%	52%	38%
15+ YRS.....	10%	60%	30%

VOTE FOR/AGAINST USING UNDISTRIBUTED PF EARNINGS FOR PROGRAMS TO HELP ECONOMY.

DEMOGRAPHICS	PFEARNGS		
	UNSURE	VOTEFOR	AGAINST
TOTAL.....	4%	64%	32%
LOCATION			
CENTRAL.....	3%	67%	30%
MATVALLEY.....	1%	67%	32%
ANCHORAGE.....	7%	65%	28%
KENAIPEN.....	4%	47%	49%
REGISTER			
DEMOCRAT.....	5%	65%	29%
REPBLCAN.....	2%	64%	34%
NONPART.....	4%	64%	33%
NOTREGIS.....	9%	63%	28%
SEX			
MALE.....	3%	61%	36%
FEMALE.....	5%	67%	28%
AGE			
18-24YRS OF AGE.	2%	78%	21%
25-40.....	3%	67%	30%
41-55.....	6%	66%	29%
56+ YRS.....	4%	46%	50%
INCOME			
N-R.....	2%	53%	44%
TO$20000 INCOME.	4%	64%	32%
$20,000-$40,000.	3%	64%	33%
$40,000-$60,000.	3%	65%	32%
$60,000+.....	7%	66%	27%
WORKFOR			
FEDERAL.....	5%	60%	36%
STATE.....	3%	64%	33%
LOCAL.....	6%	70%	24%
PRIVATE.....	3%	67%	30%
NOTWORK.....	4%	59%	36%
TIMEINAK			
UNDER1YR IN AK..	0%	33%	67%
1-4 YRS.....	5%	74%	21%
5-9 YRS.....	5%	66%	29%
10-14YRS.....	4%	65%	30%
15+ YRS.....	3%	61%	36%

STATE HALTING FORECLOSURE ON PEOPLE WHO AREN'T PAYING THEIR MORTGAGES?

DEMOGRAPHICS	FORCLOSE		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	9%	53%	38%
LOCATION			
CENTRAL.....	5%	55%	40%
MATVALLEY.....	6%	56%	37%
ANCHORAGE.....	14%	44%	42%
KENAIPEN.....	10%	65%	24%
REGISTER			
DEMOCRAT.....	10%	61%	29%
REPBLCAN.....	8%	50%	42%
NONPART.....	8%	51%	41%
NOTREGIS.....	14%	54%	32%
SEX			
MALE.....	9%	49%	42%
FEMALE.....	9%	57%	34%
AGE			
18-24YRS OF AGE.	7%	47%	47%
25-40.....	10%	54%	36%
41-55.....	8%	52%	40%
56+ YRS.....	9%	53%	38%
INCOME			
N-R.....	23%	42%	35%
TO$20000 INCOME.	9%	52%	39%
$20,000-$40,000.	7%	59%	34%
$40,000-$60,000.	8%	51%	42%
$60,000+.....	10%	49%	41%
WORKFOR			
FEDERAL.....	10%	50%	40%
STATE.....	4%	56%	42%
LOCAL.....	8%	52%	40%
PRIVATE.....	10%	53%	37%
NOTWORK.....	8%	53%	38%
TIMEINAK			
UNDER1YR IN AK..	0%	100%	0%
1-4 YRS.....	12%	51%	36%
5-9 YRS.....	10%	56%	34%
10-14YRS.....	8%	49%	43%
15+ YRS.....	8%	54%	38%

STATE PAYING OFF SCHOOL CONSTRUCTION BONDS WHICH ARE NOW PAID BY PROPERTY TAX?

DEMOGRAPHICS	PAYSCHOL		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	7%	53%	40%
LOCATION			
CENTRAL.....	7%	53%	40%
MATVALLEY.....	6%	49%	45%
ANCHORAGE.....	8%	48%	43%
KENAIPEN.....	4%	76%	20%
REGISTER			
DEMOCRAT.....	6%	56%	39%
REPBLCAN.....	6%	51%	43%
NONPART.....	8%	52%	40%
NOTREGIS.....	9%	63%	28%
SEX			
MALE.....	5%	52%	43%
FEMALE.....	8%	55%	37%
AGE			
18-24YRS OF AGE.	10%	67%	22%
25-40.....	6%	53%	41%
41-55.....	8%	53%	40%
56+ YRS.....	7%	51%	42%
INCOME			
N-R.....	14%	49%	37%
TO$20000 INCOME.	12%	53%	36%
$20,000-$40,000.	7%	54%	39%
$40,000-$60,000.	5%	53%	42%
$60,000+.....	5%	53%	42%
WORKFOR			
FEDERAL.....	8%	39%	52%
STATE.....	9%	40%	52%
LOCAL.....	2%	64%	33%
PRIVATE.....	6%	55%	39%
NOTWORK.....	9%	55%	36%
TIMEINAK			
UNDER1YR IN AK..	33%	33%	33%
1-4 YRS.....	7%	55%	37%
5-9 YRS.....	7%	51%	42%
10-14YRS.....	9%	48%	43%
15+ YRS.....	6%	55%	39%

HAS THE WORST ECONOMIC DAMAGE OCCURRED AMONG DEVEOLOPERS OR PRIVATE CITIZENS?

DEMOGRAPHICS	DAMAGE		
	UNSURE	SPCLATOR	CITIZEN
TOTAL.....	4%	30%	66%
LOCATION			
CENTRAL.....	1%	28%	71%
MATVALLEY.....	7%	29%	64%
ANCHORAGE.....	6%	34%	60%
KENAIPEN.....	4%	23%	72%
REGISTER			
DEMOCRAT.....	6%	28%	67%
REPBLCAN.....	1%	34%	64%
NONPART.....	5%	29%	66%
NOTREGIS.....	8%	20%	72%
SEX			
MALE.....	5%	35%	59%
FEMALE.....	3%	24%	73%
AGE			
18-24YRS OF AGE.	2%	40%	59%
25-40.....	3%	28%	69%
41-55.....	6%	29%	65%
56+ YRS.....	6%	31%	62%
INCOME			
N-R.....	9%	21%	70%
TO$20000 INCOME.	4%	28%	69%
$20,000-$40,000.	3%	25%	71%
$40,000-$60,000.	3%	34%	63%
$60,000+.....	6%	35%	59%
WORKFOR			
FEDERAL.....	5%	35%	61%
STATE.....	3%	29%	68%
LOCAL.....	6%	36%	59%
PRIVATE.....	3%	31%	66%
NOTWORK.....	5%	25%	70%
TIMEINAK			
UNDER1YR IN AK..	33%	33%	33%
1-4 YRS.....	4%	22%	74%
5-9 YRS.....	4%	29%	67%
10-14YRS.....	4%	27%	69%
15+ YRS.....	4%	32%	63%

ALASKA ECONOMY IS/IS NOT IN A SPECIAL SITUATION WARRANTING GOV'T ATTENTION?

DEMOGRAPHICS	GOVTATTN		
	UNSURE	IS	ISNOT
TOTAL.....	3%	61%	36%
LOCATION			
CENTRAL.....	2%	66%	33%
MATVALLEY.....	1%	67%	32%
ANCHORAGE.....	5%	56%	38%
KENAIPEN.....	4%	46%	50%
REGISTER			
DEMOCRAT.....	3%	62%	35%
REPBLCAN.....	2%	63%	35%
NONPART.....	3%	58%	39%
NOTREGIS.....	6%	66%	28%
SEX			
MALE.....	2%	61%	37%
FEMALE.....	4%	60%	35%
AGE			
18-24YRS OF AGE.	2%	76%	22%
25-40.....	2%	62%	36%
41-55.....	3%	60%	37%
56+ YRS.....	6%	52%	42%
INCOME			
N-R.....	9%	40%	51%
TO$20000 INCOME.	3%	69%	28%
$20,000-$40,000.	3%	63%	34%
$40,000-$60,000.	3%	60%	37%
$60,000+.....	2%	56%	42%
WORKFOR			
FEDERAL.....	2%	68%	30%
STATE.....	2%	58%	40%
LOCAL.....	3%	64%	32%
PRIVATE.....	2%	60%	38%
NOTWORK.....	6%	58%	36%
TIMEINAK			
UNDER1YR IN AK..	0%	67%	33%
1-4 YRS.....	1%	68%	31%
5-9 YRS.....	3%	65%	31%
10-14YRS.....	3%	59%	39%
15+ YRS.....	4%	58%	38%

WHAT ARE YOUR RECOMMENDATIONS FOR THE LEGISLATURE? -- WHAT SHOULD THEY DO?

DEMOGRAPHICS	RECOMEND							
	UNSURE	CREATE JOBS	HELPBUSI	HELPEOPL	NEWBUSI	SPENDLESS	DO NOTHIN	NEWMONEY
TOTAL.....	17%	10%	5%	6%	12%	17%	5%	4%
LOCATION								
CENTRAL.....	18%	7%	6%	6%	14%	16%	6%	6%
MATVALLEY.....	19%	12%	6%	4%	14%	16%	3%	3%
ANCHORAGE.....	16%	11%	3%	9%	9%	17%	8%	2%
KENAIPEN.....	14%	15%	5%	3%	11%	24%	1%	3%
REGISTER								
DEMOCRAT.....	26%	12%	2%	3%	12%	14%	3%	5%
REPBLCAN.....	14%	10%	7%	6%	12%	16%	6%	4%
NONPART.....	13%	9%	5%	7%	13%	20%	7%	3%
NOTREGIS.....	29%	18%	8%	11%	8%	8%	2%	2%
SEX								
MALE.....	13%	11%	6%	4%	14%	15%	7%	4%
FEMALE.....	22%	9%	3%	8%	10%	19%	3%	3%
AGE								
18-24YRS OF AGE.	24%	12%	3%	5%	10%	16%	2%	5%
25-40.....	16%	10%	6%	7%	13%	16%	5%	3%
41-55.....	15%	9%	5%	5%	13%	19%	6%	4%
56+ YRS.....	21%	12%	1%	6%	8%	18%	6%	4%
INCOME								
N-R.....	28%	12%	5%	12%	5%	7%	0%	5%
TO$20000 INCOME.	22%	16%	5%	6%	10%	18%	3%	4%
$20,000-$40,000.	17%	11%	5%	5%	12%	20%	4%	4%
$40,000-$60,000.	17%	8%	3%	7%	13%	14%	6%	3%
$60,000+.....	11%	7%	8%	5%	14%	18%	9%	4%
WORKFOR								
FEDERAL.....	15%	7%	4%	10%	11%	17%	11%	1%
STATE.....	10%	5%	4%	5%	14%	19%	9%	7%
LOCAL.....	16%	8%	5%	6%	9%	13%	8%	8%
PRIVATE.....	15%	10%	6%	5%	14%	17%	4%	3%
NOTWORK.....	23%	14%	5%	7%	9%	18%	3%	3%
TIMEINAK								
UNDER1YR IN AK..	0%	33%	0%	33%	0%	33%	0%	0%
1-4 YRS.....	26%	10%	0%	7%	14%	13%	5%	1%
5-9 YRS.....	14%	12%	6%	4%	15%	19%	4%	4%
10-14YRS.....	16%	10%	7%	5%	13%	15%	7%	5%
15+ YRS.....	17%	10%	5%	6%	10%	18%	5%	3%

(conti

WHAT ARE YOUR RECOMMENDATIONS FOR THE LEGISLATURE? -- WHAT SHOULD THEY DO?

DEMOGRAPHICS	RECOMEND				
	SPNDMORE	SPNDONED	WORKTGTH	GRDPFDIV	MISC
TOTAL.....	8%	1%	6%	5%	2%
LOCATION					
CENTRAL.....	7%	2%	6%	4%	3%
MATVALLEY.....	5%	0%	7%	9%	1%
ANCHORAGE.....	12%	1%	8%	4%	2%
KENAIPEN.....	10%	4%	3%	4%	3%
REGISTER					
DEMOCRAT.....	8%	2%	5%	4%	4%
REPBLCAN.....	9%	1%	7%	6%	2%
NONPART.....	9%	1%	7%	5%	2%
NOTREGIS.....	5%	0%	2%	6%	3%
SEX					
MALE.....	11%	1%	5%	6%	2%
FEMALE.....	6%	2%	8%	4%	3%
AGE					
18-24YRS OF AGE.	5%	2%	7%	7%	2%
25-40.....	10%	1%	7%	4%	1%
41-55.....	10%	2%	6%	6%	1%
56+ YRS.....	3%	1%	6%	6%	8%
INCOME					
N-R.....	5%	0%	7%	9%	7%
TO$20000 INCOME.	5%	0%	6%	4%	2%
$20,000-$40,000.	6%	2%	6%	5%	2%
$40,000-$60,000.	10%	2%	8%	6%	2%
$60,000+.....	13%	1%	5%	3%	1%
WORKFOR					
FEDERAL.....	6%	1%	8%	8%	1%
STATE.....	12%	4%	4%	4%	1%
LOCAL.....	10%	1%	9%	6%	1%
PRIVATE.....	11%	1%	7%	6%	1%
NOTWORK.....	4%	1%	5%	4%	5%
TIMEINAK					
UNDER1YR IN AK..	0%	0%	0%	0%	0%
1-4 YRS.....	7%	2%	7%	5%	2%
5-9 YRS.....	8%	2%	4%	4%	2%
10-14YRS.....	7%	1%	7%	4%	2%
15+ YRS.....	9%	1%	6%	6%	3%

OPENING ANWR ON ALASKA'S NORTH SLOPE TO OIL AND GAS EXPLORATION?

DEMOGRAPHICS	OPENANWR		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	5%	70%	24%
LOCATION			
CENTRAL.....	4%	68%	28%
MATVALLEY.....	3%	72%	25%
ANCHORAGE.....	8%	74%	18%
KENAIPEN.....	6%	64%	30%
REGISTER			
DEMOCRAT.....	6%	64%	30%
REPBLCAN.....	3%	78%	19%
NONPART.....	7%	71%	23%
NOTREGIS.....	6%	54%	40%
SEX			
MALE.....	3%	75%	23%
FEMALE.....	8%	66%	26%
AGE			
18-24YRS OF AGE.	3%	60%	36%
25-40.....	8%	61%	31%
41-55.....	5%	78%	17%
56+ YRS.....	1%	86%	14%
INCOME			
N-R.....	5%	79%	16%
TO$20000 INCOME.	6%	68%	26%
$20,000-$40,000.	5%	67%	28%
$40,000-$60,000.	6%	72%	22%
$60,000+.....	5%	74%	20%
WORKFOR			
FEDERAL.....	2%	63%	35%
STATE.....	7%	63%	31%
LOCAL.....	6%	71%	23%
PRIVATE.....	6%	71%	22%
NOTWORK.....	5%	73%	23%
TIMEINAK			
UNDER1YR IN AK..	0%	100%	0%
1-4 YRS.....	6%	52%	42%
5-9 YRS.....	9%	61%	30%
10-14YRS.....	7%	67%	26%
15+ YRS.....	4%	78%	18%

TIGHTEST POSSIBLE LOCAL HIRE LAW THAT IS STILL CONSTITUTIONAL?

DEMOGRAPHICS	LOCLHIRE		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	2%	88%	10%
LOCATION			
CENTRAL.....	1%	90%	10%
MATVALLEY.....	1%	89%	10%
ANCHORAGE.....	3%	85%	12%
KENAIPEN.....	3%	90%	7%
REGISTER			
DEMOCRAT.....	1%	91%	8%
REPBLCAN.....	1%	88%	11%
NONPART.....	2%	87%	10%
NOTREGIS.....	5%	88%	8%
SEX			
MALE.....	1%	87%	12%
FEMALE.....	3%	89%	8%
AGE			
18-24YRS OF AGE..	0%	86%	14%
25-40.....	2%	89%	9%
41-55.....	2%	87%	10%
56+ YRS.....	2%	89%	9%
INCOME			
N-R.....	0%	86%	14%
TO$20000 INCOME..	3%	89%	8%
$20,000-$40,000..	2%	90%	8%
$40,000-$60,000..	2%	87%	11%
$60,000+.....	1%	85%	13%
WORKFOR			
FEDERAL.....	5%	82%	13%
STATE.....	1%	90%	9%
LOCAL.....	2%	85%	13%
PRIVATE.....	2%	88%	10%
NOTWORK.....	1%	90%	9%
TIMEINAK			
UNDER1YR IN AK..	0%	100%	0%
1-4 YRS.....	4%	82%	14%
5-9 YRS.....	2%	85%	13%
10-14YRS.....	2%	87%	11%
15+ YRS.....	2%	91%	8%

DANGER OF NON-ALASKANS TAKING CONTROL OF REAL ESTATE BY BUYING UP PROPERTY?

DEMOGRAPHICS	TAKECNTL		
	UNSURE	IS	ISNOT
TOTAL.....	8%	62%	30%
LOCATION			
CENTRAL.....	10%	59%	31%
MATVALLEY.....	7%	62%	31%
ANCHORAGE.....	6%	63%	31%
KENAIPEN.....	7%	70%	23%
REGISTER			
DEMOCRAT.....	9%	67%	24%
REPBLCAN.....	6%	62%	33%
NONPART.....	8%	59%	34%
NOTREGIS.....	9%	77%	14%
SEX			
MALE.....	6%	55%	40%
FEMALE.....	9%	70%	21%
AGE			
18-24YRS OF AGE.	9%	67%	24%
25-40.....	5%	63%	32%
41-55.....	12%	58%	30%
56+ YRS.....	6%	66%	28%
INCOME			
N-R.....	12%	67%	21%
TO$20000 INCOME.	10%	71%	19%
$20,000-$40,000.	5%	66%	29%
$40,000-$60,000.	8%	59%	33%
$60,000+.....	9%	52%	39%
WORKFOR			
FEDERAL.....	11%	60%	30%
STATE.....	12%	56%	32%
LOCAL.....	7%	62%	31%
PRIVATE.....	6%	59%	36%
NOTWORK.....	9%	70%	21%
TIMEINAK			
UNDER1YR IN AK..	33%	67%	0%
1-4 YRS.....	10%	61%	29%
5-9 YRS.....	6%	65%	29%
10-14YRS.....	11%	53%	36%
15+ YRS.....	6%	65%	29%

ESTABLISH $100M SCIENCE/TECHNOLOGY FUND TO ENCOURAGE RESEARCH IN ALASKA?

DEMOGRAPHICS	SATFUND		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	7%	54%	39%
LOCATION			
CENTRAL.....	5%	65%	29%
MATVALLEY.....	5%	56%	39%
ANCHORAGE.....	10%	49%	41%
KENAIPEN.....	7%	32%	61%
REGISTER			
DEMOCRAT.....	9%	57%	34%
REPBLCAN.....	5%	53%	42%
NONPART.....	7%	53%	40%
NOTREGIS.....	8%	58%	34%
SEX			
MALE.....	6%	55%	39%
FEMALE.....	8%	54%	38%
AGE			
18-24YRS OF AGE.	3%	79%	17%
25-40.....	7%	54%	39%
41-55.....	7%	51%	41%
56+ YRS.....	9%	50%	41%
INCOME			
N-R.....	12%	33%	56%
TO$20000 INCOME.	9%	54%	37%
$20,000-$40,000.	6%	55%	40%
$40,000-$60,000.	6%	56%	38%
$60,000+.....	9%	55%	36%
WORKFOR			
FEDERAL.....	6%	61%	33%
STATE.....	4%	60%	35%
LOCAL.....	6%	54%	40%
PRIVATE.....	7%	58%	35%
NOTWORK.....	9%	44%	47%
TIMEINAK			
UNDER1YR IN AK..	0%	67%	33%
1-4 YRS.....	6%	62%	33%
5-9 YRS.....	8%	56%	35%
10-14YRS.....	5%	53%	42%
15+ YRS.....	8%	52%	40%

SET ASIDE $700M AS 'MINI-PF' WITH THE PF EARNINGS, ADDED TO EDUCATION BUDGET?

DEMOGRAPHICS	MINIFUND		
	UNSURE	SUPPORT	OPPOSE
TOTAL.....	9%	59%	32%
LOCATION			
CENTRAL.....	7%	69%	24%
MAT/VALLEY.....	8%	61%	31%
ANCHORAGE.....	12%	56%	33%
KENAIPEN.....	10%	37%	52%
REGISTER			
DEMOCRAT.....	9%	62%	29%
REPBLCAN.....	6%	59%	35%
NONPART.....	11%	58%	32%
NOTREGIS.....	6%	63%	31%
SEX			
MALE.....	8%	55%	36%
FEMALE.....	10%	63%	27%
AGE			
18-24YRS OF AGE.	3%	78%	19%
25-40.....	7%	68%	25%
41-55.....	10%	50%	39%
56+ YRS.....	14%	43%	43%
INCOME			
N-R.....	21%	44%	35%
TO$20000 INCOME.	8%	58%	34%
$20,000-$40,000.	9%	60%	30%
$40,000-$60,000.	7%	65%	28%
$60,000+.....	9%	55%	36%
WORKFOR			
FEDERAL.....	11%	69%	20%
STATE.....	9%	68%	23%
LOCAL.....	7%	70%	23%
PRIVATE.....	9%	58%	33%
NOTWORK.....	10%	52%	38%
TIMEINAK			
UNDER1YR IN AK..	33%	0%	67%
1-4 YRS.....	8%	75%	17%
5-9 YRS.....	11%	63%	26%
10-14YRS.....	4%	55%	40%
15+ YRS.....	10%	56%	33%

WHERE SHOULD MONEY COME FROM IF SOMETHING IS GOING TO BE DONE TO HELP ECONOMY?

DEMOGRAPHICS	MONYCOME							
	UNSURE	EARNINGS	PRINCIPAL	RAILFUND	AHFCFUND	AIDAFUND	WINDFALL	NEWTAX
TOTAL.....	19%	20%	8%	12%	7%	8%	19%	3%
LOCATION								
CENTRAL.....	10%	22%	9%	12%	7%	10%	24%	3%
MATVALLEY.....	25%	20%	5%	10%	5%	5%	22%	6%
ANCHORAGE.....	21%	23%	9%	11%	7%	8%	13%	2%
KENAIPEN.....	28%	5%	9%	22%	7%	6%	13%	3%
REGISTER								
DEMOCRAT.....	16%	19%	12%	13%	7%	7%	20%	1%
REPBLCAN.....	18%	24%	8%	10%	7%	7%	19%	3%
NONPART.....	20%	19%	6%	13%	6%	8%	19%	4%
NOTREGIS.....	22%	17%	9%	15%	8%	11%	14%	2%
SEX								
MALE.....	18%	18%	7%	13%	8%	8%	21%	3%
FEMALE.....	20%	23%	9%	12%	6%	8%	16%	3%
AGE								
18-24YRS OF AGE.	17%	19%	21%	10%	12%	7%	12%	2%
25-40.....	16%	23%	10%	13%	6%	9%	16%	4%
41-55.....	18%	20%	4%	14%	6%	7%	23%	3%
56+ YRS.....	32%	12%	3%	9%	8%	7%	21%	1%
INCOME								
N-R.....	33%	23%	7%	5%	7%	0%	16%	5%
TO$20000 INCOME.	24%	11%	11%	13%	6%	8%	21%	3%
$20,000-$40,000.	19%	17%	8%	14%	8%	9%	16%	3%
$40,000-$60,000.	18%	27%	6%	11%	4%	8%	20%	2%
$60,000+.....	14%	23%	9%	12%	8%	7%	20%	2%
WORKFOR								
FEDERAL.....	17%	19%	7%	7%	6%	15%	20%	6%
STATE.....	5%	27%	5%	8%	8%	5%	29%	4%
LOCAL.....	18%	25%	13%	10%	6%	7%	16%	1%
PRIVATE.....	18%	19%	9%	13%	8%	7%	18%	3%
NOTWORK.....	26%	18%	5%	14%	5%	8%	17%	2%
TIMEINAK								
UNDER1YR IN AK..	67%	0%	0%	0%	0%	33%	0%	0%
1-4 YRS.....	19%	10%	12%	10%	7%	12%	22%	3%
5-9 YRS.....	14%	22%	13%	11%	6%	7%	19%	3%
10-14YRS.....	20%	22%	9%	14%	5%	8%	12%	5%
15+ YRS.....	20%	21%	5%	12%	8%	7%	21%	2%

(conti

WHERE SHOULD MONEY COME FROM IF SOMETHING IS GOING TO BE DONE TO HELP ECONOMY?

DEMOGRAPHICS	MONYCOME	
	NOTPFUND	OTHER
TOTAL.....	2%	3%
LOCATION		
CENTRAL.....	1%	2%
MATVALLEY.....	2%	2%
ANCHORAGE.....	2%	2%
KENAIPEN.....	1%	7%
REGISTER		
DEMOCRAT.....	2%	1%
REPBLCAN.....	1%	4%
NONPART.....	2%	3%
NOTREGIS.....	2%	2%
SEX		
MALE.....	2%	3%
FEMALE.....	2%	2%
AGE		
18-24YRS OF AGE.	0%	0%
25-40.....	2%	2%
41-55.....	2%	4%
56+ YRS.....	2%	4%
INCOME		
N-R.....	5%	0%
TO$20000 INCOME.	3%	1%
$20,000-$40,000.	2%	4%
$40,000-$60,000.	1%	2%
$60,000+.....	1%	4%
WORKFOR		
FEDERAL.....	2%	0%
STATE.....	3%	4%
LOCAL.....	1%	2%
PRIVATE.....	1%	3%
NOTWORK.....	2%	3%
TIMEINAK		
UNDER1YR IN AK..	0%	0%
1-4 YRS.....	2%	2%
5-9 YRS.....	2%	3%
10-14YRS.....	2%	3%
15+ YRS.....	2%	3%

RAILBELT PUBLIC ECONOMIC ASSESSMENT
DITTMAN RESEARCH CORPORATION
JANUARY 1988

1. ...and how many years have you lived in ALASKA?

Less than a year	(-1)	( )
Since 1984	(1-4)	( )
Since 1979	(5-9)	( )
Since 1947	(10-14)	( )
1973 or before?	(15+)	( )

2. Overall, what is your opinion of the economy in the area where you live -- is it very good, pretty good, so-so, pretty bad, or very bad?

Very good.....( )
Pretty good.....( )
So-so.....( )
Pretty bad.....( )
Very bad.....( )
UNSURE.....(DON'T READ).....( )

3. Is this a change from a year ago -- has the economic situation in your area gotten better, worse or stayed about the same over the past year?

Better.....( )
Worse.....( )
Stayed same.....( )
UNSURE.....(DON'T READ).....( )

4. What do you see looking into the future for the next two years -- will things get better, worse or stay about the same as they are now?

Better.....( )
Worse.....( )
Stay the same.....( )
UNSURE.....(DON'T READ).....( )

5. What do you think should be the state legislature's role -- do you think it should or should not take action and try to help?

Should.....( )
Should not....(SKIP TO #7).....( )

UNSURE.....(DON'T READ).....( )

6. What's the main thing you would like to see them do?

---

7. Have you or members of your family who live with you taken a salary or wage cut, had work hours reduced or been laid off from work during the past two years?

Yes.....( )
No.....( )
UNSURE.....(DON'T READ).....( )

8. How would you describe your personal economic situation at the present time -- is it very good, pretty good, so-so, pretty bad, or very bad?

Very good.....( )
Pretty good.....( )
So-so.....( )
Pretty bad.....( )
Very bad.....( )
UNSURE.....(DON'T READ).....( )

9. Are you making payments on a home in Alaska?

Yes.....( )
No.....(SKIP TO Q. 13).....( )
UNSURE.....(DON'T READ).....( )

10. Is it getting easier or harder to make the payments, or is it staying about the same?

Easier.....(SKIP TO Q. 13).....( )
Harder.....( )
About the same..(SKIP TO Q. 13).....( )
UNSURE.....(DON'T READ).....( )

11. Are you beginning to be concerned that you might not be able to keep up with the payments?

Yes.....( )
No.....( )
UNSURE.....(DON'T READ).....( )

12. Have you seriously thought about letting the house go back to the bank or mortgage company?

Yes.....( )
No.....( )
UNSURE.....(DON'T READ).....( )

13. Do you have real estate or raw land investments in Alaska that you're making payments on (other than your home if "yes" to Q.9)?

Yes.....( )
No.....(SKIP TO Q.17).....( )
UNSURE.....(DON'T READ).....( )

14. Is it getting easier or harder to make the payments, or is it staying about the same?

Easier.....(SKIP TO Q.17).....( )
Harder.....( )
About the same..(SKIP TO Q. 17).....( )
UNSURE.....(DON'T READ).....( )

15. Are you beginning to be concerned that you might not be able to keep up with the payments?

Yes.....( )
No.....( )
UNSURE.....(DON'T READ).....( )

16. Have you seriously thought about letting it go back to the bank or mortgage company?

Yes.....( )
No.....( )
UNSURE.....(DON'T READ).....( )

17. Have you seriously considered leaving Alaska and moving somewhere else to live because of the economy here?

Yes.....( )
No.....( )
UNSURE.....(DON'T READ).....( )

18. How likely do you think it is that you will move to another state within the next two years -- very likely, quite likely, not too likely, or not at all likely?

Very likely.....( )
Quite likely.....( )
Not too likely.....( )
Not at all likely.....( )
UNSURE.....(DON'T READ).....( )

19. Do you own or manage a business where you are responsible for staffing and salary decisions?

Yes.....( )
No.....(SKIP TO Q.25).....( )
UNSURE.....(DON'T READ).....( )

20. How many employees do you current have? _____

21. During the past year, have you increased or reduced the number of employees -- or have they stayed the same?

Increased.....( )
Reduced.....( )
Stayed the same.....( )
UNSURE.....(DON'T READ).....( )

22. Have you increased or reduced the wages and salaries or have they stayed about the same?

Increased.....( )
Reduced.....( )
Stayed about the same.....( )
UNSURE.....(DON'T READ).....( )

23. Looking ahead for the next 12 months, do you expect to increase or reduce the number of employees who work for you -- or will it say about the same?

Increased.....( )
Reduced.....( )
Stayed about the same.....( )
UNSURE.....(DON'T READ).....( )

24. ...and what about salaries and wages -- do you expect to increase them, decrease them or have them stay at the current level?

Increase them.....( )
Reduce them.....( )
Stay at the current level.....( )
UNSURE.....(DON'T READ).....( )

25. Who do you think is mainly responsible for Alaska's current economic situation?

UNSURE.....(DON'T READ).....( )

26. What did they do to help cause it?_____

---

27. Would you support or oppose having the state issue another Permanent Fund Dividend check early this year to get more money in the economy?

Support.....( )
Oppose.....( )
UNSURE.....( )

28. Would you support or oppose reducing the interest rate on all Alaska Housing Finance Corporation (AHFC) home mortgages by 2% for the next two years?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

29. Would you support or oppose reducing the interest rate on all Alaska Industrial Development Authority (AIDA) commercial loans by 2% for the next two years?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

30. Would you support or oppose spending up to 100 million dollars to upgrade Southcentral Alaska ports so they could serve as the home port for large Navy ships?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

31. Would you support or oppose having the state tear down the older sub-standard public housing it owns and replacing it with repossessed condominiums?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

32. Would you support or oppose the state providing money to the University of Alaska to buy condominiums for student housing?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

33. Would you support or oppose the state reducing excess office and commercial space by tearing down strip malls and old commercial buildings and paying off the loans?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

34. Would you support or oppose the state spending 150 million dollars to provide jobs for people who would perform deferred maintenance for roads, schools and other public buildings?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

35. Would you support or oppose the state not allowing any new or increased taxes or utility charges for the next two years?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

36. Would you support or oppose the state not allowing real estate auctions of foreclosed properties for the next two years?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

37. If the Alaskan economy declines further, would you support or oppose a constitutional amendment which would allow some of the money within the principal of the Permanent Fund to be taken out and used for programs to help the economy?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

38. Would you support or oppose using the Permanent Fund principal to buy excess commercial properties and hold them as investments until the prices go up?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

39. Would you support or oppose having the AHFC ship the excess mobile homes it owns to the lower 48 and selling them down there?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

40. Would you support or oppose having the state pay off local government bonds to lower local taxes and user fees?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

41. Would you support or oppose reducing or eliminating general business taxes to encourage businesses to locate here?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

42. There is currently approximately 230 million dollars set aside in the Railbelt Energy Fund to provide electrical energy for communities along the railbelt from the Kenai Peninsula to Fairbanks. Would you support using the money for that purpose, or would you support using the money for other capital construction projects around the state?

Provide electrical energy.....( )
Provide other capital construction.....( )
UNSURE.....(DON'T READ).....( )

43. There is currently approximately 490 million dollars in unspent earnings from the Permanent Fund -- this is money left over after dividends and inflation proofing have been paid. If the issue were on the ballot, would you probably vote for or against using the undistributed Permanent Fund earnings money to help pay for programs to help the economy?

Vote for.....( )
Vote against.....( )
UNSURE.....(DON'T READ).....( )

44. Would you support or oppose the state halting foreclosure on people who aren't paying their mortgage loans?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

45. Would you support or oppose the state paying off school construction bonds which are now being paid for through property taxes?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

46. As far as the economy is concerned, where do you think the worst damage has occurred -- among real estate speculators or among average citizens?

Speculators.....( )
Average citizens.....( )
UNSURE.....(DON'T READ).....( )

47. Do you feel Alaska's economy is or is not a special situation that warrants special government attention?

Is.....( )
Is not.....( )
UNSURE.....(DON'T READ).....( )

48. Now that we've gone through a fairly long list of possible economic steps that could be taken, what are your thoughts -- what are your overall recommendations for the legislature?

---

49. Do you support or oppose immediately opening "ANN-WHAR," the Arctic National Wildlife Refuge on Alaska's North Slope, to oil and gas exploration?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

50. Do you support or oppose the tightest possible law to require local hire that is still constitutional?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

51. Do you believe there is or is not a danger of too many non-Alaskans taking control of Alaskan real estate and commercial buildings by buying up property at auctions and low forced-sale prices?

Is danger.....( )
Is not danger.....( )
UNSURE.....(DON'T READ).....( )

52. Do you support or oppose establishing a 100 million dollar science and applied technology fund to encourage scientific research in Alaska?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

53. Do you support or oppose setting aside 700 million dollars as a "mini"-permanent fund, with the earnings -- which may be 50-70 million dollars per year -- to be added to the 400 million dollar public education budget?

Support.....( )
Oppose.....( )
UNSURE.....(DON'T READ).....( )

54. Nearly all of the programs to help the Alaskan economy will require money. If something is going to be done to help the economy, where should the money come from?...(READ OPTIONS & ROTATE)...

___Use Permanent Fund earnings (490 million).....( )
___Use Permanent Fund principal (9 billion).....( )
___Use Railbelt Energy Fund (234 million).....( )
___Use Alaska Housing Finance Corporation Revolving Fund (1.5 billion))
___Use Alaska Industrial Development Authority Fund (270 million)....( )
___Use windfall lawsuit money (150 million).....( )

or... something else?_____
UNSURE.....(DON'T READ).....( )

...and finally, some questions for classification purposes...

55. AGE GROUP.....18 - 24 years.....( )
25 - 40 years.....( )
41 - 55 years.....( )
56 years plus.....( )

56. SEX.....MALE.....( )
FEMALE.....( )

57. OCCUPATION SECTOR...Federal.....( )
State.....( )
Local.....(INCLUDES SCHOOL DISTRICT).....( )
Private company.....( )
NOT WORKING.....( )

58. OCCUPATION TYPE.....White collar, degree-required.....( )
White collar, non-degreed.....( )
Blue collar, skilled/technical.....( )
Blue collar, non-skilled.....( )
Retired, student.....( )
Homemaker.....( )

59. ANNUAL INCOME.....0 - $20,000.....( )
$20,000 - $40,000.....( )
$40,000 - $60,000.....( )
$60,000 plus.....( )

60. VOTER REGISTRATION..Democrat.....( )
Republican.....( )
Non-partisan.....( )
NOT REGISTERED.....( )

THE FOLLOWING DOCUMENT HAS NOT BEEN FILMED BUT IS AVAILABLE IN THE ORIGINAL FILE

Special Supplement

ASCC

ALASKA STATE CHAMBER OF COMMERCE

Alaska State Chamber of Commerce Commission on Strategic Planning For the 1990's

Report to Alaska's economic leaders — Report update

Publication of this document in the Juneau Report is an important part of the commission's mandate to communicate its findings to all Alaska's economic leaders. We are grateful to Standard Alaska for their assistance with this communication. It is our goal that every business person and public policy maker have this strategic planning information available for use in their decision making.

Peter McDowell

Alaska State Chamber plots strategies for 1990s

"Export Model" designed to gauge Alaska's economy

Editor's Note: *In 1985, Alaska State Chamber of Commerce (ASCC) Chairman Al Fleetwood established the* Commission on Strategic Planning for the 1990s. *During the past two years the report has undergone extensive analysis and review. The* Juneau Report *is now pleased to present ASCC's final document,* "Report to Alaska's Economic Leaders," *in its entirety.*

The Mission

In November 1985, the Commission adopted the following Mission Statement:

"The charge to the Commission is to build a statewide coalition of thoughtful Alaska economic leaders to identify and consider the implications and opportunities of the major social, political, and economic issues facing Alaska into the 1990s.

The Commission will develop and communicate a framework and unified strategies for the Alaskan political economy that draw strength from our abilities and highlight our common concerns.

Recognizing that:

- *We have accumulated a permanent fund of intellectual capital more than adequate to the task*

A strategy does not imply the development of detailed plans nor a presumption to direct the activities of the private sector. To the contrary, a strategy is important for assuring the development of a market-driven and competitive economy.

The Methodology

In the summer of 1985, Alaska State Chamber of Commerce Chairman Al Fleetwood established the *Commission on Strategic Planning for the 1990s.* Now, two years later, after numerous meetings, teleconferences, letters and memoranda, and review of volumes of material, the Commission has prepared its findings and action recommendations.

The charge of the Commission is to build a *STATEWIDE* coalition of thoughtful — and thought-provoking — Alaskan economic leaders. The goal of the coalition is to study the implications and opportunities of the major socio-political and economic forces which are affecting the Alaskan economy today and will be facing the Alaskan economy into the 1990s.

Toward that end, the Commission's Co-chairmen Harold Heinze and Peter McDowell, recruited representatives of major industries with diverse philosophica perspectives from various geographic regions throughou

Legislation

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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Senate

MEMORANDUM March 21, 1988

TO: All Members
Senate Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski

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.

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.

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 , 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.

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 , "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 , 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.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1563 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1360

Introduced: 2/10/88
Referred: Finance

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 408

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

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

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

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

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

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

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

Introduced: 2/10/88
Referred: Finance

5-1864A

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

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 409

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

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

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

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

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

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

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).

IN THE SENATE

SENATE JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Urging a change under the Interna Revenue Code in the tax treatment of the transfer of a residence subject to a mortgage that is a recourse loan wher the indebtedness on the residence is discharged through foreclosure, repossession, or surrender of the property.

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

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

WHEREAS, if real property is transferred through foreclosure or repossession to satisfy a debt secured by the property or the property is surrendered, the property owner may realize a gain or loss; and

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

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

and

WHEREAS many Alaska homeowners have mortgages that are recourse loans and

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

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

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

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

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

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

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

Commissioner of the Internal Revenue Service; and to the Honorable Te
Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorabl
Don Young, U.S. Representative, members of the Alaska delegation i
Congress.

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY (For the Subcommittee on Housing and Banking)

IN THE HOUSE

HOUSE JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the residential real estate market.

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

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

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

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

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

WHEREAS many borrowers would be able to meet their financial obligations if various forms of debt restructuring were made possible; and

WHEREAS debt restructuring requires the cooperation of the various parties to each real estate loan, including the borrower, the loan originator, the Alaska Housing Finance Corporation or other loan packager, the secondary purchasers of the loans, and the various loan insurers; and

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

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

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

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

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

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

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

BE IT RESOLVED by the Alaska State Legislature that the various financial participants in the Alaska real estate market, including the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, the Alaska Permanent Fund Corporation, and the various loan

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

FURTHER RESOLVED that economic stabilization of the residential real estate market be accomplished with the joint cooperation of the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, and the Alaska Permanent Fund Corporation and other agencies of the state and of lending institutions in the state as well as the Federal Housing Administration, the U.S. Department of Housing and Urban Development, the Veterans Administration, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and private mortgage insurers; and be it

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

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

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

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99

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

Offered: 3/4/88
Referred: Judiciary and Finance

5-1644B

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

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

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

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

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

* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds that a sizeable proportion of the residents of the state have mortgages that exceed both the present value of the property and the present ability of the mortgagors of the property to make the payments agreed to in the past. The purpose of this Act is to direct the Alaska Housing Finance Corporation to use creative solutions to the present crisis in the housing market and, at the same time, to permit the corporation to seek the disposal of surplus residences within the corporation's inventory.

(b) The Alaska Housing Finance Corporation may permit mortgagors who are experiencing difficulty in meeting their mortgage payments to return the residence and its mortgage to the Alaska Housing Finance Corporation and to enter into a new mortgage for different residential property subject to the control of the corporation at rates that are more within the ability of the mortgagors.

(c) The Alaska Housing Finance Corporation may also permit a mortgagor who is willing to accept the responsibility for a larger mortgage to offer an existing residence and its mortgage to the corporation and enter into a new mortgage for different residential property subject to the control of the corporation.

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

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

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

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

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

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

No. 1

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: Revenue
BRU: AHFC

Components:

(196)

EXPENDITURES/REVENUES: (Thousands of Dollars)

	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: 276-5599
Date: 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)

5-2052L
Chenoweth
3/22/88

IN THE HOUSE

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY (For the Subcommittee on Housing and Banking)

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

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

* Section 1. FINDINGS. The legislature finds that

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

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

(3) the costs of foreclosure and resale, including legal expenses, publication costs, maintenance costs, repair and renovation costs, sales expenses, closing costs, and costs due to sale in a distressed market, may be very substantial;

(4) it may be in the department's and state's best direct financial interest to avoid foreclosure by modifying loan terms including interest rates, payment amounts, and maturity dates to induce existing owners to remain in title to the property and maintain active management of the property.

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

Sec. 44.47.525. MODIFICATION OF INTEREST RATES. (a) Notwithstanding AS 44.47.410(a) and (b) and 44.47.520(b), the department may, by loan modification, reduce interest rates on mortgages that it

financed under AS 44.47.360 - 44.47.560 if the department finds tha

(1) a reduction in the interest rate would result in likelihood that the loan would pay to maturity and induce the borro to remain in active management and ownership of the property; and

(2) a loan modification would be

(A) in the best financial interest of the departme and the state; and

(B) considered prudent by private lending standar when compared to other costly alternatives such as foreclosure.

(b) The department may reduce the interest rate payable on mortgage under (a) of this section only if the modification contai an interest rate reopener clause. The interest rate reopener clau must

(1) require that the borrower and the department renegoti ate the rate of interest on the mortgage within seven years of th date of an interest rate reduction approved by the department unde this section;

(2) specify the date on which the borrower and the depart ment are to renegotiate the rate of interest under (1) of this sub section;

(3) incorporate a call feature reserving to the department the right to demand repayment of the entire principal amount due if the borrower and the department are unable to conclude renegotiation of the rate of interest under (1) of this subsection; the department may not use the call feature incorporated under this paragraph to demand repayment of the entire principal amount due before the date determined under (2) of this subsection.

(c) An interest rate reduction approved by the department under this section cancels the borrower's obligation to pay the amount due

that is attributable to the difference between the original interes rate and the interest rate reduction for the period of the rate re duction.

(d) When an interest rate is renegotiated under (b) of thi section, the renegotiated rate may not exceed the interest rate orig inally charged on the loan.

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

* Sec. 3. This Act takes effect July 1, 1988.

5-2066A
Bradley
3/14/88

DRAFT
by Rieger

BY THE JOINT COMMITTEE ON ECONOMI(
RECOVERY (For the Subcommittee on
Housing and Banking)

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use c
a deed of trust; and providing for an effectiv
date."

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

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

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

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

JOINT LIABILITY IN PARTNERSHIPS.

Steve to explain

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 10½ percent; the department advertises that the rate is 10½ 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 correspondingly 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 nonlapsing 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

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
wkb3/047

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);

-- 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.

JBC:bb
wkb3/047

STATE OF ALASKA
THE LEGISLATURE

RECEIVED FEB 1 1988

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM January 30, 1988

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

TO: Senator Rick Halford

FROM: Richard A. Bradley
Legislative Counsel

Econ Recovery Packet

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

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

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

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

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

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

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

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

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

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

And the debt itself must be addressed.

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

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

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

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

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

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

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

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

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

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

If I may be of further assistance, please advise.

Enclosure

RAB:bb
wkb2/015

STATE OF ALASKA
THE LEGISLATURE

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

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM January 20, 1988

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

RECEIVED JAN 2 0 1988

TO: Senator Rick Halford

FROM: Richard A. Bradley
Legislative Counsel

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

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

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

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

RAB:bb
WKB1/079

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 TLB
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

AMENDMENT

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 a insured, if the individual was the spouse or a dependent of th insured; and

(5) amounts paid under a stock bonus, pension, profit-sharing, annuity, or similar plan or contract, providing benefits b 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
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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:

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[1] 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).

AIDEA DELINQUENCY 90 VHLC FIN

HOUSE AMENDMENT

TO: CSSB 392 BY: _____

Page 1 Line 21

Add the following:

* Sec. 2. ECONOMIC STABILIZATION PROGRAM. (a) The economic stabilization program is established in the Alaska Industrial Development and Export Authority. Under this program the authority is authorized to use up ~~to $150,000,000~~ money from AIDEA for investments in debentures issued by a financial institution with

(1) a charter issued by the state;

(2) its principal office located in the state; and

~~(3) assets that totaled on December 31, 1987, less than $150,000,000 when combined with assets of all its affiliates.~~

(b) The Alaska Industrial Development and Export Authority may not make an investment under this section until

(1) at least one public hearing has been held on the proposed investment; and

(2) the authority and the director of banking, securities and corporations make a written finding that the proposed investment is in the public interest ~~and the finding is approved by the governor~~.

(c) The Alaska Industrial Development and Export Authority may charge a fee in connection with investments under this section that the authority considers to be reasonable. The authority may only invest in debentures that

(1) pay interest quarterly or more often;

(2) bear interest at a rate established by the authority that is not less than one and one-half percent above the prime rate as determined by the authority; in establishing interest the authority shall consider the cost of brokered deposits;

Submit original amendment to the Chief Clerk.
It will then be numbered and duplicated.

" "

(3) are due for repayment 10 years after the date of issue, but may be repaid sooner at the discretion of the issuer;

(4) are secured by the full faith and credit of the issuing institution;

(5) create rights of payment superior to rights of stockholders of the financial institution, as determined by the authority;

(6) will be fully repaid before any dividends are paid to stockholders; and

(7) comply with such other requirements as may be established by the authority or the director of the division.

(d) The amount of debentures that may be purchased by the Alaska Industrial Development and Export Authority under this section from an institution may not exceed the amount of that institution's capital, surplus, and undivided profits on December 31, 1985, as certified by the director of banking, securities and corporations. The combined amount that may be purchased from a holding company and its subsidiary bank may not exceed the amount of capital, surplus, and undivided profits of the subsidiary bank on December 31, 1985, as certified by the director of banking, securities and corporations.

(e) Notwithstanding AS 06.05.307(a), debentures purchased by the Alaska Industrial Development and Export Authority under this section may be issued without regard to the principal amount of the notes and debentures of the institution that are outstanding on the date of issuance. The authority may require the pledge of collateral to secure the debentures and, notwithstanding AS 06.05.307(c), bank assets may be pledged to secure debentures under this section. The authority may only purchase debentures under this section after the director of banking, securities and corporations certifies that the issuance of the debentures otherwise complies with AS 06.05.307 and that the purchase meets the requirements of this section.

(f) The Alaska Industrial Development and Export Authority may purchase debentures under this section only from an institution that agrees to invest at least 15 percent of the purchase price in areas of the state outside of metropolitan areas within three years after receipt of the purchase price. The authority shall by regulation define "metropolitan areas" for purposes of this subsection.

* Sec. 3. This Act is repealed July 1, 1990.

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

Alaska State Legislature

SENATE

Office of the President

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

March 11, 1988

MEMORANDUM

TO: Senator Arliss Sturgulewski, Co-Chairman
Senate Joint Committee on Economic Recovery

FROM: Senator Jan Faiks
President of the Senate

SUBJECT: Economic Recovery Legislation

Here is a summary of what I see as some of the potential benefits and costs of several of the items of economic recovery legislation under consideration. This initial draft is fairly broad, and if you would like to discuss it further please let me know.

DRAFT

SB 408 and 409 — Establishing the bridge bank

Pro:

(1) Would do something to keep properties off the market and increase the value of other existing properties/decrease supply

(2) Removes the problem from the political arena

Con:

(1) Cost of initial capitalization, SB 409 is one option which would do this through a $15 million loan from the Railbelt Energy Fund

(2) Additional State liability of a minimum of $80 million through loans in portfolio

(3) Government financing of private sector solution

SB 471 — AIDEA Guaranteed Loan Program

Pro:

(1) Would give an incentive for the secondary market entities to purchase Alaskan loans - thus freeing up the banks to make more loans to Alaskans
(2) Refinancing portion would assist businesses by extending the terms of their loans if it would save existing jobs

Con:

if these loans go into foreclosure it could cost the state money (however, the bill only provides for guaranteeing principal and not interest)

SB 474 — Increasing property exemptions for individuals who go into bankruptcy

Pro:

Would assist individuals who go into bankruptcy

Con:

Could cost creditors money/redistributes wealth from creditors to debtors

HB 432 — Authorizing AHFC to accept trades in certain cases

Pro:

(1) Would assist individual Alaskans trade for property more within their financial means

(2) Could create more long term stability

(3) Reduce AHFC loses through trade-ups

Con:

(1) AHFC can do this now, but the question is who comes up with the money to cover the negative equity

Senate Draft Version of AHFC trade bill:

Pro:

Would make the State assume the cost of the negative equity for up to 50 percent of the value of the mortgage

Con:

Could have significant financial costs to the State

HB 433 and Draft Senate Bill

Establishing a moratorium on judicial and and nonjudicial foreclosures

Pro:

Would greatly assist individual homeowners

Con:

(1) Shuts down Outside money markets for short and long term

(2) Breaks contract laws and commitments

(3) Breaks property rights

Draft Senate Bill(s)	Temporarily reducing interest rates and monthly payments on AHFC loans

Pro:

(1) Would provide significant relief to individual homeowners

(2) Releases disposable income into the economy

(3) Solves short term cash flow crisis

Con:

Cost, $80 million annually for AHFC's 52,000 home mortgages

Other Considerations:

(1) In reality this would merely increase the State's interest rate subsidy by 2 percent (from current 3 percent to 5 percent)

(2) AHFC's 9/30/87 financial statement says they only have $73 million in unrestricted cash reserves (annual cost would be $80 million). I seriously question this number, and believe they actually may have as much as $1 billion which could be utilized.

(3) AHFC doesn't have the money to do this along with the other programs which have been established and proposed (hope program, trades, etc.)

(4) The Legislature needs to decide which programs are the top priorities, and if it will cost AHFC more than their current cash reserves then they will need more money to carry these out

Draft Senate Concurrent Resolutions:

(1) Requesting AIDEA to establish a program to allow owners of existing properties to avoid foreclosure by selling the properties to AIDEA, retaining an option to repurchase the properties within 3 years, and leasing the property from the Authority during the 3 year period

Pro: Would assist commercial property owners in avoiding foreclosure and would save existing jobs among small businesses and their employees

Con: Could have significant costs for AIDEA

(2) Requesting State agencies to remove substandard low income housing from the market, ship vacant mobile homes out of state, and convert existing vacant and unrentable units to University of Alaska student housing

Pro: (1) Excellent way to effect supply
(2) Save money by purchasing at crisis prices

(3) Requesting State agencies to establish a moratorium on loans for new construction in areas of existing oversupply

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 10½ percent; the department advertises that the rate is 10½ 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 correspondingly 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 nonlapsing 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

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
wkb3/047

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 nomes);
-- 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);

-- 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.

JBC:bb
wkb3/047

5-2066A
Bradley
3/14/88

DRAFT
by Rieger

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY (For the Subcommittee on Housing and Banking)

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

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

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

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

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

JOINT LIABILITY IN PARTNERSHIPS.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

STEVE COWPER, GOVERNOR

REPLY TO:

☐ *1031 W 4th AVENUE*
SUITE 200
ANCHORAGE, ALASKA 99501-1994
PHONE: (907) 276-3550

☐ *1st NATIONAL CENTER*
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701-4679

☑ *P.O. BOX K—STATE CAPITOL*
JUNEAU, ALASKA 99811-0300
PHONE: (907) 465-3600

April 20, 1988

The Honorable Johne Binkley
The Honorable Rick Halford
Co-chairs, Senate Finance Committee
P.O. Box V
Juneau, AK 99811

Re: SSSB 408 (real property liquidating organizations)

Dear Senators Binkley and Halford:

We have recognized a minor legal problem with the preemption section of this bill, proposed AS 06.50.050 (page 5, line 11 - 15). This section proposes to grant extremely broad powers to the commissioner of commerce and economic development to "exempt real property liquidating organizations from any state law other than this chapter . . . ." Since the Alaska Supreme Court has shown some reluctance to uphold broad delegations of legislative power (see, for example, State v. Fairbanks Northstar Borough, 736 P.2d 1140 (Alaska 1987)), we would recommend that this section be replaced with a more limited delegation. I would propose the following amendment:

> From line 14, after "organizations from any" delete the rest of that line and all of line 15 and insert "fees, authorization, permits, filings, or registrations of the department for conducting transactions authorized under this chapter."

Thank you for your consideration of this proposed amendment.

Sincerely yours,

GRACE BERG SCHAIBLE
ATTORNEY GENERAL

By:
Jeffrey W. Bush
Assistant Attorney General

JWB:nb
cc: Senator Tim Kelly
Senator Arliss Sturgelewske
J. Anthony Smith, Commissioner
Department of Commerce and Economic Development

03-C5LH

Alaska State Legislature

SENATE

Office of the President

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

February 8, 1988

MEMORANDUM

TO: All Committee Members
Senate Joint Committee on Economic Recovery

FROM: Senator Jan Faiks
President of the Senate

SUBJECT: Draft Banking Legislation

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

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

SENATE CONCURRENT RESOLUTION

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

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

5-1797A
Chenoweth
2/3/88

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

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.

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

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

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

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

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

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

to sustain value in the existing supply of facilities and residences; and

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

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

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Governor to direct the appropriate commissioners and directors of agencies and authorities that have authority to make loans to refrain from financing construction of new commercial, industrial, and residential facilities in communities having substantial excess capacity among these improvements unless demand for a proposed commercial, industrial, or residential project cannot be satisfied from excess stock within the community or until the governing body of the municipality requests, by resolution, a waiver of the moratorium in order to expand the supply of these improvements.

SENATE CONCURRENT RESOLUTION

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

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



5-1795A
Bradley
2/5/88

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

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

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

WHEREAS the legislature finds that the state is undergoing a substantial financial crisis in the residential housing market; and

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

WHEREAS it has been noted that to some extent the financial institutions in the state have not yet developed a coherent policy that addresses this crisis; and

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

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

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

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

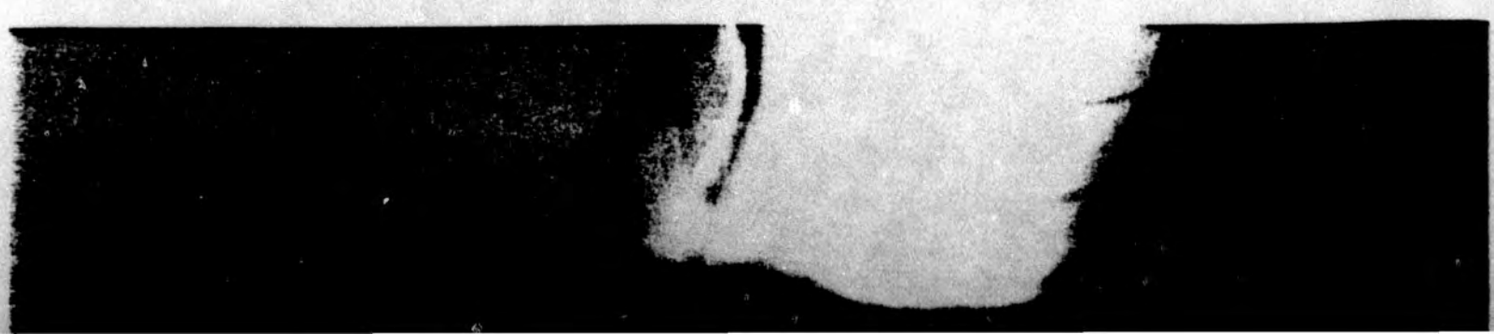
(2) ship vacant and unsalable mobile homes from the state; and

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

SENATE CONCURRENT RESOLUTION

Relating to the Alaska Industrial Development and Export Authority.

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



5-1793A
Cook
02/03/88

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the Alaska Industrial Development and Export Authority.

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

WHEREAS Alaska is currently experiencing a severe economic downturn; and

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

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

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Governor to request the Alaska Industrial Development and Export Authority to develop a program to enable owners of commercial properties to avoid foreclosure by

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

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

Frank & Rod
Jud + Finance

IN THE SENATE BY THE JUDICIARY COMMITTEE

SENATE BILL NO. 63

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to property exemptions for certain retirement plan interests and payments."

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

* Section 1. 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) A retirement plan exempt from claims under (a) of this section is conclusively presumed to be a spendthrift trust under this section.

(e) 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).

* Sec. 2. AS 09.38.025(a) is amended to read:

(a) Except as provided in this section or AS 09.38.017, an individual is entitled to exemption of unmatured life insurance and annuity contracts owned by the individual. If the contracts have accrued dividends and loan values available to the individual aggregating more than $5,000, a creditor may obtain a court order requiring the individual debtor to pay the creditor, and authorizing the creditor on the debtor's behalf to obtain payment of, the amount of the accrued dividends and loan values in excess of $5,000 or the amount of the creditor's claim, whichever is less.

* Sec. 3. 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.

* Sec. 4. 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. 5. AS 09.38.017, added by sec. 1 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.

Alaska State Legislature

Official Business

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

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY
Agenda items for Meeting of March 28, 1988

ENDORSED - O.K.

1. HJR 72 - "Relating to the residential real estate market."

HOLD

2. CSHB 432(L&C) - "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

HOLD

3. HB 549 - "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

ENDORSED O.K.

4. HB 550 - "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effeotive date."

~~Passed~~ Endorsed
O.K. SB - Josephson
add disclosures as printed on
HB 549.

Introduced: 3/24/88
Referred: Labor & Commerce
and Finance

5-2015A

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

IN THE HOUSE

HOUSE JOINT RESOLUTION NO. 72

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the residential real estate market.

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

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

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

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

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

WHEREAS many borrowers would be able to meet their financial obligations if various forms of debt restructuring were made possible; and

WHEREAS debt restructuring requires the cooperation of the various parties to each real estate loan, including the borrower, the loan originator, the Alaska Housing Finance Corporation or other loan packager, the secondary purchasers of the loans, and the various loan insurers; and

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

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

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

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

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

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

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

BE IT RESOLVED by the Alaska State Legislature that the various financial participants in the Alaska real estate market, including the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, the Alaska Permanent Fund Corporation, and the various loan

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

FURTHER RESOLVED that economic stabilization of the residential real estate market be accomplished with the joint cooperation of the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, and the Alaska Permanent Fund Corporation and other agencies of the state and of lending institutions in the state as well as the Federal Housing Administration, the U.S. Department of Housing and Urban Development, the Veterans Administration, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and private mortgage insurers; and be it

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

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

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

Offered: 3/4/88
Referred: Judiciary and Finance

5-1644B

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

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

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

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

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

* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds that a sizeable proportion of the residents of the state have mortgages that exceed both the present value of the property and the present ability of the mortgagors of the property to make the payments agreed to in the past. The purpose of this Act is to direct the Alaska Housing Finance Corporation to use creative solutions to the present crisis in the housing market and, at the same time, to permit the corporation to seek the disposal of surplus residences within the corporation's inventory.

(b) The Alaska Housing Finance Corporation may permit mortgagors who are experiencing difficulty in meeting their mortgage payments to return the residence and its mortgage to the Alaska Housing Finance Corporation and to enter into a new mortgage for different residential property subject to the control of the corporation at rates that are more within the ability of the mortgagors.

(c) The Alaska Housing Finance Corporation may also permit a mortgagor who is willing to accept the responsibility for a larger mortgage to offer an existing residence and its mortgage to the corporation and enter into a new mortgage for different residential property subject to the control of the corporation.

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

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

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

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

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

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

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)

IN THE HOUSE

HOUSE BILL NO. 549

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

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

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

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

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

H C+RA
L+C
FIN

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)

IN THE HOUSE

HOUSE BILL NO. 550

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

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

* Section 1. FINDINGS. The legislature finds that

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

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

(3) the costs of foreclosure and resale, including legal expenses, publication costs, maintenance costs, repair and renovation costs, sales expenses, closing costs, and costs due to sale in a distressed market, may be very substantial;

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

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

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

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

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

(2) the loan modification would be

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

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

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

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

(1) require that, if the interest rate is reduced, the borrower and the department shall renegotiate the rate of interest on the mortgage within five years of the date of an interest rate reduction approved by the department under this section;

(2) specify the date by which the borrower and the department are to renegotiate the rate of interest under (1) of this subsection;

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

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

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

(e) When an interest rate is renegotiated under (c) of this section, the renegotiated rate may not exceed the interest rate originally charged on the loan.

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

* Sec. 3. This Act takes effect July 1, 1988.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1564 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1341

ALASKA STATE SENATE

JOE P. JOSEPHSON
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WHILE IN JUNEAU
P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4525

April 8, 1988

The Honorable Jalmar Kerttula
Chair
Senate Judiciary Committee
Alaska State Senate
P.O. Box V
Juneau, Alaska 99801

Dear Senator Kerttula:

I am enclosing for your consideration a draft bill entitled "an Act relating to judicial and nonjudicial foreclosures".

The Senate Committee on Economic Recovery adopted the concepts contained in the draft and has recommended that the bill be referred to your Judiciary Committee for introduction, and, in addition, that a Judiciary Committee bill, if introduced, should incorporate the concepts contained in HB 549, entitled "an Act relating to notice requirements on the use of a deed of trust".

The enclosure is an effort to reverse recent decisions of the Supreme Court of Alaska regarding creditor's rights in foreclosure situations. As a member of the Judiciary Committee and as a member of the Committee on Economic Recovery, I would recommend that legislation be sponsored through the Judiciary Committee for consideration of the Senate.

Please let me know if you desire additional information or background.

With best wishes, I am

Sincerely,

Joe P. Josephson
State Senator

JPJ:rak
Enclosure

cc: Senator Arliss Sturgulewski
Senator Lloyd Jones

5-2103A
Bradley
3/28/88

IN THE SENATE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to judicial and nonjudical foreclosures."

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

* Section 1. AS 09.45.170 is amended to read:

Sec. 09.45.170. JUDGMENT ON FORECLOSURE OF LIEN. A person having a lien upon real property, other than that of a judgment or a deed of trust, whether created by mortgage or otherwise, to secure a debt or other obligation may bring an action to foreclose the lien. In the action, the court may direct the sale of the encumbered property or a portion of it and the application of the proceeds of the sale to the payment of costs, expenses of sale, and the amount due the plaintiff. The judgment shall also determine the personal liability of a defendant for the payment of the debt secured by the lien and be entered accordingly.

* Sec. 2. AS 09.45.170 is amended by adding a new subsection to read:

(b) A deed of trust may be foreclosed only under AS 34.20.070 - 34.20.135.

* Sec. 3. AS 34.20.070(a) is amended to read:

(a) If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon

the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court, if the trustee has complied with the notice requirements of (b) of this section. If the trust is executed by a suit on the note and foreclosure and sale by the court, the foreclosure and sale extinguishes the deed of trust.

* Sec. 4. AS 34.20.100 is amended to read:

Sec. 34.20.100. DEFICIENCY JUDGMENT PROHIBITED. When a sale authorized under AS 34.20.070 - 34.20.135 is made by a trustee under a deed of trust, [AS AUTHORIZED BY AS 34.20.070 - 34.20.130,] no other or further action or proceeding may be taken nor judgment entered against the maker or the surety or guarantor of the maker [,] on the obligation secured by the deed of trust for a deficiency.

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

5-2103A
Bradley
3/28/88

Request for 5-2103A. To Rules

IN THE SENATE

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to judicial and nonjudical foreclosures."

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

* Section 1. AS 09.45.170 is amended to read:

Sec. 09.45.170. JUDGMENT ON FORECLOSURE OF LIEN. A person having a lien upon real property, other than that of a judgment or a deed of trust, whether created by mortgage or otherwise, to secure a debt or other obligation may bring an action to foreclose the lien. In the action, the court may direct the sale of the encumbered property or a portion of it and the application of the proceeds of the sale to the payment of costs, expenses of sale, and the amount due the plaintiff. The judgment shall also determine the personal liability of a defendant for the payment of the debt secured by the lien and be entered accordingly.

* Sec. 2. AS 09.45.170 is amended by adding a new subsection to read:

(b) A deed of trust may be foreclosed only under AS 34.20.070 - 34.20.135.

* Sec. 3. AS 34.20.070(a) is amended to read:

(a) If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon

the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court, if the trustee has complied with the notice requirements of (b) of this section. <u>If the trust is executed by a suit on the note and foreclosure and sale by the court, the foreclosure and sale extinguishes the deed of trust.</u>

* Sec. 4. AS 34.20.100 is amended to read:

Sec. 34.20.100. DEFICIENCY JUDGMENT PROHIBITED. When a sale <u>authorized under AS 34.20.070 - 34.20.135</u> is made by a trustee under a deed of trust, [AS AUTHORIZED BY AS 34.20.070 - 34.20.130,] no other or further action or proceeding may be taken nor judgment entered against the maker or the surety or guarantor of the maker [,] on the obligation secured by the deed of trust for a deficiency.

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

BRIDGE BANK BILL

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the establishment of real property liquidating organizations and providing for active state supervision thereof; and providing for an effective date.

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

* Section 1. LEGISLATIVE FINDINGS. The legislature finds that

(1) there have been several failures of state and federally chartered financial institutions and one bank consolidation by the Federal Deposit Insurance Corporation under 12 U.S.C. § 1823(c) in Alaska;

(2) state and federal agencies currently hold large portfolios of distressed real estate loans and real property;

(3) these financial institutions and government agencies need to be permitted to cooperate in administering these properties to avoid further adverse impacts on Alaska's real estate markets and to stabilize the state's banking system; and

(4) the maintenance of stable and orderly markets for the purchase and sale of Alaska's commercial and residential real estate is essential to the economy of the state and the welfare of its citizens.

* Sec. 2. IMMUNITY FROM STATE AND FEDERAL ANTITRUST LAWS. The state intends to ensure the stability of the state's real estate markets and prevent a precipitous decline in real estate prices by, among other things, displacing competition with government regulation in matters relating to the sale and disposition of Alaska real property held by financial institutions and state and federal agencies as a result of foreclosure actions.

By authorizing the creation of real property liquidating organizations and mandating active state supervision of these organizations, the state contemplates that all persons and entities who subscribe or grant assets to, contribute funds or services to, obtain a beneficial interest in, or participate in the management of, the real property liquidating organizations will be immunized to the fullest extent possible against potential liability under federal antitrust laws and state antitrust, competition and trade practices laws arising from the operation of such organizations.

* Sec. 3. AS 06 is amended by adding a new chapter to read:

CHAPTER 50. REAL PROPERTY LIQUIDATING ORGANIZATIONS.

Sec. 06.50.010. RESPONSIBILITY OF COMMISSIONER. (a) The commissioner shall administer this chapter.

(b) The commissioner shall adopt regulations to carry out the purposes of organizations established under this chapter.

Sec. 06.50.020. FORMATION. (a) Three or more grantors as defined in AS 06.50.900 may agree to create an organization to carry out the purposes of this chapter.

(b) The establishment of a real property liquidating organization shall be commenced by filing the organizational documents with the commissioner. The commissioner will review the documents to verify conformity with this section and consistency with the purposes of this chapter. No conveyance of assets to, or disposition of real property or other assets by, an organization shall be effective until the organizational documents have been reviewed and approved by the commissioner under this section.

(c) The organizational documents must recite the purpose of the organization; identify all grantors who have subscribed to the organization, and all persons who otherwise possess an interest in the

organization; describe the manner in which the organization will be managed; and prescribe the method pursuant to which distributions to the grantors and other beneficiaries will be made.

(d) The organizational documents shall provide for

(1) the conveyance to the organization of all or part of the grantors' portfolios of commercial and residential Alaskan real properties or other assets;

(2) the orderly disposition of property of the organization at prices to be determined by the organization, subject to review and approval by the commissioner under this chapter;

(3) the expenditure of assets to manage organization property, including expenditures to preserve or enhance the value of properties, as necessary; and

(4) the establishment of such other terms and conditions relating to the sale or other disposition of assets that the grantors deem necessary or appropriate to ensure that the organization will be operated in a manner that will provide for orderly disposition of property and promote a stable real estate market and economy.

Sec. 06.50.030. AUDITS AND REPORTS. (a) In addition to any recordkeeping requirements specified in regulations adopted by the commissioner or in the organizational documents, the organization shall retain a certified public accountant to annually prepare and submit to the department on or before April 1 of each calendar year an audited balance sheet, income statement, statement of principal, statement of changes in financial position, and schedule of all dispositions of real estate assets made by the organization during the year. In connection with the preparation of such financial documents, the accountant shall issue letters

(1) certifying that all sales of real estate assets and all

distributions during the relevant year were made in accordance with the provisions of the organizational documents and this chapter, or identifying any variance; and

(2) with respect to the internal financial controls and practices of the organization, setting forth such recommendations as the accountant may consider appropriate.

(b) The organization shall prepare and file with the commissioner, on a quarterly basis, a report containing the following;

(1) a schedule of all real property held by the organization;

(2) the sale price and all other significant terms of sale for property sold since the date of the previous report; and

(3) a proposed operating plan for the next quarterly period in conformity with regulations adopted by the commissioner.

Sec. 06.50.040. REVIEW AND APPROVAL BY COMMISSIONER. (a) The commissioner shall review each report filed under AS 06.50.040(b) and approve or disapprove the proposed quarterly operating plan within 20 days after filing. In reviewing the operating plan, the commissioner shall consider current market conditions. Before approving the plan, the commissioner must find that the plan comports with the purpose of this chapter.

(b) All business records maintained by the organization shall be available for review and examination by the department at the organization's principal place of business during regular business hours, on at least five days advance notice. The commissioner shall conduct examinations on a regular basis, but in no event less than twice per calendar year.

(c) Should the commissioner disapprove the proposed quarterly operating plan submitted under AS 06.50.040(b) or conclude, after

examination, that the organization is being administered contrary to statute or regulation, the commissioner shall notify the organization and all grantors in writing, specifying all deficiencies and prescribing appropriate remedies. If the organization fails to remedy deficiencies in accordance with the commissioner's prescriptions within 60 days following receipt of the notice, the commissioner may commence proceedings to dissolve the organization in accordance with the procedures in AS 06.01.030.

(d) The expenses of the department reasonable incurred in reviewing and approving a plan or conducting an examination under this section shall be charged to and paid by the organization in accordance with AS 06.01.010.

Sec. 06.50.050. PRE-EMPTION. Organizations regulated under this chapter that are formed and act solely to carry out the purposes of this chapter are exempt from regulation by any other state agency or under any other state laws. No political subdivision of the state may require an organization regulated under this chapter to obtain an authorization, permit or registration of any kind for conducting transactions authorized under this chapter.

Sec. 06.50.900. DEFINITIONS. In this chapter,

(1) "grantor" means a federally or state chartered financial institution, federal or state agency, licensed insurer, or financing company that conveys assets to, and thereby obtains a beneficial interest in and the right to participate in the management of, a real property liquidating organization.

(2) "organization" means a corporation, partnership, trust, fund, or other legal entity formed under and consistent with the purposes of this chapter; and

(3) "real property liquidating organization" means an

entity created to acquire, maintain, manage, market, sell or otherwise dispose of real property and to distribute to the trust's beneficiaries, in accordance with the provisions of the trust instruments, the proceeds derived from the sale or disposition of the property.

* Sec. 4. AS 18.56 is amended by adding a new section to read:

Sec. AS 18.56.210. MARKET STABILIZATION POWERS. (a) The corporation may take appropriate action to stabilize the market price of and demand for residential housing in the state.

(b) To accomplish the purposes of this section, the corporation may

(1) enter into agreements with state and federally chartered financial institutions, state or federal agencies, insurers and financing companies for the cooperative management and disposal of real property owned by the corporation, financial institutions, agencies or other contracting parties; and

(2) convey real property and other assets to, and acquire a beneficial interest in, a real property liquidating organization established under AS 06.50.

* Sec. 5. AS 44.88.080 is amended by adding a new paragraph to read:

(25) to convey real property and other assets to, and acquire a beneficial interest in, a real property liquidating organization established under AS 06.50.

* Sec. 6. This act takes effect immediately in accordance with AS 01.10.070.

Bob Flint drop Ted w/Scott Hawkins

IN THE _____ BY THE _____

_____ BILL NO._____

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to agreements with the Anchorage Economic Development Corporation or its nonprofit subsidiary to secure the purchase of assets from the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation; and providing for an effective date."

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

*Section 1.(a) The legislature finds, determines and declares that

(1) the failure of certain Alaska banks and savings and loan associations has resulted in the transfer of a substantial number of real estate loans and foreclosed real estate to the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation;

(2) the liquidation of these assets would cause an immediate and severe negative impact on real estate values in Alaska increasing the over supply of property on the market and depressing values for all property owners in the major areas of the state;

(3) it is in the public interest to insure that the assets acquired from failed Alaska banks and savings and loan associations be managed in such a manner as to minimize negative impacts on property values and to provide for the continuation without foreclosure of those loans where a demonstrable ability to repay exists;

(4) the Anchorage Economic Development Corporation is an appropriate entity to acquire and manage the assets consistent with the policy established by the legislature. In this Act "corporation" shall mean the Anchorage Economic Development Corporation and any nonprofit subsidiary with powers to acquire and manage the assets on a statewide basis.

(b) it is declared to be the policy of the state, in the interest of promoting the health, security and general welfare of all the people of the state, and a public purpose to stabilize real estate values and promote the survival of business, to authorize the state to enter into agreements with the corporation to assist the corporation in financing the acquisition of assets located in the state from the Federal Deposit Insurance Corporation and the

Federal Savings and Loan Insurance Corporation. Payments by the state pursuant to such agreements are not a debt or liability of the state and shall be subject to annual appropriation by the legislature, but such are hereby declared to be a moral obligation of the state.

*Section 2. The commissioner of commerce and economic development is authorized to enter into agreements with the corporation for the contingent purchase by the state from the corporation of real property and loans acquired by the corporation from the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation. Pursuant to the agreements the state shall be obligated to purchase such assets, if the assets do not produce sufficient revenue to satisfy such terms and conditions, at a price sufficient to insure that the corporation will meet its obligations to bondholders under the terms and conditions of any bond indenture or other contract entered into by the corporation to secure the bonds. All funds necessary to meet the obligations of the state pursuant to such agreements shall be subject to annual appropriation by the legislature.

*Section 3. The agreements entered into by the commissioner may include a provision for a reserve fund to secure the bonds of the corporation. In order to assure the maintenance of the required debt service reserve in the reserve

fund, the legislature may appropriate annually to the corporation for deposit in the fund the sum, certified by the corporation to the governor and to the legislature, that is necessary tc restore the fund to an amount equal to the required debt service reserve. The corporation annually, before January 30, shall make and deliver to the governor and to the legislature a certificate stating the sum required to restore the fund to that amount, and the sum so certified may be appropriated and paid to the corporation during the then current state fiscal year. The corporation shall determine the amount of the required debt service reserve. Nothing in this subsection creates a debt or liability of the state.

*Section 4. Agreements entered into by the commissioner and the corporation may include policies and standards relating to the adjustment of purchased loans and the sale or liquidation of real estate and other collateral owned by the corporation.

*Section 5. The agreements entered into by the commissioner and the corporation shall provide that the corporation shall distribute surplus revenues, if any, after payment of expenses and debt service to public or nonprofit economic development organizations in the areas in which the assets are located and that corporation appoint as directors of its nonprofit subsidiary persons who represent affected areas of the state.

*Section 6. This Act shall be known as the Alaska Economic Stabilization and Development Act of 1988.

*Section 7. The authority authorized by this Act to enter into agreements with the corporation shall terminate on July 1, 1989 provided that the commissioner may enter into amendments or extensions of agreements entered into prior to July 1, 1989.

*Section 8. This Act takes effect immediately in accordance with AS 01.10.070 (c).

FDIC BALANCES NET OF PARTICIPATIONS
& PUTBACKS FROM ASSUMING BANK

LOAN TYPE	ALASKA NATIONAL BANK OF THE NORTH AMOUNT	ALASKA NATIONAL BANK OF THE NORTH NUMBER OF ASSETS	FIRST INTERSTATE BANK OF ALASKA AMOUNT	FIRST INTERSTATE BANK OF ALASKA NUMBER OF ASSETS	COMBINED TOTAL AMOUNT	COMBINED TOTAL NUMBER OF ASSETS
Real Estate						
a. Construction	12,859,000		27,550,733		40,409,733	
b. Fareland	0		0		0	
c. 1-4 Family Res	9,066,000		2,471,271		11,537,271	
d. Multi family 5+	0		4,127,813		4,127,813	
e. Non-fare/Non-res	336,000		11,678,859		12,014,859	
Total R/E Loans	22,261,000	211	45,828,676	128	68,083,676	339
Installment	610,000	110	492,264	30	1,102,264	140
Commercial	30,562,001	411	42,334,600	214	72,896,601	625
ORE	5,867,534	47 ^^	22,209,221	106 ##	28,076,756	153
SUBTOTAL	59,300,535	779	110,864,761	478	170,165,296	1,257
Chargeoffs	19,098,558	1,244	17,593,706	272	36,692,264	1,516
* TOTAL	78,399,093	2,023	128,458,467	750	206,857,560	2,773

^^ 47 assets, 137 properties

106 assets, 465 properties

also 100 MM out there that NAA is reviewing — may come back

FDIC BALANCES NET OF PARTICIPATIONS
& PUTBACKS FROM ASSUMING BANK

LOAN TYPE	ALASKA NATIONAL BANK OF THE NORTH AMOUNT	NUMBER OF ASSETS	FIRST INTERSTATE BANK OF ALASKA AMOUNT	NUMBER OF ASSETS	COMBINED TOTAL AMOUNT	NUMBER OF ASSETS
* INCLUDES:						
A. SBA LOANS						
Sold qty portion	2,672,359	10			2,672,359	10
FDIC portion	584,068				584,068	0
FDIC wholly owned	2,535,344	11	5,728,100	27	8,263,444	38
Total SBA's	5,791,991	21	5,728,100	27	11,520,091	48
B. R/E PARTICIPATIONS						
Participant portion	5,828,640	58	13,018,975	44	18,847,615	102
FDIC portion	969,595		2,716,931	21	3,686,526	21
Total R/E part	6,798,235	58	15,735,907	65	22,534,142	123
C. COMMERCIAL PARTICIPATIONS						
Participant portion	773,770	3	723,754	5	1,497,524	8
FDIC portion			973,529		973,529	
Total Commercial part	773,770	3	1,697,283	5	2,471,053	8
E. BANK PREMISES	2,791,133		19,629,604		22,420,737	

Alaska State Legislature

SENATE

Office of the President

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

ECONOMIC RECOVERY LEGISLATION

Legislation Already Introduced:

SB 333	Priority wage claims in bank liquidations
SB 392	Repeal of AIDEA's 2 percent delinquency rule
SB 408	Establishing the Alaska stabilization assistance fund within AIDEA
SB 409	Making a special appropriation to the Alaska stabilization assistance fund
SB 471	Establishing an AIDEA program to guarantee loans and refinance debt
SB 474	Increasing property exemptions for individuals who go into bankruptcy
SCR 32	Urging financial institutions to adopt more flexible lending and collection policies
HB 432	Authorizing AHFC to accept trades in certain cases
HB 433	Establishing a moratorium on judicial and nonjudicial foreclosures

Legislation Under Consideration for Introduction:

SB	Temporarily reducing interest rates and monthly payments on AHFC loans
SB	Establishing a moratorium on judicial and nonjudicial foreclosures
SCR	Requesting state agencies to establish a moratorium on loans for new construction in areas of existing oversupply
SCR	Requesting AIDEA to develop a program to enable owners of commercial properties to avoid foreclosure
SCR	Requesting state agencies to remove substandard low income housing from the market, ship vacant mobile homes out of state, and convert existing vacant and unrentable units to

15,000.0 M as equity

Presented by Hallwood Group 3/6/88

MAR. 16 1988

5-1863B
Cook
3/16/88

Original sponsors: Kelly and Sturgulewski

IN THE SENATE

CS FOR SENATE BILL NO. 408 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

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

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

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to make loans or investments to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1998, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the _____.

(c) To encourage institutional lenders, state or federal agencies, and other institutions not to attempt to dispose of real property in the state until the real estate market becomes more stable, the authority may

(1) enter into contracts to provide for the management of real property in the state that has been or could be foreclosed upon or otherwise acquired through actions taken on defaulted loans;

(2) acquire interests in corporations that have interests in

(A) part-performing or nonperforming loans secured by real property in the state; or

(B) loans acquired by an institution or federal or state agency as a result of a bank failure in the state.

(d) Contracts entered into by the authority under (c)(1) of this section may provide for the management of property only through June 30, 1998.

* Sec. 2. This Act is repealed July 1, 1998.

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

5-1864L
Cook
3/16/88

Original sponsors: Kelly and Sturgulewski

MAR 16 198

B

Funding Information
General Fund $
Other Funds
$

IN THE SENATE

CS FOR SENATE BILL NO. 409 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

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

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

* Section 1. The sum of $45,000,000 is appropriated from the _____ _____ to the Alaska stabilization assistance fund.

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the _____ on July 1, 1998.

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

5-1863B
Cook
3/16/88

MAR 16 1988

Original sponsors: Kelly and Sturgulewski

IN THE SENATE

CS FOR SENATE BILL NO. 408 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

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

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

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to make loans or investments to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1998, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the _____.

(c) To encourage institutional lenders, state or federal agencies, and other institutions not to attempt to dispose of real property in the state until the real estate market becomes more stable, the authority may

(1) enter into contracts to provide for the management of real property in the state that has been or could be foreclosed upon or otherwise acquired through actions taken on defaulted loans;

(2) acquire interests in corporations that have interests in

(A) part-performing or nonperforming loans secured by real property in the state; or

(B) loans acquired by an institution or federal or state agency as a result of a bank failure in the state.

(d) Contracts entered into by the authority under (c)(1) of this section may provide for the management of property only through June 30, 1998.

* Sec. 2. This Act is repealed July 1, 1998.

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

5-1864L
Cook
3/16/88

Original sponsors: Kelly and Sturgulewski

MAR 16 198

B

Funding Information
General Fund $
Other Funds
$

IN THE SENATE

CS FOR SENATE BILL NO. 409 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

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

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

* Section 1. The sum of $45,000,000 is appropriated from the _____ _____ to the Alaska stabilization assistance fund.

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the _____ on July 1, 1998.

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

Unanimous

5-1796L
Chenoweth
3/16/88

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

IN THE SENATE

SPONSOR SUBSTITUTE FOR 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

(1) to guarantee loans, including loans made to refinance existing loans, to businesses that qualify under AS 44.88.510(a) and apply under AS 44.88.520(a); and

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

Sec. 44.88.510. APPLICANT QUALIFICATIONS. (a) 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.

(b) A business enterprise may apply under AS 44.88.500 - 44.88.-599 to refinance existing debt. The authority may approve a refinancing of existing debt if the authority finds that

(1) the refinancing involves a viable project; and

(2) the refinancing will save existing jobs.

Sec. 44.88.520. APPLICATION. (a) An applicant for a loan guarantee shall provide information that the authority may require by regulation. The authority may require submission of an economic benefit analysis prepared by a person acceptable to the authority.

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

Sec. 44.88.530. POWERS OF THE AUTHORITY. 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 and refinancing agreements 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, is secured by adequate collateral, and 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;

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

(6) the loan guarantee provides a benefit to the borrower.

(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 may 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. CONDITIONS OF DEBT REFINANCING. The authority may not refinance debt unless the refinancing

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

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

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

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

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

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

Sec. 44.88.570. DEFAULT OR FORECLOSURE. (a) Payments received toward satisfaction of a default on a loan guaranteed under AS 44.88.500 - 44.88.599 shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance has been repaid.

(b) The authority shall dispose of property acquired through default or foreclosure of a loan guaranteed or refinanced 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. 44.88.580. 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. 44.88.590. PREREQUISITE FOR OTHER LOANS. Notwithstanding other provisions of law, a business enterprise that qualifies under AS 44.88.510(a) to apply for a loan guarantee under AS 44.88.500 - 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 - 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. APPLICABILITY. The provisions of AS 44.88.500(2), 44.88.510(b), 44.88.520(b), 44.88.530(3), 44.88.550, and 44.88.570(b), added by sec. 1 of this Act, affirm the power of the Alaska Industrial Development and Export Authority to refinance debt, but establish limitations on the exercise of that power.

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

5-1863N ✓
Cook
4/21/88

Original sponsors: Kelly and Sturgulewski

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 408 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to stabilization of the real estate market; authorizing the establishment of real property liquidating organizations; and providing for an effective date."

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

* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

(1) there have been in the state several failures of state and federally chartered financial institutions and one bank consolidation by the Federal Deposit Insurance Corporation under 12 U.S.C. 1823(c);

(2) state and federal agencies currently hold large portfolios of distressed real estate loans and real property;

(3) these financial institutions and government agencies need to be permitted to cooperate in administering these properties to avoid further adverse effects on the state's real estate markets and to stabilize the state's banking system; and

(4) the maintenance of stable and orderly markets for the purchase and sale of commercial and residential real estate in the state is essential to the economy of the state and the welfare of its citizens.

(b) The legislature intends to ensure the stability of the state's real estate markets and prevent a precipitous decline in real estate prices by displacing competition with government regulation in matters relating to the sale and disposition of real property held by financial institutions and state and federal agencies as a result of foreclosure actions. By

authorizing the creation of real property liquidating organizations under state supervision, the legislature intends to grant authority to the commissioner of commerce and economic development to provide by regulation that persons and entities who subscribe or grant assets to, contribute funds or services to, obtain a beneficial interest in, or participate in the management of a real property liquidating organization will be immunized as necessary possible against potential liability under federal antitrust laws and state antitrust, competition, and trade practices laws arising from the operation of the organizations.

* Sec. 2. AS 06 is amended by adding a new chapter to read:

CHAPTER 50. REAL PROPERTY LIQUIDATING ORGANIZATIONS.

Sec. 06.50.010. RESPONSIBILITY OF COMMISSIONER. The commissioner shall administer this chapter and adopt regulations to carry out the purposes of this chapter.

Sec. 06.50.020. FORMATION. (a) Three or more grantors may create a real property liquidating organization by filing the organizational documents with the commissioner. The commissioner shall review the documents and approve them if they comply with (b) of this section and are consistent with the purposes of this chapter. Conveyance of assets to or disposition of real property or other assets by an organization is not valid until the organizational documents have been reviewed and approved by the commissioner.

(b) The organizational documents must

(1) state the purpose of the organization;

(2) identify all grantors who will subscribe to the organization and all persons who will possess an interest in the organization;

(3) describe the manner in which the organization will be managed;

(4) prescribe the method under which distributions to the grantors and other beneficiaries will be made;

(5) provide for the conveyance to the organization of all or part of the grantors' portfolios of commercial and residential real properties in the state or other assets;

(6) provide for the orderly disposition of property of the organization at prices to be established in accordance with the organizational documents;

(7) provide for the expenditure of assets to manage organization property, including expenditures to preserve or enhance the value of properties; and

(8) provide for the establishment of other terms and conditions relating to the sale or other disposition of assets that the grantors consider necessary or appropriate to ensure that the organization will be operated in a manner that will provide for orderly disposition of property and promote a stable real estate market and economy.

Sec. 06.50.030. AUDITS AND REPORTS. (a) In addition to the record keeping requirements specified in regulations adopted by the commissioner or in the organizational documents, the organization shall retain a certified public accountant to annually prepare and submit to the department on or before April 1 of each calendar year an audited balance sheet, income statement, statement of principal, statement of changes in financial position, and schedule of all dispositions of real estate assets made by the organization during the year. In connection with the preparation of the financial documents, the accountant shall issue letters

(1) certifying that all sales of real estate assets and all distributions during the year were made in accordance with the

provisions of the organization documents and this chapter, or identifying any variance; and

(2) with respect to the internal financial controls and practices of the organization, providing recommendations the accountant considers appropriate.

(b) The organization shall prepare and file with the commissioner, on a quarterly basis, a report containing the following:

(1) a schedule of all real property held by the organization;

(2) the sale price and all other significant terms of sale for real property sold since the date of the previous report; and

(3) a proposed operating plan for the next quarterly period that conforms with regulations adopted by the commissioner.

Sec. 06.50.040. REVIEW AND APPROVAL BY COMMISSIONER. (a) The commissioner shall review each report filed under (b) of this section and approve or disapprove the proposed operating plan within 20 days after filing. In reviewing the operating plan, the commissioner shall consider current market conditions. Before approving the plan, the commissioner must find that the plan complies with the purpose of this chapter.

(b) Within five days after the department notifies an organization of its intention to inspect business records, all business records maintained by the organization shall be available for review and examination by the department at the organization's principal place of business, during regular business hours. The commissioner shall examine the business records of an organization on a regular basis at least twice each calendar year.

(c) If the commissioner disapproves the proposed operating plan or concludes, after examination, that the organization is being

administered contrary to statute or regulation, the commissioner shall notify the organization and all grantors in writing, specifying all deficiencies and prescribing appropriate remedies. If the organization fails to remedy deficiencies in accordance with the commissioner's prescriptions within 60 days after receipt of the notice, the commissioner may commence proceedings under AS 06.01.030.

(d) The expenses of the department reasonably incurred in reviewing and approving a proposed operating plan or conducting an examination under this section shall be charged to and paid by the organization in accordance with AS 06.01.010.

Sec. 06.50.050. PREEMPTION. If the commissioner determines that the exemption is necessary to carry out the purposes of this chapter, the commissioner may by regulation exempt transactions under this chapter by real property liquidating organizations from any fee, authorization, permit, filing, or registration requirement of or administered by the department.

Sec. 06.50.100. DEFINITIONS. In this chapter

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "department" means the Department of Commerce and Economic Development;

(3) "grantor" means a federally or state chartered financial institution, federal or state agency, licensed insurer, or financing company that conveys assets to, and thereby obtains a beneficial interest in and the right to participate in the management of, a real property liquidating organization;

(4) "real property liquidating organization" or "organization" means a corporation, trust, fund, partnership, joint venture, or other legal entity created to acquire, maintain, manage, market, sell,

or otherwise dispose of real property in the state and to distribute to the beneficiaries, in accordance with the provisions of the organization documents, the proceeds derived from the sale or disposition of the property.

* Sec. 3. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. The corporation may take appropriate action to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) enter into agreements with state and federally chartered financial institutions, state or federal agencies, insurers, and financing companies for the cooperative management and disposal of real property owned by the corporation, financial institutions, agencies, or other contracting parties; and

(2) convey real property and other assets to, and acquire a beneficial interest in, a real property liquidating organization established under AS 06.50.

* Sec. 4. AS 44.88.080 is amended by adding a new paragraph to read:

(25) to convey real property and other assets to, and acquire a beneficial interest in, a real property liquidating organization established under AS 06.50.

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

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: SB 408
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act relating to the Alaska Stabilization Assistance Program
Sponsor: Kelly and Sturgulewski
Requestor: _____

Agency Affected: Alaska Industrial Development and Export Authority
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		zero(0)	zero(0)	zero(0)	zero(0)	
CAPITAL		$15.0 Mil	zero(0)	zero(0)	zero (0)	
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		**				
TOTAL		$15.0 Mil				

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

**Funds will be appropriated from the Railbelt energy fund to the Alaska Stabilization Assistance fund established in the Alaska Industrial Development and Export Authority per SB 408.

Costs of administering the Alaska Stabilization Assistance Program will be absorbed by the Alaska Industrial Development and Export Authority

Prepared by: Bertram L. Wagnon, Executive Director **Phone:** 274-1651
Division: Alaska Industrial Development & Export Authority **Date:** February 22, 1988

Approved by Commissioner: J. Anthony Smith **Date:** 2/29/88
Agency: Commerce and Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Introduced: 2/10/88
Referred: Finance

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 408

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

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

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

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

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

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

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

STATE OF ALASKA

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

SENATOR TIM KELLY

P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

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

Feb. 9, 1988

To: All Senators
From: Senator Tim Kelly TDK

re: The Alaska Stabilization Assistance Program (ASAP)

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

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

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

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

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

I urge your co-sponsorship.

STATE OF ALASKA

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
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SENATOR TIM KELLY

February 8, 1988

TO: Tam Cook
FROM: Sen. Tim Kelly TDK

re: Alaska Stabilization Assistance Program (ASAP)

Please draft legislation which:

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

a) stating that the purpose of the program is to facilitate the development of a separate organization to promote the stabilization of real estate values in Alaska;

b) placing the account under the direction of the Board of Directors of AIEDA;

c) authorizing AIEDA to contract with an entity to assume management of foreclosed upon property held by financial institutions and loans collateralized by real estate, for the purpose of reorganizing and stabilizing that property, and;

d) stating that AIEDA shall contract to retain management of said property until such time as it is determined that property market values have stabilized and improved.

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

Attach a letter stating:

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

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

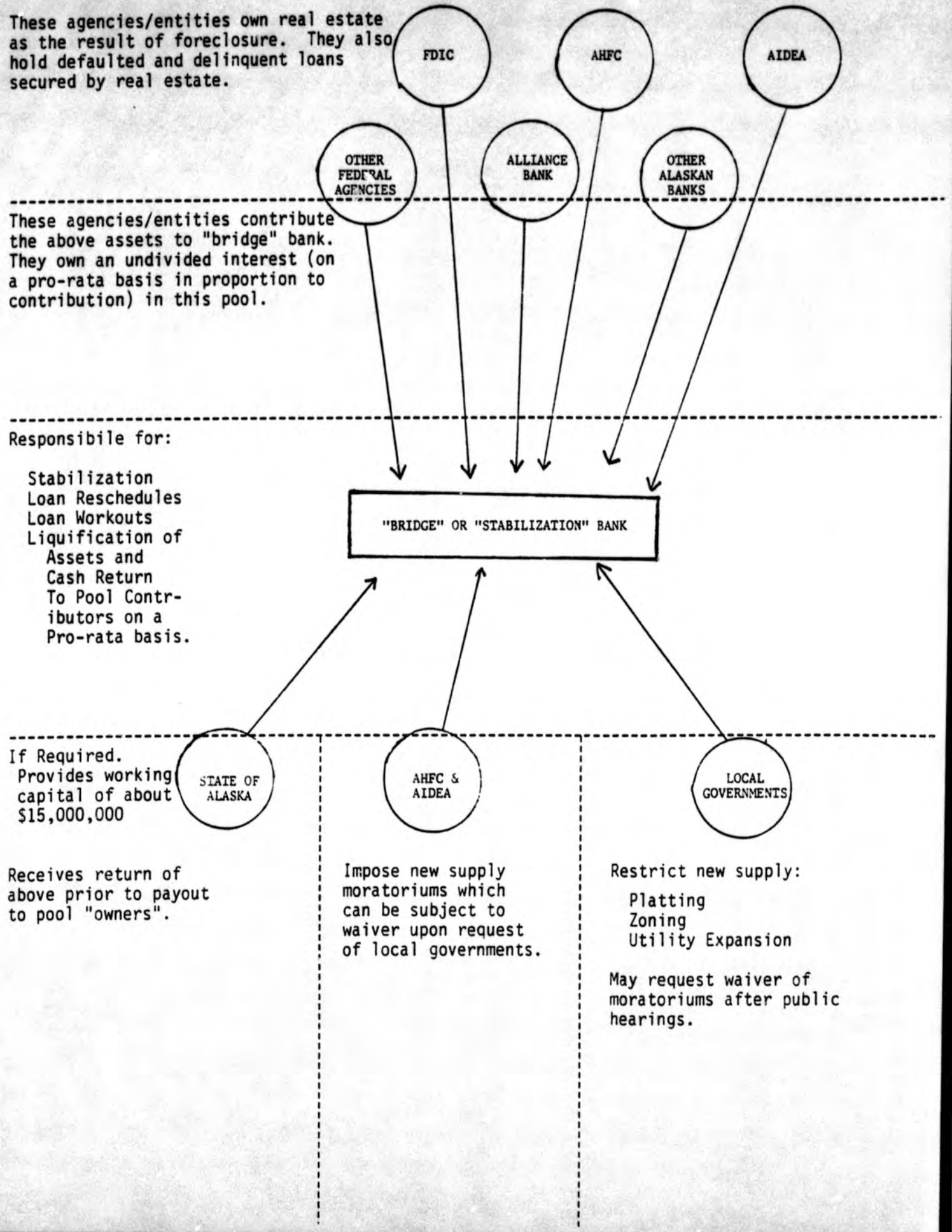
Effective Date: Immediate

A CONCEPTUAL PLAN FOR AN ALASKA STABILIZATION ASSISTANCE PROGRAM

A FEDERAL, STATE, LOCAL GOVERNMENT AND PRIVATE SECTOR PARTNERSHIP

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

DAR/FEB.88


These agencies/entities own real estate as the result of foreclosure. They also hold defaulted and delinquent loans secured by real estate.
FDIC
AHFC
AIDEA
OTHER FEDERAL AGENCIES
ALLIANCE BANK
OTHER ALASKAN BANKS
These agencies/entities contribute the above assets to "bridge" bank. They own an undivided interest (on a pro-rata basis in proportion to contribution) in this pool.
Responsibile for:
Stabilization
Loan Reschedules
Loan Workouts
Liquification of Assets and Cash Return To Pool Contr-ibutors on a Pro-rata basis.
"BRIDGE" OR "STABILIZATION" BANK
If Required. Provides working capital of about $15,000,000
STATE OF ALASKA
AHFC & AIDEA
LOCAL GOVERNMENTS
Receives return of above prior to payout to pool "owners".
Impose new supply moratoriums which can be subject to waiver upon request of local governments.
Restrict new supply:
Platting
Zoning
Utility Expansion
May request waiver of moratoriums after public hearings.

1. This concept requires the combined efforts of federal, state, local and private entities.... A partnership to address mutual problems and solve them on a cooperative basis.

2. It does not "bail out" anybody. No purchases of assets occur, no checks are written. Those entities who "own" problems continue to own them through pro-rata interests in a common pool.

3. Valuation of assets does not present a problem because no purchase takes place. All assets are valued at municipal assessment levels as of a given date. Valuation is utilized only to determine pro-rata share of the common pool.

4. The pool holds assets to stabilize values, eventually liquifies these assets and returns proceeds to pool owners.

5. The State provides a loan (up to $15,000,000) for working capital which is repaid prior to distributions to pool owners. This working capital may not be needed if there is adequate cash flow generated by pool assets but it is evidence of the State's interest and intent to help address and solve this problem.

6. State agencies such as AHFC and AIDEA place moratoriums on financing new supply. These can be waived if local governmemts so request. (General, statewide moratoria may not be in the best interests of those communities which do not have excess suplly of all -- or certain types of -- real estate.)

7. Local governments cannot exacerbate the supply problem by encouraging new construction. Therefore they may consider local moratoria on rezones, replats and utility extensions in order to discourage new construction in those categories of real estate where there currently is excess supply.

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

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

EXECUTION

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

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

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

Value of Mat-Su property plunges 15 to 20 percent

By DAVID HULEN
Daily News reporter

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

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

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

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

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

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

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

"Most of the Realtors that

See Page B-2, VALLEY

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

Continued from Page B-1

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

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

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

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

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

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

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

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

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

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

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

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

Businesses continue to close; the Chevrolet dealership in Wasilla is among the major ones to go under in recent months.

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

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

HEARING THURSDAY SEN. FIN.

5-1863X
Cook
4/16/88

IN THE SENATE BY KELLY AND STURGULEWSKI

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 408

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to stabilization of the real estate market; authorizing the establishment of real property liquidating organizations; and providing for an effective date."

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

* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

(1) there have been in the state several failures of state and federally chartered financial institutions and one bank consolidation by the Federal Deposit Insurance Corporation under 12 U.S.C. 1823(c);

(2) state and federal agencies currently hold large portfolios of distressed real estate loans and real property;

(3) these financial institutions and government agencies need to be permitted to cooperate in administering these properties to avoid further adverse effects on the state's real estate markets and to stabilize the state's banking system; and

(4) the maintenance of stable and orderly markets for the purchase and sale of commercial and residential real estate in the state is essential to the economy of the state and the welfare of its citizens.

(b) The legislature intends to ensure the stability of the state's real estate markets and prevent a precipitous decline in real estate prices by displacing competition with government regulation in matters relating to the sale and disposition of real property held by financial institutions and state and federal agencies as a result of foreclosure actions. By

authorizing the creation of real property liquidating organizations under state supervision, the legislature intends to grant authority to the commissioner of commerce and economic development to provide by regulation that persons and entities who subscribe or grant assets to, contribute funds or services to, obtain a beneficial interest in, or participate in the management of a real property liquidating organization will be immunized as necessary possible against potential liability under federal antitrust laws and state antitrust, competition, and trade practices laws arising from the operation of the organizations.

* Sec. 2. AS 06 is amended by adding a new chapter to read:

CHAPTER 50. REAL PROPERTY LIQUIDATING ORGANIZATIONS.

Sec. 06.50.010. RESPONSIBILITY OF COMMISSIONER. The commissioner shall administer this chapter and adopt regulations to carry out the purposes of this chapter.

Sec. 06.50.020. FORMATION. (a) Three or more grantors may create a real property liquidating organization by filing the organizational documents with the commissioner. The commissioner shall review the documents and approve them if they comply with (b) of this section and are consistent with the purposes of this chapter. Conveyance of assets to or disposition of real property or other assets by an organization is not valid until the organizational documents have been reviewed and approved by the commissioner.

(b) T' e organizational documents must

(1) state the purpose of the organization;

(2) identify all grantors who will subscribe to the organization and all persons who will possess an interest in the organization;

(3) describe the manner in which the organization will be managed;

(4) prescribe the method under which distributions to the grantors and other beneficiaries will be made;

(5) provide for the conveyance to the organization of all or part of the grantors' portfolios of commercial and residential real properties in the state or other assets;

(6) provide for the orderly disposition of property of the organization at prices to be established in accordance with the organizational documents;

(7) provide for the expenditure of assets to manage organization property, including expenditures to preserve or enhance the value of properties; and

(8) provide for the establishment of other terms and conditions relating to the sale or other disposition of assets that the grantors consider necessary or appropriate to ensure that the organization will be operated in a manner that will provide for orderly disposition of property and promote a stable real estate market and economy.

Sec. 06.50.030. AUDITS AND REPORTS. (a) In addition to the record keeping requirements specified in regulations adopted by the commissioner or in the organizational documents, the organization shall retain a certified public accountant to annually prepare and submit to the department on or before April 1 of each calendar year an audited balance sheet, income statement, statement of principal, statement of changes in financial position, and schedule of all dispositions of real estate assets made by the organization during the year. In connection with the preparation of the financial documents, the accountant shall issue letters

(1) certifying that all sales of real estate assets and all distributions during the year were made in accordance with the

provisions of the organization documents and this chapter, or identifying any variance; and

(2) with respect to the internal financial controls and practices of the organization, providing recommendations the accountant considers appropriate.

(b) The organization shall prepare and file with the commissioner, on a quarterly basis, a report containing the following:

(1) a schedule of all real property held by the organization;

(2) the sale price and all other significant terms of sale for real property sold since the date of the previous report; and

(3) a proposed operating plan for the next quarterly period that conforms with regulations adopted by the commissioner.

Sec. 06.50.040. REVIEW AND APPROVAL BY COMMISSIONER. (a) The commissioner shall review each report filed under (b) of this section and approve or disapprove the proposed operating plan within 20 days after filing. In reviewing the operating plan, the commissioner shall consider current market conditions. Before approving the plan, the commissioner must find that the plan complies with the purpose of this chapter.

(b) Within five days after the department notifies an organization of its intention to inspect business records, all business records maintained by the organization shall be available for review and examination by the department at the organization's principal place of business, during regular business hours. The commissioner shall examine the business records of an organization on a regular basis at least twice each calendar year.

(c) If the commissioner disapproves the proposed operating plan or concludes, after examination, that the organization is being

administered contrary to statute or regulation, the commissioner shall notify the organization and all grantors in writing, specifying all deficiencies and prescribing appropriate remedies. If the organization fails to remedy deficiencies in accordance with the commissioner's prescriptions within 60 days after receipt of the notice, the commissioner may commence proceedings under AS 06.01.030.

(d) The expenses of the department reasonably incurred in reviewing and approving a proposed operating plan or conducting an examination under this section shall be charged to and paid by the organization in accordance with AS 06.01.010.

Sec. 06.50.050. PREEMPTION. If the commissioner determines that the exemption is necessary to carry out the purposes of this chapter, the commissioner may by regulation exempt real property liquidating organizations from any state law other than this chapter or from any regulation other than one adopted under this chapter.

Sec. 06.50.100. DEFINITIONS. In this chapter,

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "department" means the Department of Commerce and Economic Development;

(3) "grantor" means a federally or state chartered financial institution, federal or state agency, licensed insurer, or financing company that conveys assets to, and thereby obtains a beneficial interest in and the right to participate in the management of, a real property liquidating organization;

(4) "real property liquidating organization" or "organization" means a corporation, trust, fund, partnership, joint venture, or other legal entity created to acquire, maintain, manage, market, sell, or otherwise dispose of real property in the state and to distribute

to the beneficiaries, in accordance with the provisions of the organization documents, the proceeds derived from the sale or disposition of the property.

* Sec. 3. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. The corporation may take appropriate action to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) enter into agreements with state and federally chartered financial institutions, state or federal agencies, insurers, and financing companies for the cooperative management and disposal of real property owned by the corporation, financial institutions, agencies, or other contracting parties; and

(2) convey real property and other assets to, and acquire a beneficial interest in, a real property liquidating organization established under AS 06.50.

* Sec. 4. AS 44.88.080 is amended by adding a new paragraph to read:

(25) to convey real property and other assets to, and acquire a beneficial interest in, a real property liquidating organization established under AS 06.50.

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

5-1796N
Chenoweth
4/5/88

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

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 471 (Finance)

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 and from money in the authority's reserves. Subject to the requirements of AS 44.88.500 - 44.88.599, the authority may use money in the fund

(1) to guarantee loans, including loans made to refinance existing loans, to businesses that qualify under AS 44.88.505 and apply under AS 44.88.510; and

(2) to refinance the debt of businesses that qualify under AS 44.88.545 and apply under AS 44.88.550.

Sec. 44.88.505. QUALIFICATIONS OF APPLICANT FOR LOAN GUARANTEE. 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. 44.88.510. APPLICATION FOR LOAN GUARANTEE. An applicant for a loan guarantee shall provide information that the authority may

require by regulation. The authority may require submission of an economic benefit analysis prepared by a person acceptable to the authority.

Sec. 44.88.515. 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, is secured by adequate collateral, and 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;

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

(6) the loan guarantee provides a benefit to the borrower.

(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 may not increase over the term of the loan.

(c) The authority may not guarantee the payment of interest on the guaranteed portion of a loan.

Sec. 44.88.520. LIMITATIONS OF LOAN GUARANTEES FROM THE FUND. The authority may not guarantee

(1) a total of more than $50,000,000 of loans;

(2) more than $25,000,000 of loans in which the amount of the loan guarantee exceeds $500,000.

25 loans

Sec. 44.88.525. LIMITATIONS OF LOAN GUARANTEES WITH RESPECT TO BORROWERS. The authority may not guarantee

(1) a loan of more than $1,000,000;

(2) loans to an individual borrower that cumulatively exceed $1,000,000 of indebtedness.

Sec. 44.88.530. INTEREST ON GUARANTEED LOAN. The maximum interest rate on a loan guaranteed by the authority is

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

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

Sec. 44.88.535. DEFAULT OR FORECLOSURE OF A GUARANTEED LOAN. (a) Payments received toward satisfaction of a default on a loan guaranteed under AS 44.88.500 - 44.88.599 shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance 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. 44.88.540. RELATIONSHIP TO OTHER LOANS. Notwithstanding other provisions of law, a business enterprise that qualifies under AS 44.88.505 to apply for a loan guarantee under AS 44.88.500 - 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. 44.88.545. QUALIFICATIONS OF APPLICANT FOR DEBT REFINANCING. A business enterprise may apply under AS 44.88.500 - 44.88.599 to refinance existing debt. The authority may approve a refinancing of existing debt if the authority finds that

(1) the refinancing involves a viable project; and

(2) the refinancing will save existing jobs.

Sec. 44.88.550. APPLICATION FOR DEBT REFINANCING. An applicant for refinancing of existing debt shall provide the information that the authority may require by regulation.

Sec. 44.88.555. CONDITIONS OF DEBT REFINANCING. The authority may not refinance debt unless the refinancing

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

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

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

Sec. 44.88.560. DEFAULT OR FORECLOSURE OF A REFINANCED LOAN. (a) The authority shall dispose of property acquired through default or foreclosure of a loan refinanced 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. 44.88.565. POWERS OF THE AUTHORITY. 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 and refinancing agreements 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. 44.88.570. 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. 44.88.599. DEFINITIONS. In AS 44.88.500 - 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. PROCEDURES GOVERNING PROGRAM REVIEW. (a) AS 44.66.050 and 44.66.060 apply to AS 44.88.500 - 44.88.599 (Business Assistance Program of the Alaska Industrial Development and Export Authority).

(b) The First Session of the Seventeenth Alaska State Legislature shall conduct the legislative oversight proceedings required by (a) of this section.

* Sec. 3. AS 44.88.500 - 44.88.599 are repealed July 1, 1991.

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

SBA short funded - our area
A. & D.A -

5-1796P
Chenoweth
4/7/88

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

IN THE SENATE BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 471 (Finance)

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 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. (a) The business assistance fund is established in the authority from money in the authority's reserves designated by the authority for the purpose. Subject to the requirements of AS 44.88.500 - 44.88.599, the authority may use money in the fund

(1) to guarantee new loans; and

(2) to guarantee loans made to refinance existing loans.

(b) The holder of a debt instrument for a loan guaranteed by the authority does not have recourse to the assets of the authority beyond those designated by the authority from its reserves for the purpose.

Sec. 44.88.505. QUALIFICATIONS OF APPLICANT FOR NEW LOAN GUARANTEE. (a) A business enterprise may apply for a new loan guarantee under AS 44.88.500(a)(1).

(b) The authority may establish additional applicant qualifications by regulation. These qualifications may vary depending upon the type of business the applicant is engaged in.

Sec. 44.88.510. APPLICATION FOR NEW LOAN GUARANTEE. An applicant for a new loan guarantee shall provide information that the

authority may require by regulation. The authority may require submission of an economic benefit analysis prepared by a person acceptable to the authority.

Sec. 44.88.515. QUALIFICATIONS OF APPLICANT FOR DEBT REFINANCING GUARANTEE. A business enterprise may apply under AS 44.88.500(a)(2) to guarantee the refinancing of existing debt.

Sec. 44.88.520. APPLICATION FOR DEBT REFINANCING GUARANTEE. An applicant for a debt refinancing guarantee shall provide the information that the authority may require by regulation.

Sec. 44.88.525. CONDITIONS OF DEBT REFINANCING GUARANTEE. The authority may not guarantee refinanced debt

(1) unless the refinancing

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

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

(C) creates additional economic opportunity or improves the viability of the borrower rather than just reducing the liability of the lender; or

(2) unless the refinancing is necessary to place a permanent loan subsequent to an interim loan for financing construction of the project.

Sec. 44.88.530. APPLICABILITY OF PROVISIONS. AS 44.88.535 - 44.88.560 apply to

(1) new loan guarantees under AS 44.88.500(a)(1); and

(2) debt refinancing guarantees under AS 44.88.500(a)(2).

Sec. 44.88.535. CONDITIONS OF LOAN GUARANTEE. (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, is secured by adequate collateral, and 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) loan guaranteed by the authority is held by the originating financial institution or another financial institution approved by the authority;

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

(6) loan guarantee provides a benefit to the borrower.

(b) The authority may provide a guarantee from the fund for up to 75 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 may not increase over the term of the loan.

(c) The authority may not guarantee the payment of interest on the guaranteed portion of a loan.

Sec. 44.88.540. LIMITATIONS OF GUARANTEES FROM THE FUND. The authority may not guarantee

(1) a total of more than $50,000,000 of loans;

(2) more than $25,000,000 of loans in which the amount of the loan guarantee exceeds $500,000.

Sec. 44.88.545. LIMITATIONS OF GUARANTEES WITH RESPECT TO BORROWERS. The authority may not guarantee

(1) a loan of more than $1,000,000;

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a corp

10% IS INDIVIDUAL

(2) loans to an individual borrower that cumulatively exceed $1,000,000 of indebtedness.

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

(1) for a loan guarantee that exceeds 65 percent of the loan, one and one-half percentage points above the prime rate on the day the loan guarantee is made; and

(2) for a loan guarantee that is equal to or less than 65 percent of the loan, two and three-quarters percentage points above the prime rate on the day the loan guarantee is made.

Sec. 44.88.555. SERVICING OF GUARANTEED LOANS. (a) The financial institution that holds a loan guaranteed by the authority under AS 44.88.500 - 44.88.599 shall

(1) service the loan;

(2) exercise diligence in collecting amounts due under the loan; and

(3) comply with all requirements of the loan guarantee agreement.

(b) Amounts received toward satisfaction of a default on a loan guaranteed under AS 44.88.500 - 44.88.599 shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance has been repaid.

Sec. 44.88.560. POWERS OF THE AUTHORITY. The authority may

(1) adopt regulations to implement AS 44.88.500 - 44.88.-599;

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

(3) make and execute contracts and other instruments to

implement AS 44.88.500 - 44.88.599;

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

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

Sec. 44.88.599. DEFINITIONS. In AS 44.88.500 - 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. PROCEDURES GOVERNING PROGRAM REVIEW. (a) AS 44.66.050 and 44.66.060 apply to AS 44.88.500 - 44.88.599 (Business Assistance Program of the Alaska Industrial Development and Export Authority).

(b) The First Session of the Seventeenth Alaska State Legislature shall conduct the legislative oversight proceedings required by (a) of this section.

* Sec. 3. AS 44.88.500 - 44.88.599 are repealed July 1, 1991.

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

5-2095B
Cook
4/20/88

Original sponsor: Finance Committee

IN THE SENATE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR SENATE BILL NO. 502 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the economic stabilization program; and providing for an effective date."

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

* Section 1. FINDINGS AND PURPOSE. (a) The legislature finds that

(1) financial institutions that are chartered in the state and have a principal place of business in the state provide a substantial portion of consumer, housing, and small business loans in the state and are an important source of financing for the state's small businesses;

(2) these financial institutions have, in the last two years, lost a portion of their capital due to some circumstances not of their making;

(3) some of these financial institutions are having problems adequately serving the communities in which they maintain branches and fulfill their historic role of providing an alternative source of financing in the state's marketplace;

(4) the state can invest money in these financial institutions, thereby reducing the risk of future problems in the real estate market;

(5) these financial institutions will be able to increase their lending by a factor of at least 10 times the amount of money received by them from the state investments.

(b) The purpose of the legislature in establishing the economic stabilization program is to provide a source of money that can be invested in financial institutions that are chartered in the state and have a principal place of business in the state so that their capital can be in-

creased. The legislature intends to achieve this purpose by authorizing the Alaska Industrial Development and Export Authority to invest in interest-bearing debentures of these financial institutions which shall be repaid or redeemed at maturity.

* Sec. 2. ECONOMIC STABILIZATION PROGRAM. (a) The economic stabilization program is established in the Alaska Industrial Development and Export Authority. Under this program the authority is authorized to use up to $15,000,000 for investments in debentures issued by a financial institution with

(1) a charter issued by the state;

(2) its principal office located in the state; and

(3) assets that totaled on December 31, 1987, less than $150,000,000 when combined with assets of all its affiliates.

(b) The Alaska Industrial Development and Export Authority may not make an investment under this section until

(1) at least one public hearing has been held on the proposed investment; and

(2) the authority and the director of banking, securities and corporations make a written finding that the proposed investment is in the public interest.

(c) The Alaska Industrial Development and Export Authority may charge a fee in connection with investments under this section that the authority considers to be reasonable. The authority may only invest in debentures that

(1) pay interest quarterly or more often;

(2) bear interest at a rate established by the authority that is not less than one and one-half percent above the prime rate as determined by the authority; in establishing interest the authority shall consider the cost of brokered deposits;

invest at least 15 percent of the purchase price in areas of the state outside of metropolitan areas within three years after receipt of the purchase price. The authority shall by regulation define "metropolitan areas" for purposes of thi. subsection.

* Sec. 3. This Act is repealed July 1, 1990.

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

liability of the stockholders is valid until it is approved by the department.

(c) If a state bank fails to maintain its total adjusted capital accounts and reserves in an amount equal to the substandard assets as reported by the Federal Deposit Insurance Corporation or the state in a bank's latest report of examination, the department shall consider the failure as endangering the safety of the depositor and may direct the bank's directors to increase the capital accounts in an amount sufficient to cover substandard assets. (§ 3.202 ch 129 SLA 1951; am § 11 ch 230 SLA 1968; am §§ 6, 7 ch 63 SLA 1969; am § 21 ch 169 SLA 1978)

Effect of amendment. — The 1978 amendment substituted "paid-in capital" for "a paid-up capital," "$250,000" for "$100,000," "paid-in surplus" for "a paid-up surplus," and "of paid-in capital" for "of paid-up capital" in subsection (a), added the language beginning "and it is unlawful" to the end of subsection (a), deleted former subsection (b), designated former subsections (c) and (d) as present subsections (b) and (c), rewrote the second sentence of present subsection (b), and substituted "Federal Deposit Insurance Corporation" for "FDIC" in subsection (c).

Editor's note. — Section 55, ch. 169, SLA 1978, contains a severability clause.

C.J.S. reference. — 9 C.J.S. Banks and Banking § 58.

Sec. 06.05.307. Capital notes or debentures. (a) A bank organized under the laws of this state may, with the approval of stockholders owning two-thirds of the stock of the bank entitled to vote or without this approval if authorized by its articles of incorporation, issue convertible or nonconvertible capital notes or debentures with the written consent of the department. The principal amount of notes and debentures outstanding at any time may not exceed $33^1/_3$ per cent of the capital stock and surplus fund of the bank at the date of issue. The rate and term are subject to the approval of the department but in no event may the term be more than 20 years after the date of issue.

(b) No bank may retire capital notes or debentures if the retirement creates an impairment of its capital. Capital notes and debentures are subordinated in right of payment in the event of insolvency or liquidation of the bank to the prior payment of all deposits and all claims of other creditors except the holders of securities on a parity with the capital notes and debentures and the holders of securities expressly subordinated to the capital notes and debentures.

(c) Bank assets may not be pledged to secure capital notes and debentures but the bank may, for the security and the protection of the holders of the capital notes and debentures, agree through its board of directors to restrict the payment of dividends.

(d) The amount of outstanding notes and debentures not maturing within one year shall be added to the capital, surplus account, and undivided profits of the issuing bank for the purpose of determining the maximum amount that may be loaned by the bank as provided in § 205 of this chapter.

5-2103X
Bradley
5/6/88

Original sponsor: Judiciary Committee

IN THE SENATE

HOUSE CS FOR CS FOR SENATE BILL NO. 515 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to foreclosure of a deed of trust or a suit on a deed of trust note; and providing for an effective date."

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

* Section 1. AS 34.20.070(a) is amended to read:

(a) If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court, if the trustee has complied with the notice requirements of (b) of this section. <u>If the deed of trust is foreclosed judicially or the note secured by the deed of trust is sued on and a judgment is obtained by the beneficiary, the beneficiary may not exercise the nonjudicial remedies described in this section.</u>

* Sec. 2. AS 34.20 is amended by adding a new section to read:

Sec. 34.20.160. NOTICE OF OTHER REMEDIES. (a) When a lender uses a note as evidence of an obligation secured by a mortgage or deed of trust, the note must affirmatively advise the mortgagor or trustor and any other party bound by the note if the mortgagee or beneficiary wants the option to bring suit directly on the note to collect an

amount owing under the note without first foreclosing the mortgage or deed of trust. This option must be stated in writing within the note or as a separate document. If a note executed after the effective date of this Act fails to contain the notice specified in this section, the debt secured by the mortgage or deed of trust may be foreclosed under AS 09.45.170 - 09.45.220 or AS 34.20.070 - 34.20.135.

(b) If the mortgagee or beneficiary wishes to collect an amount owing under the note without first foreclosing the mortgage or deed of trust, the following language is sufficient in the note:

> The mortgagor or trustor (borrower) is personally obligated and fully liable for the amount due under the note. The mortgagee or beneficiary (lender) has the right to sue on the note and obtain a personal judgment against the mortgagor or trustor for satisfaction of the amount due under the note either before or after a judicial foreclosure of the mortgage or deed of trust under AS 09.45.170 - 09.45.-220.

* Sec. 3. APPLICABILITY. Section 1 of this Act applies to deed of trust foreclosure proceedings and suits on a deed of trust note that are in progress during, or that begin after, the effective date of this Act, unless the real property has been sold before the effective date of this Act under AS 34.20.080, or unless a judgment has been entered before the effective date of this Act in a judicial foreclosure action or judicial action for breach of contract arising out of the deed of trust.

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

5-2091B
Bradley
4/21/88

Original sponsor: Rules/House Members of the Joint Committee on Economic Recovery

IN THE HOUSE BY THE STATE AFFAIRS COMMITTEE

CS FOR HOUSE BILL NO. 555 (State Affairs)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to stabilize the market price of and the demand for residential housing in the state; and providing for an effective date."

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

* Section 1. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. (a) If the board of directors determines that it is in the best interest of the corporation, the corporation may take appropriate action under this section to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) make and execute necessary agreements and conveyances under which a borrower may exchange residential housing securing a mortgage loan owned, held, or sold by the corporation for other residential housing owned by the corporation;

(2) repurchase a mortgage loan sold or pledged by the corporation for the purpose of exercising a power conferred by this section;

(3) for the purpose of qualifying residential housing situated in a condominium project for the best available financing for mortgage loans, make and execute agreements and contracts necessary to encourage all owners who occupy units in a condominium project that is not eligible for financing under this chapter to exchange their

ownership interest for a condominium unit owned by the corporation in another project;

(4) make and execute appropriate agreements with insurers, investors, and guarantors concerning the temporary removal of residential housing owned by the corporation from the resale market;

(5) demolish residential housing owned by the corporation if the corporation determines that

(A) the housing is substandard compared to housing available on the open market;

(B) the housing cannot be converted to a public or charitable use; and

(C) there is a substantial oversupply of similar housing on the open market;

(6) convert residential housing owned by the corporation that is designed and constructed for owner occupancy to another beneficial use;

(7) make bulk sales of property owned by the corporation under procedures and terms the corporation determines are in the best interests of the corporation;

(8) provide financing under terms established by the board to promote the sale of residential housing owned by the corporation if the board of directors determines that the terms of financing do not work an excessive hardship on competing individual sellers of residential housing;

(9) invest funds of the corporation in the removal and disposal of substandard publicly-owned residential housing if the board of directors determines that the investment is prudent, properly secured, and in the long-term best interests of the corporation;

(10) create subsidiary entities to implement a power

conferred by this section and to provide insurance under AS 18.56.093 and 18.56.095; and

(11) take other actions necessary, convenient, or desirable to carry out the powers granted in this subsection.

(b) The corporation shall implement the powers conferred by (a) of this section by adopting regulations under AS 18.56.088.

* Sec. 2. AS 45.50.572 is amended by adding a new subsection to read:

(i) AS 45.50.562 - 45.50.596 do not prohibit activities of the Alaska Housing Finance Corporation to stabilize the market price of and demand for residential housing in the state under AS 18.56.210.

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

Offered: 5/7/88
Referred: Rules

5-2091X

Original sponsor: Rules/House Members of the Joint Committee on Economic Recovery

IN THE HOUSE BY THE FINANCE COMMITTEE

SENATE CS FOR CS FOR HOUSE BILL NO. 555 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to stabilize the market price of and the demand for residential housing in the state; and providing for an effective date."

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

* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

(1) the Alaska Housing Finance Corporation and other financial institutions currently hold large portfolios of foreclosed residential housing;

(2) these financial institutions should be permitted to cooperate in administering foreclosed properties to avoid further adverse effects on the state's real estate markets and to stabilize the state's banking system;

(3) it is in the state's best interests in certain instances to reduce the supply of residential housing in the state by demolishing substandard publicly owned residential housing;

(4) residential housing situated in condominium projects with high vacancy rates caused by defaults and foreclosures presents special problems because mortgage investors and insurers have established conditions relating to owner-occupancy that adversely affect the ability to sell or finance a mortgage loan secured by a condominium unit; and

(5) the maintenance of stable and orderly markets for the purchase and sale of residential housing in the state is essential to the

economy of the state and the welfare of its citizens.

(b) The legislature intends to improve the stability of the state's market for residential housing. It is desirable to prevent a precipitous decline in the price of available housing that will erode the tax base of municipalities and further weaken the state's financial institutions. The legislature intends to accomplish these ends by government regulation of matters relating to the sale and disposition of residential housing held by financial institutions, the Alaska Housing Finance Corporation, and federal agencies. By authorizing the Alaska Housing Finance Corporation to exercise the market stabilization powers enacted in sec. 2 of this Act, the legislature intends to immunize to the fullest extent possible the board of directors of the Alaska Housing Finance Corporation against potential liability under federal antitrust and state antitrust, competition, and trade practices laws arising from the exercise of stabilization powers.

* Sec. 2. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. (a) If the board of directors determines that it is in the best interest of the corporation, the corporation may take appropriate action under this section to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) make and execute necessary agreements and conveyances under which a borrower may exchange residential housing securing a mortgage loan owned, held, or sold by the corporation for other residential housing owned by the corporation;

(2) repurchase a mortgage loan sold or pledged by the corporation for the purpose of exercising a power conferred by this section;

(3) for the purpose of qualifying residential housing

situated in a condominium project for the best available financing for mortgage loans, make and execute agreements and contracts necessary to encourage all owners who occupy units in a condominium project that is not eligible for financing under this chapter to exchange their ownership interest for a condominium unit owned by the corporation in another project;

(4) make and execute appropriate agreements with insurers, investors, and guarantors concerning the temporary removal of residential housing owned by the corporation from the resale market;

(5) convert residential housing owned by the corporation that is designed and constructed for owner occupancy to another beneficial use;

(6) make bulk sales of property owned by the corporation under procedures and terms the corporation determines are in the best interests of the corporation;

(7) after giving due consideration to the interests of competing individual sellers of residential housing, provide financing under terms established by the board to promote the sale of residential housing owned by the corporation;

(8) invest funds of the corporation in the removal and disposal of substandard publicly owned residential housing if the board of directors determines that the investment is prudent, properly secured, and in the long-term best interests of the corporation;

(9) create subsidiary entities to implement a power conferred by this section and to provide insurance under AS 18.56.093 and 18.56.095; and

(10) establish the interest rate on a mortgage loan for residential housing in the rural areas of the state at one percent less than the interest rate determined under AS 18.56.098(g)(1) - (4);

(11) take other actions necessary, convenient, or desirable to carry out the powers granted in this subsection.

(b) The corporation shall implement the powers conferred by (a) of this section by adopting regulations under AS 18.56.088.

* Sec. 3. AS 45.50.572 is amended by adding a new subsection to read:

(i) AS 45.50.562 - 45.50.596 do not prohibit activities of the Alaska Housing Finance Corporation to stabilize the market price of and demand for residential housing in the state under AS 18.56.210.

* Sec. 4. (a) The stabilization fund is established in the Alaska Housing Finance Corporation. Notwithstanding AS 18.56.210(a)(8), the fund may be expended by the corporation to make a grant to a state agency to finance the cost of demolishing state-owned residential housing.

(b) It is the intent of the legislature that the board of directors of the Alaska Housing Finance Corporation transfer $2,700,000 from the Alaska Housing Finance revolving fund (AS 18.56.082) to the stabilization fund established in (a) of this section.

* Sec. 5. Section 4 of this Act is repealed July 1, 1991.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

Offered: 4/29/88
Referred: Rules

5-2091L

Original sponsor: Rules/House Members
of the Joint Committee
on Economic Recovery

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 555 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to stabilize the market price of and the demand for residential housing in the state; and providing for an effective date."

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

* Section 1. LEGISLATIVE FINDINGS AND INTENT. (a) The legislature finds that

(1) the Alaska Housing Finance Corporation and federal agencies currently hold large portfolios of foreclosed residential housing;

(2) these governmental agencies should be permitted to cooperate in administering foreclosed properties to avoid further adverse effects on the state's real estate markets and to stabilize the state's banking system;

(3) it is in the state's best interests in certain instances to reduce the supply of residential housing in the state by demolishing substandard publicly owned residential housing;

(4) residential housing situated in condominium projects with high vacancy rates caused by defaults and foreclosures presents special problems because mortgage investors and insurers have established conditions relating to owner-occupancy that adversely affect the ability to sell or finance a mortgage loan secured by a condominium unit; and

(5) the maintenance of stable and orderly markets for the purchase and sale of residential housing in the state is essential to the economy of the state and the welfare of its citizens.

(b) The legislature intends to improve the stability of the state's market for residential housing. It is desirable to prevent a precipitous decline in the price of available housing that will erode the tax base of municipalities and further weaken the state's financial institutions. The legislature intends to accomplish these ends by government regulation of matters relating to the sale and disposition of residential housing held by financial institutions, the Alaska Housing Finance Corporation, and federal agencies. By authorizing the Alaska Housing Finance Corporation to exercise the market stabilization powers enacted in sec. 2 of this Act, the legislature intends to immunize to the fullest extent possible the board of directors of the Alaska Housing Finance Corporation against potential liability under federal antitrust and state antitrust, competition, and trade practices laws arising from the exercise of stabilization powers.

* Sec. 2. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. (a) If the board of directors determines that it is in the best interest of the corporation, the corporation may take appropriate action under this section to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) make and execute necessary agreements and conveyances under which a borrower may exchange residential housing securing a mortgage loan owned, held, or sold by the corporation for other residential housing owned by the corporation;

(2) repurchase a mortgage loan sold or pledged by the corporation for the purpose of exercising a power conferred by this section;

(3) for the purpose of qualifying residential housing situated in a condominium project for the best available financing for

mortgage loans, make and execute agreements and contracts necessary to encourage all owners who occupy units in a condominium project that is not eligible for financing under this chapter to exchange their ownership interest for a condominium unit owned by the corporation in another project;

(4) make and execute appropriate agreements with insurers, investors, and guarantors concerning the temporary removal of residential housing owned by the corporation from the resale market;

(5) demolish residential housing owned by the corporation if the corporation determines that

(A) the housing is substandard compared to housing available on the open market;

(B) the housing cannot be converted to a public or charitable use; and

(C) there is a substantial oversupply of similar housing on the open market;

(6) convert residential housing owned by the corporation that is designed and constructed for owner occupancy to another beneficial use;

(7) make bulk sales of property owned by the corporation under procedures and terms the corporation determines are in the best interests of the corporation;

(8) provide financing under terms established by the board to promote the sale of residential housing owned by the corporation if the board of directors determines that the terms of financing do not work an excessive hardship on competing individual sellers of residential housing;

(9) invest funds of the corporation in the removal and disposal of substandard publicly owned residential housing if the

board of directors determines that the investment is prudent, properly secured, and in the long-term best interests of the corporation;

(10) create subsidiary entities to implement a power conferred by this section and to provide insurance under AS 18.56.093 and 18.56.095; and

(11) take other actions necessary, convenient, or desirable to carry out the powers granted in this subsection.

(b) The corporation shall implement the powers conferred by (a) of this section by adopting regulations under AS 18.56.088.

* Sec. 3. AS 45.50.572 is amended by adding a new subsection to read:

(i) AS 45.50.562 - 45.50.596 do not prohibit activities of the Alaska Housing Finance Corporation to stabilize the market price of and demand for residential housing in the state under AS 18.56.210.

* Sec. 4. (a) The stabilization fund is established in the Alaska Housing Finance Corporation. Notwithstanding AS 18.56.210(a)(9), the fund may be expended by the corporation to make a grant to a state agency to finance the cost of demolishing state-owned residential housing.

(b) It is the intent of the legislature that the board of directors of the Alaska Housing Finance Corporation transfer $2,700,000 from the Alaska Housing Finance revolving fund (AS 18.56.082) to the stabilization fund established in (a) of this section.

* Sec. 5. Section 4 of this Act is repealed July 1, 1991.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

SENATE AMENDMENT #2

BY: Josephson

TO: _____ SENATE BILL NO. _____

TO: CS HOUSE BILL NO. 555

AMENDMENT TO AMENDMENT NO. 1

After the semicolon (;) at the end of subparagraph (a), insert "and";

Delete subparagraph (b) and reletter subparagraph (c) accordingly.

(TURN IN ORIGINAL AMENDMENT TO SENATE SECRETARY'S OFFICE.
THE AMENDMENT WILL BE NUMBERED, COPIED AND DISTRIBUTED.)

BY: Josephson, Binkley, Duncan, Eliason, Hensley, and Zharoff

PROPOSED AMENDMENT TO HB 555 Senate Amendment #1

DELETE ON PAGE 3, LINES 27-29 AND REPLACE WITH:

(10) PURCHASE LOANS FROM THE HOUSING ASSISTANCE LOAN FUND (AS 44.47.380) IF AND ONLY IF:
(A) THE PAYMENTS OF PRINCIPAL AND INTEREST ON THE LOANS ARE DEPOSITED IN A SEPARATE FUND OF THE CORPORATION TO BE USED FOR THE PURPOSES, AND SUBJECT TO THE STANDARDS AND CRITERIA, OF AS 44.47.360-44.47.560 AS THOSE STATUTES PROVIDED ON THE EFFECTIVE DATE OF THIS ACT;

(B) THE LOANS ARE PURCHASED AT FAIR MARKET VALUE; AND

(C) THE CORPORATION HAS ESTABLISHED A SOURCE OF MORTGAGE INSURANCE FOR NEW LOANS SUBJECT TO THE PROVISIONS OF AS 44.47.360-AS 44.47.560.

as amended
18-1

LETTER OF INTENT

(CS HB 555 (Finance)

It is the intent of the Senate that an oversight committee composed of two members from each house be appointed by the President of the Senate and the Speaker of the House of Representatives. This committee shall advise and assist Alaska Housing Finance Corporation in stabilizing the real estate portfolio of the corporation.

Offered: 3/4/88
Referred: Judiciary and Finance

5-1644B

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

BY THE LABOR AND COMMERCE COMMITTEE

IN THE HOUSE

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

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

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

* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds that a sizeable proportion of the residents of the state have mortgages that exceed both the present value of the property and the present ability of the mortgagors of the property to make the payments agreed to in the past. The purpose of this Act is to direct the Alaska Housing Finance Corporation to use creative solutions to the present crisis in the housing market and, at the same time, to permit the corporation to seek the disposal of surplus residences within the corporation's inventory.

(b) The Alaska Housing Finance Corporation may permit mortgagors who are experiencing difficulty in meeting their mortgage payments to return the residence and its mortgage to the Alaska Housing Finance Corporation and to enter into a new mortgage for different residential property subject to the control of the corporation at rates that are more within the ability of the mortgagors.

(c) The Alaska Housing Finance Corporation may also permit a mortgagor who is willing to accept the responsibility for a larger mortgage to offer an existing residence and its mortgage to the corporation and enter into a new mortgage for different residential property subject to the control of the corporation.

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

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

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

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

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

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

could be as much as 15 mm.

wanted to be handled in equitable fashion -

suggests a cut - neg equity
How much underwater.
A. H.F.C. use cut - carry to new property —

Sen. Stevens ki

MEMORANDUM State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various Economic Recovery Proposals

FROM: J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.

2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

   The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1565 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1 3 of 7

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:

Loan Amount	Interest Rate	Payment
$ 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 nonjudicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

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, Lesislative 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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THE SUPREME COURT OF THE STATE OF ALASKA

MARSHALL LEE CONRAD and COLLEEN M. CONRAD, Appellants/Respondents, v. COUNSELLORS INVESTMENT CO., a partnership; BRIAN J. BRUNDIN; BILL LAWRENCE; MARCUS R. CLAPP; JERRY E. MELCHER; and JAMES M. POWELL, Appellees/Petitioners.	File No. S-1996/2102 O P I N I O N [No. 3275 - February 26, 1988]

Appeal in File No. S-1996 from the Superior Court of the State of Alaska, Fourth Judicial District, Fairbanks, Gerald J. Van Hoomissen, Judge. Petition for Review in File No. S-2102 from the Superior Court of the State of Alaska, Fourth Judicial District, Fairbanks, Jay Hodges, Judge.

Appearances: Barry Donnellan, Fairbanks, for Appellants/Respondents. Timothy R. Byrnes, James M. Gorski, Hughes, Thorsness, Gantz, Powell, and Brundin, Anchorage, for Appellees/ Petitioners.

Before: Matthews, Chief Justice, Rabinowitz, Compton, and Moore, Justices. [Burke, Justice, not participating.]

COMPTON, Justice.

This appeal presents two questions. The first question is whether secured creditors agreed to limit their remedy to nonjudicial foreclosure of their security. The second is whether the creditors' subsequent claim for judicial foreclosure of that security is precluded by the judgment in a prior suit on the note.

I. FACTUAL AND PROCEDURAL BACKGROUND

Counsellors Investment Co. (Counsellors)[1] purchased commercial property in Fairbanks from Marshall Lee Conrad and Colleen M. Conrad. In partial payment for the property, Counsellors gave the Conrads a note secured by a second deed of trust.

Counsellors eventually stopped making payments on the note and offered to reconvey the property to the Conrads in satisfaction of the debt. The Conrads declined the offer and sued Counsellors and its partners for a personal judgment on the note (Conrad I).

The superior court entered summary judgment for Counsellors on the ground that the Conrads' "remedy under their note and deed of trust is that provided in Paragraph B6 of the deed of trust and in AS 34.20.070-.135, and that [the Conrads] may not

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1. Counsellors is a general partnership. The partners are Brian Brundin, Bill Lawrence, Marcus Clapp, Jerry Melcher and James Powell.

maintain a suit on the promissory note alone;" in other words, the Conrads' remedy was limited to nonjudicial foreclosure of the security. Since the judgment form submitted by Counsellors was not consistent with some of the court's oral conclusions, the Conrads moved to amend the judgment to clarify whether they had the right to foreclose judicially. The court denied the motion and entered an order prohibiting the Conrads from exercising "any remedy inconsistent with the deed of trust." However, the court struck language in the proposed order which expressly precluded an action for judicial foreclosure.

The Conrads appealed the judgment in Conrad I and filed a complaint for judicial foreclosure and a deficiency judgment (Conrad II). Counsellors moved to dismiss the complaint, arguing that the Conrads' claim for judicial foreclosure was barred by the judgment in Conrad I. The superior court denied the motion to dismiss because "the question of judicial foreclosure was not before the court in the [prior] action" and "the right of the Conrads to maintain this action for judicial foreclosure of a deed of trust is granted by AS 09.45.170." Counsellors petitioned for review. We granted review and consolidated the cases for appeal.

II. CONRAD I: DID THE CREDITORS AGREE TO LIMIT THEIR REMEDY TO NONJUDICIAL FORECLOSURE OF THE SECURITY?

The Conrads argue that they have the right initially to ignore their security and sue on the note, or to file a complaint

for judicial foreclosure. Counsellors does not dispute that a secured creditor generally has that option; however, it contends that the deed of trust expressly limits the Conrads' remedy to nonjudicial foreclosure.

In Moening v. Alaska Mutual Bank, __ P.2d __, Op. No. 3274 at 6 (Alaska, February 26, 1988), we held that absent an agreement to the contrary, a secured creditor has the option whether to sue on the note or foreclose the security. If the creditor sues on the note and obtains a personal judgment which is returned unsatisfied, the creditor may then foreclose the security. Id.; AS 09.45.200.[2] In determining whether the parties agreed to limit the creditor's remedies, the note and trust deed are construed together and interpreted to carry out the reasonable expectations of the parties. __ P.2d at __, Op. No. 3274 at 7.

The deed of trust note here in issue states that Counsellors "promise(s) to pay" the Conrads the loan amount. In the event of default, the Conrads may at once declare the entire debt due and payable. The note does not indicate that

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2. AS 09.45.200 provides:

> During or after the pendency of an action for the recovery of a debt secured by a lien mentioned in AS 09.45.170, an action cannot be maintained for the foreclosure of the lien unless judgment is given in that action that the plaintiff recover the debt or a part of it, and an execution issued in the action against the property of the defendant is returned unsatisfied in whole or in part.

Counsellors is not liable for payment; therefore, the Conrads are entitled to sue on the note or foreclose judicially unless the deed of trust provides otherwise.

Counsellors argue that Paragraph B6 of the deed of trust limits the Conrads' remedy to nonjudicial foreclosure:

> Upon default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary. In the event of default Beneficiary shall execute or cause the Trustee to execute a written notice of such default and of his election to cause to be sold the herein described property to satisfy the obligation hereof, and shall cause such notice to be recorded in the office of the recorder of each recording precinct wherein said real property of [sic] some part thereof is situated.

(Emphasis added). Counsellors reasons that the language "Beneficiary shall execute" must be construed as a limitation on the Conrads' right to do anything else.[3] However, we believe that the only logical interpretation of this language requires the Conrads to execute the notice only after they have "elected" the remedy of nonjudicial foreclosure. The Conrads are entitled to exercise any other remedies permitted by law.

We conclude that the deed of trust does not limit the Conrads to the remedy of nonjudicial foreclosure. The trust deed

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3. See Fowler v. City of Anchorage, 583 P.2d 817, 820 (Alaska 1978) ("Unless the context otherwise indicates, the use of the word 'shall' denotes a mandatory intent.")

does not expressly preclude a suit on the note. The fact that a creditor may foreclose nonjudicially does not imply that it may not foreclose judicially.[4] Because the Conrads' remedies were not expressly waived in the note or deed of trust, they had the right to sue on the note or foreclose the security. Therefore, the superior court erred as a matter of law when it entered summary judgment against the Conrads on their right to sue on the note.[5]

---

4. AS 34.20.070(a) provides in part:

> If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court, . . .

(Emphasis added).

5. The superior court appeared concerned that the Conrads filed suit on the note without providing Counsellors any notice of default. Paragraph B6 of the deed of trust requires the Conrads to record a notice of default as one of the steps leading to nonjudicial foreclosure. However, no notice is required if the Conrads pursue one of the other remedies available to them as secured creditors. See Smith v. Certified Realty, 585 P.2d 293, 294 (Colo. App. 1978), aff'd, 575 P.2d 1043 (Colo. 1979) (debtor has no equitable right to cure default in an action brought solely on a promissory note).

III. CONRAD II: IS THE CREDITORS' CLAIM FOR JUDICIAL FORECLOSURE PRECLUDED BY THE PRIOR SUIT ON THE NOTE?

Counsellors argues that the Conrads' claim for judicial foreclosure is precluded by the judgment on the note. The Conrads contend that judicial foreclosure was not addressed in Conrad I.

We described the claim preclusive effect of a prior judgment in State v. Smith, 720 P.2d 40, 41 (Alaska 1986), as follows:

> Under the doctrine of res judicata (claim preclusion), a judgment on the merits of a controversy bars subsequent suits between the same parties asserting the same claim for relief when the matter raised was or could have been decided in the first suit. Pankratz v. State, Department of Highways, 652 P.2d 68, 74 (Alaska 1982); Calhoun v. Greening, 636 P.2d 69, 71-72 (Alaska 1981). The Restatement (Second) of Judgments § 24(a) (1982) states that the claim extinguished by the first judgment:
>
> > includes all rights of the plaintiff to remedies against the defendant with respect to all or any part of the transaction, or series of connected transactions, out of which the action arose.
>
> A mere change in the legal theory asserted will not avoid the preclusive effect of the first judgment. Pankratz, 652 P.2d at 74.

Arguably, Conrad II is barred under this reasoning. Conrad I involved the same parties and resulted in a judgment on the merits. The Conrads could have joined a claim for judicial

foreclosure with their claim for judgment on the note. Thus, it is irrelevant whether the Conrad I court ruled on this issue.[6]

On the other hand, the common law permits a creditor to judicially foreclose a security following an action on the note. E.g., Foothills Holding Corp. v. Tulsa Rig, Reel & Mfg., 393 P.2d 749, 751 (Colo. 1964); Berg v. Liberty Fed. Sav. & Loan Ass'n, 428 A.2d 347, 348-49 (Del. 1981); Klondike, Inc. v. Blair, 211 So. 2d 41, 42-43 (Fla. App. 1968). Moreover, AS 09.45.200 permits an action for judicial foreclosure "after the pendency of an action for the recovery of a [secured] debt," provided that the creditor prevails in the prior action and its judgment remains unsatisfied in whole or in part.[7]

We believe that this situation is best viewed as an express statutory exception to general principles of res judicata. A creditor need not join its claim for judicial foreclosure in the suit for recovery on the note at the risk of losing its security. In one sense, the subsequent foreclosure may be considered a special form of execution on the prior

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6. To the extent that Counsellors argues that this issue is precluded by Conrad I, it is relevant whether the first court ruled on the judicial foreclosure question. We agree with the Conrads that the superior court did not rule that the Conrads are limited to nonjudicial foreclosure; despite Counsellors' best efforts to obtain a decision on this question, the court left it unresolved.

7. See AS 09.45.200, supra note 2.

judgment for the creditor. Under AS 09.45.200, the creditor may bring these claims consecutively.[8]

The decision of the superior court in File No. S-1996 is REVERSED: the decision in File No. S-2102 is AFFIRMED. The cases are REMANDED to the superior court for further proceedings. The Conrads may elect whether to proceed with the suit on the note or the foreclosure.

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8. However, when the creditor resorts first to judicial foreclosure, failure to join its claim for a deficiency judgment may result in claim preclusion. See AS 09.45.170; see also Darnell v. Denton, 669 P.2d 981, 983 (Ariz. App. 1983); but see Perpetual Bldg. & Loan Ass'n v. Braun, 242 S.E.2d 407 (S.C. 1978).

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THE SUPREME COURT OF THE STATE OF ALASKA

HAROLD J. MOENING and COLLEEN M. MOENING, Appellants, v. ALASKA MUTUAL BANK, Appellee.	File No. S-1980 O P I N I O N [No. 3274 - February 26, 1988]

Appeal from the Superior Court of the State of Alaska, Third Judicial District, Anchorage, Milton M. Souter, Judge.

Appearances: Francis J. Nosek, Jr. and Kelly Fisher, Anchorage, for Appellants. Gordon F. Schadt and Milford H. Knutson, Anchorage, for Appellee.

Before: Matthews, Chief Justice, Rabinowitz, Compton, and Moore, Justices. [Burke, Justice, not participating.]

COMPTON, Justice.

This appeal presents three questions. The first question is whether a secured creditor initially may ignore the security and sue for a personal judgment on the underlying debt, absent an agreement to the contrary. The second is whether the creditor agreed to limit its remedy to foreclosure of the security. The third is whether the suit on the debt extinguishes the security as a matter of law.

I. FACTUAL AND PROCEDURAL BACKGROUND

Harold Moening and Ronald Rivard became business associates in 1983. Prior to their association, Rivard was the sole shareholder of Quest Enterprises, Inc. (Quest). Moening agreed to guarantee Quest's debts to Alaska Mutual Bank (AMB) in exchange for a 40% interest in the business.[1]

To effectuate the guarantee, Moening executed a $700,000 deed of trust note in favor of AMB.[2] The note was secured by a deed of trust on Moening's home, and on the property which originally secured the Quest obligations extinguished by the consolidation. Moening defaulted. Later Moening executed a secured promissory note for $33,000 to guarantee the debt for

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1. Colleen Moening is a named defendant because she co-signed many of the obligations with her husband Harold Moening.

2. The principal was payable on demand in a single installment. Absent a demand, the note was due on May 7, 1985.

property purchased by Quest in Peters Creek.[3] Moening defaulted on this note as well.

AMB filed a complaint against Moening seeking a personal judgment on the notes. It did not foreclose the deeds of trust nor attempt to exercise the power of sale. The superior court entered summary judgment for AMB, concluding that AMB had the right initially to ignore its security and sue on the note. The court entered a money judgment for $733,000 in principal due on the notes, plus accrued interest, costs, and attorney's fees. In addition, the court ordered that the notes should be filed with the court, marked "Conditionally Cancelled" and, "if subsequent execution on the judgment does not satisfy it, the amount by which it is not satisfied may form the basis of judicial or non-judicial foreclosure of the collateral securing the promissory notes."

Moening appeals on the grounds that (1) as a matter of law, AMB must exhaust the security first; (2) AMB agreed to exhaust the security first; and (3) AMB waived its security by suing on the notes.[4] For the reasons hereinafter set forth, we affirm the judgment of the superior court.

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3. The note was secured by a deed of trust identical to that securing the $700,000 note. The trust deed is not part of the record.

4. Moening also argues that AMB failed to join indispensable parties (Rivard and Quest). Alaska R. Civ. P. 19(b). This is an action to collect a debt. Neither Rivard nor

(Footnote Continued)

II. THE RIGHTS OF A SECURED CREDITOR

Moening argues that a secured creditor may not ignore the security and sue on the underlying obligation; it must first exhaust the security. AMB contends that a secured creditor has the option to foreclose or sue on the note, and that it may pursue these remedies concurrently or consecutively.

Statutes provide a secured creditor with a variety of remedies when the debtor defaults. For example, the creditor may bring an action for judicial foreclosure. AS 09.45.170.[5] The creditor is then entitled to a deficiency judgment against the debtor. Id.; Smith v. Shortall, 732 P.2d 548, 549 (Alaska 1987); Suber v. Alaska State Bond Comm., 414 P.2d 546, 555-56 (Alaska

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(Footnote Continued)

Quest was a party to the note and neither has an interest in this lawsuit. Civil Rule 19(a)(2). Moreover, their absence does not preclude granting complete relief between Moening and AMB. Civil Rule 19(a)(1). The fact that Moening may have claims against Rivard arising from other agreements, or that Rivard and Quest may have interests of record in the security, does not render them indispensable to AMB's suit on the note.

5. AS 09.45.170 provides:

> A person having a lien upon real property, other than that of a judgment, whether created by mortgage or otherwise, to secure a debt or other obligation may bring an action to foreclose the lien. In the action, the court may direct the sale of the encumbered property or a portion of it and the application of the proceeds of the sale to the payment of costs, expenses of sale, and the amount due the plaintiff. The judgment shall also determine the personal liability of a defendant for the payment of the debt secured by the lien and be entered accordingly.

Similar to deficiency

1966). The debtor has a statutory right of redemption for twelve months after the sale is confirmed. AS 09.45.190, 09.35.250.

The creditor may elect to conduct a nonjudicial foreclosure sale if the deed of trust provides for this remedy. Suber, 414 P.2d at 555-56; AS 34.20.070(a).[6] The creditor is not entitled to a deficiency judgment following a nonjudicial foreclosure. Smith, 732 P.2d at 549; AS 34.20.100.[7] The debtor is not entitled to redeem the property, unless the deed of trust provides otherwise. AS 34.20.090(a).

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6. AS 34.20.070(a) provides in part:

> If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court . . . .

(Emphasis added).

7. AS 34.20.100 provides:

> When a sale is made by a trustee under a deed of trust, as authorized by AS 34.20.070 -- 34.20.130, no other or further action or proceeding may be taken nor judgment entered against the maker or the surety or guarantor of the maker, on the obligation secured by the deed of trust for a deficiency.

Statutes also refer to an action on the underlying obligation. Alaska Statute 09.45.200 provides:

> During or after the pendency of an action for the recovery of a debt secured by a lien mentioned in AS 09.45.170, an action cannot be maintained for the foreclosure of the lien unless judgment is given in that action that the plaintiff recover the debt or a part of it, and an execution issued in the action against the property of the defendant is returned unsatisfied in whole or in part.

The clear implication of this section is that the creditor may sue directly on the note without first foreclosing the property. Moreover, if the creditor prevails in the legal action and cannot satisfy the judgment against the debtor's personal property, it may then maintain an action for judicial foreclosure of the security.

The superior court order also permits AMB to foreclose nonjudicially if the judgment on the note is returned unsatisfied. Moening argues that, even if AMB initially may ignore the security, it may not foreclose nonjudicially after obtaining a judgment on the note.

The anti-deficiency statute prohibits a deficiency judgment following exercise of a power of sale; however, it does not preclude the exercise of a power of sale following a judgment on the note. AS 34.20.100, supra note 7. Under the common law, a prior suit on the note does not preclude subsequent judicial or nonjudicial foreclosure of the security. Foothills Holding Corp. v. Tulsa Rig, Reel & Mfg., 393 P.2d 749, 751 (Colo. 1964); Berg

common law.

v. Liberty Fed. Savings & Loan, 428 A.2d 347, 348-49 (Del. 1981); Klondike, Inc. v. Blair, 211 So. 2d 41, 42-43 (Fla. App. 1968). The doctrine of election of remedies does not apply, because foreclosure and a suit on the note are not inconsistent remedies. Klondike, 211 So. 2d at 42; Norwood Realty v. First Fed. Savings & Loan, 109 S.E. 2d 844 (Ga. App. 1954); Skach v. Lydon, 306 N.E. 2d 482, 485 (Ill. App. 1973). See also 55 Am. Jur. 2d Mortgages § 543, at 523 (1971).

We conclude that the statutes permit a secured creditor initially to ignore the security and sue on the note. Once the creditor obtains a personal judgment which is returned unsatisfied in whole or in part, the creditor may judicially or nonjudicially foreclose the security.[8]

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8. In Smith v. Shortall, 732 P.2d at 549, we held that a spouse who nonjudicially foreclosed a deed of trust securing her former husband's property division obligation was not entitled to a deficiency judgment under AS 34.20.100. In dicta we stated:

> The obligation was evidenced by a promissory note and secured by a deed of trust. When [Debtor] defaulted on the obligation, [Creditor] had several options. She could have waived the security of the deed of trust and sued on the note. Or, she could have brought an action to judicially foreclose the deed of trust, retaining the right to recover a deficiency judgment. AS 09.45.170; Suber v. Alaska State Bond Committee, 414 P.2d 546, 555 (Alaska 1966). Instead, [Creditor] elected the remedy of non-judicial foreclosure. By electing this remedy, [Creditor] lost her right to recover a deficiency judgment against [Debtor].

(Footnote Continued)

III. THE PARTIES' AGREEMENT

When a note is executed and secured by a deed of trust, the documents are read and construed together as one contract to ascertain the parties' intent. In re Sutton Inv., 266 S.E.2d 686, 689 (N.C. App. 1980), rev. denied, 301 N.C. 90 (1980); Herrington v. Murphy, 446 P.2d 595, 597 (Okla. 1968). The contract is interpreted to give effect to the reasonable expectations of the parties, looking to the language of the contract, the circumstances surrounding its adoption, and case law interpreting similar agreements. Craig Taylor Equip. v. Pettibone Corp., 659 P.2d 594, 597 (Alaska 1983). Ambiguities are construed in favor of the debtor. Patton v. First Fed. Sav. & Loan Ass'n, 578 P.2d 152, 156 (Ariz. 1978).

Any agreement between the parties that the creditor will not seek a deficiency judgment and will look only to the security is enforceable. Stern v. Itkin Bros., 385 N.Y.S.2d 753, 754 (N.Y. Sup. 1975).[9] Such an agreement is enforced even when the security is destroyed by foreclosure of a superior lien. The

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(Footnote Continued)

Id. We disapprove of this dicta insofar as it suggests that a suit on the note constitutes a legal waiver of the security.

9. A rider to the Stern mortgage provided in part:

> On default hereunder, no deficiency judgment shall be sought, rendered or entered against the mortgagor and mortgagees will look only to the mortgaged premises.

385 N.Y.S.2d at 754

formerly secured inferior creditor is not entitled to sue on the note. Laclede Inv. Corp. v. Kaiser, 596 S.W.2d 36, 39 (Mo. App. 1980).[10]

The $700,000 obligation was evidenced by a "deed of trust note." By its terms, Moening expressly promised to pay principal and interest. The note also stated:

> [E]very party signing . . . this note hereby . . . binds himself thereon as a principal, . . . and promises, if this note is not timely paid and is placed in the hands of an attorney for collection, or suit is brought hereon, to pay all costs of collection, including reasonable attorney's fees.

(Emphasis added). The note constitutes a personal obligation of Moening. It does not preclude AMB from suing directly on the note.

The $33,000 debt is evidenced by a "single payment promissory note" in which Moening expressly promised to pay principal and interest. In case of default, Moening agreed to pay AMB's collection costs and attorney's fees. It does not limit AMB's ability to sue Moening.

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10. The Kaiser note contained the following provision:

> No personal liability shall be asserted or be enforceable against the maker, it being intended that the sole remedy of the holder hereof be by the foreclosure of the Deed of Trust and Security Agreement . . . .

596 S.W.2d at 39 n.1.

The deeds of trust securing the loans contain a power of sale provision permitting nonjudicial foreclosure. The trust deeds also expressly allow judicial foreclosure.[11] They do not limit the creditor's right to ignore the security and sue on the note.

IV. CANCELLING THE NOTES AND TRUST DEEDS

When AMB submitted a proposed judgment on the notes, Moening objected because the judgment did not include an order cancelling the notes and deeds of trust under Civil Rule 78(d).[12] AMB submitted the original notes to the court, but did not submit the trust deeds. AMB requested that the notes not be cancelled in case the personal judgment was returned unsatisfied. The superior court ordered that the notes be marked "Conditionally

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11. The trust deed states in part:

> In the event that this Deed of Trust is foreclosed as a mortgage and said property sold as a foreclosure sale [the purchasers may make necessary repairs or alterations] . . . .

12. Alaska R. Civ. P. 78(d) provides:

> In all cases in which a judgment upon a written instrument is entered, such instrument shall be filed with the court, and unless the court otherwise orders, it shall be cancelled by marks and writing upon its face. The clerk shall retain the same in the files unless otherwise directed by the court.

Cancelled." Moening argues that the superior court erred by failing to unconditionally cancel the notes and trust deeds, entering the order without adequate briefing, and entering the order after the notice of appeal was filed.

When judgment is entered on a written instrument, the instrument shall be filed with the court and cancelled on its face, unless the court orders otherwise. Civil Rule 78(d). We perceive no reason why a secured note should not be subject to this general rule. The note merges with the judgment, and any further proceedings will be to enforce the judgment rather than the note.

In contrast, the deeds of trust should neither be filed with the court nor cancelled:

> [A] judgment recovered upon a debt <u>secured</u> by a mortgage does not merge the mortgage nor operate as a discharge, abandonment, or release of the mortgage security.
>
> . . . The mortgage continues to secure such debt and is not released, discharged, or satisfied by a judgment on the debt, note, or bond. Such judgment stands <u>subordinate</u> to the mortgage lien.

<u>Silver v. Williams</u>, 175 A.2d 673, 676 (N.J. Super. Ct. Ch. Div. 1961) (emphasis in original), <u>rev'd on other grounds</u>, 178 A.2d 649 (N.J. Super. Ct. App. Div. 1962). In essence, the creditor ends up with a secured judgment.

Although the superior court could have simply cancelled the notes, it had discretion under the rule to order otherwise.

The conditional cancellation order does not constitute an abuse of that discretion.[13]

AFFIRMED.

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13. The record does not support Moening's assertion that the conditional cancellation order was entered after Moening filed a notice of appeal. The order was entered on January 7. The notice of appeal contains an initial filing stamp of December 19; however, that stamp was cancelled and the notice shows a second stamped filing date of January 7.

Memos

Alaska State Legislature

Official Business

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

MEMORANDUM

January 27, 1988

TO: Senate Members
Joint Economic Recovery Committee

FROM: Senator Arliss Sturgulewski, Co-Chairman
Senator Lloyd Jones, Co-Chairman
Joint Economic Recovery Committee

RE: Joint Economic Recovery Committee

The Senate members will meet on Friday, January 29 at 1:30 pm in the Butrovich room for an organizational meeting.

The Joint Economic Recovery Committee (both Senate and House) will meet at 3:30 pm on Friday, January 29 and at 3:30 pm on Monday, February 1 in the Senate Finance Committee Room.

The schedule will be as follows:

Friday Alaska Economic Overview
-Commissioner Tony Smith
-Dave Rose, Alaska Permanent Fund
-Lee Gorsuch, ISER

Monday Alaska Economic Overview
-Commissioner Tony Smith - R.E.I.T.'s
-Others to be announced

Senate Members: Senators Coghill, Eliason, Faiks, Halford, Josephson, and Zharoff

Alaska State Legislature

Official Business

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Joint Economic Recovery Committee

January 29, 1988

Senate Members	House Members
Senator Sturgulewski, Co-Chairman	Representative Gruenberg, Chairman
Senator Jones, Co-Chairman	
Senator Coghill	Representative Adams
Senator Eliason	Representative Brown
Senator Faiks	Representative Boucher
Senator Halford	Representative Ulmer
Senator Josephson	Representative Koponen
Senator Zharoff	Representative Navarre
	Representative Miller
	Representative Rieger

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JOINT COMMITTEE ON ECONOMIC RECOVERY
January 29, 1988
Senate Finance Committee Room

3:30 -- Opening Remarks
Senator Arliss Sturgulewski (Senate Co-chair)
Senator Lloyd Jones (Senate Co-Chair)
Representative Max F. Gruenberg, Jr. (House Chair)

3:45 -- COMMISSIONER TONY SMITH (Commerce and Economic Development)

4:10 -- LEE GORSUCH (Institute of Social and Economic Research)

4:35 -- DAVE ROSE (Alaska Permanent Fund Corporation

5:00 -- Meeting adjourned

Alaska State Legislature

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 9981

Senate Joint Committee on Economic Recovery

Memorandum

To: Committee Members

From: Senator Jones and Senator Sturgulewski, Co-Chairpersons

Date: February 2, 1988

Subject: Areas of responsibility

At the January 29, 1988 meeting of the Senate Joint Committee on Economic Recovery, the following areas of responsibility were accepted:

Senator Coghill	- review military PX facility policies relating to the availability of PX service to civilians and its affect on local private businesses.
Senator Faiks	- develop draft legislation on guaranteed loan program fashioned after SBA Small Business Loan Program.
	- develop draft legislation on the bridge bank concept.
Senator Halford	- review AIDA policies on caps and delinquency rates for banks.
Senator Jones and Senator Sturgulewski	- develop list of existing legislation that offers short term solutions.
	- develop list of proposed legislation that can be finalized and offered this session.

The Senate committee will meet again early next week. As soon as we can determine an acceptable time and place, it will be announced. If you have invited any speakers on topics of responsibility please advise Senator Sturgulewski's office.

Alaska State Legislature

Official Business

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

Senate Joint Committee on Economic Recovery

Memorandum

To: All Senate Members

From: Senator Jones and Senator Sturgulewski, Co-Chairpersons

Date: February 2, 1988

Subject: Legislation

The Joint Committee on Economic Recovery held its first meeting on January 29, 1988. This committee was created by SCSHCR32(fin). Membership on the committee was appointed by Senator Faiks and Representative Grussendorf respectively. A membership roster is attached for your information. The charge of the committee is to confront with workable solutions the "severe economic crisis that has led to bankruptcies, foreclosures, business failures, and the loss of homes, property, and millions of dollars to Alaskans".

In order to facilitate the workings of the committee, a list of general topic areas has been developed. The topic areas are:

Business, Banking and Finance
Resource Development
Housing

We are compiling a list of legislation dealing with economic recovery. We invite you to submit to the committee a list of up to five pieces of legislation currently under consideration that you would like to see adopted this session that deal with these areas. If you have ideas or areas of interest that have been developed into proposed legislation that could be adopted this session, we encourage you to submit them at this time also. Because of the time constraints of session, your response is needed by Monday, February 8, 1988 and should be sent to Senator Sturgulewski's office.

Alaska State Legislature

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Juneau, Alaska 99811

Joint Economic Recovery Committee

January 29, 1988

Senate Members	House Members
Senator Sturgulewski, Co-Chairman	Representative Gruenberg, Chairman
Senator Jones, Co-Chairman	
Senator Coghill	Representative Adams
Senator Eliason	Representative Brown
Senator Faiks	Representative Boucher
Senator Halford	Representative Ulmer
Senator Josephson	Representative Koponen
Senator Zharoff	Representative Navarre
	Representative Miller
	Representative Rieger

Alaska State Legislature

Official Business

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

MEMORANDUM

February 5, 1988

TO: All Senators

FROM: Senators Jones and Sturgulewski, Co-Chairmen
Senate Joint Committee on Economic Recovery

RE: Meeting Date

You are invited to attend our next meeting which will be held on Tuesday, February 9, 1988, in the Senate Finance Room. The meeting will begin at 12 noon and end by 1:30 p.m.

On the agenda will be representatives of FDIC from San Francisco and Anchorage. They will brief the committee on developments regarding liquidation of failed bank assets.

Thank you.

Alaska State Legislature

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

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

MEMORANDUM

February 11, 1988

TO: Senator Jan Faiks
President of the Senate

Senator Lloyd Jones, Co-Chairman
Joint Committee on Economic Recovery

FROM: Arliss Sturgulewski, Co-Chairman
Joint Committee on Economic Recovery

RE: Introduction of legislation by the Joint Committee on Economic Recovery

According to Tam Cook of the Legislative Legal Services, the Joint Committee on Economic Recovery may introduce legislation if a majority of the Senate members on the committee and a majority of the House members vote to approve the introduction of specific legislation. Neither the Senate members nor the House members may introduce legislation without the consent of a majority of the other house members.

The basis for this requirement is contained in SCS HCR 32(Fin) which is attached.

Attachment

Senate Joint Economic Recovery Committee

Wednesday, February 17, 1988

AGENDA

1.	Chair-persons remarks:	Senator Jones Senator Sturgulewski
2.	Executive Session	
3.	Work Session	

MEMORANDUM

TO: Senator Sturgulewski

FROM: Senator Jones

RE: Tonight's meeting

I have a few items I would like to see put on tonight's meeting agenda:

OK 1) We should go over legislation the committee wants to introduce.

OK 2) We need to develop questions to ask FDIC. They will be here next week, but want their questions ahead of time.

OK 3) We should discuss and analyze the "Bridge Bank".

OK 4) We should discuss the 2% reduction on home loans--and how much it will cost. If we do it, it should be for all loans on primary residences, not just AHFC financed loans.

OK 5) We should go over correspondence we have received from the professionals regarding economic recovery issues. I have attached a letter Jan received from an Anchorage Realtor addressing these issues.

OK 6) Lastly, I would like to discuss placing a 3 year Sunset on all of this legislation so we do not create another government boondoggle.

Thanks.

FEB 22 1988

H. Norman Rokeberg
6534 Lakeway Drive
Anchorage, AK 99502

February 18, 188

Senator Jan Faiks
Alaska State Senate
P.O. Box V
Juneau, AK 99811

Subject: Economic Recovery
Commercial Real Estate

Dear Ms. Faiks:

Attached is an outline of a plan to help stop the downward trend in Alaska's commercial real estate market. In a nutshell, it calls for "imploding" the failed inventory of properties held by the Alaska Industrial Development and Export Authority (AIDEA) on it's existing equity.

A brief overview shows Anchorage's real estate problems are a result of over supply and diminished demand. The best statistical example can be seen in the office space market.

Presently, Anchorage has an inventory of 7.8 million square feet, of which 1.7 million is vacant, or 21.7 percent. (These are my preliminary year end numbers.)

During the past 15 years over 6 million square feet of office space was built with annual absorption of approximately 350,000 square feet per year. During the past two years we have experienced a net negative absorption of more than 400,000 square feet.

The drop in demand has depressed rent levels by more than 33%, for example, Class "A" rates have decreased from ranges of $2.35 to $1.50 per square foot per month. Income properties are valued on their ability to produce revenues. Warehouse and strip retail rents have dropped by as much as 40 to 50 percent.

AIDEA, in concert with poor commercial banking practices, was a primary cause of the over supply problem. When traditional mortgage lenders were constrained by prime rates of eighteen percent and more, the State of Alaska clearly meddled with market forces by stimulating construction with IDB subsidized loans. Buildings mushroomed and caused the 1985 real estate recession prior to the oil collapse.

I remain a firm believer in a free market, however, once the State disrupts that market with "economic engineering", it has a social as well as an economic responsibility to help correct its mistake.

Please call me at 563-5500 if you have any questions.

Sincerely,

H. Norman Rokeberg
Associate Broker
Jack White Company

HNR/sc

enclosure

cc: Tony Smith
Dave Rose
Ron Lehr

ALASKA ECONOMIC RECOVERY PROGRAM

Demolition of Commercial Property Alternative

Intent: Use equity of AIDEA to pay for demolition of properties foreclosed upon by AIDEA.

Purpose: Implementation of this public policy will: 1) diminish the supply of commercial property; 2) be a clear statement to the private sector that the state is acting to correct a recognized economic problem; and 3) minimize the demand on the public treasury.

Rationale: The State of Alaska's AIDEA was a proximate cause in creating an over supply of commercial properties. During the boom period of 1982 to 1985, AIDEA subsidized construction of more than 300,000 square feet of office space in the Anchorage market.

Assumptions: Given bond obligations in the 300 million range and an equity of approximately 300 million, AIDEA has the existing resources to assist in curing a problem it helped to create.

Suggested Mechanics: 1) As a first step AIDEA would endeavor to "work out" the problem loan; 2) failing a satisfactory work out, AIDEA would accept a deed-in-lieu or foreclose on property; 3) if a statutory foreclosure is instituted, AIDEA would attach the existing income stream (by assignment of rent provisions) to avoid "creaming" by the borrower; 4) after a suitable period (say six (6) months) if the property could not be resold for cash (i.e., non-AIDEA financing) then the building would be scheduled for demolition; 5) any existing tenants would be relocated and the leases terminated. In the event of relocation, the tenant would be granted a maximum ninety (90) day rent abatement to facilitate relocation; 6) upon completion of the above steps, AIDEA would contract for the total demolition of the building and

foundation; 7) AIDEA would bear the interim holding costs and demolition; 8) participating private lenders would be required to write off their portion of the loan, and 9) the land would be held by AIDEA as part of its asset base until market conditions allow for sale.

Legislative Action: The legislature would adopt the above procedures, together with a public directive prohibiting AIDEA from lending on commercial properties in urban areas anytime in the future.

Conclusions: A similar policy directive could be applied to residential housing loans held by AHFC.

This alternative is not a bail out, as it applies only to failed properties. However, it may aid the liquidity problem by encouraging deed-in-lieu return of property, and, therefore, save some borrowers from bankruptcy.

While this program is not a total solution, it has the following advantages: 1) it requires no state funding; 2) it is relatively simple to implement; 3) it uses an existing organization to execute; and 4) it can be started very quickly.

Submitted by: H. Norman Rokeberg
2/88

TO: Members of the Senate Joint Committee on Economic Recovery

FROM: Senator Lloyd Jones, Co-chair
Senator Arliss Sturgulewski, Co-chair
Senate Joint Committee on Economic Recovery

RE: Notice of Committee Meeting

DATE: February 23, 1988

The Senate Joint Committee on Economic Recovery has scheduled a meeting for Wednesday, February 24, in the Butrovich Room. On the agenda are presentations on SB 471, AIDEA Guaranteed Loan Program, by Bert Wagnon of AIDEA and Jan Sieberts of NBA. Also on the agenda is discussion of legislation that has direct economic impact and has been discussed at previous committee hearings.

Alaska State Legislature

Official Business

P.O. BOX V
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SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY
Agenda items for Meeting of February 24, 1988

1. Presentation by Jan Sieberts of NBA on SB471, AIDEA Guaranteed Loan Program and other economic topics.

2. Presentation by Bert Wagnon of AIDEA on SB471, AIDEA Guaranteed Loan Program and other economic issues.

Items in binder:

3. Senate Bills already introduced - discussion of bills for committee support.

4. House Bills (information only) - listing of major bills under discussion in the House Joint Committee on Economic Recovery.

5. Proposed Bills - Discuss proposed legislation for sponsorship.

6. FDIC - Discussion of $250,000 appraisal proposal, Bridge-bank concept, Hallwood Group, Sealaska and other proposals.

7. Reports and Correspondence - review items for applicability and consideration.

8. Consider inserting sunset language in economic recovery legislation.

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; .... - Sen. Halford (House Labor & Commerce Committee)

SB 392 - An Act relating to delinquent loans of Alaska Industrial Development and Export Authority; .... - Sen. Halford (Senate Finance)

SB 408 - An Act relating to Alaska stabilization assistance program; .... - Sen. Kelly and Sturgulewski (S. Fin.)
...Memorandum - Sen. Kelly to All Senators 2/9/88
- 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 (S. Fin)

SB 471 - An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and to refinance debt; .... - Sen Halford (S. Fin)
...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 (S. Fin)

SB 476 - An Act creating the supplemental assistance fund for Railbelt Communities;.... - Sen. Halford (S. Fin)

SB 477 - An Act making a special appropriation to the Department of Community and regional Affairs for supplemental

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

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

House: Housing and Banking Subcommittee Pending Legislation

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

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

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

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

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

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

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

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

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

Proposed Bills:

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

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

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

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

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

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

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

FDIC Information:

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

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

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

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

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

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

Reports and Letters:

Municipality of Anchorage Economic Recovery Program - Mayor Tom Fink.

Economic Recovery Task Force - Anchorage Chamber of Commerce.

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

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

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

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

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

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

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

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

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

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

Commonwealth North Report

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

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

Alaska State Legislature
Senate

Official Business

Senate Joint Economic Recovery Committee

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

MEMORANDUM

TO: Senate members,
Joint Economic Recovery Committee

FROM: Senator Jones, Co-Chair

RE: Next Meeting

On behalf on Co-Chair Sturgulewski and myself, I wanted to let you know we have scheduled another meeting for Tuesday, March 1, 1988. The meeting will be held at 5:00 PM in the Beltz room.

Larry Chenault and Lamarr Kelly of FDIC will be present to answer questions.

Thank you.

Senate Joint Economic Recovery Committee

AGENDA

March 1, 1988

1. FDIC Representatives:

   Larry Chenault
   Lamarr Kelly

2. Bernie Karl, K&K Recycling

3. Set time of next meeting

Alaska State Legislature

Official Business

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

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Members of the Senate Joint Committee on Economic Recovery

FROM: Senator Lloyd Jones, Co-chair
Senator Arliss Sturgulewski, Co-chair
Senate Joint Committee on Economic Recovery

RE: Notice of Committee Meeting

DATE: March 1, 1988

The Senate Joint Committee on Economic Recovery has scheduled a meeting at 5:00 P.M. on Thursday, March 3, in the Butrovich Room. The agenda will include discussion and finalization of existing and proposed legislation that has been submitted to the Committee for consideration. We would encourage those who have submitted legislation to review it with the Committee at that time.

Members are asked to bring the notebooks that were provided at the February 24 meeting.

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 COMM1TTEE

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.

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 to 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

H- FYI ROD

SENATE JOINT ECONOMIC RECOVERY COMMITTEE

House JCER Sub-committee Status Report
as of 3/4/88

Housing and Banking Sub-committee:
Rep. Brown & Rep. Reiger - Co-Chairs
Final report expected last ten days of March.
Bills considered for endorsement:
HB432 - Authorizing AHFC to accept trades.
HB433 - Moratorium on judicial and nonjudicial foreclosures.
Proposed - Affecting the HOAP program.
Affecting the mobile home market.

Resource Development, Transportation, Employment and Industry Sub-committee:
Rep. Miller & Rep. Navarre - Co-chairs
Final report date undecided.
Bills considered for endorsement:
Thirty-six pieces of legislation have been reviewed.

Small Business Sub-committee:
Rep. Boucher - Chair
Final report expected to be complete 3/10.
Bills considered for endorsement:
HB45 - Relating to Alaska business bidders preference.
HB97 - Relating to cable television.
HB219 - Appropriation: Alaska Center/International Business.
HB310 - Relating to public works and public construction.
HB352 - Worker's Compensation.
HB430 - Neighborhood Business Development Center.
HB431 - Appropriation: Neighborhood Business Development Fund.
SB166 - Regulations that affect businesses and small municipalities.

Interior Region Sub-committee:
Rep. Koponen - Chair
Final report expected to be completed 3/7.
Bills considered for endorsement:
HB253 - Relating to Alaska Research Policy Act & Science & Engineering Advisory Commission.
HB430 - Act relating to Neighborhood Business Development Fund.
HB431 - Appropriation to the Neighborhood Business Development Fund.

Southeast Region Sub-committee:
Rep. Ulmer - Chair
Final report expected before 3/11.

Alaska State Legislature
Senate

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JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Members of the Senate Joint Committee on Economic Recovery

FROM: Senator Lloyd Jones, Co-chair
Senator Arliss Sturgulewski, Co-chair
Senate Joint Committee on Economic Recovery

RE: Notice of Committee Meeting

DATE: March 7, 1988

The Senate Joint Committee on Economic Recovery has scheduled a meeting at 5:00 P.M. on Wednesday, March 9, in the Butrovich Room. The agenda will include discussion and finalization of existing and proposed legislation that has been submitted to the Committee for consideration. We would encourage those who have submitted legislation to review it with the Committee at that time.

Members are asked to bring the notebooks that were provided at the February 24 meeting.

ALASKA STATE LEGISLATURE

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Senator Lloyd Jones

MEMORANDUM

TO: Senate Members,
Joint Economic Recovery Committee

FROM: Senator Jones, Co-Chair

RE: Monday meeting

Senator Sturgulewski and I want to let you know that the House and Senate Joint Economic Recovery Committees will meet together to hear Economist, Dr. Ryan Amacher. Afterwards, the Senate committee will meet with Tony Gumbiner, chairman of the Hallwood Group,

The meeting will be held at 5:00 PM in the Senate Finance room on Monday, March 7, 1988.

Dr. Amacher, from Clemson University, has visited Juneau in the past as part of his work with the University of Alaska. Dr. Amacher is Senate Finance's guest for his visit but he has also been briefed about what the Joint Economic Recovery Committee is looking at in order to address the present market decline. I have attached Dr. Amacher's resume for informational background.

Also, we have invited the Hallwood Group to meet with our committee to discuss their proposal for a private sector "bridge bank." The Chairman of the Hallwood group, Tony Gumbiner, will be present to represent his organization.

ALSO JIM CAIRNS
CHAIRMAN OF ALLIANCE GROUP

CURRICULUM VITAE

Ryan C. Amacher

December 1987

Home Address: Tarnwood Farm
Route 5
Seneca, S.C. 29678

Home Phone: (803) 882-4075

Office Address: College of Commerce and Industry
Clemson University
Clemson, S.C. 29634-1301

Office Phone: (803) 656-3177

Date of Birth: November 9, 1945; Medford, Wisconsin.

Marital Status: Married; Susan Smith Amacher (1967).

Citizenship: U.S.A.

Education:

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 Pontisicia 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 Superieure 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, Marris, 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 an 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.

Alaska State Legislature

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JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Members of the Senate Joint Committee on Economic Recovery

FROM: Senator Lloyd Jones, Co-chair
Senator Arliss Sturgulewski, Co-chair
Senate Joint Committee on Economic Recovery

RE: Notice of Committee Meeting

DATE: March 11, 1988

The Senate Joint Committee on Economic Recovery has scheduled a meeting at 5:00 P.M. on Monday, March 14, in the Butrovich Room. The agenda will include discussion and finalization of existing and proposed legislation that has been submitted to the Committee for consideration. We would encourage those who have submitted legislation to review it with the Committee at that time.

Members are asked to bring the notebooks that were provided at the February 24 meeting.

SENATE JOINT ECONOMIC RECOVERY COMMITTEE
MEETING CANCELLATION NOTICE

The meeting of the Senate Joint Economic Recovery Committee scheduled for 5 P.M. March 14 in the Butrovich Room has been cancelled. A rescheduled time and place will be announced.

Alaska State Legislature
Senate

OFFICIAL BUSINESS

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JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Representative Max Gruenberg, Chairman
House Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski, Co-Chairman
Senator Lloyd Jones, Co-Chairman

DATE: March 15, 1988

RE: Committee Endorsement of Legislation

The Senate Joint Committee on Economic Recovery has reviewed the following legislation and recommends passage by the Fifteenth Alaska Legislature.

SCR32 - by Senator Paul Fischer - "Urging the state's financial institutions to adopt more flexible lending and collection policies."

Housing & Banking

Status: House Labor & Commerce Committee.

This legislation urges banks, the Alaska Building Authority, the Alaska Industrial Development and Export Authority and other financial institutions to adopt a flexible position when servicing loans by amending procedures to allow for collection moratoriums and flexible payment schedules to allow for realistic and practical loan workouts.

SB333 - by Senator Rick Halford - "An Act relating to wage, salary and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

H & B

Status: House Labor & Commerce Committee

This bill provides for quarterly reporting by a bank of the financial condition of that bank. It also assigns a high priority to wage, salary and benefit claims in cases of certain bank liquidations.

SB392 - by Senator Rick Halford - "An Act relating to delinquent loans of the Alaska Industrial Development Authority; and providing for an effective date."

Resources

Status: House Labor & Commerce Committee

This bill allows the Authority the flexibility of adopting regulations defining under what circumstances AIDEA will discontinue purchasing loans from a financial institution because of the institution's loan default rate. Statute currently causes AIDEA to discontinue purchasing loans from an institution with a default rate of 2% or more.

Alaska State Legislature
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OFFICIAL BUSINESS

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JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Members of the Senate Joint Committee on Economic Recovery

FROM: Senator Lloyd Jones, Co-chair
Senator Arliss Sturgulewski, Co-chair
Senate Joint Committee on Economic Recovery

RE: Notice of Committee Meeting

DATE: March 15, 1988

The Senate Joint Committee on Economic Recovery has scheduled a meeting at 5:00 P.M. on Wednesday, March 16, in the Butrovich Room. The agenda will include discussion and finalization of existing and proposed legislation that has been submitted to the Committee for consideration. We would encourage those who have submitted legislation to review it with the Committee at that time.

Members are asked to bring the notebooks that were provided at the February 24 meeting.

Alaska State Legislature
Senate

OFFICIAL BUSINESS

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JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Senator Jan Faiks
Senate President

FROM: Senator Arliss Sturgulewski, Co-Chairman
Senator Lloyd Jones, Co-Chairman
Senate Joint Committee on Economic Recovery

RE: SB 471

DATE: March 17, 1988

During the meeting of the Senate Joint Committee on Economic Recovery on March 16, 1988, the Committee unanimously endorsed the concepts contained in SB 471 - "An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and to refinance debt..." and recommends that it proceed through the standing committee hearing process.

cc: Max Gruenberg, Chairman
House Joint Committee on Economic Recovery

ALASKA STATE LEGISLATURE

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907-225-9082

While in Juneau
P.O. Box V
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907-465-3743

Senator Lloyd Jones

MEMORANDUM

TO: Senate Members,
Joint Economic Recovery Committee

FROM: Senator Lloyd Jones, Co-Chair

DATE: March 21, 1988

RE: Tuesday meeting

Senator Sturgulewski and I want to let you know that we have scheduled a Joint Economic Recovery Committee meeting for this Tuesday, March 22, 1988. This will possibly be our final meeting and its very important you attend. The meeting will begin at 5:00 pm in the Senate Finance room.

We will be going through our collection of Senate bills and resolutions to decide which pieces of legislation we are going to support. Attached is a list of the legislation under review and its status.

Lastly, I think it is important that sunset provisions be added to any legislation we adopt. However, the standing committees are probably the best forum to accomplish this task.

Please bring your notebooks.

Legislation list for
Senate Joint Economic Recovery Committee

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

This resolution has been adopted by the committee.

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. (Halford) status: (H) L&C

This bill has been adopted by the committee.

SB 392 An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date. (Halford) status: (H) L&C

This is a new version of SB 392; the copy in your notebook is no longer accurate. This bill has been adopted by the committee.

1 SB 408 An Act relating to Alaska stabilization assistance program. (Kelly) status: (S) Fin

SB 409 An Act making a special appropriation to the Alaska stabilization assistance fund. (Kelly) status: (S) Fin

2 SB 471 An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and refinance debt. (Halford) status: (S) Fin

SB 474 An Act increasing property exemptions. (Halford) status: (S) Fin

SB 476 An Act creating the supplemental assistance fund for Railbelt Communities. (Halford) status: (S) Fin

Legislation list for
Senate Joint Economic Recovery Committee

SB 477 An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities. (Halford) (S) Fin

Also, there is other proposed legislation we should consider.

SB 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. (Halford)

SB An Act providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation. (Faiks)

SB An Act establishing a moratorium on judicial and nonjudicial foreclosures. (Halford)

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

SCR Relating to opportunities offered by the present crisis in residential housing. (Faiks)

SCR Relating to the Alaska Industrial Development and Export Authority. (Faiks)

SB An Act authorizing the Alaska Industrial Development and Export Authority to become an equity participant in certain loans; and providing for an effective date. (Faiks)

SB An Act amending the authority of lending institutions to make equity participation agreements in conjunction with certain loans. (Halford)

Legislation list for
Senate Joint Economic Recovery Committee

3 SJR — Urging a change under the Internal Revenue Code in the tax treatment of the transfer of a residence subject to a mortgage that is a recourse loan when the indebtedness on the residence is discharged through foreclosure, repossession, or surrender of the property. (Halford)

Lastly, Senator Kerttula has requested that the committee consider the following:

SB 484 — An Act restructuring the debt of certain dairy farmers. (Kerttula)
status: (S) Res

4. HJR FLEXIBILITY

5. WILLOW PARK

6. HB 432

7. HB – HAD

8. HB – LIABILITY

Alaska State Legislature

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

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

White in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

MEMORANDUM March 21, 1988

TO: All Members
Senate Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski

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.

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.

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 , 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.

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 , "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 , 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.

Alaska State Legislature

Senate

Official Business

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

Joe P. Josephson

cc: Hon. Jan Faiks
Hon. Arliss Sturgelewski
Hon. Lloyd Jones
Hon. Max Gruenberg

3/22/88

Senate Joint Economic Recovery Committee
AGENDA

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

This resolution has been adopted by the committee.
SCR 32 is in your notebook.

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. (Halford) status: (H) L&C

This bill has been adopted by the committee.
SB 333 is in your notebook.

SB 392 An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date. (Halford) status: (H) L&C

This is a new version of SB 392; the copy in your notebook is no longer accurate. This bill has been adopted by the committee.

SB 408 An Act relating to Alaska stabilization assistance program. (Kelly) status: (S) Fin

SB 408 is in your notebook.

SB 409 An Act making a special appropriation to the Alaska stabilization assistance fund. (Kelly) status: (S) Fin

SB 409 is in your notebook.

SB 471 An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and refinance debt. (Halford) status: (S) Fin

There is a Sponsor Substitute for SB 471

SB 474 An Act increasing property exemptions. (Halford) status: (S) Fin

PASSED

SB 474 is in your notebook.

SB 476 An Act creating the supplemental assistance fund for Railbelt Communities. (Halford) status: (S) Fin

SB 476 is in your notebook.

SB 477 An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities. (Halford) (S) Fin

SB 477 is in your notebook.

Also, there is other proposed legislation we should consider.

SB An Act providing interim payment reductions of the monthly mortgage pay ments payable by certain mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation. (Halford)

This bill is in your notebook.

SB An Act providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation. (Faiks)

This bill is in your notebook.

SB An Act establishing a moratorium on judicial and nonjudicial foreclosures. (Halford)

This bill is in your notebook.

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

This resolution is in your notebook.

SCR Relating to opportunities offered by the present crisis in residential housing. (Faiks)

This resolution is in your notebook.

SCR Relating to the Alaska Industrial Development and Export Authority. (Faiks)

This resolution is in your notebook.

SB An Act authorizing the Alaska Industrial Development and Export Authority to become an equity participant in certain loans; and providing for an effective date. (Faiks)

This bill will be distributed.

SB An Act amending the authority of lending institutions to make equity participation agreements in conjunction with certain loans. (Halford)

This bill will be distributed.

SJR Urging a change under the Internal Revenue Code in the tax treatment of the transfer of a residence subject to a mortgage that is a recourse loan when the indebtedness on the residence is discharged through foreclosure, reposses sion, or surrender of the property. (Halford)

This resolution will be distributed.

SB work draft for An Act creating the Economic Stabilization Act of 1988 et al...

This resolution will be distributed.

Lastly, Senator Kerttula has requested that the committee consider the following:

SB 484 An Act restructuring the debt of certain dairy farmers. (Kerttula) status: (S) Res

This bill will be distributed.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1566 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1363

Alaska State Legislature
Senate

OFFICIAL BUSINESS

POUCH V
CAPITOL BUILDING
JUNEAU, ALASKA 99811

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

TO: Members of the Senate Joint Committee on Economic Recovery

FROM: Senator Lloyd Jones, Co-chair
Senator Arliss Sturgulewski, Co-chair
Senate Joint Committee on Economic Recovery

RE: Notice of Committee Meeting

DATE: March 23, 1988

The Senate Joint Committee on Economic Recovery has scheduled a meeting at 5:00 P.M. on Thursday, March 24, in the Butrovich Room. The agenda will include discussion and finalization of existing and proposed legislation that has been submitted to the Committee for consideration.

Members are asked to bring their notebooks.

FLOOR ANNOUNCEMENT

There will be a meeting of the Senate Joint Committee on Economic Recovery at 5 P.M. Thursday, March 24, in the Butrovich Room.

On the agenda is discussion and finalization of Committee support for proposed and existing legislation. This will be a committee work session.

FLOOR ANNOUNCEMENT

The Senate Joint Economic Recovery meeting scheduled for tonight has been cancelled.

It has been resceduled for 5 P.M. Monday, March 28 in the Butrovich Room.

On the agenda is discussion and finalization of Committee support for proposed and existing legislation. This will be a committee work session.

Alaska State Legislature
Senate

OFFICIAL BUSINESS

POUCH V
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JUNEAU, ALASKA 99811

MEMORANDUM

TO: Members
Senate Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senate Joint Committee on Economic Recovery

RE: Legislation Endorsement Status

DATE: March 28, 1988

The Senate Joint Committee on Economic Recovery has endorsed the following legislation and recommends that it proceed through the normal standing committee hearing process.

SCR32 - Senator Fischer - "Urging the state's financial institutions to adopt more flexible lending and collection policies."

Status: House Labor & Commerce Committee

SB333 - Senator Halford - "An Act relating to wage, salary and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

Status: House Labor & Commerce Committee

SB392 - Senator Halford - "An Act relating to delinquent loans of the Alaska Industrial development Authority; and providing for an effective date."

Status: House Labor & Commerce Committee

CSSB408 - Senators Kelly and Sturgulewski - "An Act relating to the Alaska Stabilization Assistance Program; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:
The concept of a "Bridge Bank" is contained in CSSB408. 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 these contributions back to the state. This conceptual document should be referred to standing committees for further study and processing.

SSSB471 - Senator Halford - "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."

Status: Senate Finance

Endorsement qualifications:
The committee endorsed this legislation at the March 16, 1988 and adopted the following intent at its meeting on March 22, 1988. "The bill needs further refinement in the Senate Finance Committee and the SJCER recommends that the Finance Committee review setting a cap or maximum limit on the total amount of loan funds that can be guaranteed by AIDEA. This will prevent uncontrollable liability at some future date. The committee also recommends that AIDEA develope 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, the committee suggests a sunset date on the AIDEA loan guarantee program."

SSSB474 - Senator Halford - "An Act increasing property exemptions; and providing for an effective date."

Status: Senate Finance

SB476(CRA)-Senator Halford - "An Act creating the Supplemental Municipal Assistance Fund for Railbelt communities; and providing for an effective date."

Status: Senate Finance

SB477 - CRA Committee - "An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:
The committee adopted an amendment that reduces the appropriation amount to $25,000,000 with the difference, $6,752,215, being reserved for construction of the power line between Cantwell and McKinley Park.

Alaska State Legislature

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SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY
Agenda items for Meeting of March 28, 1988

1. HJR 72 - "Relating to the residential real estate market."

2. CSHB 432(L&C) - "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

HOLD

3. HB 549 - "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

HOLD for report on disclosure concept

4. HB 550 - "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effeotive date."

ASK TO DRAW BILL S. JOSEPHSON

Alaska State Legislature

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State Capitol
Juneau, Alaska 99811

MEMORANDUM

Senate Joint Committee on Economic Recovery

TO: Senator Rick Halford, Co-Chairman
Senator Johne Binkley, Co-Chairman
Senate Finance Committee

FROM: Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senate Joint Committee on Economic Recovery

RE: Legislation Endorsement Statement

DATE: March 29, 1988

The Senate Joint Committee on Economic Recovery has endorsed the following legislation and recommends that it proceed through the normal standing committee hearing process.

CSSB408 - Senators Kelly and Sturgulewski - "An Act relating to the Alaska Stabilization Assistance Program; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:
The concept of a "Bridge Bank" is contained in CSSB408. 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 these contributions back to the state. This conceptual document should be referred to standing committees for further study and processing.

SSSB471 - Senator Halford - "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."

Status: Senate Finance

Endorsement qualifications:
The committee endorsed this legislation at the March 16, 1988 and adopted the following intent at its meeting on March 22, 1988. "The bill needs further refinement in the Senate Finance Committee and the SJCER recommends that the Finance Committee review setting a cap or maximum limit on the total amount of loan funds that can be guaranteed by AIDEA. This will prevent uncontrollable liability at some future date. The committee also recommends that AIDEA develope 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, the committee suggests a sunset date on the AIDEA loan guarantee program."

SSSB474 - Senator Halford - "An Act increasing property exemptions; and providing for an effective date."

Status: Senate Finance

SB476(CRA)-Senator Halford - "An Act creating the Supplemental Municipal Assistance Fund for Railbelt communities; and providing for an effective date."

Status: Senate Finance

SB477 - CRA Committee - "An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:
The committee adopted an amendment that reduces the appropriation amount to $25,000,000.

Alaska State Legislature

Official Business

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State Capitol
Juneau, Alaska 99811

MEMORANDUM

Senate Joint Committee on Economic Recovery

TO: Representative Max Gruenberg, Chairman
House Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senate Joint Committee on Economic Recovery

RE: Legislation Endorsement Statement

DATE: March 30, 1988

The Senate Joint Committee on Economic Recovery has endorsed the following legislation and recommends that it proceed through the normal standing committee hearing process.

SCR32 - Senator Fischer - "Urging the state's financial institutions to adopt more flexible lending and collection policies."

Status: House Labor & Commerce Committee

SB333 - Senator Halford - "An Act relating to wage, salary and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

Status: House Labor & Commerce Committee

SB392 - Senator Halford - "An Act relating to delinquent loans of the Alaska Industrial development Authority; and providing for an effective date."

Status: House Labor & Commerce Committee

CSSB408 - Senators Kelly and Sturgulewski - "An Act relating to the Alaska Stabilization Assistance Program; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:
The concept of a "Bridge Bank" is contained in CSSB408. 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 these contributions back to the state. This conceptual document should be referred to standing committees for further study and processing.

SSSB471 - Senator Halford - "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."

Status: Senate Finance

Endorsement qualifications:
The committee endorsed this legislation at the March 16, 1988 and adopted the following intent at its meeting on March 22, 1988. "The bill needs further refinement in the Senate Finance Committee and the SJCER recommends that the Finance Committee review setting a cap or maximum limit on the total amount of loan funds that can be guaranteed by AIDEA. This will prevent uncontrollable liability at some future date. The committee also recommends that AIDEA develope 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, the committee suggests a sunset date on the AIDEA loan guarantee program."

SSSB474 - Senator Halford - "An Act increasing property exemptions; and providing for an effective date."

Status: Senate Finance

SB476(CRA)-Senator Halford - "An Act creating the Supplemental Municipal Assistance Fund for Railbelt communities; and providing for an effective date."

Status: Senate Finance

SB477 - CRA Committee - "An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities; and providing for an effective date."

Status: Senate Finance

Endorsement qualifications:
The committee adopted an amendment that reduces the appropriation amount to $25,000,000.

Proposed - Senator Josephson - "An Act relating to judicial and nonjudicial foreclosures."

Status: draft

Endorsement qualifications:
The committee adopted the concepts contained in the 5-2103A/Bradley/3-28-88 draft of the subject legislation and forwarded it to the Senate Rules Committee for introduction. The committee additionally recommended that the bill be referred to the Senate Judiciary Committee and that the committee incorporate the concept contained in HB549 "An Act relating to notice requirements on the use of a deed of trust."

The committee also endorsed the following House bills and recommends that they proceed through the normal Senate standing committee process when they are transmitted to the Senate.

HJR 72 - Rules Committee at the request of the HJCER - "Relating to the residential real estate market."

Status: House Labor & Commerce

HB 550 - Rules Committee at the request of the HJCER - "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

Status: House Community & Regional Affairs

cc: Representative Ben Grussendorf
Speaker of the House

Representative Dave Donley, Chairman
House Labor & Commerce Committee

Representative Heinrich Springer
House Community & Regional Affairs Committee

Alaska State Legislature

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

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

Write to Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

TO: Senator Rick Halford, Co-Chairman
Senate Finance Committee

FROM: Senator Arliss Sturgulewski

DATE: May 6, 1988

RE: CSHB 555 (Fin), CSHB 549 (Jud), SCSHB 550 (C&RA),
CSHCR 54 (Fin), HJR 72 am, HCR 52 am,
CSHB 538 (Finance)

* *

The above referenced bills are currently in the Senate Finance Committee. After reviewing them in either the Senate Joint Economic Recovery Committee or the Senate Community and Regional Affairs Committee, I believe that they merit passage. The following is a brief overview for your information:

CSHB 555 (Fin)- Allowing AHFC to stabilize the market re: residential housing
-House action 4/30/88 (33-5)
(To be heard again in Senate Finance at 3:30 p.m. May 6, 1988)

1) Allows specific powers to implement general "best interest of corporation" powers.
2) Allows funding for demolition of Willow Park; (important to Municipality of Anchorage; captures $10 million in federal funds.)

CSHB 549 (Jud) - Notice Requirements in the use of a Mortgage or Deed of Trust
-House action 4/28/88 (36-0-2-2)

-Precludes direct suit on the Note unless specifically disclosed and stated on the Note.

SCSHB 550 (C&RA) - Authorizing Dept. of Community and Regional Affairs to modify the terms of its mortgage loans
-House action 4/27/88 (39-0)

-Gives HAD loan program same restructuring power as AHFC, Permanent Fund, Pension Funds.

CSHCR 54 (Finance) - Management of mobile homes owned by AHFC
-House action 5/3/88 (38-1)

-Requests AHFC to use prudent business judgment and address foreclosed-upon mobile home problem.

HJR 72 am - Residential Real Estate Resolution
-House action 4/25/88 (39-1)
(Waived in Senate Finance 5/6/88)

-Gives legislative support to state agencies as they negotiate with federal agencies and mortgage insurers for creative solutions to housing problems.

HCR 52 am - Economic Indices
-House action 4/27/88 (31-0 on reconsideration)

-Requests that ISER prepare quarterly economic indices for the state with an annual report on condition of state's economy.

CSHB 538 (Finance) - Alaska Municipal Bond Bank Authority, municipal debt for development and redevelopment projects.
-House action 4/30/88 (37-2)

-Provides flexibility for municipalities in obtaining financing at non-taxable rates.

MITTEES

ES. (a) Each house has the
vith the jurisdiction indi-

, revenue, capital improve-
e executive budget, and the
epartment of Revenue)

l Services (the programs and
Health and Social Services,
nd the University of Alaska)

nd activities of the Alaska
t of Law, and the legal and
erred to it for that purpose)

ograms and activities of the
labor-management relations,
t compensation, and workers'
nd activities of the Depart-
evelopment)

airs (the programs and acti-
mmunity and Regional Affairs
olitical subdivisions)

nd activities of the Depart-
Resources, and Environmental

the Uniform Rules, calendar,
the house and matters per-
the legislature as a whole)

d activities of the Office of
s of Administration, Military
d programs and activities of
tion and Public Facilities

and activities of the Depart-
ublic Facilities relating to
islative matters relating to

n are authorized to form such
to be necessary.

T COMMITTEES

NT COMMITTEES. (a) A special
e house. A special committee
adoption of a simple resolu-
of each house appoints the
e and designates a member to
less otherwise ordered by the
like committees of each house
s to meet jointly to receive

testimony and deal with other matters which may be expedited by joint committee action.

(b) A joint committee is a committee of both houses. A joint committee may be established only by the adoption of a concurrent resolution. The presiding officer of each house appoints one-half of the members of a joint committee. The persons who co-chair a joint committee shall be chosen in the manner provided by the presiding officers.

21 (c) A resolution establishing a special or joint committee shall specify the date or conditions of termination of the committee. A standing committee may meet between sessions. A special or joint committee may meet during the session or between sessions, or both, as authorized by the resolution which establishes the committee. A standing, special, or joint committee which acts between legislative sessions may consider any legislative matter which is consistent with the jurisdiction of the committee. A standing, special, or joint committee which acts between legislative sessions constitutes a subcommittee of the Legislative Council for administrative purposes. A special or joint committee may expend money only in accordance with an appropriation made for the work of the committee.

(d) A committee may not be established unless authorized by law or by the Uniform Rules.

OPEN AND EXECUTIVE SESSIONS

RULE 22. OPEN AND EXECUTIVE SESSIONS. (a) All meetings of a legislative body are open to all legislators, whether or not they are members of the particular legislative body that is meeting, and to the general public except as provided in (b) of this rule.

(b) A legislative body may call an executive session at which members of the general public may be excluded for the following reasons:

(1) discussion of matters, the immediate knowledge of which would adversely affect the finances of a government unit;

(2) discussion of subjects that tend to prejudice the reputation and character of a person;

(3) discussion of a matter that may, by law, be required to be confidential.

(c) When a legislative body desires to call an executive session in accordance with (b) of this rule, the body shall first convene as a public meeting and the question of holding an executive session shall be determined by a majority vote of the members present.

(d) The provisions of this rule may not be interpreted as permitting the exclusion of a legislator from an executive session, whether or not the legislator is a member of the body that is meeting. A legislator not a member of the body holding an executive session shall, however, be subject to the same rules of confidentiality and decorum as pertain to regular members of the body.

Introduced: 1/13/88
Referred: Rules

5-1598A

1/13/88

IN THE HOUSE BY THE RULES COMMITTEE

HOUSE CONCURRENT RESOLUTION NO. 31

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Suspending Uniform Rule 21(b) of the Alaska State Legislature concerning a house concurrent resolution entitled, "Relating to establishing a Joint Committee on Economic Recovery."

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

That under Rule 54 of the Uniform Rules of the Alaska State Legislature the provisions of Rule 21(b) of the Uniform Rules, regarding the requirement that a joint committee as a committee of both houses takes action by majority vote of the full committee and the requirement that the presiding officer of each house appoints one-half of the members of the committee, are suspended in consideration of a house concurrent resolution entitled, "Relating to establishing a Joint Committee on Economic Recovery."

HCR 31

HOUSE CONCURRENT RESOLUTION NO. 31 by the Rules Committee,

Suspending Uniform Rule 21(b) of the Alaska State Legislature concerning a house concurrent resolution entitled, "Relating to establishing a Joint Committee on Economic Recovery."

was read the first time and referred to the Finance Committee.

HCR 31

The Finance Committee considered HOUSE CONCURRENT RESOLUTION NO. 31 (Suspending Uniform Rule 21(b) of the Alaska State Legislature concerning a house concurrent resolution entitled, "Relating to establishing a Joint Committee on Economic Recovery") and a majority of the committee recommended do pass. The report was signed by Senator Halford, Co-chairman and concurred in by Senators Zharoff, Uehling and Binkley.

HOUSE CONCURRENT RESOLUTION NO. 31 was referred to the Rules Committee.

Offered: 1/22/88
Referred: Rules

5-1586B

Original sponsor: Rules Committee

IN THE HOUSE BY THE FINANCE COMMITTEE

SENATE CS FOR HOUSE CONCURRENT RESOLUTION NO. 32 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to establishing a Joint Committee on Economic Recovery.

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

WHEREAS many areas of the state are experiencing a severe economic crisis that has led to bankruptcies, foreclosures, business failures, and the loss of homes, property, and millions of dollars to Alaskans; and

WHEREAS citizens and municipalities from throughout the state have requested immediate legislative assistance to meet this crisis; and

WHEREAS the legislature is determined to provide leadership in solving this problem;

BE IT RESOLVED by the Alaska State Legislature that a Joint Committee on Economic Recovery is established, consisting of members of the Senate appointed by the President of the Senate and members of the House of Representatives appointed by the Speaker of the House, to develop legislative solutions to the current economic crisis; and be it

FURTHER RESOLVED that the House members and the Senate members are authorized to meet separately and may meet jointly from time to time; and be it

FURTHER RESOLVED that the joint committee is authorized to take action only upon majority approval of the Senate members and majority approval of the House members; and be it

FURTHER RESOLVED that the committee is authorized to meet during the Second Regular Session of the Fifteenth Legislature and is terminated on the final day of that session.

Introduced: 1/13/88
Referred: Rules

5-1586A

IN THE HOUSE BY THE RULES COMMITTEE

HOUSE CONCURRENT RESOLUTION NO. 32

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to establishing a Joint Committee on Economic Recovery.

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

WHEREAS many areas of the state are experiencing a severe economic crisis that has led to bankruptcies, foreclosures, business failures, and the loss of homes, property, and millions of dollars to Alaskans; and

WHEREAS citizens and municipalities from throughout the state have requested immediate legislative assistance to meet this crisis; and

WHEREAS the legislature is determined to provide leadership in solving this problem;

BE IT RESOLVED by the Alaska State Legislature that a Joint Committee on Economic Recovery is established, consisting of up to seven members of the Senate appointed by the President of the Senate and up to nine members of the House of Representatives appointed by the Speaker of the House, to develop legislative solutions to the current economic crisis; and be it

FURTHER RESOLVED that the committee is authorized to take action only upon majority approval of the Senate members and majority approval of the House members; and be it

FURTHER RESOLVED that the committee is authorized to meet during the Second Regular Session of the Fifteenth Legislature and is terminated on the final day of that session.

HCR 32

HOUSE CONCURRENT RESOLUTION NO. 32 by the Rules Committee,

Relating to establishing a Joint Committee on Economic Recovery.

was read the first time and referred to the Finance Committee.

HCR 32

The Finance Committee considered HOUSE CONCURRENT RESOLUTION NO. 32 (Relating to establishing a Joint Committee on Economic Recovery) and recommended it be replaced with

SENATE CS FOR HOUSE CONCURRENT RESOLUTION NO. 32(FIN)

and do pass. The report was signed by Senator Halford, Co-chairman and concurred in by Senators Zharoff, Uehling and Binkley.

Zero fiscal note published today from Senate Finance Committee.

HOUSE CONCURRENT RESOLUTION NO. 32 was referred to the Rules Committee.

Suggested draft Senate finance Letter of Intent

January 21, 1988

The Senate Committee Substitute for HCR 32(Fin) allows for a system to be developed within the Senate organization that is responsive to the needs of Alaskans during this period of economic recovery. Many Senate members and committees have already begun their work on solutions to the current economic problems facing the state. It would be disruptive to those initiatives to restructure the Senate organization into a myriad of new sub-committees when organizational structures currently exist that can be utilized.

It is the intent of the SCS HCR 32(Fin) to allow the Senate to organize as appropriate internally but to have a committee of the Senate appointed that can meet jointly with the House under the guidelines of SCS HCR 32(Fin) to identify and prioritize existing legislation that can be supported for passage by the entire legislature to facilitate and encourage economic recovery within the state. Further, the Senate committee may bring to the Joint Committee proposed legislation that can be accomplished in the time remaining in the Fifteenth Legislature or may propose longer term solutions to be developed during the interim in preparation for the Sixteenth Legislature.

Suggestions By Public

Peat Marwick

Joseph E. Heintz
Managing Partner

Peat Marwick Main & Co.
601 West 5th Avenue, Suite 700
Anchorage, AK 99501-2258

Please circulate

January 8, 1988

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

Dear Governor Cowper:

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

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

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

Very truly yours,

Signed

Joseph E. Heintz

ECONOMIC RECOVERY TASK FORCE

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

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

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

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

AHFC

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

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

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

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

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

Real Estate Market

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

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

* For residential property:

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

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

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

* For commercial property:

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

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

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

AIDEA

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

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

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

* Bank administered with AIDEA guarantee.

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

* $1,000,000 limit on loan.

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

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

Employment Incentives Fund

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

* An applicant could apply for capital funds up to

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

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

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

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

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

Public Forum

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

wp-1

SECOND DRAFT

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

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

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

I. Anchorage's Current Economic Condition

II. Objectives of the Economic Recovery Program

III. Description of the Economic Recovery Program

IV. Economic Recovery Program Elements

V. Proposed Capital Projects

I. ANCHORAGE'S CURRENT ECONOMIC CONDITION

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

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

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

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

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

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

II. OBJECTIVES OF THE ECONOMIC RECOVERY PROGRAM

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

B. Objectives:

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

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

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

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

III. DESCRIPTION OF THE ECONOMIC RECOVERY PROGRAM.

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

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

IV. ECONOMIC RECOVERY PROGRAM ELEMENTS.

A. Phase 1 - Immediate State Action

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

  - Purposes:

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

  - Advantages:

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

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

  - Purposes:

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

  - Advantages:

    Impact employment in hard hit sector
    Multiplier impacts help support sector

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

  - Purposes:

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

  - Advantages:

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

* Other short term requests

  - Real Estate Market stabilization

    AHFC and AIDEA take administrative action to assist borrowers.

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

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

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

- Employment

Bradley Lake - fast track APUC review exemption

Court Building financing - fast track project.

B. Phase 2 - Longer Term Economic Recovery Program

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

* Local development opportunities

  - Home Port, location of Navy installation in Southcentral Alaska

  - 1994 Winter Olympics

  - Ski Resorts

  - Ship Creek Development

  - Tourism Promotion

* Stabilize taxes and utility rates

* Extra Permanent Fund Dividend payments

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

* Railbelt Energy Fund for railbelt energy projects

* Legislation permitting use of tax incentives for business development

* Streamlining of local permitting requirements

* Local purchase/import substitution

V. Proposed Capital Projects

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

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

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

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

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

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

ANCHORAGE CAPITAL PROJECTS

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

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

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

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

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

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

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

88cib/n/g4

ANCHORAGE CAUCUS

ALASKA STATE LEGISLATURE

SENATE

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

HOUSE

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

A G E N D A

January 25, 1988

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

LOCATION: Senate Finance Committee Room, Room 518, Capitol

I. Call to Order

II. Roll Call

III. New Business

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

IV. Other Business

V. Announcements

VI. Adjournment

SUGGESTED LEGISLATIVE PROGRAM

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

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

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

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

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

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

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

   g. An extra dividend.

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

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

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

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

   l. Pay off local government bonds.

   m. A Job Corps Program.

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

   (See Attachment)

   Last item -- 16 million for miscellaneous capital improvements.

OPTIONS

TO IMPROVE THE

ALASKAN ECONOMY

DAR/JAN 88

DAVE ROSE

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

Alaska's Economic Situation

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

Alaska currently has:

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

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

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

Fundamental Economic Principles

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

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

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

(1) Decreasing available supply.

(2) Increasing business and consumer demand.

(3) A blend of the two.

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

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

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

Programs and Actions

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

1. Move Supply Curve (decrease supply) Permanently

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

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

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

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

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

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

2. Move Supply Curve (decrease supply) Permanently

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

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

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

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

3. Move Supply Curve (decrease supply) Permanently

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

4. Move Supply Curve (decrease supply) Five Years

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. Move Demand Curve (increase demand)

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

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

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

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

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

10. Move Demand Curve (increase demand)

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

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

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

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

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

11. No Fundamental Change to Supply or Demand

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

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

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

12. A Caution

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

In Summary

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

* Construct the Anchorage Court complex addition in phases

* Moratoriums on local government utility expansions, rezonings and replats

* Encourage institutional purchases of quality commercial and industrial properties

* Seek agreement regarding Navy homeporting before initiating construction of infrastructure

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

* Leave existing capital reserves in AHFC or AIDA

January 29, 1988

MEMORANDUM

TO: Jan

FROM: Dave

SUBJECT: Dave Rose's "Bridge Bank"

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

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

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

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

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

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

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

AHFC percentages from Comm Tony Smith-

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

2% amendment legislation will be introduced to both houses.

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

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

STEVE COWPER
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 2, 1988

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

Dear Arliss,

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

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

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

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

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

Sincerely,

Steve Cowper
Governor

Directory of Projects and Proposals with Direct Economic Impact

January 27, 1988

State of Alaska
Office of the Governor
Division of Policy

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

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

OFFICE OF INTERNATIONAL TRADE

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

Trade Leads

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

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

Foreign Investments

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

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

International Marketing

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

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

Foreign Trade Offices

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

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

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

DEPARTMENT OF ADMINISTRATION

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

Risk Management/Assistance to Contractors

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

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

New Procurement Code

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

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

Vacancy-Based Recruitment Program

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

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

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

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

DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT

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

Economic Development and Marketing Program

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

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

Alaska Housing Market Council

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

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

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

"Made In Alaska" Program

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

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

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

Small Business Development Centers

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

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

Minority Business Development Program

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

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

Market Access Program (Bonding)

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

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

Bank Monitoring Program

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

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

Investments Work-Out Program

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

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

Alaska-Hire In Seafood Industry Program

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

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

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

Alaska-Hire In Tourism Industry Program

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

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

ARDOR Program (CIP)

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

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

Bradley Lake Hydroelectric Project (CIP)

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

This program requires new legislation (HB 356).

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

APA - Four Dam Pool

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

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

Small-Scale Rural Energy Cost Reduction Program (CIP)

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

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

AIDEA - Red Dog Mine & Port Project

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

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

AIDEA - New Debt Financing Program

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

REQUIRES NEW LANGUAGE HB 402

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

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

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

Financial Outreach Services to Encourage Recovery (FOSTER)

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

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

Community Economic Disaster Loan Fund

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

This program will require enabling legislation.

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

Rural Economic Development Initiative (REDI)

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

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

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

Job Training Partnership Act

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

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

Dislocated Workers

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

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

Child Care Programs

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

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

Conservation and Weatherization

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

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

Revenue Sharing

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

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

Municipal Assistance

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

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

Housing Assistance Loan Fund (HALF)

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

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

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

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

DEPARTMENT OF CORRECTIONS

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

Spring Creek Correctional Center

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

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

DEPARTMENT OF EDUCATION

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

Foundation Funding

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

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

K-12 Support Programs

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

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

School Debt Reimbursement

School Debt Reimbursement continues at 90% of entitlement.

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

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

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

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

Vocational Rehabilitation

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

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

Adult Basic Education (ABE)

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

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

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

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

Remote Maintenance Worker Grants Program

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

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

Dairy Inspections

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

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

Seafood Inspection

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

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

Environmental Quality Programs

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

Environmental Sanitation

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

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

DEPT. OF HEALTH & SOCIAL SERVICES

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

Medicaid Program

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

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

General Relief Medical Program

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

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

General Relief Assistance Program

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

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

Adult Public Assistance Program

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

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

Longevity Bonus Hold Harmless Program

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

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

Aid To Families With Dependent Children

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

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

Foster Care Program

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

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

Grants and Contracts

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

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

Bethel Youth Facility

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

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

DEPARTMENT OF LABOR

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

Job Training Partnership Act and Dislocated Worker Programs

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

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

Employment Security Programs

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

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

Alaska Hire Preference Program(s)

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

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

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

Labor Market Information Program

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

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

Unemployment Insurance

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

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

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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

Army National Guard Aviation Battalion

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

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

Army National Guard Support Battalion

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

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

Air National Guard Search and Rescue Squadron

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

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

Air National Guard Refueling Squadron

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

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

Army Guard Facilities Maintenance

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

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

DEPARTMENT OF NATURAL RESOURCES

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

TAGS Gas Pipeline Monitoring

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

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

Timber Sale -- Susitna Valley, Tyonek

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

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

Oil & Gas Leasing

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

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

Coal Sale -- Matanuska Valley

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

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

Coal Land Rehabilitation

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

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

Eagle River-Chugach State Park Ski Resort

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

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

Hatcher Pass Ski Resort

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

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

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

Alaska State Parks Program Receipts

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

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

Alaska Grown Program

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

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

Agricultural Management Applied Research Grant

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

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1567 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1364

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

Mt. McKinley Meats and Matanuska Maid Dairy

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

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

DEPARTMENT OF REVENUE

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

Permanent Fund Program

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

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

AHFC Loan Administration

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

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

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

Shared Taxes

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

ranging from reducing local taxes to providing general government services.

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

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

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

Alaska - Specific Destination Program

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

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

Promotion of Alaska for International/National Parcel Delivery Operations

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

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

Elderhostel Promotion

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

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

Promotion of Columbia Glacier

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

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

Promotion of Prince William Sound

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

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

Travel Agents Luncheon Promotion

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

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

Travel Agents Familiarization Program

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

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

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

Travel Shows

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

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

UNIVERSITY OF ALASKA

3890 University Lake Drive
Anchorage, AK 99508
786-4620

Alaska Center for International Business

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

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

Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

FRED H. BURROW
President

:khc1/30

Alliance Bank
A Financial Service of Alliance Bancorporation
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Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern, and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves, individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination. the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet. income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. **With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.**

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls. Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. **Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.**

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement. Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360

F.D.I.C. FINDS WAYS TO SELL AILING ASSETS
New York Times Article--2/22/88
By Nathanial C. Nash

WASHINGTON, Feb 21 -- Federal regulators are employing novel ways to sell billions of dollars in troubled banking assets, including the sale of so-called dirty banks.

The Government has decided that if it can sell the entire operation of a failed bank--not just the healthy "clean" loans and other assets but also the delinquent loans and foreclosed properties--it can save the time, resources and headaches needed to liquidate the bad assets. In almost every sale, the Government actually pays investors to take these sick institutions off its hands.

"We prefer to call these whole-bank transactions," said L. William Seidman, chairman of the Federal Deposit Insurance Corporation, which insures deposits at the nation's commercial and savings banks.

A Savior for F.D.I.C.

No matter what the terminology, Mr. Seidman said, the savings from selling 19 failed banks last year, plus other innovative methods of disposing of bad assets, kept the F.D.I.C. from recording the first operating loss in its history.

The quick disposal of troubled assets is a departure for an agency that once tended to hold on to them in hopes that their value would increase in better times. Though many bankers applaud the new approach, some are concerned that the F.D.I.C. may be "dumping" these assets on the market. Some bankers worry that if the F.D.I.C. liquidates its loans at fire-sale prices, it will depress the value of troubled loans in other banks' portfolios. But F.D.I.C. officials reject the dumping charge and say that their policy is to sell the loans only at current market value.

As bank failures have soared from 10 in 1980 to almost 200 last year, the F.D.I.C. whose primary function is that of an insurance fund and regulator of small banks, has developed a gigantic new business--liquidating bad loans and selling foreclosed real estate and other assets inherited from the failed banks.

In a typical bank failure, the F.D.I.C. takes over the bank, removes management and eliminates stockholders equity. Once in control, it removes all the bad loans, which generally

caused the failure, and sells the remaining "clean bank" with its healthy loans and deposits, to the highest bidder.

The agency then must begin to liquidate the bad loans and other assets, one by one. This means trying to foreclose on properties, collect from bankrupt businesses and resposses automobiles. Not only does the process require thousands of Federal employees, it generates hundreds of lawsuits.

In the end, the agency often collects only 30 to 35 cents on the dollar.

Troubled Assets Soar

So high has the bank failure rate been that the F.D.I.C.'s assets under liquidation soared from $2.2 billion in 1982 to more than $11 billion last year, making the agency one of the largest liquidators in the country.

Such levels have pushed the Government to develop other techniques for selling large amounts of bad assets. Besides beginning the sale of "dirty" banks, Mr. Seidman instituted a bulk sale program, in which an investor can buy millions of dollars of loans at a time.

This was perhaps best illustrated in a sale this month by the F.D.I.C of the entire portfolio of its office in St. Joseph, Mo. From 21 bank failures in the state, the F.D.I.C. had amassed a portfolio of more than 2,500 loans and other assets with a book value of $70 million. The buyer, Diversified Financial Planners, Inc. of Fort Wayne, Ind., agreed to pay $21.1 million.

The F.D.I.C. is also looking for buyers for the entire portfolio of its Omaha office, which has 4,700 assets with a book value of $128 million.

On a much grander scale, the agency also announced this month that it was preparing the bulk sale of some $1.8 billion in bad loans and assets it inherited from its 1984 rescue of the Continental Illinois National Bank and Trust Company. The F.D.I.C. said it was breaking the portfolios into six loan groups--energy, international, maritime, real estate, commercial and personal--and would sell each separately. It would also entertain bids for the entire portfolio.

Something Instead of Nothing

While in one sense the sale of bulk-loan packages is meant to reduce the agency's liquidation operations, Mr. Seidman and bank experts noted that there was a much larger reason.

Because bad loans under liquidation often sit for years in court battles and other delays, the F.D.I.C. earns nothing from them. In fact, they represent a cash drain.

By receiving even a small amount of cash from the bulk-loan sale, the agency can put the money into Government securities to begin earning interest, Mr. Seidman said.

"If you've got cash, you're in business," said Mr. Seidman, a former accountant. "I keep telling my people that one of the criteria in deciding any transaction for this fund is whether it brings in cash."

Indeed, Mr. Seidman estimated that if the agency had not embarked on a bulk sales and dirty bank program, the assets under liquidation would have soared and the agency's current cash reserve of $16 billion, which is the base of its financial strength, could have shrunk to around $10 billion.

The Need for Cash

"There is always the concern that if you suck up too much cash, it reduces your ability to handle bank failures," said William M. Isaac, former chairman of the F.D.I.C. and now head of the Secura Group, a financial consulting firm. "You also run the risk of a public confidence crisis issue if your cash levels get too low."

Bankers also welcome the program because it allows troubled borrowers to continue their relationship with a bank instead of the Government. "When the F.D.I.C. picks up a bad loan, it has to liquidate it," an official of the American Bankers Association said. "It cannot extend additional credit. Borrowers have no way to refinance their loan. They may lose a long-term depository relationship."

In other words, at the time of the borrower's greatest stress, along comes the Government with a mandate to liquidate, the official said.

Though the F.D.I.C. cannot fund a buyer for every dirty bank it has already found some satisfied customers.

Philip Sandquist, a Montana banker, decided to buy a dirty bank last year--the Deer Lodge Bank and Trust Company in Deer Lodge, Mont.

The $16.5 million bank had become insolvent, in good part, regulators said, because of poor management. Under the deal he struck with the F.D.I.C. Mr. Sandquist put up a little more than $1 million and the F.D.I.C. injected almost $2 million.

"But most of those assets--almost $14 million--were really good paying assets," Mr. Sandquist said. Four days after he took over the bank, he said it was earning a profit. "After eight months, we had earned $133,000," he said.

Mr. Sandquist noted that in the typical clean-bank transaction, in which the banker receives only the insured deposits but few if any loans offsetting those deposits, "it takes a long time to find borrowers and other places to put those funds to start earning money on them," he said.

With an F.D.I.C. dirty bank, "you can buy assets for 50 to 75 cents on the dollar and most of them are already earning money," he said, referring to the interest payments on the loans.

Steven A. Seilig, associate director in the F.D.I.C.'s liquidation division added that disposing of assets as soon as possible had become the new goal in an agency that once might have wanted to hold on to foreclosed real estate or loans, hoping that the market would soon turn around and the government would make a premium on the assets.

"While I might think that a piece of property is going to go up in value, it ain't necessarily so," he said. "Look at where oil and gas prices were in 1954 and where they are today. If I have $100 tied up in these loans, I am not earning any money, I have holding costs and I run the risk that their value will go down even more . If I sell them and put $100 in the bank, I know exactly how much I am earning on it."

March 4, 1988

Residential Interest Group for
Housing Trades
1001 Boniface #12J
Anchorage, Alaska 99504
(907) 337-5116

Honorable Arliss Sturgulewski
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

RE: House Bill 432 entitled "an act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases".

Dear Arliss:

The Residential Interest Group for Housing Trades (RIGHT) is an organization comprised of Alaskan residents who presently own either single family or zero-lot line homes, condominiums or mobile homes (homeowners) financed through the Alaska Housing Finance Corporation (AHFC). It is the goal of RIGHT to develop and establish a program though which qualified homeowners may exchange their current residences and mortgages for residences previously foreclosed upon by the AHFC.

Through our efforts, a bill has been introduced in the House (HB 432), by Representative Donley, to provide for such trades by the AHFC. In an effort to assist the legislature in establishing a trade program, RIGHT has prepared a proposal for the development of a trade program, a copy of which is enclosed for your information and review. This document is being submitted to every member of the 15th Alaska Legislature, every mortgage insurer who insures mortgages of the Alaska Housing Finance Corporation in hopes of bringing all necessary parties together to establish a trade program.

After reviewing the enclosed proposal, please feel free to contact us regarding any comments you may have. Any suggestions you may offer would be greatly appreciated. Thank you.

Very truly yours,

David P. Moore
Board Member,
Residential Interest Group for
Housing Trades.

DPM/ws

March 2, 1988
Residential Interest Group for
Housing Trades
1001 Boniface #12J
Anchorage, Alaska 99504

Rep. David Donley
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

Re: House Bill 432

Dear Representative Donley:

The Residential Interest Group for Housing Trades (RIGHT) would like to take this opportunity to thank you for sponsoring House Bill 432. As you know, in its current form the bill does not provide a procedural framework through which trades may be realized. It is our understanding that the House Labor and Commerce Committee is currently considering the bill in an attempt to develop such a framework.

In order to assist you in your endeavor, RIGHT has analyzed and developed the following proposal for your consideration. We recognize that we are but one of the three parties involved and therefore urge you to meet with the other participants, Alaska Housing Finance Corporation (AHFC) and the mortgage insurers, in order to obtain successful passage of this legislation.

The downturn in Alaska's economy has caused thousands of residential foreclosures in this state. In 1987 AHFC foreclosures alone increased from the 1986 record of nearly 2,000 to over 3,700 representing an increase of 102%. This trend has continued unabated since 1984. See AHFC foreclosure statistics 1984-1987. This foreclosure rate may be attributed to both economic and non-economic factors.

Initially, many homeowners either lost their jobs or experienced some other decrease in earnings which left them unable to meet their financial obligations. Consequently, many homeowners defaulted on their mortgages. Foreclosures skyrocketed. Today, homeowners continue to default and face ultimate foreclosure due solely to economic reasons.

These initial "economic" foreclosures spawned a wave of "non-economic" foreclosures. As foreclosed residences were resold at depressed market values, homeowners began experiencing a continual decline in their property values to present levels substantially below their mortgage balances. Condominium, zero-lot line and mobile homeowners have been the groups most affected by the declining values. Faced with increasing negative equities, many homeowners have chosen foreclosure to avoid inevitable future losses. Although able to meet their financial obligations this group of homeowners default for "non-economic" reasons.

Nevertheless, many homeowners have not defaulted. Many are not only able to meet their current financial needs but are actually able to qualify for higher priced homes and mortgages. Many families have outgrown their homes. They seek to improve their standard of living but are prevented from doing so by their inability to sell their current residences which is necessary to purchase better housing. Given the likelihood that these homeowners will never again enjoy a positive equity position, there is nothing but a sense of ethics and moral obligation tying them to their loans. Their negative equities and inability to sell even at a loss leaves them not only frustrated and dissatisfied, but with little incentive to continue paying their mortgages. Currently, default is the only option available to improve their situation.

On the other hand, many people who have experienced a decrease in earnings are depleting their cash reserves in an effort to remain current on their mortgages. In many of these cases default will eventually occur. Although there are programs available to assist these homeowners, they provide only temporary relief at best. Moreover, these programs do not improve the homeowners equity position but worsen it thereby creating a yet greater incentive to default. As such, they merely delay the inevitable.

Each foreclosure increases the supply of housing available in the market thereby further decreasing market value. As values decline, more defaults occur and the cycle repeats. As a result, many lenders and mortgage insurers have unwittingly become real estate barons. Their assets have been converted from predominantly cash and securities to real property making them less liquid and less able to meet their cash needs. Additional foreclosures will only further deteriorate their financial positions.

The solution is obvious: decrease the current rate of foreclosures. This objective may be achieved in one of two ways:

1. The market can correct itself naturally without structured intervention by the private or public sectors. However, if current trends continue unchecked, there is little doubt that the market will not be corrected for many years. During this period, AHFC and its insurers will be forced to continue to acquire and maintain foreclosed residential property further depleting their cash reserves.

2. The market can be corrected through the development and implementation of a plan to reverse the trend in foreclosures. It is the objective of the Residential Interest Group for Housing Trades (RIGHT) to assist in developing such a program by allowing homeowners to trade their existing AHFC loans for residences previously foreclosed upon by the AHFC, thus providing more suitable and/or affordable housing for Alaskan homeowners. To develop a solution, we must first analyze the problem.

Whenever a foreclosure occurs three parties are directly affected:

1. the homeowner;
2. AHFC;
3. the mortgage insurance company.

The cost to each party is equal to 100% of its maximum exposure. The homeowners lose their residence and their credit is destroyed. AHFC loses future revenue and earnings in the form of mortgage payments and interest. Since AHFC is nearly 100% insured (see 1987 AHFC Annual Report, p. 4), it is the least impacted by foreclosure. Nevertheless, AHFC suffers its greatest loss with foreclosure.

It is the mortgage insurer that bears the greatest loss in terms of actual dollars. The insurer's policy limits are exceeded because of the low resale price. Accordingly, the insurer pays 100% of its maximum exposure on the property and now must also pay for upkeep of the residence if it obtains title. If not, resale and upkeep costs fall upon AHFC. In short, everyone loses everything in a foreclosure situation.

RIGHT envisions a situation wherein everyone wins a little. A typical trade would occur as follows:

1. The homeowner selects a residence for purchase from AHFC inventory. He then buys down his existing mortgage by paying to AHFC an amount equal to a percentage of the negative equity thus lowering the balance of that AHFC loan. He would then purchase the new home at its current market price financed through AHFC at 100% of its value;

2. The mortgage insurer would also buy down the mortgage by paying to AHFC an amount equal to a percentage of the maximum amount of its exposure had a forclosure occurred. In exchange, AHFC would tender a policy release on that loan;

3. AHFC would then own the original property and be at liberty to dispose of it in a variety of ways. It could either sell the property or rent it as low income housing thus replacing the current blighted low income housing.

By adopting such a program everyone would benefit. The homeowner would be able to obtain, for a price, a better or more affordable home. His incentive to default produced by his current negative equity or financial distress would be eliminated.

The insurer has cut its losses from 100% to whatever percentage it agrees to pay for AHFC's policy release. Assuming the property purchased was from the insurer's inventory, the insurer has now sold to the homeowner one of its properties previously foreclosed upon. Since it has acquired no additional property in the trade, it has decreased its inventory and associated costs by one. Finally, trades will substantially decrease the number of foreclosures thus decreasing the potential for future losses.

AHFC directly benefits by the influx of cash from the homeowner and the insurer in "buying down" the mortgage. Moreover, such a program benefits AHFC by substantially decreasing future foreclosures. Although, arguably, AHFC may end up with less marketable property, this same result would occur were foreclosures to continue at current levels. The difference, however, is that in a trade situation AHFC receives cash at the time of repossession. In a foreclosure, AHFC receives nothing absent judgment and successful execution. Moreover, AHFC will be taking back a loan while at the same time financing a new one whenever a trade occurs thereby maintaining a steady cash flow which is not present in a foreclosure situation.

Although AHFC will accumulate an inventory of less desirable housing in the form of condominiums and mobile homes when low cost property is traded for higher priced residences, title to these dwellings will vest in one owner - AHFC. As a governmental agency, ultimate ownership by AHFC is more desireable than ownership by private mortgage insurers which usually occurs in a foreclosure. Unlike private enterprise, the government, through AHFC, is in a better position and has greater incentive to dispose of the property in such a way as will benefit the public good. Accordingly, the trade program could be utilized in conjunction with a program developed to dispose of the lower cost housing either through resale or rental as public housing or through demolition and removal (mobile homes) for resale in a more viable market.

Two factors must be kept in mind in structuring this program:

1. Costs - closing costs and realtor fees must be streamlined and reduced. For example, realtor commissions could be lowered from 6% through a competitive bidding process. Bank fees could be eliminated by direct financing through AHFC.

2. Homeowner costs - to make the program viable, the buy down payment required must be affordable. Further, should a party be unable to produce all of the buy down payment, alternative financing must be available. Perhaps a second deed of trust equal to the unpaid balance of the buy down payment could be taken out on the new home purchased through AHFC. Homeowners trading down could pay zero down, with their buy down cost transferred to the new loan.

In conclusion, RIGHT recognizes that the cost of improving the residential market should not be borne by any one group. Under current conditions the burden is placed solely upon the individual homeowner. As the foreclosure rate indicates, the homeowner is unwilling to accept this burden and it is ultimately AHFC and the mortgage insurers who must bear the loss. RIGHT offers a program through which all parties assume a share of the costs in exchange for a lessening of their burden.

Contrary to some beliefs, legislation is necessary to enable AHFC to effectuate a trade as no statute or regulation exits authorizing such activity by AHFC. In order to establish a trade program, the legislature must take steps

to obtain the attendance of all necessary parties at the bargaining table. This can best be achieved by the legislative appointment of a panel consisting of realtors, financial experts and representatives from AHFC, the mortgage insurance companies and the homeowners. We urge you to appoint a panel to review and develop a plan consistent with this proposal. Immediate action is necessary in order to obtain passage of this important piece of legislation during this session.

Again, thank you for your efforts in this matter. If you have any questions or wish to discuss this proposal in further detail, please do not hesitate to contact us.

Very truly yours,

Trena L. Heikes
Co-chairman,
Residential Interest Group for
Housing Trades

Michael D. Hinshaw

Michael Hinshaw
Co-chairman,
Residential Interest Group for
Housing Trades

A ✓
ROD

S

Alaska Permanent Fund Corporation
P.O. Box 4-1000 Juneau, Alaska 99802-4100
(907) 465-2047 Telecopy (907) 586-2057

April 5, 1988

Thomas Snelling
13441 Glen Alps Road
Anchorage, AK 99516

Dear Mr. Snelling:

Thank you for your letter dated March 21, 1988, in which you support the Hallwood Group's proposal as advanced by Mr. Anthony Gumbiner.

Attached please find a copy of a white paper I prepared on the subject and legislation drawn to accommodate it. The Hallwood proposal is the vehicle which would execute the plan.

You should be aware of a few problem items. First, the original plan called for a maximum of $15 million of State funds; Hallwood wants more and that may kill the whole thing. Second, Hallwood is the only "player" to sign up in support of the concept. Unless FDIC and another agency join the fold, I do not believe the legislation will pass. It must benefit at least three entities, not just Hallwood.

Finally, be advised that investment in the trust -- and the portfolio in it -- is not necessarily institutional quality. It does not appear to meet the Permanent Fund's low risk criteria as it pertains to cash-on-cash return, internal rate of return and substantially leased property. Nonetheless, I will continue to work with legislators, Mr. Gumbiner, other entity representatives and potential investors in these matters.

Thank you for your interest and comments.

Sincerely,

David A. Rose
Executive Director

Enclosures:
White Paper
SB 408/409 by Kelly and Sturgulewski
HB 457/458 by Pettyjohn
DAR/mm

RECEIVED
APR - 4 1988
ALASKA
PERMANENT FUND CORPORATION

March 21, 1988

Mr. Dave Rose, Executive Director
Alaska Permanent Fund
Box SB
Juneau, Alaska 99811

Dear Mr. Rose:

I believe that the Gumbiner Real Estate Trust Proposal should be implemented immediately. It is the correct solution for a terrible problem. Now is the right time.

I believe it will stabilize the Alaskan Real Estate Market, end the precipitous plunge in real estate values, mark the beginning of the recovery, rekindle optimism and individual investor interest. In short, it will save us all.

I believe in Alaska's future. As a small investor, I would eagerly participate.

Please use your considerable power and influence to make sure that this plan is implemented in the shortest period possible.

Sincerely,

Thomas Snelling

Thomas Snelling
13441 Glen Alps Road
Anchorage, Alaska 99516
(907) 345-1516

March 21, 1988

Mr. Anthony Gumbiner, Chairman
Financial Institutions Group
The Hallwood Group Inc.
767 3rd Avenue
New York, New York 10017

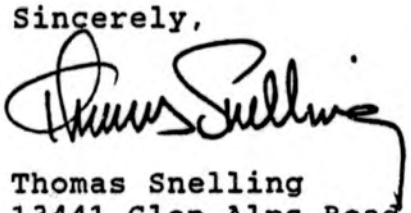
Dear Mr. Gumbiner:

It makes sense. Your Liquidation Trust Proposal for Alaskan Real Estate should be supported by all Alaskans and implemented immediately.

The units should be sized for both individual and institutional participation with the Alaska Permanent Fund as a participating investor.

Please let me know how I can best support the implementation of this very important program.

Sincerely,



Thomas Snelling
13441 Glen Alps Road
Anchorage, Alaska 99516
(907) 345-1516

cc Mr. Dave Rose; Alaska Permanent Fund
Mr. Steve Cooper; Governor, State of Alaska
Ms. Jan Faiks; President, Alaska State Senate
Mr. Tom Fink; Anchorage Municipal Mayor
Mr. Tony Smith; Chairman, Alaska Housing Finance Corporation
Mr. Tom Ruth; Federal Deposit Insurance Corporation
Mr. Ted Stevens; U. S. Senator for Alaska
Mr. Frank Murkowski; U. S. Senator for Alaska
Mr. Don Young, U. S. Congressman for Alaska

Business

Investors bank on Alaska recovery

By Yereth Rosen
Times Writer

Anthony Gumbiner and Jim Cairnes are bullish on Alaska.

"From an international investor's point of view, you've got to be interested in Alaska," Gumbiner said. "We're coming into a society that is at its lowest point." But the state is rich in resources and potential, he said.



Jim Cairnes
... expects long-term growth

"It's the last frontier in the United States," Cairnes added. "There's an awful lot of long-term growth to take place."

Gumbiner, chairman of The Hallwood Group Inc., and Cairnes, a former Hallwood official who left the company to become chairman of Alliance Bancorporation, have a stake in an Alaska economic recovery.

Alliance is the bank formed when two then-failing banks — United Bank of Alaska and Alaska Mutual Bank — merged late last year. Hallwood is the New York-and London-based merchant banking firm that contributed $65 million to get Alliance on its feet. The firm owns about 85 percent of Alliance.

Like other financial institutions, Alliance is saddled with enormous inventories of repossessed properties. When the merger occurred, the new bank took on all of UBA's and Mutual's $300 million in bad real estate loans.

On Thursday Cairnes, who works out of Seattle, and Gumbiner, who works out of New York, toured some of the 1,500 properties repossessed by Alliance.

Something of a specialist in rescue financing, Hallwood was given the option of turning Alliance over entirely to the FDIC if, after 18 months, the venture proved unsatisfactory.

But Gumbiner and Cairnes said Thursday they doubt that will happen because they expect the Alaska economy to rebound.

Still, there is a problem they see with the economy's prospects.

"There are so many people — including ourselves — that have so much real estate that, if it isn't properly managed, we could see the recovery being put aside," Cairnes said.

At the first glimmer of a market demand for real estate, as Gumbiner and Cairnes explain it, the institutions holding vast inventories will gang up and pounce on the few available buyers just as a gang of polyester-clad used-car salesmen will pounce on the first customer who wanders onto a sales lot. In doing so, the two argue, the institutions will further depress real estate values and make it even more difficult for the average homeowner to sell. That, in turn, would create greater incen-

See Investors, page D-10



Anthony Gumbiner
... proposes real estate rescue plan

Investors: Asking state for $15 million investment

Continued from page D-7

tive for the average homeowner to walk away from a mortgage.

To prevent that from happening, Hallwood and Alliance are proposing a rescue program that would put institutionally owned real estate into a liquidation trust.

Investors from around the world would buy units of the trust, which would be the equivalent of long-term commodity investments. At the end of 20 or 30 years, the length of mortgages for properties in the trust, investors would earn a return on their units. The units would be similar to zero-coupon bonds in that there would be no cash payments before maturity; however, under the plan, any investor who wants to cash out at any time would be able to do so.

Investors would be speculating on the Alaska economy and currency exchange, according to the plan.

Gumbiner and Cairnes said all that they need to go forward with the plan is the participation of other institutions that hold vast inventories of repossessed real estate — like the Alaska Housing Finance Corp., the FDIC and other banks — and some working capital from the State of Alaska.

They're asking for $15 million from the state, an "investment" they said would perhaps be repeated for two more years.

In Hallwood's favor is its past experience with similar real-estate trusts. In this area Hallwood is perhaps best known for The Twenty Seven Trust, which it formed in 1984 to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust.

Also in Hallwood's favor, Gumbiner and Cairnes said, is the support of Tony Smith, the state's commissioner of commerce and economic development and chairman of AHFC's board.

Gumbiner said letting the market take its own tumultuous course without intervention would be risky. "It's a very serious social problem that state government well ought to do something about."

Despite the dangers they see, Gumbiner and Cairnes said they're optimistic about their financial prospects in Alaska.

"We hope people will remember us for coming in when times were bad," Gumbiner said. "A lot of people will come in when times are good."

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to fund disposal of substandard publicly owned housing; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. DISPOSAL OF PUBLICLY OWNED SUBSTANDARD HOUSING. Consistent with the best interests of the state, the Alaska Housing Finance Corporation may use not to exceed $20,000,000 in unrestricted funds available to it for the purpose of making grants to state agencies and municipalities of the state for the disposal of substandard housing owned by the state or a municipality of the state. The corporation shall take a security interest in land occupied by substandard housing disposed of under this section to recover funds granted under this section. The security interest shall bear interest.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Alliance Bank

March 19, 1988

Mr. Gumbiner has asked us to transmit the enclosed updated "PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST" to you in an effort to keep you informed.

Should you have questions or comments, they could be directed to him through my office.

Sincerely,

Fred H. Burrow
President

Enclosure

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W. Benson Boulevard • P.O. Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few

office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases, the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirement of the Procedures Agreement will assure the Beneficiary Institutions

that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets.d Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will

first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made, then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and, as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Assets.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. with respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to appropriate and subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

We anticipate that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, for at least one year. At the end of the year if the Trust requires further funding from the State, we shall report our then position and request a further sum of up to $15 million for the next current year in the form of a loan from the State to be secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make

settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a cash flow projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes of non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and

improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States, with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's

equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all of the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan

real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only, basis utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of Trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rates as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust, each of the Beneficiary Institutions shall be entitled to nominate a committee member to

the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Fees to the Trustees

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance. In effect, Hallwood will be receiving an indirect fee in that Alliance staff costs in its workout department will be partially reduced by the formation of the Trust.

In the event that Hallwood exercises its put to the FDIC and is thereafter no longer a major shareholder of Alliance, Hallwood's services as manager and Trustee will still be available to the Trust on a fee basis should Beneficiary Institutions request Hallwood to continue its Trusteeship.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

March 17, 1988

The Hallwood Group Incorporated
767 Third Avenue
New York, NY 10017
Tel: 212-319-2360

Bruce B. Kendall Sr.

KENDALL FAMILY ENTERPRISES

333 CONCRETE STREET

ANCHORAGE, ALASKA 99501

March 24, 1988

Representative Kay Brown
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Kay:

I see by the newsletters and public press that there are several bills before the legislature to liberalize the states two major lenders, AHFC and AIDA, so I will relate to you what I know to be factual.

(1) Never pass a law to fit a personality because that person or board member may not always be in charge. I have seen legislatures pass laws to offset incompetants by making the operational rules so conservative as to be useless, and also to liberalize a law because of great confidence in a person or agency. Both are incorrect actions.

(2) The above agencies have many controls already in place by the market place as to their source of funds, especially AHFC. I have no first-hand knowledge of their activities, so no comment as to proposed laws.

(3) I have had personal experience with AIDA, because they inherited the old tourism loan portfolio when the legislature created AIDA, which was the proper thing to do. My tourism loans were dated 1978, 1974, and I still own these properties. In all those years everything was per schedule and to this day I have a net cash flow on these two properties. However, I have other properities as well and one of my properties got caught in the oil price crash and had a dangerous reversal in revenues Consequently, we had a lot of accounting and computer runs, etc. The conclusion was that if all five mortgage holders of properties would cooperate by pooling the revenues and expenses of all properties, a two-year program of this cooperative act "could" bring all properties current and avoid any forced sales of property on a depressed market.

The meeting was held by me, my CPA and three mortgage holders and my home bank. National Bank of Alaska, guaranteed a line of operational credit to offset seasonal revenue fluctuations and the agreement is performing so far as planned.

The point I'm making here is this, my long-term Alaska business experience (48 years) and the age and source of those funds was a direct appropration by the legislature and not bond sales, which made it possible for AIDA to make a business, social judgement that was not needed in regards to their two old tourism loans, but the judgement was to be cooperative with other lenders to avoid forced sale of one of my principle properties. Bert Wagonon and the board made a decision that could be viewed under

present rules of their agency as a close call because my old tourism loans were co-mingled with the bond sales funds.

My second point is that when the government gets into the loan business and the rules are that a private bank must originate the loan and participate in a percentage of the loans funding, then the government agency should have the same rules to rescue troubled loans as does the private lender. Reason is that the private lender has numerous legal work outs available to them by law, and rule. In the private sector, once a mortgage is a classified loan, that private lender legally can just about make any arrangemens that will collect the bill due. Whereas, AIDA is the largest lender, by the numbers involved and it doesn't have the same latitudes that the orginating bank has available so that brings on more losses, fore closures and stress than is practical or necessary. So it comes down to this, if the state wants to become a banker then the legislature must make the same identical rules available to that state agency as the private lender has available. If you don't equalize the rules, then you have multiplied the stress on that agency and the private market place, by making the cooperation between private and government lenders impossible. Here is why, AIDA funds or bonds that have guaranteed earning percentages at the time of sales, that fit market conditions so these percentages vary. Therefore, it follows that to refinance or mutually agree to a workout an agreement, a distressed borrower becomes an administrative impossibility unless the legislature gives the AIDA agency access to state funds to equalize the disparities in bond holders earnings, which by law must be constant. In this manner you will put AIDA, a state agency, equal with the private lenders' methods of rescue or work out equal plans to where each board, both private and state, can then make business judgements without fear of reprisal by some judicial actions of the parties involved or to appear illegal to any examination of the record.

Kay, it all boils down to the fact that there ain't no free lunch. The state legislature made the state a banker in the first place, so now it would be unfair to pick up your marbles and run away. That leaves private lenders and honest borroweres in a lurch. So by all rules of honesty and fair play, the legislature should equalize state, public and private lenders or the state will create a bigger mess than we have presently.

Sincerely,

Bruce Kendall

Bruce Kendall, Sr.

cc: Representative Johnny Ellis
Representative Pat Pourchot
Senator Joe Josephson
Representative Al Adams
Senator Rick Halford

MT. McKINLEY MUTUAL SAVINGS BANK
TELEPHONE (907) 452-1751 P.O. BOX 73880 531 THIRD AVENUE FAIRBANKS, ALASKA 99707

COPY

March 24, 1988

Willis Kirkpatrick
Director
State of Alaska
Department of Commerce and
Economic Development
Division of Banking, Securities
and Corporations
P.O. Box D
Juneau, Alaska 99811

Dear Mr. Kirkpatrick:

It has come to our attention that three banks in our state, Alaska State Bank, Alaska Continental Bank and Home Savings Bank, have hired lobbyists to push their proposed bill called "The Economic Stabilization Act of 1988" through the legislature.

The Anchorage Daily News and the Fairbanks Daily News Miner published identical articles concerning the banks proposed legislation. The newspaper articles stated that, according to Alaska Division of Banking and Securities, three banks were behind the bill plus Denali State Bank and Mt. McKinley Mutual Savings Bank.

We believe it is extremely important that Mt. McKinley Mutual Savings Bank's position concerning the proposed bill be made perfectly clear. The management of the bank did not participate in the preparation of this bill, nor have we in any way expressed our endorsement of proposed legislation to the author of the bill, to any State agency, to any State officials, or to the news media.

Mt. McKinley Mutual Savings Bank's basic premise is to expand our abilities to adapt to new market circumstances, to a changing economic environment, and to new regulatory circumstances. The Alaska economic climate has become harsher and less predictable, which is going to make the banking business more difficult to manage.

MT. McKINLEY MUTUAL SAVINGS BANK
TELEPHONE (907) 452-1751 P.O. BOX 73880 531 THIRD AVENUE FAIRBANKS, ALASKA 99707

There is no place to hide in this economic environment. Consequently, tough decisions have to be made by the regulators concerning insolvent banks.

Sincerely,

William K. Simon
President

WKS:lcl

cc: Senator Bettye Fahrenkamp
Senator Ken Fanning
Representative Mark Boyer
Representative Kay Brown

COPY

3-20-88

To: Rep. Kay Brown
Chairperson
Housing and Banking
Alaska Legislature
Juneau, AK 99801

Dear Ms. Brown -

We wish to be on record as being against this proposal. We had assumed Alaska State Bank was our local mortgage holder and we would therefore be able to deal with an Alaskan local bank. Not so.

Very truly yours,

Charles and Mary Wilson
1823 Beaver Place
Anchorage, AK 99504

Banks make a plea

But don't call it a bailout, they say

By STAN JONES
Daily News reporter

Three money-losing Alaska banks are asking the legislature to boost their industry with up to $25 million in state cash, but they say it's to help their customers, not themselves.

Alaska Statebank, Alaska Continental Bank and Home Savings Bank have hired three heavyweight lobbyists at a cost of $75,000 to try to get their proposal, called "The Economic Stabilization Act of 1988," through the legislature.

Despite its sweeping title, the bill deals only with banks. It would have the state invest in small, state-chartered institutions, using money from the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority, the Railbelt Energy Fund "or any other state financing entity designated by the Commissioner of Commerce and Economic Development."

The bill would limit the program to state-chartered banks with assets of less than $150 million. According to a report from the Alaska Divi-

"My inclination is to be against it, but we haven't seen anything specific," said Rep. Kay Brown, D-Anchorage, who co-chairs a housing and banking subcommittee. "It seems to me that if we're talking about people who basically made poor business judgments, that is just something that has to be lived with. We can't, obviously, bail out everybody who made a poor business judgment."

"Is it the state's role to pick the winners and losers?" she said.

3-20-88

← Alaska Statebank sold our home mortgage promptly to Manufacturer's Hanover Bank, a Michigan outfit, without asking our concurrence.

Charles L. Wilson
1823 Beaver Pl.
Anchorage, AK
99504.

I recommend doing absolutely nothing to help Alaska Statebank.

Alaska State Legislature
Senate

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Senator Arliss Sturgulewski
FROM: Senator Joe Josephson
DATE: April 20, 1988

RE: Conversation with Dean Lester Thurow, School of Business, Massachusetts Institute of Technology

1. After reading the materials sent to him by me, consisting of documents in the files and packets of the Committee on Economic Recovery, Dr. Thurow telephoned my office today. A summary of his advice follows.

2. Those who say that Alaska experienced an oil-accelerated boom compounded by government spending are correct.

3. In hindsight, it is easy to say that Alaska state government should have saved its money until after the oil boom had peaked, thus prolonging prosperity and avoiding the drastic cycle of "boom" and "bust". The problem is that no government has acted that way; look, for example, at Wyoming, Calgory, and Denver.

4. Greg Erickson has been right about many things (see below). But it is "nonsense" to say or imply that a decline leads to an automatic rebound. You can "hit bottom" and still never rebound. A decline in wages, for example, does not inevitably lead to subsequent increases in earnings.

5. The contention that the October stock market crash occurred without great impact on the national economy is "not germane" to a discussion of the Alaska economy. (As a matter of fact, stock market prices were higher in January, 1988, then they were in January, 1987).

6. The housing problem can only be solved when there is "certainty" for investors that "the bottom is here". To hold property off the market may not be helpful. If we hold property off the market, investors will simply worry "when (we) will put it back (on the market)".

7. Sending trailers out of Alaska to the "Lower 48" is foolish.

8. It does make sense to tear down housing stock that should be torn down anyway. It does not make sense to destroy other, higher quality, housing stock.

9. The critical need is psychological. We need to let the bottom be reached quickly. The loss that has already occurred doesn't affect you, but if you expect that there is more of a fall ahead, there is a depressive effect on the market. Holding housing off the market is a temporary measure that is not stablizing and may have a depressing or destabilizing effect.

10. The fear of FDIC dumping "all at once" is exaggerated. FDIC won't do that, regardless of what you may hear. The Home Loan Bank Board doesn't do that either.

11. The basic rule ought to be this, in terms of proposals to involve the state in financial institutions: "How is the state going to make money on its money?" The state should never put up money unless it can make money on its money.

12. Bank failures do not have significant "ripple" effects on the economy. Depositors are protected. Good loans are maintained generally, and bad loans would probably have been foreclosed upon anyway by the bank that failed.

13. Dr. Thurow is skeptical about the idea that foreign investors are going to be persuaded to invest in Alaska's distressed real estate. The carrying costs are very high. In Alaska, the recession in real estate could last ten years. It is one thing to accept carrying costs for two years; it is another to accept them for a decade. Besides, if "a Hong Kong zillionaire" is looking to invest in U.S. distressed real property, there are places like Houston, Texas, that are more inviting, or resort or vacation properties that are more appealing.

14. The state should avoid "lemon socialism", where government gets the lemons, and the private sector keeps the good stuff. That's the reverse of the successful policies of the Japanese government; there government helps economic winners and takes profitable equity shares.

15. A primary concern ought to be local government. People depend on local services. It is important to avoid downward pressure on local services when the property tax base erodes.

16. Government should try "to get rid of uncertainty" that hangs over property values.

17. Dean Thurow is available to speak to us via teleconference.

ALASKA STATE CHAMBER OF COMMERCE

1988 State Legislative Program

Introduction:

In June 1987, ASCC's Strategic Planning Commission presented its "Report to Alaska's Economic Leaders," in which was outlined an economic framework and strategies for the Alaska economy into the 1990's.

A key element of the report was an "Export Model of the Alaskan Economy" depicting the value of "exports", or gross value of the state's basic economic sectors. So important are these sectors to the future development of Alaska, that State Chamber directors, in December, 1987, determined to base the Chamber's 1988 legislative agenda on position that would tend to enhance these basic economic sectors.

Additionally, ASCC's directors divided the Chamber legislative program into three categories: State Legislative issues, State Administrative Issues, and Federal Issues. The following are the Chamber's positions on state Legislative Issues. The Administrative and Federal Issues are also available from ASCC in the complete 1988 ASCC Legislative program.

1988 ASCC State Legislative Program

PART I: BASIC INDUSTRY ISSUES

(A) Oil and Gas

The Alaska State Chamber supports:

(1) Tax stability for the oil and gas industry. ASCC opposes implementation of separate accounting or legislation to change the Economic Limit Factor (ELF) on oil and gas severance taxes.

(2) The state legislature must pass a joint resolution supporting the opening of the Artic National Wildlife Refuge (ANWR) to environmentally responsible oil and gas exploration, development and production.

(B) Timber

The Alaska State Chamber supports state legislation to encourage and facilitate leasing of state land for commercial timber harvest and to develop a statewide timber management program.

(C) Fisheries

The Alaska State Chamber

(1) Supports the development of sea-vegetable and shell fish mariculture and continued research into other aspects of mariculture.

(2) Urges the legislature to support development of a fisheries policy.

(D) Minerals

The Alaska State Chamber supports:

(1) Passage of a state mineral policy as recommended in the Alaska Minerals Commission report.

(2) Assumption by Alaska Department of Environmental Conservation of water quality authority from EPA. Alaska's water quality standards should not exceed EPA standards.

(3) Classification of receiving waters to take into account downstream uses. Discharge charge standards should not exceed intake quality.

(E) Tourism

The Alaska State Chamber supports the development of a joint marketing plan between the Division of Tourism and private industry to make Alaska a destination for all travelers.

(F) Permanent Fund

The Alaska State Chambers supports the repeal of statutory provisions precluding the Alaska Permanent Fund from investing in foreign companies.

PART II: CROSS INDUSTRY ISSUES

(A) Energy

The Alaska State Chamber supports:

(1) Restructuring of the Alaska Power Authority Board of Directors to a five member body with four members appointed from the public sector and one member representing the state administration.

(2) Completion of a Bradley Lake Hydroelectric project.

(3) Use of Railbelt Power Development fund only for studies and construction of railbelt power projects.

(B) Transportation

The Alaska State Chamber supports:

(1) Full funding for adequate maintenance of the existing state transportation system. Further, life cycle costing and follow-on funding must be addressed on any additions to the System.

(2) Expansion of the road and highway transportation system, giving priority to highways that connect population centers, provide access to seaports, visitor attractions and economically viable resource areas.

(3) Acquisition by Alaska Marine Highway System of sufficient number of high speed ferries for passengers, freight, and vehicles to provide feeder service between main distribution points and smaller communities. Any savings or excess capacity realized from such action should be directed at improvement of transportation services in other coastal communities.

(4) Establishment of an Anchorage/Fairbanks Airport Authority.

(5) Assertion of rights and authority under revised statute 2477 (RS 2477) to protect valid existing public rights-of-way and to manage these rights-of-way on federal and state lands.

(C) Lands

The Alaska State Chamber supports:

(1) Legislation requiring Coastal Management Plans to be approved by the legislature prior to implementation.

(2) Legislation limiting coastal resource service area boundaries to lands where development poses a serious impact on coastal resources.

PART III: STATE GOVERNMENT

(A) Tax Stability

There should be no new or increased state business or corporate taxes.

(B) State Spending

(1) There should be a continued, aggressive reduction in the State's Operating Budget commensurate with reduced revenue and population projections.

(2) The legislature should take all possible steps to insure state dollars are spent in Alaska with Alaska businesses.

PART IV: ADDITIONAL LEGISLATIVE ISSUES CRITICAL TO ALASKA BUSINESS

(A) Worker's Compensation

The Alaska State Chamber supports the goals and objectives of the Worker's Compensation Committee of Alaska (WCCA).

(B) Tort Reform

The Alaska State Chamber supports the legislative initiative by Citizen's Coalition for Tort Reform entitled "An Act Relating to Civil Liability."

(C) Agriculture

The Alaska State Chamber recognizes Alaskan agriculture for its economic import substitution value and supports the efforts for the Alaskan agricultural industry to grow and prosper to benefit all Alaskans.

ALASKA STATE CHAMBER OF COMMERCE

1988 ADMINISTRATIVE ISSUES

Fisheries

The Alasks State Chamber of Commerce supports establishment of a long-term fisheries policy and adequate funding and management to accomplish objectives of the policy.

The Governor should create a high-level position to lead the development and implementation of the policy and pursue its objectives.

Timber

ASCC supports development of a statewide timber management program, long-term leases on State lands for commercial timber harvesting, and road access to leased areas.

Minerals

ASCC commends State efforts to resolve the Sierra Club/BLM lawsuit on placer mining, and urges continued efforts.

Energy

The State should investigate a policy for expansion of in-state use of coal for future electrical power generation, particularly in the railbelt region. ASCC supports research and development for expanded coal markets and beneficiation.

The State, appropriate federal agencies, and Canadian officials, should take action to ensure economical development and construction of the Southeast Intertie.

Tourism

ASCC finds that alpine and nordic skiing are an integral State park land use, and urges DNR to facilitate recreational development on State lands.

Transportation

ASCC supports:

- The 1986 Aviation System Plan and urges DOT/PF to develop a six-year program for implementing the policy and operating parameters contained in the plan.

- The Alaska Aviation Safety Foundation's ongoing efforts to improve aviation safety in local communities.

- Installation of state of the art navigation and airport approach systems.

ASCC acknowledges and supports the role of the Alaska Railroad Corporation in expanding economic development within the state.

ALASKA STATE CHAMBER OF COMMERCE

1988 FEDERAL ISSUES

Fisheries

ASCC will work with Alaska's Congressional delegation to resolve the issue of fisheries control in international waters of the Bering Sea known as the "Donut."

Timber

ASCC supports existing federal policies in the Tongass National Forest and maintenance of timber resource availability to sustain industry at sufficient levels to meet market demands.

ASCC opposes proposed expanded wilderness, HR 1516, and any other similar legislation.

Minerals

Valid existing rights of mining operations and claimants within Alaska's national parks and on public domain land should be protected by the State and the Department of Interior.

ASCC supports disposal of Quartz Hill mine tailings in Wilson Arm.

Lands

ASCC opposes further withdrawals of land from multiple use.

Energy

Provisions of the federal Surface Mining and Reclamation Act which do not take into account the unique and geographical circumstances in Alaska should be changed.

Tourism

ASCC supports expanded access to Denali National Park.

FDIC LIQUIDATION PROCEDURES

- Establish a permanent FDIC office in Anchorage to liquidate assets
- Evaluate assets based on financial statements and collateral
- List and sell real estate for independent appraised value
- Bulk sale performing loans to highest bidder
- On non-performing loans, attempt workout with debtors/guarantors (this includes compromises, refinance, extension or modifications of terms, interest moratorium, substitution of collateral). Bulk sale to highest bidder
- Refer assets for litigation (including foreclosure) when workout efforts fail
- Repossess collateral when workout efforts fail

FDIC PLAN IF ASSETS ARE SOLD

- Temporary FDIC office in Anchorage would be closed

Uniform Appraisal Instructions To Appraisers For FDIC Real Estate Properties

(Not Required for Residential Single Family Properties)

1. *Appraisals are to be made assuming a sale on a cash basis;* however, if the appraiser is uncomfortable with supplying a valuation on a cash basis because of lack of comparable sales on a cash basis, a valuation based on typical terms, as provided for in item 2 below, may be used instead. If the appraiser prefers, he/she may also value the property on both a cash basis and on a typical terms basis. FDIC *does not* want fire sale or liquidation value appraisals.

2. Appraisals are expected to reflect values based on sales prospects considering *existing* economic conditions.

3. When an appraiser supplies a valuation based on typical terms, FDIC needs specifics as to what the appraiser feels are typical terms for the subject property. For example, x percent (%) down payment, x-year mortgage, with or without a balloon payment in x years and x percent (%) interest rate.

4. All appraisals are to be on an "as is" basis.

5. Estimates to complete essential repairs and to cure violations should be provided, and the appraiser should specify whether those expenses (with a breakdown) have already been considered in estimating the property's appraised value.

6. The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition.

7. All appraisals, *including updated appraisals,* must be in writing.

8. Generally, appraisals should be based on existing zoning; however, the appraiser may value the property based on both current zoning and any other zoning the appraiser feels is *likely* obtainable within a short period. The likelihood of the alternative zoning should be explained in the report for all cases in which the appraiser feels it is appropriate to supply both valuations.

9. When an appraiser is valuing distressed property solely on a land value basis that implies demolition or removal of improvements, the cost of demolition and/or removal should be netted against the land value with the estimated costs of removal so reflected.

10. The account officer is requested to supply the appraiser with a copy of the property's legal description, the survey, leases for income producing properties, etc.

11. The appraiser should provide the amount of annual property taxes and any past due taxes in the appraisal report.

12. The appraisal may be used for multiple purposes, such as bids at foreclosure sales, large protective advances, operating budgets, and sale of the property.

13. A copy of these instructions should be made a part of the appraisal report.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-88
File Name: 015Geogstrat.wk1

	Anchorage Girdwood	Nome Kotzebue Bethel Barrow Prudhoe Bay	Chugiak Peters Creek Eagle River	Fairbanks Delta Jct/Tok North Pole Eielson AFB	Homer Seward	Kenai Soldotna	Juneau Douglas	Palmer Wasilla Big Lake Willow Talkeetna	Valdez Glennallen Copper Center	Other Alaska/ Unknown **	Outside Alaska	TOTAL @@
Bank of the North												
Real Estate/Const	15,758,131 85	1,132,290 8	284,832 5	2,536,787 28		367,492 2	2,523,366 16	3,617,356 9		1,632,293 9	2,052,075 10	29,904,622 172
Other Real Estate	2,249,168 12	0 0	158,913 3	1,444,578 18		128,160 1	1,577,924 7	287,608 5		21,184 1		5,867,535 47
Commercial	17,616,406 83	1,450,707 14	96,041 3	10,489,694 149		56,917 2	1,705,584 25	706,862 11		2,091,524 18	2,357,472 21	36,571,206 326
Installments	193,188 27	33,128 11	18,518 2	256,889 45	740 1		64,052 8	2,401 1	2,059 1	16,884 4	56,899 15	644,758 115
Subtotal	35,816,892 207 49.07%	2,616,125 33 3.58%	558,303 13 0.76%	14,727,948 240 20.18%	740 1 0.00%	552,569 5 0.76%	5,870,926 56 8.04%	4,614,227 26 6.32%	2,059 1 0.00%	3,761,885 32 5.15%	4,466,447 46 6.12%	72,388,121 660
Judgements												
Charge-Offs ##	6,432,197 552	479,955 72	481,242 37	4,333,409 398	12,095 5	10,892 11	1,529,237 106	382,629 31	73,976 15	2,516,280 179	964,279 421	17,216,191 1,827
Subtotal	6,432,197 552 37.36%	479,955 72 2.79%	481,242 37 2.80%	4,333,409 398 25.17%	12,095 5 0.07%	10,892 11 0.06%	1,529,237 106 8.88%	382,629 31 2.22%	73,976 15 0.43%	2,516,280 179 14.62%	964,279 421 5.60%	17,216,191 1,827
ANB Total	42,249,090 759 46.84%	3,096,080 105 3.43%	1,039,545 50 1.15%	19,061,357 638 21.13%	12,835 6 0.01%	563,461 16 0.62%	7,400,163 162 8.20%	4,996,856 57 5.54%	76,035 16 0.08%	6,278,165 211 6.96%	5,430,725 467 6.02%	90,204,312 2,487
TOTAL (CHG-OFFS & JDGMENTS EXCLUDED)	144,537,681 504 67.93%	2,970,207 35 1.40%	5,754,000 33 2.70%	14,992,530 243 7.05%	2,673,824 25 1.26%	3,718,040 27 1.75%	6,762,409 60 3.18%	16,776,233 95 7.88%	68,921 4 0.03%	4,498,220 39 2.11%	10,022,290 78 4.71%	212,774,354 1,143
TOTAL INCLUDING CHG-OFFS & JDGMENTS	159,290,301 1,170 65.20%	3,450,162 107 1.41%	6,326,888 77 2.59%	19,325,939 641 7.91%	2,830,761 36 1.16%	4,218,067 49 1.73%	8,231,646 166 3.39%	17,850,582 151 7.31%	205,070 20 0.08%	11,032,371 257 4.52%	11,470,623 516 4.70%	244,292,410 3,190

** Unknown locations were found only for Bank of the North Chargeoffs
All others in this category are located within Alaska.

Figures on Bank of the North Chargeoffs for "Other Alaska" and "Outside Alaska" are approximate.

@@ Totals reflect gross loan balances; i.e., "Participations Sold" balances plus FDIC book value.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-98
File Name: 0156eogstrat.wk1

	Anchorage Girdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL ##	
First Interstate																								
Real Estate/Const	57,411,882	94	337,388	1	715,128	2			1,290,472	4	861,983	5			8,065,047	18			549,118	1	3,975,404	14	73,226,422	139
Other Real Estate	17,921,277	60			142,050	4			632,335	7	802,394	4	671,356	1	1,940,908	27	1	1	98,900	1			22,209,221	105
Commercial	33,041,204	131	16,694	1	4,338,519	14	243,871	2	748,671	11	1,452,239	7	220,127	3	2,109,437	21	66,861	2	60,286	2	1,552,932	14	43,850,841	208
Installments	346,426	12					20,711	1	1,606	2	48,855	6			25,613	3			28,031	3	27,508	4	499,749	31
Subtotal	108,720,789	297	354,082	2	5,195,697	20	264,581	3	2,673,084	24	3,165,471	22	891,483	4	12,162,006	69	66,862	3	736,335	7	5,555,843	32	139,786,233	483
	77.78%		0.25%		3.72%		0.19%		1.91%		2.26%		0.64%		8.70%		0.05%		0.53%		3.97%			
Judgements	457,732	18			26,060	2			23,734	2	38,827	3			53,729	4	62,174	1			60,038	5	722,254	35
Charge-Offs	7,862,691	96			65,586	5			121,108	4	450,308	8			637,991	21			4,017,872	39	424,015	12	13,579,571	185
Subtotal	8,320,423	114			91,646	7			144,842	6	489,135	11			691,720	25	62,174	1	4,017,872	39	484,053	17	14,301,865	220
	58.18%				0.64%				1.01%		3.42%				4.84%		0.43%		28.09%		3.38%			
FIB Total	117,041,212	411	354,082	2	5,287,343	27	264,581	3	2,817,925	30	3,654,606	33	891,483	4	12,853,726	94	129,036	4	4,754,207	46	6,039,897	49	154,088,098	703
	75.96%		0.23%		3.43%		0.17%		1.83%		2.37%		0.58%		8.34%		0.08%		3.09%		3.92%			

The FDIC states that it will not "dump" its real estate holdings on the Alaskan market.

1. What assurances do we have of this?
2. What (If there were a dump) would be the effect on the loan portfolios and the collateral backing up these loans at healthy Alaskan banks?
3. Other Alaskan banks are members of the FDIC. Is the FDIC liquidation scheme required to consider the impact on other (healthy) banks?

We have heard about a concept that would create a stabilization entity which could be formed by all holders of "other real estate owned (OREO)", defaulted loans, and delinquent loans. All of these assets could be pooled by banks and federal and state agencies, held for stabilization purposes and eventually liquified. Liquidation proceeds would then be passed back to the agencies whose assets made up the pool.

1) Would FDIC be receptive to further discussion on this concept.

2) If the State was willing to advance funds for operating expenses to carry these assets for a period of time for stabilization purposes, would FDIC be more inclined to be a participant in the pool.

Does the FDIC intend to open an office to manage its Alaskan portfolio of assets?

What is the FDIC's annual cost-of-carrying these assets expected to be?

DAR

Greens Creek is expected to have about 65,000 ounces of gold in its yearly output of concentrates which will also include more than 8 million ounces of silver plus commercial amounts of zinc and lead. In addition, the small Grant Mine at Ester Dome near Fairbanks reopened late last year to work a surface vein but is scheduled to resume underground mining late this year. Also, Alaska Apollo Gold Mines Limited has announced that a small but high grade deposit at the historic Apollo property in the Shumagin Islands will be produced under a joint venture with Nevada Goldfields, an affiliate of Golconda Minerals of Australia. No timetable was announced but, if the tentative agreement is completed, development is expected to cost up to $10 million. The confirmed reserves of about 280,000 tons grade out at one-half ounce of gold and nearly 2.5 ounces of silver per ton.

PERMANENT FUND PROJECTIONS SHOW EARNING SHORTFALL BY 1994

Financial projections published in the middle of fiscal year 1988 show annual increases in the amount of the Alaska Permanent Fund through 2005. But legally mandated annual dividends will cause a shortfall in inflation proofing contributions to the fund's corpus, beginnning in 1994. The Alaska Permanent Fund Corporation's calculations show the annual dividend rising from about $1,000 that year to nearly $1,900 in 2005. At the same time, the inflation cushion shortfall is expected to rise from $15 million in 1994 to $258 million at the end of the period. But, in 2005, the fund is projected to total nearly $25 billion and will receive contributions of $1.25 billion in inflation proofing plus $172 million in dedicated state mineral revenues.

The projections use Department of Revenue population and revenue forecasts. They assume a 6 percent inflation rate for most and a 9 percent gross rate of return for all the 17.5 year period. Some indication of the conservative nature of the projections can be seen in the fact that the figures call for a fund balance next July 1 of some $8.54 billion while, in fact, the balance stood at approximately $9.1 billion on Jan. 1 of this year. Also, while the net or "real" rate of return on fund investments is projected at 3 percent through 2005 the rate has not been that low since 1981 and has run as high as 11.75 percent (in 1987). Halfway through fiscal 1988 the real rate of return stood at 5.3 percent. Under the projected formula, dividends to Alaskans will total $25.5 billion between the start of distribution in 1982 and 2005 which will coincidentally be just slightly more than the fund balance at that time.

CHUGACH ELECTRIC BIDS TO CUT DEBT SERVICE COST

Chugach Electric Association (CEA) is attempting to position itself to take advantage of an admittedly long shot opportunity to refinance part of its long term debt at a substantial reduction of interest rate. CEA hopes to take part in a current federal budget provision guaranteeing the roll over of up to $2 billion in high interest Rural Electrification Association related loans to current interest rates. The program is aimed at bailing out eight troubled power cooperatives Outside but CEA hopes to be first in line for any money left over after the bailouts.

To position itself, CEA hired Smith Barney, Harris Upham and Company, Inc. as an agent to devise the refinancing plan and has filed such a plan with the Alaska Public Utilities Commission as required by that agency. Under an expedited hearing process that will allow CEA to submit its prepayment application to REA by Feb. 26, the Commission is accepting public comment on the plan until Feb. 22 at its Anchorage offices. CEA wants to roll over up to $108 million of debt (about one-third of its total) which currently bears interest rates of more than 12.6 percent. David Highers, CEA manager, estimates refinancing at current interest rates would save the utility nearly $1.5 million a year in debt service.

FORECLOSURE RATE IS UP BUT VALUES DOWN FOR COMMERCIAL TYPE LOANS

The rate of foreclosure type actions on real estate loans in excess of $250,000 jumped sharply in the southcentral Alaska area during the first half of February. The 16 foreclosures in early February matched the total for the entire month of January. But the value of the loans was nearly $20 million, or some 25 percent more than the value of all foreclosure actions initiated during the prior month. Most of the value, however, was in a single development of Peter Zamarello in southwest Anchorage near the intersection of Dimond Boulevard and the Minnesota Expressway. Including unpaid interest, Security Pacific has a claim of more than $15 million on the property. A list of borrowers, loan dates, property locations, lenders, amounts and sale schedules follows:

(Continued)

- Optima, Inc., November 1984, Timberview Sub. properties in the Matanuska-Susitna Borough, North America Savings & Loan Association, $282,200 plus interest, March 1, Anchorage;
- Dick Leonard, August 1986, Wasilla West Sub. property in the Matanuska-Susitna Borough, Federated Financial Corporation, $250,000 plus interest, March 3, Anchorage;
- Milburn G. Cox Jr. and Marina M. Cox, July 1984, Spenard Heights Sub. property in Anchorage, North America Savings & Loan Association, $257,685.91 plus interest, March 8, Anchorage;
- Charles F. McAlpine, November 1978, Wonder Park Sub. property in Anchorage, Alaska Statebank, $379,926.72 plus interest, March 8, Anchorage;
- Anton Zuber, January 1978, Highway Park Sub. property in Anchorage, J.D. & Marcene O. Simpson, $318,903.61 plus interest, March 18, Anchorage;
- John E. Caston and Statewide Services Inc., unspecified, Willowcrest Sub. property in Anchorage, Alaska Mutual Bank, $278,963 plus interest, March 22, Anchorage;
- Benchmark Inc. and Professional Alaskan Properties Investment Fund No. 17, November 1983, Mountain View Sub. property in Anchorage, Coast Savings & Loan Association, $717,137.43 plus interest, March 29, Anchorage;
- Richard S. & Gaylee P. Warner, September 1983, Carolyn Acres Sub. property in Anchorage, Alaska Housing Finance Corporation, $253,521.26 plus interest, March 31, Anchorage;
- Robert N. & Patricia F. Stafford, April 1984, Aurora Park Sub. property in Anchorage, Alaska Permanent Fund Corporation, $265,337.03 plus interest, April 6, Anchorage;
- James F. & Rhonda L. Allison and Blue Chip Investments, March 1984, Aurora Park Sub. properties in Anchorage, Federal National Mortgage Association, (two loans totaling) $656,336.34 plus interest, April 7, Anchorage;
- Robert W. Kubick, James D. Chapman and Q&O No.2 (general partnership), May 1981, Devonshire Sub. property in Anchorage, Thomas L. & Lila Lee Boyle, $337,124.42 plus interest, April 15, Anchorage;
- Scott W. & Heidi Framstad, September 1985, Crestview Village Sub. property in Anchorage, Great Western Savings Bank, $266,803.07 plus interest, Apr. 26, Anchorage;
- Peter G. & Patricia Zamarello, September 1984, Lakeview Terrace Sub. property in Anchorage, Security Pacific Mortgage & Real Estate Services Inc., $14,771,224.93 plus interest, May 9, Anchorage;
- Goentzel Builders Inc., March 1984, Galatea Estate Sub. property in Anchorage, United Bank Alaska, $250,000 plus interest, May 10, Anchorage;
- Paul Hartig, Richard N. Anderson et alia, July 1984, Matanuska-Susitna Borough tract, Alliance Bank, $268,125.53 plus interest, May 13, Anchorage;
- Sandra A. Dema-Fredette, October 1985, C.S. Lloyd Sub. property in Anchorage, National Bank of Alaska, more than $250,000, judicial foreclosure.

RECENT BUSINESS RELATED BANKRUPTCIES IN ALASKA

Gilbert D. & Caroline K. Fluery fdba/B&F Trucking, Ch. 7 filed Feb. 8 in Fairbanks; David M. & Cheryl K. Rabb dba/Capitol Postal, Ch. 7 filed Feb. 10 in Anchorage; Lynn James Harnisch dba/Wolly Mammoth and Ruth Susan Harnisch, Ch. 7 filed Feb. 11 in Fairbanks; Truss Lands & Livestock, Inc. Ch. 11 filed Feb. 16 in Anchorage; Marion Elaine Thomas Carter, Ch. 13 filed Feb. 16 in Anchorage; Forest Park Hills, Inc., Ch. 11 (filed Oct. 2, 1987 in Florida) venue changed to Anchorage Feb. 17.

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Commonwealth North wants fund used to bolster economy

By BILL WHITE
Daily News business editor

During severe recessions, permanent fund earnings should be spent to buttress the econony rather than used to offset the effects of inflation on the fund, a civic group proposed Tuesday.

Other investment earnings of the $9 billion savings account should be earmarked for a new fund that would finance construction projects that would expand the state's economy, Commonwealth North said.

The proposal, if adopted, would reduce future annual permanent fund dividends paid to Alaskans by slightly restraining the growth of the fund. But the group has an answer for that, too, by recommending the dividends be capped.

Dave Chatfield, an Anchorage banker and chairman of the committee that wrote the 12-page proposal, said the report is designed to answer a key question about the permanent fund: For what are we saving this money?

Their answer is to use it "to help level out the sharp peaks and valleys of Alaska's historic economic cycle," Chatfield said.

Alaska voters created the fund in 1976 to save some of the coming oil bonanza. The fund gets about 10 percent of the state's oil revenue. That money cannot be spent, only invested. But the profits from investments can be spent, and currently are spent on the state's annual permanent fund dividend to Alaskans and for inflation proofing the fund.

"The use of permanent fund earnings is a sensitive and easily misunderstood issue," Chatfield said.

"The highly charged environment surrounding this issue has made Alaska's political leaders hesitant to act."

State legislators offered more than 50 proposals last year on permanent fund earnings, he said. Commonwealth North decided to join in with its opinion. An 18-member committee of the group studied the issue for the last year.

The main proposal involves using the fund's earnings to stimulate the economy during recessions and to slow the economy — by not spending earnings — during times of rapid growth.

The earnings would be funneled into the economy through per-capita revenue sharing payments to local governments.

The local governments could ask voters how to spend the money, pay the money directly to citizens, or use it for street repair, tax relief or the like, Chatfield said.

A new economic index that included relatively current spending, salary, sales and employment figures would be used to determine if the economy is growing or shrinking.

Commonwealth North also dusted off its old plan to create a fund that would build revenue-producing facilities around the state.

Under the new plan, the construction would

See Page B-5, COMMONWEALTH

COMMONWEALTH: Group wants fund cap

Continued from Page B-1

be financed by bonding, matching funds or use of some of the $516 million reserve set aside in the permanent fund for future dividends or inflation proofing.

Commonwealth North didn't state how much of that reserve should go to its Alaska Development Fund. But in discussions the range was $50 million to $100 million, he said.

"We still believe something like this is long overdue," Chatfield said. "We need to be

replenishing our capital instead

Another proposal calls for

nent fund dividends at, perhaps, $1,000 Alaskan or a total distribution of 40 per of fund earnings.

Last year's dividend was $708 each total of 37 percent of the earnings percent of expected earnings would dividend of about $550 this year.

Chatfield said he circulated the last week in Juneau, where favorably.

A POSITIVE COUNTER-CYCLICAL FORCE IN THE ALASKA ECONOMY



SUMMARY:

The Permanent Fund represents visionary public policy and, as a savings account, has been well managed. Its earnings should be used as a counter-cyclical force to funnel monies into the grassroots economy through local government in particularly troubled economic times. When times are good, these earnings should be placed in the Fund. The more fundamental crisis, the long-term lack of diversification in the Alaska economy, must also be addressed by the Legislature. To research revenue-generating proposals, the Legislature should establish an Alaska Development Board, the specifics of which are outlined in this report.

A report by
The Commonwealth North
Permanent Fund Committee

First printing . . . . February 1988

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Anchorage, Alaska 99501

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IN ADDITION TO DIVIDENDS, WHAT SHOULD THE EARNINGS OF THE PERMANENT FUND BE USED FOR?

The Alaska Permanent Fund was created by a public referendum in 1976. It was established as an inviolate trust with the principal of the Fund to be invested in perpetuity. The beneficiaries of the trust were to be all present and future generations of Alaskans.

At its origination, nearly everyone agreed upon one purpose for the Fund — to remove a portion of Prudhoe Bay revenues from the appropriations table, making them unavailable for state spending. This has worked. Indeed, 22% of the $26 billion in oil revenues received by the state since Prudhoe Bay production began has been deposited into the Permanent Fund, saved and invested. At the end of 1987, total assets of the Fund totalled close to $9 billion.

Although the citizens of Alaska are nearly unanimous in their enthusiasm for the Fund and its management, there is less of a consensus on how to use the Fund's earnings, except for the popular dividend program. These earnings since 1978 total $4.3 billion, 30 percent of which was distributed as dividends to the Alaska people.

Numerous conflicting proposals have been introduced on how to best use the earnings of the Fund. Most of these proposals have been met with suspicion and cries from some quarters warning against "raiding the Fund." This highly charged environment has led to hesitancy and inaction by Alaska's political leaders, and the central question has gone unanswered: what are we saving this money for?

What are we saving this money for?

During the mid-1980's there was little need for using the "non-dividend" or undistributed earnings.. Times were good generally throughout the state. Local and regional economies were booming, fueled by oil activity at Prudhoe Bay and the attendant revenues amassed by state government. After the distribution of dividends to all Alaska residents, the remaining Permanent Fund earnings were simply set aside and from time to time added to the corpus of the Fund by the Legislature with encouragement from the Governor.

However, as 1988 begins, many Alaskans face difficult economic circumstances, and there is a growing sense of urgency and frustration.

"We've been saving money for a rainy day," many say. "Can't they see it's raining out there?"

"This recession is not a dip, it's an abyss," said an Anchorage property owner and builder. Many of his colleagues have filed bankruptcy, walked away from years of investments, and left Alaska. State and federal regulators have either closed or merged eight financial institutions. Thousands of residents have lost their homes and businesses.

Economists who look beyond the immediate crisis to the long-term economic health of the state express grave concern that North Slope oil production will begin a steady decline within 24 months.

It is against this backdrop that the Board of Directors of Commonwealth North commissioned a committee to study the Permanent Fund and how best its earnings might be utilized to help Alaskans, both in the short-term and in the long-term.

The Committee met weekly for three months. It heard presentations from policy makers and reviewed materials provided by the Permanent Fund staff and other sources.

After weeks of debate, the Committee determined that, in addition to dividends, the earnings have the capacity to play a major positive role in the Alaska economy. The members then prepared the following report.

RECOMMENDATIONS

Recommendation One:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

Recommendation Two:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation proof" the Fund.

Recommendation Three:

The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

Recommendation Four:

Using a portion of the $516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Recommendation Five:

The Permanent Fund dividend program is beneficial and should be continued; however, there should be a limit on the size of the dividends.

Recommendation Six:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth, but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

Recommendation Seven:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Recommendation Eight:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

RECOMMENDATION ONE:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

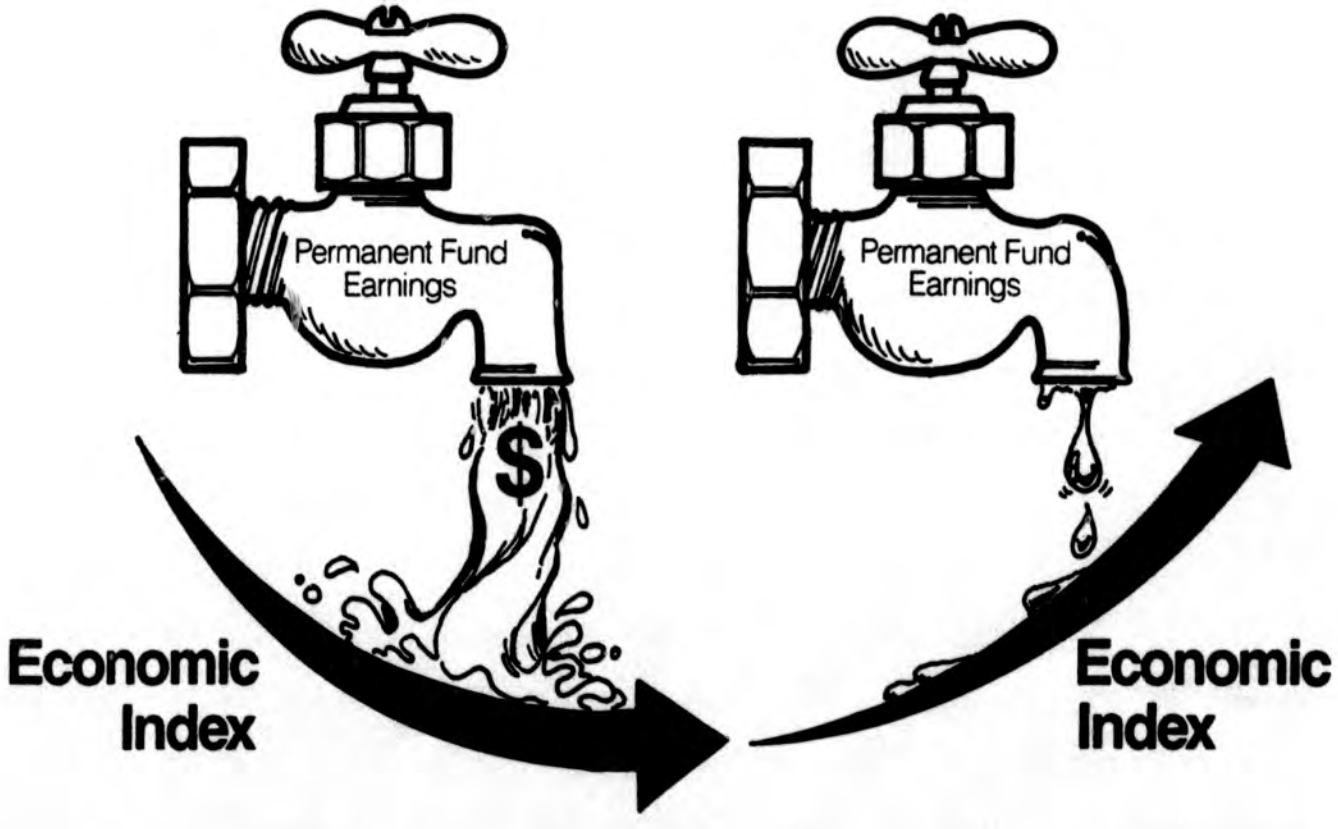
Earnings from the Permanent Fund can and should help level the peaks and valleys of Alaska's traditional boom and bust economic cycles. Appropriations of the earnings should be an important aspect of the state's overall fiscal policies, with additional money injected into the economy during hard times and money withdrawn from the economy during times of rapid growth.

At the national level the Federal Reserve Board has achieved success in controlling inflation and in combatting recession. The Board makes its decisions based on a number of leading and trailing economic indicators. The instruments it uses in pursuing its objectives are monetary in nature, i.e., interest rates and other mechanisms which affect the quantity of money in circulation.

Although Alaska has no comparable monetary tools, Alaska's Permanent Fund earnings could play an equally important and significant role through fiscal (appropriation) policy. This approach should and can be handled carefully so that the earnings are used wisely and distributed fairly throughout the state.

Establishing an economic "spigot"

To begin with, the Legislature should establish a broad-based economic index, written in law, which will determine when Permanent Fund earnings should be injected into the economy and when they should be withdrawn.



This index should include available Alaska economic indicators such as

- Consumer spending
- Savings and investments
- Public and private sector employment
- Wage and salary rates
- Housing starts
- Retail and wholesale sales
- Value of contract construction
- Personal income
- Gross state product
- State revenues

This index will enable the Alaska Legislature and the Governor to determine objectively the performance of the economy and its outlook and become the basis for formulating the state's fiscal policy.

If the index begins to drop, the administrative department, legislative committee, or board of advisors the Legislature designates would recommend appropriation of a portion of the earnings. If the index rises, such spending would be reduced or terminated and the earnings retained instead. In this way, the Permanent Fund would operate as a counter-cyclical force designed to minimize the volatility of economic contractions and expansions.

RECOMMENDATION TWO:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation-proof" the Fund.

Because of the unique nature of the Permanent Fund, drawn from one-time resource revenues and held in trust for all, it is recommended that the flow of money from the earnings (apart from the dividends) be directed to local governments on a consistent per-capita basis. In this way each local entity can make its own judgments as to what its citizens most need, whether jobs, street repair, tax relief, etc. This dispersion will strengthen local decision-making authority and responsibility.

In the unorganized borough, service areas or regional education districts should be the recipients of these funds so that the per-capita disbursement reaches all Alaskans.

The Legislature may wish to establish certain parameters for local governments to use in order to ensure that this special distribution of the Permanent Fund earnings is spent in the most economically beneficial manner. For example, services obtained with these funds should be contracted out to private firms wherever possible. This approach will support the private sector while permitting more rapid expansion and reduction of services without enlarging local bureaucracies.

Use of an impersonal barometer such as the index suggested above and a per-capita formula will help to negate the regional and personal politics which too often dominate the legislative spending process.

RECOMMENDATION THREE:

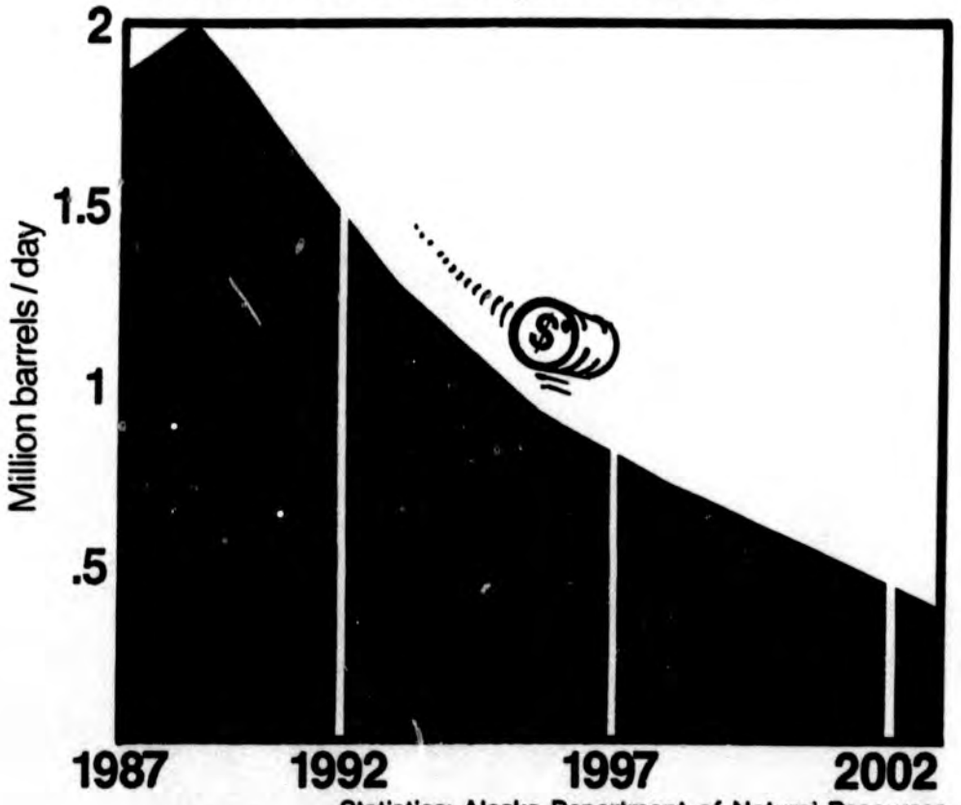
The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

As mentioned earlier, Prudhoe Bay production will begin a rapid decline within the next 24 months. According to the Alaska Division of Oil and Gas, that decline will reduce the trans-Alaska pipeline throughput from today's 2 million barrels a day to 500,000 a day by the year 2002.

In other words, in just 14 years, production from the resource development activity which now accounts for 82% of state revenue will be just one-quarter of what it is today.

Unless other major sources of revenue are developed, Alaska has a calamity in the making. No other Alaska resource comes close to the potential of North Slope oil for generating revenues. In FY 82 these revenues peaked at $4.1 billion, but by FY 87 they had dropped to $1.7 billion. If oil prices stay in the $16-$18 range, Prudhoe Bay revenues in 2002 will be just $425 million (in nominal dollars).

Estimated Production of Alaska North Slope Crude Oil



Statistics: Alaska Department of Natural Resources

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1568 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1365

The Alaska Development Board

The crying need, the missing element in Alaska's overall state spending and investment strategy, is an aggressive program to diversify the economy and replenish the sources of jobs and revenues now provided on the North Slope.

To begin to accomplish this end in a thoughtful but activist manner, the Legislature should create an Alaska Development Board similar in structure to the Permanent Fund board of trustees. The task of this new board would be to research, study feasibility, and recommend to the Legislature and the Governor major revenue-generating, in-state capital investments which can help diversify the economy into the next century.

Projects that would qualify would have to have an assured source of repayment; i. e., they must have the capacity to generate substantial revenues through tariffs, rents, and user fees. Examples include docks, railways, causeways, electrical generation units, water systems, and wastewater plants.

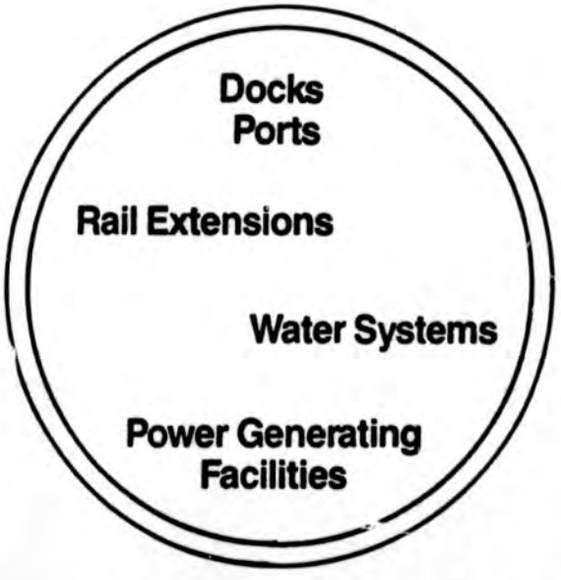
The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example. The Navy traditionally rents such facilities over a many year period.

Only revenue-generating projects would be considered.

It is vital that a distinction be drawn between capital projects, such as quality-of-life facilities (of which Anchorage's Project 80's is a prime example) and the kinds of revenue-generating projects that can pay their own operating and maintenance costs and return the original start-up investments to the state. It is only the latter which would be considered by the Alaska Development Board.

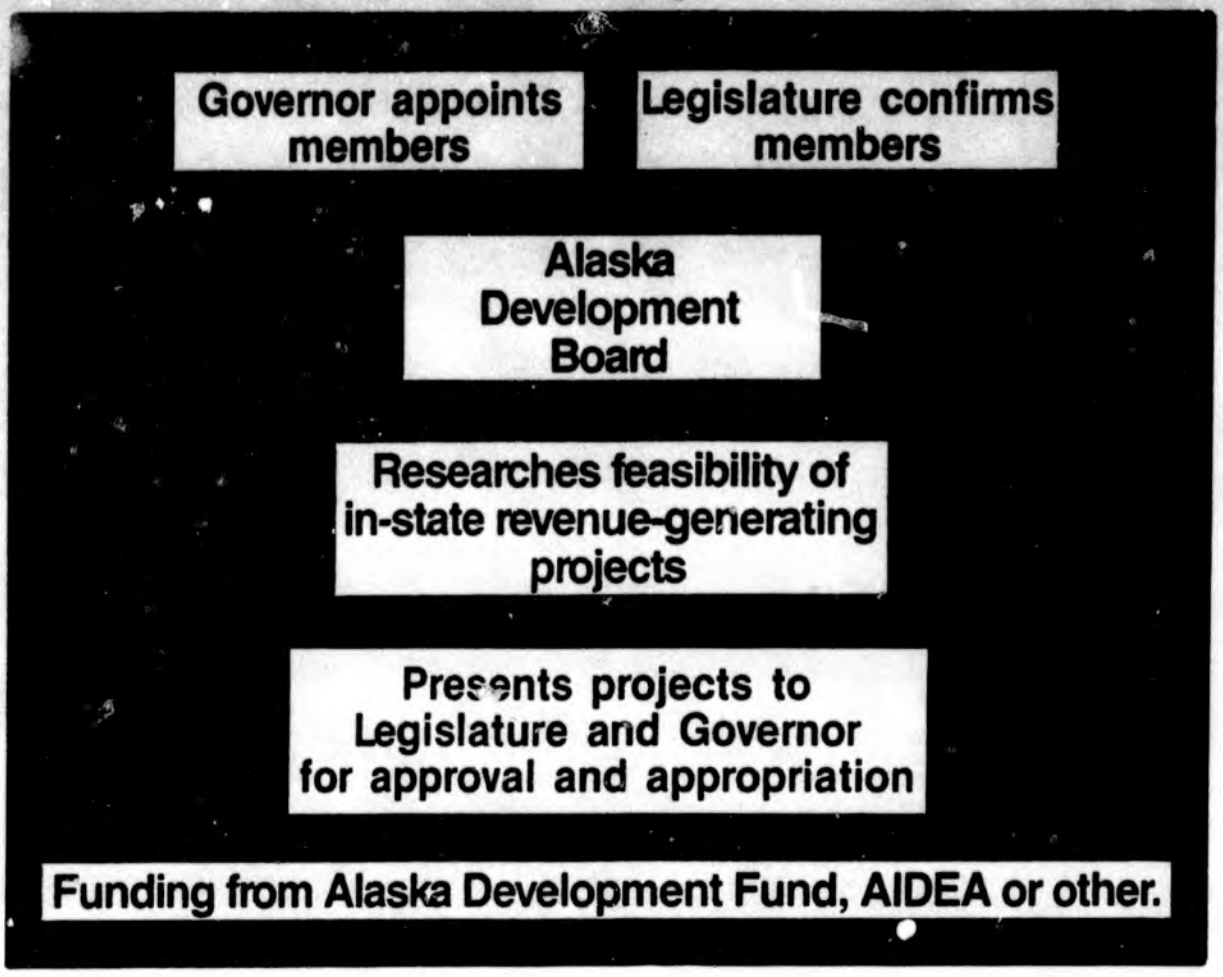


Capital projects which require on-going taxes or revenues to operate.



Revenue-generating projects which pay back investments and cover own O/M costs.

The Alaska Development Board



Membership of the Board

The members of the Board should be appointed by the Governor and approved by the Legislature. They should be given an arm's length relationship and a mandate to take a statewide viewpoint, just as the Permanent Fund Trustees divorce themselves from the special interest entanglements of the political process. Individuals must be named to this board on the basis of professional qualifications, emphasizing experience in designing, financing, guiding, and operating major projects of the magnitude which can strengthen Alaska's economic future.

RECOMMENDATION FOUR:

Using a portion of the $516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Funding for the projects recommended by the Development Board and approved by the Legislature can be derived from several sources, including revenue bonds through the Alaska Industrial Development and Export Authority (AIDEA). This approach was used to finance the construction of the road to the vast Red Dog lead and zinc reserve northeast of Kotzebue.

In addition, the Legislature should set aside a one-time deposit of a portion of the undistributed earnings from the Fund. This large pool of dollars, known as the Earnings Reserve Account, currently contains $516 million. Another possible source to establish an Alaska Development Fund is the windfall monies from oil litigation such as the Dinkum-Sands settlement ($329 million). The reserves in the Alaska Development Fund would be saved and invested by the Permanent Fund Trustees until they are appropriated by the Legislature to facilitate projects recommended by the Development Board.

The Legislature has the final say.

It is important to emphasize that the Alaska Development Board would not have the power to allocate monies from the Alaska Development Fund. That prerogative would remain with the Legislature (with the concurrence of the Governor) which is charged by the Constitution with the task of appropriating funds.

RECOMMENDATION FIVE:

The Permanent Fund dividend program is beneficial and should be continued; however there should be a limit on the size of the dividends.

One of the very positive benefits of the Permanent Fund dividend has been the link it has created between the citizens of the state and the government. Just as personal income taxes in other states keep citizens alert to the spending decisions of their elected representatives, so the Permanent Fund dividend program has made Alaskans sensitive and attuned to how resource revenues are used.

Since the program's inception, a total of $1.48 billion has been distributed and the benefits to the state's economy are recognized by nearly all Alaskans. The size of the dividend distribution, however, should be capped at an amount such as 40% of the annual earnings, as recommended last year by the State Senate, or at $1,000 per person per annum.

RECOMMENDATION SIX:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

A portion of the Permanent Fund's earnings has been used annually to strengthen the Fund and help it to grow and combat inflation.

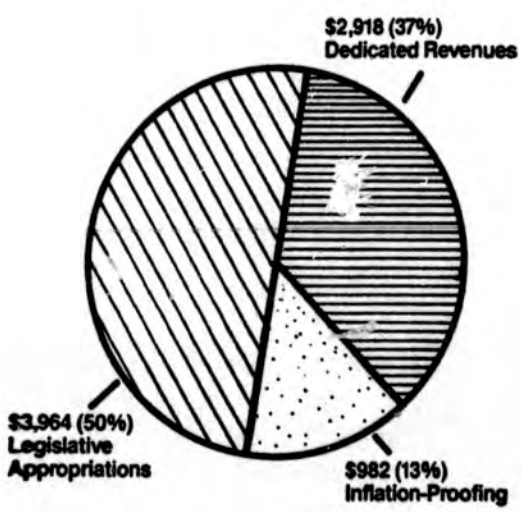
The Legislature has also demonstrated fiscal wisdom by appropriating large additional sums to the principal of the Permanent Fund during years of affluence. In fact, an impressive $3.964 billion of the Fund resulted from such actions. This policy has been a wise one, especially in times of great wealth.

But "inflation-proofing" in a seriously depressed economy does not fulfill the original intent of the Fund which was to benefit all generations of Alaskans, including those currently trying to survive and make ends meet. In times of a shrinking economy, "inflation-proofing," if continued apace, will choke out all other uses of the earnings when, instead, a portion of those earnings should be injected into the economy through Alaska's communities as recommended herein.

And, as suggested in Recommendation One, it should be written into law that, in times of growth and expansion in the state's economy, the Fund should be strengthened by the Legislature through redeposit of the earnings.

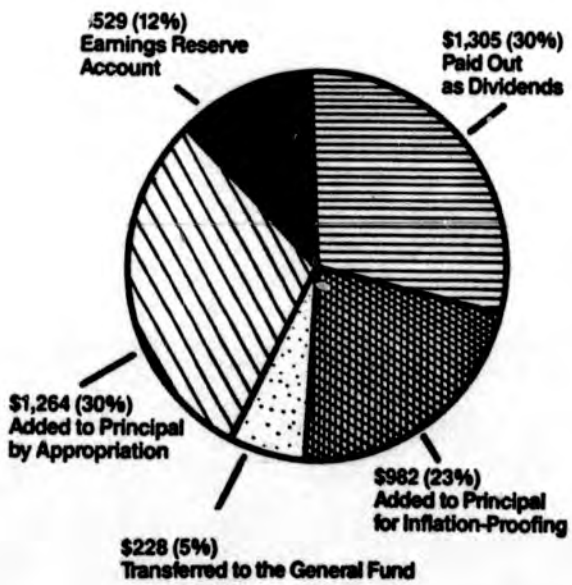
SOURCE OF PERMANENT FUND

Contributions to Principal Since Inception
Total at June 30, 1987: $7.86 Billion
(in millions)



USE OF EARNINGS

Distribution of Earnings 1978 – 1987
Total Net Earnings: $4.3 Billion
(in millions)



Such action will help combat the erosion of the Fund due to inflation, avoid overheating of the economy and at the same time reduce public spending.

But the Legislature should not make annual anti-inflation appropriations regardless of the real world circumstances being faced by Alaska's citizens.

RECOMMENDATION SEVEN:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Alaskans are keenly aware that state government grew rapidly at the advent of Alaska's oil wealth, far outdistancing all other states as to number of employees per capita, wage levels and benefits.

The waste in state government must be dealt with and the excesses curbed.* None of the earnings from the Permanent Fund should be allocated to state government operations in the foreseeable future, absent a major calamity or emergency.

To date, the earnings have been almost entirely used for inflation-proofing the Fund or dividends distributed equally to all Alaska residents. The recommendation in this paper that earnings be used as a counter-cyclical force in the economy calls for a per-capita distribution, maintaining the philosophy that this Fund is held in trust by all residents of the state and therefore any distribution should be made on an equal basis.

It should be remembered that approximately 85% of all royalties and revenues derived from North Slope oil activities are funneled directly into the General Fund out of which the Legislature appropriates monies for government operations. It is the firm conviction of this committee that earnings from the remaining 15% set aside in the Permanent Fund should be added to the General Fund only in case of a major calamity or emergency.

* *Note:* For strategies to reduce state government spending without precipitating a "crash landing", see the December 1986 Commonwealth North report, *Alaska's Budget Crisis, Facing the Facts — Closing the Gaps.*

RECOMMENDATION EIGHT:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

Public policies for using Permanent Fund earnings should be written in statute and thus remain flexible so that the Governor and the Legislature can respond to changing circumstances. World oil prices, the main determinant in state revenues, are too volatile to incorporate spending policies into the Constitution.

A number of fixed formulas were reviewed and studied carefully, including the 40-30-30 amendment proposed by the State Senate last session. All of them contain a number of excellent concepts. They should not, however, be incorporated in the Constitution.

Likewise, Commonwealth North's 1982 recommendation to create a Capital Investment Fund through a Constitutional amendment should be replaced by the approach outlined in this report.

If the recommendations in this report are adopted by the Legislature and function successfully, then there will be no need to lock them into the Constitution. Public support will keep them intact. If they are poorly managed, or fail to be successful for other reasons, they can and should be changed by a future Legislature without having to go through the Constitutional amendment process.

Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. Non-partisan in nature, its purpose is to inject enlightened vitality into the world of commerce and public policy.

As well as providing a forum for national and international speakers, working committees study critical issues facing the state and the nation and prepare well-researched action papers, such as this one.

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LEGISLATION #1
AMENDMENT TO CURRENT STATUTES PERTAINING TO USE OF PERMANENT FUND EARNINGS

To allow for a counter-cyclical use of undistributed Permanent Fund earnings to be distributed through local municipalities on a per-capita basis.

FINDINGS:

The Legislature finds that the earnings from the Permanent Fund should be used as a positive, counter-cyclical force in the Alaska economy. When economic indicators dip as determined by an Alaska Economic Index (see Article 1), earnings in excess of those used for dividends should be appropriated directly to municipalities on a per-capita basis. When indicators rise, these earnings should be withdrawn from the economy and used to help inflation-proof the corpus of the Permanent Fund.

ARTICLE 1. The Alaska Economic Index

The following Alaska economic indicators will be used to establish an Alaska Economic Index: consumer spending, savings and investments, public and private sector employment, wage and salary rates, housing starts, retail and wholesale sales, value of contract construction, personal income, gross state product, state revenues.

ARTICLE 2. Using the Index

On a annual basis, the Department of Revenue or a Council of Economic Advisors (as designated by the Legislature) shall publish the Alaska Economic Index which will in turn determine whether Permanent Fund earnings in excess of those used for dividends should be added to or withdrawn from the economy.

ARTICLE 3. Recipients of earnings

When the Alaska Economic Index calls for adding Permanent Fund earnings to the economy, they will be designated on a per-capita basis to local governments throughout Alaska.

Article 3.1

For the Unorganized Borough, the Department of Community and Regional Affairs which serves as the Borough manager for the Unorganized Borough, will receive and distribute the Unorganized Borough's share of earnings.

Legislation #1

Article 3.2 Parameters for municipal spending of earnings

Each local government will be encouraged to make its own judgments as to the best use of the earnings received through this program.

Article 3.3 Taking spending decisions to a vote

When a municipality desires public input, community votes may be taken to determine the best use of these earnings, including options such as alleviation of taxes, construction and maintenance of capital projects, distribution of dividends, creating a local Permanent Fund, etc.

LEGISLATION #2
THE ALASKA DEVELOPMENT BOARD

FINDINGS:

Alaska state government must provide leadership in the area of infrastructure development which is essential to diversify the Alaska economy. An Alaska Development Board is necessary to focus these issues for Alaska's people and their elected representatives.

ARTICLE 1

An Alaska Development Board is hereby established.

ARTICLE 2 Membership

There shall be six members of the Alaska Development Board, four private sector members and two from the Governor's cabinet. They shall be appointed by the Governor and confirmed by the Legislature and serve staggered six-year terms.

ARTICLE 3 Qualifications for Board membership

To be qualified, private-sector Board members must demonstrate professional experience and/or education in one or more of the following areas: project design, financing, construction, or operation of major infrastructure projects.

ARTICLE 4 Method of Operation

The Alaska Development Board must approach its mandate as described in this statute based upon professional and economic criteria, unswayed by political and regional pressures. The Board must take a statewide perspective in determining priorities. The Board must review all projects suggested to them but must pursue only those which best represent the intent of this Statute.

ARTICLE 5 Work of the Board

The Board must research the feasibility of in-state, revenue generating projects. They must recommend only those which, if constructed, will have the capacity to return the State's investment, cover operating and maintenance costs, and help strengthen and diversify Alaska's economic base.

Legislation #2

ARTICLE 6 Staff

The Board shall name an Executive Director who will be funded along with a limited staff. The Governor will provide additional support when needed from appropriate administrative departments, especially the Departments of Transportation and Public Facilities, Natural Resources, and Environmental Conservation. The budget for staff and support assistance will be derived from earnings of the Alaska Development Fund.

LEGISLATION DRAFT #3
THE ALASKA DEVELOPMENT FUND

Findings:

The Legislature finds that the diversification of the state's economy depends on the construction of major infrastructure projects which can assist the private sector with its development and transportation activities. The Alaska Development Fund will be a source of financing for these projects.

ARTICLE 1. Source of Funds

The Legislature shall deposit in the Alaska Development Fund a one-time start up amount of $ which will be increased as deemed appropriate by future circumstances.

ARTICLE 2. Management of the Funds

When not in use for the projects described herein, monies deposited in the Alaska Development Fund will be invested and earnings retained. The Trustees of the Permanent Fund will manage the savings and investment activities of the Alaska Development Fund.

ARTICLE 3. Use of monies in the Fund

Only the Legislature, with concurrence of the Governor, can appropriate monies from the Alaska Development Fund for projects recommended by the Alaska Development Board.

ARTICLE 4 A Revolving Fund

Appropriations from the Alaska Development Fund will be made only to those projects that have the capacity to return the State's investment. Interest rates, if charged, will be determined by the Legislature upon recommendation of the Alaska Development Board. These rates need not match market rates; rather, they should be designed according to the revenue-generating capacity of the project.

ARTICLE 5 Notice to the Public

Although this Fund is not dedicated or mandated by the Constitution, this Statute requires that, if the Legislature or the Governor contemplate utilizing monies from the Alaska Development Fund for any other purpose besides those described in this Statute, broad public disclosure including public hearings must occur.



Harold Heinze, Co-Chairman
ARCO Alaska, Inc.

Peter McDowell, Co-Chairman

J. Brattain J. Brecht G. Easley D. Gottstein R. Huhndorf D. Langworthy A. Parrish W. Soboleff M. Thompson J. Usibelli R. Wien R. Williams M. Willis

REPORT TO

ALASKA'S ECONOMIC LEADERS

JUNE 1987

This Report was reproduced for the Alaska State Chamber of Commerce Convention and Trade Show, October 7-10, 1987, by the School of Business and Public Administration, University of Alaska Southeast, 1108 F Street, Juneau, Alaska 99801

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Technical support for this report was provided by Mary Ann Higgins, Marketing Planning & Management Consultants, Anchorage.

The conclusions in this report are those of the Alaska State Chamber of Commerce Commission on Strategic Planning for the 1990's.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
The Commissioners	1
The Mission	2
Purpose of a Strategy	3
The Methodology	3
THE FRAMEWORK: An Economic Model for the Alaskan Economy	4
Some Definitions	5
Why Exports?	6
PRIMARY/BASIC EXPORT SECTORS	7
SECONDARY SERVICE/SUPPORT SECTORS	10
Transportation and Construction	11
World Markets/International Trade	11
State and Local Government	13
STRATEGIES FOR DEVELOPMENT	13
Continued Support for Existing Basic Sectors	15
High Technology/Software Development	15
Attracting More National Defense Installations	19
Expansion of Alaskan Participation in Americanization of Commercial Fisheries	23
The Insurance Industry	26
The Investment Industry	27
ACTION ITEMS/IMPLEMENTATION	28
Economic Leadership Checklist	29
BIBLIOGRAPHY	30

INTRODUCTION

The Commissioners

The sixteen Commissioners included:

- Harold Heinze, Co-Chairman, ARCO Alaska, Anchorage
- Peter McDowell, Co-Chairman, Juneau
- Janna Brattain, Merrill Lynch, Pierce, Fenner & Smith, Inc., Anchorage
- Julius Brecht, Wohlforth, Flint & Gruening, Anchorage
- George Easley, Alaska Aggregate Corporation, Anchorage
- David Gottstein, J. B. Gottstein, Anchorage
- Roy Huhndorf, Cook Inlet Region, Inc., Anchorage
- Don Langworthy, IBM, Anchorage
- Al Parrish, Westmark Hotels, Anchorage
- Dr. Walter Soboleff, Sealaska Corporation, Tenakee Springs
- Morris Thompson, Doyon, Ltd., Fairbanks
- Joe Usibelli, Usibelli Coal Mine Co., Healy
- Richard Wien, Florcraft, Inc., Fairbanks
- Gary Wilken (alternate), Wilken-Alaska, Inc., Fairbanks
- Bob Williams, Chevron USA Inc., Kenai
- Mary Willis, Humana Hospital, Anchorage

The Commissioners were also joined by seven observers, including:

- Robert Atwood, Anchorage Times, Anchorage
- Al Fleetwood, Enserch Alaska Services, Inc., Anchorage
- Mark Hazelwood, ARCO Alaska, Anchorage
- Francis Hurley, Archdiocese of Anchorage
- George Krusz, Alaska State Chamber of Commerce, Juneau
- Byron Mallott, Sealaska Corporation, Juneau
- Sally Smith, Alaska State Chamber of Commerce, Anchorage

The Mission

In November 1985, the Commission adopted the following Mission Statement:

"The charge to the Commission is to build a statewide coalition of thoughtful Alaskan economic leaders to identify and consider the implications and opportunities of the major social, political, and economic issues facing Alaska into the 1990's.

The Commission will develop and communicate a framework and unified strategies for the Alaskan political economy that draw strength from our abilities and highlight our common concerns.

Recognizing that:

- We have accumulated a permanent fund of intellectual capital more than adequate to the task at hand.

- Diversity of economic forms, cultures, and governance institutions is necessary so capitalism may thrive.

- It is important to draw upon all elements of the Alaskan private sector in identifying and achieving common goals.

- Alaskans traditionally reject monolithic solutions in favor of maximum self-determination.

- There is a social responsibility dimension to the economy that must be considered."

Purpose of a Strategy

Alaska needs an economic framework and strategies to:

* **Keep abreast of changing economic conditions**
* **Account for conditions unique to the state**
* **Set priorities among the numerous State and local government actions that are important to economic performance**
* **Identify and curb actions harmful to economic progress**
* **Coordinate related actions that have economic impact.**

A strategy does not imply the development of detailed plans nor a presumption to direct the activities of the private sector. To the contrary, a strategy is important for assuring the development of a market-driven and competitive economy.

The Methodology

In the summer of 1985, Alaska State Chamber of Commerce Chairman Al Fleetwood established the Commission on Strategic Planning for the 1990's. Now, two years later, after numerous meetings, teleconferences, letters and memoranda, and review of volumes of material, the Commission has prepared its findings and action recommendations.

The charge of the Commission is to build a STATEWIDE coalition of thoughtful -- and thought-provoking -- Alaskan economic leaders. The goal of the coalition is to study the implications and opportunities of the major socio-political and economic forces which are affecting the Alaskan economy today and will be facing the Alaskan economy into the 1990's.

Toward that end, the Commission's co-chairmen, Harold Heinze and Peter McDowell, recruited representatives of major industries with diverse philosophical perspectives from various geographic regions throughout Alaska.

Each member of the Commission explained his or her industry and the factors for success in that industry. Members also prepared work products which included issue papers and factors for success background papers on the basic and secondary economic sectors affecting the Alaskan economy and the strategies for development which the Commission identified.

Because the Commission recognized that business people simply do not have the time to go through a long, traditional strategic planning exercise, they decided the end-product should be reduced to its essence ... a simple idea or framework that everyone could understand. They decided that it would not be useful to create a 'big plan' for business or the State of Alaska. The goal became the creation of a framework -- simple, adaptable to various regions, situations and specific local conditions. This framework they christened the "Export Model of the Alaskan Economy."

THE FRAMEWORK: An Economic Model for the Alaskan Economy

When the State Chamber started the Commission on Strategic Planning in 1985, they felt that what would be of most use on a statewide basis was to provide a framework to businesses (and governments) for strategic planning. This framework had to come from the "free enterprise, business perspective." The

result was the "Export Model of the Alaskan Economy."

The Commission reached consensus on its major conclusion: that an 'export model' is the approach which best facilitates evaluation of the Alaskan economy. Business sectors which primarily bring cash IN to the state (as opposed to sending cash outside the state or churning it within the state) would be part of the Export Model.

If a business understands its position in its local market relative to the Model, it will more easily be able to identify strategic decisions that will be required to remain competitive and profitable. Thus, the Model can become a stimulus for economic development.

Some Definitions

What we are talking about in economic terms is an "economic base analysis." An economic base analysis identifies the key economic activities of a community/region/state/nation. It divides the local economy into two segments:

(1) Firms and individuals serving export markets;
(2) Firms and individuals serving markets internal to the local economy.

The goods and services which the community sells outside its boundaries are considered exports. Exports include ALL sales made outside the community, not just trade with foreign nations. The remaining goods and services serve the local market. Local would be defined as the geographic region being studied.

In this division of markets, there is a cause and effect relationship. Export markets are considered to be the prime mover of the local economy. If employment serving this market rises or falls, employment serving the local market is presumed to move in the same direction. Thus, if a basic industry must lay off workers, the local retail merchant will feel the impact as the laid-off workers have less to spend ... or leave that local economy. Because of the prime mover role, export sector economic activity is considered as "basic." Employment which serves the local market is considered adaptive and is called "secondary."

Basic economic activity drives secondary economic activity usually in the same relative proportions over time. A change in basic activity will eventually produce a proportionate change in secondary activity.

Why Exports?

Exports help the Alaskan economy to grow. Exporters with big payrolls make it grow proportionately faster than exporters with smaller payrolls ... because large "basic sector" projects tend to cause more activity in the secondary (service) sectors of the economy -- as described earlier.

Jobs not tied directly to exports are important, of course. The more goods and services available in-state, the lower the leakage of purchasing power from the economy. This growth in

such "support" sector jobs is, however, severely constrained by growth in the export sector ... the lower the exports ... the lower the level of support required.

In the recent past, Alaska had a large export surplus mainly because of Prudhoe Bay ... now that has changed. The wellhead value of the oil industry contribution to net exports has fallen by two-thirds from 1985 ($12 billion) to 1986 ($4 billion).

Export/basic sector projects have a "multiplier" effect. They create more jobs in total than those related to the basic industry project. A job at a new defense installation, for example, will set off a chain of transactions that results in one or two other jobs being created in trade, services, or other support industries.

Alaska needs all the export projects it can get. Size of the enterprise is not so much the issue, but rather its viability. This will require better analysis ... to see where in the Alaskan economy a particular venture fits. Thus, the Commission suggests the Export Model as the initial framework to analyze the economics of projects, communities, regions and the state as a whole.

PRIMARY/BASIC EXPORT SECTORS

The basic export sectors playing the prime mover role in Alaska's economy are oil and gas, fishing, timber, minerals, coal, travel/tourism, national defense, federal civilian services, and the permanent fund dividend.

The following table depicts the Export Model summarizing the Alaskan economy in 1986. The Commission estimated the gross values of "exports" from the state for the basic sectors.

The gross value of oil and gas declined from $12 Billion in 1985 to $4 Billion in 1986. Oil is almost two-thirds the value of total exports ... even after the drastic drop in the price of oil from 1985 to 1986. Looking at the change in that one number for oil and gas, however, makes clear what has been happening in the Alaskan economy.

The value of fish caught by resident fishermen in Alaskan waters in 1986 is estimated to be $300 million. Research indicates that an additional $600 million goes to fishermen from other states.

The dollars generated from timber are estimated to be about $200 million, primarily from round log, pulp, cant and heavy timber exports to East Asian markets.

The minerals number of $100 million may be slightly high as placer miners were severely affected by environmental regulations in 1986.

Coal, at $25 million primarily represents coal exports to Korea.

The travel/tourism figure, estimated at over $500 million for 1986 (excluding transportation to and from Alaska), is interesting because of potential growth -- and that it represents only three months of activity.

"EXPORT MODEL"
Of The Alaskan Economy
1986

		Millions
Oil And Gas		$4,000
Fishing		300
Timber		200
Minerals		100
Coal		25
Travel/Tourism		500
Defense	1,600	
Other Federal	1,300	
	2,900	
Less Federal Taxes	2,000	900
Permanent Fund Dividend		300
Total Estimated Value		$6,325

Defense and the federal civilian sectors have definite growth potential due to Alaska's unique geopolitical situation, its remoteness, other natural features, and abundant public domain. Defense spending in Alaska is about $1.6 billion. Other federal spending is about $1.3 billion, for a total of approximately $2.9 billion. Federal taxes paid by Alaskans were estimated to be about $2 billion, leaving a residual of $900 million contributed by the federal government to the state.

All dollar values are "wellhead," "ex-vessel" or "point-of-production" numbers. Travel/tourism, the permanent fund dividend, and federal government expenditures, while not true exports in the technical sense of the word, were considered such because of their capacities to bring wealth into the state. The 1986 Permanent Fund Dividend, estimated at $300 million, was initially excluded. The decision was made to add the Permanent Fund Dividend into the model as the dividends do represent net dollars flowing INTO the state (although not directly from a basic economic industry).

SECONDARY SERVICE/SUPPORT SECTORS

The Commission identified transportation, world markets/international trade, private retail and wholesale trade and services, state government services, transportation and construction services, and local government services as the essential secondary sectors active in the Alaskan economy. These industries are often the "facilitators" or "conditions precedent" which make the importation of wealth possible. Transportation is

a good case in point. While transportation does not directly generate wealth, it does facilitate the importation of wealth and does have the effect of increasing wealth.

Transportation and Construction

After careful analysis and discussion, the Commission agreed that the transportation and construction industries per se are not importers of wealth to Alaska. Rather, they provide services to the other segments of the Alaskan economy. Under this premise, economic activity related to transportation and construction is an "effect" caused by other wealth generating activities or opportunities and not a "cause" in itself.

World Markets/International Trade

The effects of the globalization of the U.S. economy are felt with varying degrees of intensity in different states and regions. For example, states that depended on resource industries such as timber in Washington and Oregon, and copper in Montana and Arizona, found their economic mainstays drastically diminished or lost to foreign producers in the 1970's. These economies are just now beginning to turn around.

Farm states have been badly hurt by lagging exports, due in part to unfavorable exchange rates -- some of which may be improving. Most recently, since the beginning of 1986, the drop in oil prices has severely affected Texas, Oklahoma, Louisiana, and other oil-producing states.

What does this mean for Alaska? World markets are volatile and subject to rapid change. The natural resource (basic) sectors which fuel our economic engine are primarily dependent on the unpredictability of the world economy and world politics. This means that awareness of these interdependencies is key to economic success in Alaska.

There is economic opportunity in changing international markets. For example, the travel/tourism industry has identified over 600,000 tourists in Japan and 400,000 tourists in Germany who would be interested in coming to Alaska in the next five years. The challenge now is how to reach those markets.

Similarly, the Alaskan commercial fishing, mining, and timber industries can benefit from knowledge of their foreign markets' changing demands. New business concepts need to encompass worldwide market strategies for the 1980's and 1990's. Some of these might include:

* Finding approaches for gaining access to rapidly growing markets -- whether in computer software, hardware, telecommunications, or commercial fishing.

* Adjusting expectations to realistically lower levels of expected return in high-potential growth markets, in order to establish market share, compete and maintain long-term capital/cash flows.

* Targeting key country markets in several geographic regions (including the U.S., Europe, Japan, and the rest of Asia) for market entry, growth and cash flow, as well as to control the share and cash flow of key competitors.

* Creating new business tools to deal with currency fluctuation, exchange risks, and countertrade.

* Developing joint venture, trade or direct investment opportunities in foreign business climates.

State and Local Government

In some regions and communities State and local government services are considered part of the basic/primary economic sectors. They actually may be a "basic" sector in a community such as Seward -- which has a large proportion of its "export" dollars attributable to State government. However, for the purposes of developing a framework from which to view the STATEWIDE Alaskan economy, the Commission felt they are clearly secondary economic sectors -- in that they do not provide the basic "fuel" for the economic engine. For example, 85 percent of the revenues of the State of Alaska were generated by the oil and gas industry during the early 1980's. If economic activity did not occur in the oil and gas sector, there would be considerably less State government services.

STRATEGIES FOR DEVELOPMENT

As explained in the earlier description of how the 'Export Model' works, just as a basic sector industry creates jobs ... declines in such industries result in job loss. By mid-1986, lower oil prices were projected to require cuts in State government expenditures, which included reducing state employment. These cuts in the secondary government economic sector, in turn, result in losses in other secondary industries.

It is critical that Alaska's economic leaders act now to reverse this trend of job losses. No single major economic event is on the immediate horizon to rescue the state in the near term.

What will be required is economic leadership, prioritization and analysis of opportunities, and most importantly, the courage to act now to safeguard the economic future of Alaska. Toward that end, the Commission has developed several "Strategies for Development" for immediate action.

Perhaps the most important work of the Commission was the identification of these "Strategies for Development." The Commission felt it essential to focus on new directions for economic growth and diversification ... as well as to provide continued support for the existing basic economic sectors currently being pursued -- such as tourism and the natural resource industries. (The current basic sectors are important -- but the Commission was also interested in a new focus on areas of economic potential which may have been overlooked).

Six strategies were identified. In addition to the overall strategy of continued support for all the existing basic sectors, the "Strategies for Development" also include three development alternatives which aim at expanding the export sectors of the Alaska economy -- as defined by the Model. The export sector priorities identified are high technology and software development, increasing the national defense presence in Alaska, and the expansion of Alaskan participation in the growth and Americanization of the commercial fisheries off the coast of Alaska. The other two strategies for development identified are

primarily import substitution alternatives. Their objective is to reduce the leakage of insurance premium and financial investment servicing dollars outside of the state of Alaska.

Continued Support for Existing Basic Sectors

Alaska has a resource-based economy. The Commission recommends continued support of the other basic sectors identified as strengths in the Export Model: coal, minerals, oil and gas, timber, and travel/tourism.

By suggesting additional strategies, the Commission does not imply that resources in terms of finance or personnel should be removed from existing economic developments which are cost-effective and producing positive results. On the contrary, the Commission supports continuation of programs such as the one developed for the travel/tourism industry. The State needs to put its economic investment dollars in viable programs which have the highest potential success rate as well as highest potential return on the investment. The Commission supports and encourages development initiatives at the local and regional level in Alaska, especially those like the pursuit of the 1994 Winter Olympics.

High Technology/Software Development

A 1983 survey by the Congressional Office of Technology Assessment found 150 programs in 22 states designed to promote

technology as a major sector of the state's economy. By 1985, 40 states reported initiatives in this area. These initiatives cover a wide range of activities from investing in applied research and development to providing financing for new product development and management assistance to fledgling entrepreneurs.

What is "High Technology?" One definition is "adding more mind power than muscle power to a product." The Commission developed a partial list of types of industries which could fit this category. These include:

Arctic Science

Bio-Technology

Electronic Design and Assembly

Renewable Energy

Software Development

Telecommunications

From this list, the Commission selected software development as one industry which has high potential as a viable development initiative for Alaska.

Current characteristics of the software industry make it an attractive economic development target. The market is being driven by rapidly changing electronic capabilities -- existing now and in the research stages. Other positive software industry features include inverse price/performance ratios, an expanding number of users, expanding number of networks, massive parallel systems, and break-throughs in artificial intelligence and robotics.

Most importantly, the compound growth rate (CGR) for

software sales estimated through 1995 is 18.5 percent, second only to telecommunications. The actual 1985 total industry revenues for systems and application software worldwide was $13.6 billion. This market is expected to grow to $43.6 billion by 1991, with an estimated CGR of 21 percent. If Alaskans were to capture even one-half of one percent of this market, the gross revenues would be over $200 million.

The following are other market characteristics:

* 15,000 vendors in 1985
* 15 companies produced over $100 million in revenues
* Lotus posted $226,000,000 in 1985 revenue [a firm not even in existence in 1980]
* Protected intellectual property
* High margin products
* Low start-up costs
* Key factor for success: creative ideas, not "next to market access"

Other states are aggressively pursuing this strategy for development:

NORTH CAROLINA has established five technology centers, distributed throughout the state. They started early, offer a certain lifestyle, favorable tax laws, and a work ethic attitude. In addition, they formed a partnership between higher education, government, and the private sector to push the program.

MASSACHUSETTS AND NEW YORK offer special credits for research and development, real property tax reduction, and small business advisory assistance through the state college systems. They also provide financing for software start-ups through their

"Business Development Corporations," and loans from state pension funds.

ILLINOIS provides inexpensive office space, grants and seed money, and has established the Illinois Venture Fund and Illinois Technology Centers.

HAWAII started their technology development program about three years ago. The plan was to break ground in 1986 for three "high-technology" parks. Also, a high-tech center was planned for the University of Hawaii -- promoting 10 high-tech disciplines. Other assets include lifestyle and geography.

Strategy for Success

HOW CAN ALASKA COMPETE? First, Alaska can offer incentives for software start-ups to locate in Alaska. These would include real property (possibly free state or municipal land ... for a certain lease period), loans, and/or credits. The credits would be to encourage investment and research and development -- aiming at attracting companies committed to Alaska for the long-run. Tax incentives could include eliminating the "unitary" tax.

The most common structure for administering a state technology development program is a joint public/private body that includes representatives of the university and private business communities as well as the government. The organizations can be established as independent public agencies, private non-profit corporations, or may act in an advisory capacity to existing state agencies.

Two types of structures could provide the impetus for development of the software industry in Alaska. The first, "Software Development Technology Center(s)," housed at the University of Alaska, would be a vehicle for conducting research, and to create a reservoir of basic technological knowledge and human expertise needed for future entrepreneurial vitality. Such centers can be designed to attract new businesses, to encourage the creation of new firms through the spin-off of new products, or to help solve the technological problems of existing businesses.

The second, an "Alaskan Software Development Corporation" could be set up to develop incentives, draft required legislation, procure funds, and administer the program.

Attracting More National Defense Installations

The objective of this strategy for development would be to expand the military presence in Alaska by establishing a formal mechanism for promoting new Department of Defense (DOD) installations in Alaska.

The Air Force, Army, Navy, Marines, Air National Guard, Army National Guard, Reserves, U. S. Coast Guard, and the Corps of Engineers have a significant impact on the state of Alaska. As indicated earlier, their total contribution to export dollars was estimated to be $1.6 billion in 1986.

Manned installations of DOD and the U. S. Coast Guard are established at more than 30 locations throughout the State. There are very large bases with several thousand people and

numerous outposts with fewer than 100. In addition, there are a large number of installations, such as radio relay sites, which are not staffed on a regular basis. Due to limited living accommodations at many remote and isolated locations, assigned personnel are often not accompanied by their families. In locations where community housing is available, members of the military are accompanied by their families.

As of September 1985, the military labor force and employment totaled approximately 30,000. This number translated to a total services population of over 80,000 -- about 16 percent of the State total -- including retirees, inactive duty personnel, and dependents.

The existing military installations are shown on the following map.

Strategy for Success

HOW CAN ALASKA COMPETE FOR DOD DOLLARS? Alaska has a strong military tradition and unique geopolitical defense position -- considering its proximity to the Soviet Union and that the Soviet fleet is the largest in the world.

The State needs to, first, identify defense projects which are compatible with Alaska's needs and which meet needs of the DOD. Examples might include (1) security/privacy needs -- easily supplied by Alaskan communities' remote locations, (2) transportation infrastructure, and (3) electric power, which would also meet Alaskan goals and objectives.

PRIMARY MILITARY INSTALLATIONS IN ALASKA

BY REGION



Secondly, the State needs to present a written proposal explaining how Alaska can meet DOD requirements for "XYZ project." This approach fits with the Pentagon mode of operation of responding to -- not generating -- proposals. Alaska needs to be SOLD as a "site." To facilitate new projects the State could offer incentives to DOD in the form of land (free, or on a long-term lease), or providing matching funds (at a minimum) for road and/or power line improvements.

What kinds of projects are suggested? Several current projects provide a preview. For example, the 6th Light Infantry Division is adding 3,700 jobs and $500 million to the economy. The Backscatter over-the-horizon radar project will add $450 million and 500 jobs. Dew Line upgrades are worth an additional $100 million. The Acoustic Measuring Range near Ketchikan will add 40 jobs and $20 million.

Potential projects could include underwater communication, "cold" storage dispersal, getting on the "Port of Call" list -- which can bring in up to $1 million/day for every day in port, and/or having Kodiak, Dutch Harbor, or Barrow become designated as an "Arctic Port" for the Pacific Navy.

Alaska needs to build on its strengths. A key geopolitical location, a strong military tradition, and an available pool of recently retired high-ranking military personnel make this initiative workable. The State needs an ambassador/lobbyist to the DOD who has a strong service record, preferably a staff-ranked officer, who stayed in Alaska out of a liking for the state.

There are various ways that this could work. One suggested by the Commission is to appoint an ambassador to the Department of Defense. An "Ambassador" and staff could be stationed in the Pentagon -- assessing DOD needs and developing proposals, which would be presented to the Governor. The Commission felt it important that an ambassador have the clear backing of the Governor ... and report to Juneau through the Office of the Governor.

Expansion of Alaskan Participation in the Americanization of Commercial Fisheries

According to the State of Alaska and the North Pacific Fisheries Management Council, fish caught in Alaskan waters in 1986 were valued at approximately $890 million. Experts now predict that the Bering Sea bottomfishery alone may yield $500 million in domestic revenues for 1987. The opportunity is there.

The table on the following page details the value of Alaskan commercial fisheries (in millions of dollars) to resident and nonresident fishermen from 1976 through 1986.

If Alaskans were able to capture a larger portion of the harvest and of the value-added processing, the Alaskan economy could increase its basic sector substantially.

The Commission defined the objectives for expansion of Alaskan participation in the growth and Americanization of the fisheries off the Alaskan coast as two-fold:

(1) Optimize the harvest in Coastal Zone waters
(2) Obtain greater in-state share of fishery resources.

The Value of Alaska's Commercial Fisheries to Resident and Non-resident Fishermen
($ millions)

Species	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Salmon	119.7	176.4	241.2	346.8	254.1	397.3	309.7	320.2	343.1	389.0	404.0
Shellfish	97.3	153.2	230.6	239.0	265.3	196.9	211.7	146.6	102.1	106.3	186.4
Halibut	20.5	17.6	23.4	32.9	13.5	19.3	24.9	35.3	24.9	40.3	63.2
Herring	2.5	2.7	7.2	32.7	12.2	18.6	20.2	28.9	19.8	38.0	38.5
Groundfish	1.1	1.6	3.3	6.3	8.9	24.0	40.9	78.0*	107.2*	137.5*	197.9*
All Commercial Fisheries	241.1	351.5	505.7	657.7	554.0	656.1	607.4	609.0	597.1	711.1	890.0

1985 and 1986 data preliminary estimates.

* 1983, 1984, 1985, and 1986 groundfish include J.V.[1] and D.A.P.[2] landings, in and out of Alaska.

Source: Informational Pamphlet, Alaska Department of Fish and Game, February, 1987.

1 J.V. = Joint Venture
2 D. A.P. = Domestic Annual Processing

Strategy for Success

The Commission identified key factors for success in realizing these objectives: knowledge, focused insight (such as that resident in Washington state and Japan), vessel support and fish processing facilities, adequate Alaskan ports and processors to serve industry needs, and a degree of regulatory stability.

Specific areas for action which the Commission suggests are as follows:

(1) Develop knowledge and insight with detailed study of Alaska's present position and future potential including:

- --Direct dollar benefit by region (in-state and out) of vessel harvest value, wholesale value and market value for each type of fishery.
- --Indirect dollar benefit by region (in-state and out) of fishing fleet support, processing and product storage facilities.

(2) Develop the in-state fleet through favorable regulation.

- --Harvest quotas that encourage fresh market prices and local home ports.
- --Biologically based harvest management to lengthen seasons where possible.
- --Resolve salmon, crab, and white fish conflicts to unite the local fleet.
- --Rebuild the share of Alaskan Native and non-Native permit holders.
  - -Consider modifications to fishery permit system
  - -Consider state buy-back of some permits

(3) Develop in-state, onshore processing through improved competitiveness.

- --Identify factors for success that have resulted in processing growth outside Alaska.
- --Utilize fish tax investment credits as incentives.

--Prioritize projects that reduce energy and cold storage costs.

--Define the type and level of technical and research support needed.

(4) Develop adequate harbor and vessel service facilities.

--Use state lands to increase the capability of ports to fuel and supply vessels.

--Improve dry docks and haul-out rails for in-state vessel maintenance and repairs.

(5) Develop the Alaska Board of Fish as the agency to define the optimal fishery harvest levels and to define the State's role in mariculture, fish farming and ranching.

--Increase the biological expertise on the Board with appointments of fishery experts with no direct fishing interest.

The Insurance Industry

For 1986, the estimate of total insurance premiums paid by Alaskans was over $650 million. Of this, between $450 and $550 million came back to Alaska for claims and the remainder must be considered "leakage" to economies outside of Alaska.

The Commission identified this leakage as an opportunity for import substitution. Of the 1004 companies authorized to sell insurance in the state, 989 were "foreign" (not Alaska-based) and 15 were domestic. Although it may be difficult to capture all of the "leakage" due to the nature of the insurance industry, there appears to be some room for growth.

For example in 1985, the health care bill for the state was estimated to be about $1.3 billion. Although the data is sketchy and hard to obtain, at present it appears that Alaska spends about $500 million in State and federal tax dollars for

health care services. Another $800 million is paid for by insurance and private individuals. Information about the proportion of insurance premiums paid to out-of-state companies relative to the total claims paid to Alaskan health care providers is not available for recent years. A 1982 study, however, revealed a net excess of health insurance premiums over amounts paid of about $40 million, or twenty-one percent of the total premiums paid.

Strategy for Success

Economic leaders need to investigate the dimensions of this leakage of insurance premium dollars, estimated to be $100 - 200 million. Then, they must identify potentially viable strategies for keeping the insurance premium dollars in the state.

The Investment Industry

Like the insurance industry, the main challenge with the investment industry opportunity is that the portion of investment dollars being managed outside of Alaska is unknown. The estimate of dollars available for investment ranges from $25 to $40 billion. The largest pools of available dollars include:

-- The Permanent Fund
-- The Teachers Retirement System
-- The Public Employees Retirement System
-- Corporate pension funds
-- Union pension funds
-- Local government funds
-- Investments in local banks, savings and loans, credit unions, insurance companies, and brokerage firms.

If Alaskan brokers and investment advisors were to collect one quarter of one percent for investing $25 billion (or $40 billion) -- the value to the Alaskan economy generated from the investment industry could be $60 million (or $100 million).

Strategy for Success

These objectives could be partly accomplished by "gentle nudging" on the part of institutional investors ... such as administrators of the Permanent Fund and pension funds. As a matter of policy, fund administrators could only do business with investment firms which kept active Alaskan offices capable of providing competitive service to their accounts. Also, the Legislature could enact statutory incentives regarding the investment of public funds.

ACTION ITEMS/IMPLEMENTATION

The next phase of the Strategic Planning Commission's work focuses on communication. This phase includes taking this report "public" in town meetings with business and government leaders throughout the State. These include:

-- local Chambers of Commerce statewide

-- service clubs and other forums.

The emphasis of these local presentations will be on how each local community can evaluate its own economy using the "Export Model" and the "Strategies for Development." Each community and region should create its own development initiatives and priorities.

Finally, since its mission is to involve key Alaskan economic thinkers and leaders in the planning process, the Commission offers the following "Economic Leadership Checklist."

Economic Leadership Checklist

The Commission urges Alaska's economic leaders to:

- Educate Alaska's people, especially the children, because they are the greatest resource;
- Recognize the importance of the Alaskan political economy to other facets of life in the state;
- Become educated about the nature of economic change in the world and its effect on Alaska;
- Insist on sound diagnosis as a foundation for economic strategy;
- Require that economic development programs be monitored and periodically evaluated to assure public accountability and necessary adjustments;
- Participate in shaping a vision of Alaska's economic future;
- Identify actions compatible with that vision and motivate people to undertake them; and,
- Join with the State Chamber of Commerce in a statewide partnership to provide the leadership for economic expansion and diversification.

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APPENDIX "A"

Analysis of Balance Sheet
6/30/87

INVESTMENTS

Restricted	$ 55,284,432
Unrestricted	$223,044,730

The restricted category is comprised of funds that are specifically pledged or obligated for various bond issues. Included in this category are the Capital Reserve funds, Bond Sale funds, Loan Collections, Escrowed Bond Sale, remittances, etc. These funds are held by the various bond trustees.

The unrestricted category are general funds of the Authority that are not specifically pledged to any particular bond issue but which in addition to the loans comprise the bulk of the general assets of the Authority. The majority of these funds are invested in U.S. obligations or agencies or instrumentality of the U.S. in maturities of one year or less.

LOANS

Total	$329,070,910
Less allowance	10,173,101
NET	$318,897,809

95% of total $ in real estate 50% in Arch.

Composition of loans

Appropriated & Purchased	549	$ 75,353,222
Federally Guaranteed	63	11,278,600
Bond Sale	396	242,439,088
	1,008	$329,070,910

Bond Sale Delinquency as of 10/31/87

# loans	Principal	30 Days	60 Days	90 Days +
377	$229,997,223	(14) 3.05% $7.0 million	(5) 1.24% $2.9 million	(69) 22.5% $51.9 million

Total Delinquent

88 26.8% $61.8 million

OREO as of 6/30/87 11/30/87

$8,797,589 $10m

does not get a current appraisal / does not have to but the loans must get an appraisal

Liabilities as of 6/30/87

Bonds Payable	$252,720,225
Average Annual Debt Service	$33.0 million/per year

Income Statement Notes
6/30/86

	87	86	85
Total Revenues	$ 48,359,225	$ 54,959,810	$ 51,812,352
Total Expense	34,882,482	26,084,609	22,060,125
Total Earnings	13,476,743	28,875,201	29,752,227
R.E. End of Period	$157,625,213	$144,148,470	$115,273,269

22 Bond issues out. G.O. full faith & credit of authority

Vast majority are non-callable until 1994-97 not allowed to be refundable 10 yrs

10-22 can be called with a pre-pay only.

Municipality of Anchorage

POUCH 6-650
ANCHORAGE, ALASKA 99502-0650
(907) 264-4311

December 17, 1987

Anchorage Legislative Caucus
Representative Virginia Collins, Chair
3111 "C" Street, Suite 150
Anchorage, Alaska 99503

Dear Representative Collins and Caucus Members:

My principal objective as Mayor of Anchorage will be to bolster the sagging economy. Capital projects are a crucial part of my effort; however, I would like to emphasize some other areas which I believe can aid the economy and which will require your assistance. Essentially, I am planning a stimulation program for our faltering economy. The list attached to this letter reflects my thinking on a potential program. I have presented these thoughts to the Municipal Assembly for their information and discussion. I now present it to you for your consideration.

I solicit your aid in our quest to get Alaska's economy back on its feet.

Respectfully,

Tom Fink
Mayor Elect

1 Enclosure

SUGGESTED LEGISLATIVE PROGRAM

1. A strong economic stimulation package consisting of the following as possible measures:

   a. Municipal Assistance in the amount of $100 million dollars at the rate of $200.00 per capita to each local government.

   b. A substantial capital improvement program not including buildings, but including deferred maintenance on buildings, and roads.

   c. A residential loan modification agreement through AHFC which would enable people to reduce their payments and the extra interest added onto the tail end of the loan.

   d. Tear down the old sub-standard ASBA buildings and ASBA buy new buildings from AHFC and give it a note until such time as ASBA gets federal money to do it.

   e. Commercial loan modification agreement at AIDA and the payments reduced and the interest added onto the tail end of the loan.

   f. A program to buy out some foreclosed mortgages of commercial properties such as Zamarello's strip malls at 1984 land values, and then boarding up or tearing down the buildings.

   g. An extra dividend.

   h. Legislation to authorize Bradley Lake to go forward without APUC's approval.

   i. Offer up to $100 million dollars for capital improvements to bring the Navy into Southcentral Alaska and also assist in making oil available at less than market prices to the Navy.

   j. Appropriate 1.5 million to get the Court Building started this Spring in downtown Anchorage.

   k. A guarantee loan fund wherein banks will hold 10% of a loan and with 90% guarantee from a State agency.

   l. Pay off local government bonds.

   m. A Job Corps Program.

2. A $100,000,000 Capital Improvement Program for Anchorage, projects with a priority as shown on the Anchorage Capital Projects Priority List

   Last item -- 16 million for miscellaneous capital improvements.

Anchorage Legislative Issues

The Anchorage Assembly supports and encourages legislative consideration of the following issues:

Tax Incentives - Consider granting local communities the authority to offer various tax incentives to new and expanding business in the interest of spurring economic growth.

Note: Also endorsed by Alaska Municipal League (AML)

Binding Arbitration - Consider repealing the legislation requiring binding arbitration for local governments and their bargaining units.

Note: Also endorsed by AML

AS 47.37.170 (b) - Consider alteration of this statute to permit more local autonomy in dealing with the public inebriate problem.

School Funding - Consider legislation to facilitate identification and appropriation of school funding by the 15th of March each year.

Workman's Compensation - Review current workman's compensation statutes to assess impact on financial issues facing employers and propose alternative legislation to rectify the issues.

Business Liability - Review situation in local business communities regarding liability insurance and difficulty in obtaining such coverage, especially for small businesses. Propose legislation to aid in rectification of this difficulty.

Right to Bear Arms - Support a ballot proposition regarding Second Amendment rights.

EJG/17Dec87

Updated December 16, 1987

ANCHORAGE CAPITAL PROJECTS PRIORITY LIST

Rank	Name of Project	1988 $M	Anticipated Const. NTP	Design Study Report	Prelim Design	Final Design	ROW Acq	Construction	Notes		
1	Lake Otis Parkway, III (Tudor to Dowling) (AARP)	$ 2.5	1988	100	100	100	100	80	Electrical undergrounding, s/w bikepath & landscaping complete:	10/88	Awaiting Funds
2	Klatt Road (AARP) (Timberline to Southport)	$ 3.4	1988	100	100	100	100	50	Paving, curb & gutter, sidewalks, bikepath, lighting & landscaping complete:	10/88	Awaiting Funds
3	Spenard Road, II (AARP) (International to Turnagain)	$11.4	1988	100	100	20	5	--	Row acq. complete: Roadway complete: Landscaping complete:	3/88 10/88 8/89	Funded Awaiting Funds Awaiting Funds
4	ERRRSA Projects Hiland Rd. ($500K) Santa Maria Dr. ($850K), Hiland Bridge Ped. Walk ($450K)	$ 1.8	1988	100	100	10	-0-	--			
5	36th Avenue (AARP) (Arctic to Spenard)	$ 4.1	1988	100	100	100	50	--	ROW acq. complete: Roadway & landscaping complete:	5/88 10/88	Funded Awaiting Funds
6	East 6th Ave (Muldoon-Cherry) Edwards (DeBarr to Ptarmigan School)	$ 2.5	1988	100	100	10	--	--	E. 6th $2.0M - ready to let Edwards $450K - not designed		
7	Lake Otis Parkway, IV (66th to Abbott) (AARP)	$15.8	1988	100	100	100	5	--	ROW acq. complete: Roadway & landscaping complete	5/88 10/88	Awaiting Funds Awaiting Funds
8	Arctic Blvd. (AARP) (Raspberry to Dimond)	$ 3.5	1988	100	100	100	100	--	Roadway complete: Landscaping complete:	10/89 8/90	Awaiting Funds Awaiting Funds
9	Huffman Rd. (New Seward to Bragaw)	$ 3.5	1988	100	0	0	0	--	Bid pkg. ready by July, state project		
10	ERRRSA - Add'l projects Baranoff ($1.62M) Sullins Dr. ($390K) Klondike ($270K) Strip Paving ($900K)	$ 3.2	1988	100	100	10	0	--			

11	Spenard Road, III (AARP) (Turnagain to McRae)	$ 7.1	1989	100	100	--	--	--	ROW acq. complete: Roadway & landscaping complete:	3/89 10/89	Awaiting Funds Awaiting Funds
12	Dimond Blvd. (AARP) (New Seward to 88th)	$ 4.7	1989	100	--	--	--	--	Design complete: ROW acq. complete: Roadway complete: Landscaping complete:	10/88 7/89 10/89 8/90	Awaiting Funds Awaiting Funds Awaiting Funds Awaiting Funds
13	Lake Otis (O'Malley-Huffman) (2.8) and signalization at Huffman (.3)	$ 3.1	1988	0	0	0	0	--	Ready for ROW acq. in '88; potential private development under reimbursement plan		
14	West Northern Lights, II (Wisconsin to Aero) (AARP)	$ 5.6	1989	100	--	--	--	--	Design complete ROW acq. complete: Roadway complete: Landscaping complete:	10/88 7/89 10/89 8/90	Awaiting Funds Awaiting Funds Awaiting Funds Awaiting Funds
15	ARDSA Rehab Projects	$ 4.0	1988	--	--	--	--	--	Implementation of 5-yr road improvement plan		
	TOTAL	$76.2									
16	Other road projects (attached)	$14.0									
	W. Northern Lights Blvd., I (Forest Park to Wisconsin)	($ 1.4)	--	100	100	100	100	99	Landscaping complete: Request transfer of residual funds to Spenard Road II.		

AARP = Anchorage Accelerated Roads Program
NTP = Notice to proceed
ROW = Right of way

ATTACHMENT TO ANCHORAGE
CAPITAL PROJECTS PRIORITY LIST

MUNICIPAL PROJECTS	Cost ($ Millions)
Hillside Drainage Plan, Phase II Study	.3
Hillside Drainage Plan, Phase I Implementation	2.0/5.0
Birch Road, Huffman to DeArmoun (extend South to DeArmoun Road) Class 1C - Neighborhood Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	1.7
Buffalo Street (extend South to Rabbit Creek Road and add Bridge) Class 1C - Neighborhood Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	2.2
Elmore Street (extend North from Riverton Avenue and add Bridge) Assume Class 1C - Neighborhood Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	2.3
Bragaw Street (extend south from Huffman Road to DeArmoun) Class 1C - Residential Collector Upgrade to 38' Paving, Curb and Gutter, Sidewalk, Biketrail and Illumination	2.5

EJG/16Dec87

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

Thank you for your invitation to attend last weeks discussion on the Alaskan economy. My understanding is that on Tuesday at 9:00 AM the group will meet again and you would like a brief overview of the current financial situation of the Authority. Additionally, myself and all others in attendance were to give some thought to what was discussed and present any ideas or alternatives that may help the economy in general.

My understanding is that the primary purpose of the group is to brainstorm and prepare ideas that may allow governmental intervention to assist the economy through some difficult times. Many individuals feel that the assets of the Authority could be useful in this effort and that an overview of the financial condition would allow a more reasoned analysis.

Attached as Appendix "A" is the Balance Sheet & Income Statement for the year ending 6/30/87. Following the statements, I have prepared a brief analysis of the composition of the balance sheet with particular emphasis in the asset side in which this group appears to have an interest.

At last weeks meeting, several points were raised that merit response. There seemed to be a general consensus around the table that AIDEA needs to respond more timely to work-out requests submitted by banks and needs to be a bit more liberal in its evaluation of these requests. Insofar as the timeliness is concerned, I agree that there have been times when a response has been slower than necessary. Internal steps have been taken to remedy the problem. On the liberalization side, I also agree that some of the criticism may be justified. It is significant that the Authority considers itself an in-state investor in bank originated loans and not a social service organization. It is also realistic to understand that on a 90/10 participa ion who really has assumed the risk and accordingly should have a considerable voice in determining the future events of that particular transaction. Nevertheless, steps are being taken to hopefully alleviated, at least to a degree, both of these concerns.

On to more important matters and the purpose of the gathering, the economy.

It appears the group was not overly impressed with my rather inarticulate mutterings on supply and demand. The majority of proposals distributed do not address these fundamentals and accordingly will not solve the problem. The proposals all are premised on the assumption of buying time and hopefully things will get better. This analysis ignores the possibility that a structural change has occurred within Alaska and that slow to moderate growth will might be the future, not the double digit growth that we've all grown accustom to.

What is occurring now is percisely free enterprise at its worst. It is eliminating the marginal producer in a very efficient matter. Once equilibrium is reached, the survivors will grow and prosper and those who made miscues or poor investment decisions will be finished. The lesson for the real estate speculator is simple, leverage is two sided.

The problem then is to alter the above relationship, hopefully in a form that recognizes some across the board public benefit, as it appears public funds are to be used. The Chairman has requested that we focus on the supply side and accordingly it appears to the author that to rationally gain access to the "public trough", a program that at least attempts to spread equally the gain and the pain be developed.

Demolish Alternative

I. Any financial institution, political subdivision, credit union, FDIC, may take property from their "OREO" account, sell it to the "Demolish Corp" for its current land value who is then mandated to destroy the improvements upon the land.

   A. Improvements must have existed upon the property prior to January 1, 1986.

   B. Improvements must be commensurate in size and character to the real property in question.

   C. Property must be vacant at time of purchase.

II. The "Demolish Corp" is prohibited by statute from selling any real property until _____, which time all proceeds are deposited in the _____ (General Fund?).

Analysis

1. Not feasible, no one will sell for merely land value.

   A. Perhaps not. Current OREO requires taxes, insurance and maintenance. If the structure is obsolete and the institution has already written off a portion. A sale for land value would stop the bleeding and allow immediate cash into the bank. Most likely the least desirable, must uneconomic projects would be candadates.

2. By requiring tenant removal prior to purchase, demand would be created by eliminating supply.

3. Who wins/Who loses??

   A. Tends to prop up property values if enough properties tendered. All property owners would benefit by the reduction in supply of like properties. (Includes commercial and residential).

   B. Removes property from the tax roles but increases values of the remaining property.

   C. Allows institutions to liquidate, receive cash and go on.

   D. Penalizes speculation

III. Moratorium on lending for new construction

A moratorium would be placed on AHFC, AIDEA, ASBA, Permanent Fund, etc. on providing funds for permanent financing for any new construction ~~subject to an override by the local governing body~~ within which the project is located. No

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 parted a resolution
no more multi family units in
Juneau, Anch Kenai, Mat Su
Fairbanks

National Bank of Alaska

CORPORATE HEADQUARTERS • BOX 100600 • ANCHORAGE, ALASKA 99510-0600

ROBERT P. GRAY
PRESIDENT

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

It was refreshing and beneficial to have a candid meeting between you and representatives of some of the major financial insitutions in the State. It would be highly desirable if such interchanges of ideas should continue into the future.

On a general basis, we feel that the following represents some major economic realities in South Central Alaska:

1. There is an inbalance between supply and demand in the real estate area. This is largely caused by a gross oversupply of properties, particularly strip malls, condominiums and lots.

2. The real estate segment is the most adversely affected part of our economy.

3. Our economy suffers from tco much debt. This debt load needs to be worked down and, in some instances, renegotiated. It appears that additional debt would be, in general, counterproductive.

4. The mobile home program is a disaster and needs drastic solutions.

5. There is a general feeling of uncertainty in the marketplace which is causing customers and businesses to defer spending decisions.

6. There is a continuing tragic loss of good, highly qualified people from Alaska.

7. A stable banking environment (including State agencies) is necessary for an economic resurgence.

8. The present stituation will not allow a "quick-fix". Any such proposed solution should be judged very critically.

9. The banking industry unanimously expressed the opinion that they have an excellent working relationship with SBA. It would seem logical, therefore, that the SBA--banking relationship should be examined as a role model for a State agency - bank relationship.

10. The Alaska economy is uneven - some geographic areas are doing well (Kodiak, Ketchikan, etc.) while some are doing poorly (Wasilla, Anchorage, Kenai Peninsula). Specifically, there are actions that can be taken which we feel would be helpful.

    A. The State should not fund new building projects into areas of oversupply. Instead, it should look at buying some of that oversupply (at prices much below the cost of new construction) for such items as UAA dorms, ASHA low-income housing, etc.

    B. The legislature should alter or repeal the sections of the law setting a delinquency rate cap for individual banks. As it is presently enacted, if a bank exceeds that cap for that program, it is forbidden from participating further in the program. I understand AIDEA will be proposing a bill to rectify this.

    C. AIDEA should consider doing loans based on a guarantee (as does SBA) rather than direct funding. That guaranteed portion could then be sold to the Permanent Fund. The advantages of this approach are several:

        (1) The expensive bond underwriting costs are avoided.

        (2) Restrictive conditions that can be imposed by bond underwriters are avoided.

        (3) The Permanent Fund could acquire a large pool of Alaskan, good-yield, almost no-risk loans. By having these loans guaranteed by AIDEA, the Permanent Fund's prudent man rule would be met.

D. A change in composition of the AHFC and AIDEA boards toward more public representation would be helpful.

E. More cooperation and/or latitude is necessary in negotiating troubled commercial real estate loans with AIDEA. The comments by Mr. Cox were illustrative of tactics that could be useful.

F. The staffing needs of AHFC and AIDEA should be analyzed. Not only may they need more staff, the may need staff with different types of qualifications than the present staff have. In particular, AIDEA may need work-out specialists. AHFC probably is in need of operations/systems people.

G. The only solution I can see on mobile homes that would work is to move the homes from the glutted areas. If mobile homes were sold at very low prices, those customers that are presently paying on their homes may react precipitously.

In summary, most of the elements for the financial community are in place. However, the working relationships between the State agencies and the banks need to be improved if the customers are to receive efficient, timely and proper treatment. An AIDEA guarantee program seems to have merit. It could be used, for example, for a change of ownership in an existing property.

I hope these comments are of benefit.

Sincerely,

Robert P. Gray

Robert P. Gray
President

RPG:sl

National Bank of Alaska

Corporate Headquarters: P.O. Box 100600 • Anchorage, Alaska 99510-0600 • (907) 276-1132

December 24, 1987

Senator Jan Faiks
Alaska State Legislature
3111 C Street, Suite 525
Anchorage, AK 99503

Re: AIDEA Guaranteed Loan Program

Dear Senator Faiks:

I was requested to provide a model of a guaranteed loan program that could be utilized by AIDEA. I am enclosing a copy of an outline provided by the Bureau of Indian Affairs for their guaranteed loan program which I believe covers most of the bases. Of course the name of the agency would have to be changed as would the eligibility requirements of the borrowers. I would recommend that such a guaranteed loan program not allow for a guarantee exceeding 20 years. I would also suggest that the maximum interest rates on loans with guarantees in excess of 80% be limited to prime + 1 1/2%. On those loans with guarantees of 80% or lower the maximum interest rate should be limited to prime + 2 3/4%. The SBA and BIA limit the maximum interest rate to prime + 2 3/4% either floating or fixed.

I would also recommend consideration of the subsidy feature as outlined in paragraph ten of the BIA document on loans that are currently financed through state loans programs when refinanced with a guaranteed loan. This subsidy should be allowed in cases where it is proven that the project cannot carry the interest rate with the existing state agency, that the project will not support a market interest rate such as prime + 1 1/2% under a refinance program, and the state agency and participating bank would face an economic loss if they foreclosed on the property. Such an interest subsidy, I believe, should be limited to 3% and only for the length of time that the property demonstrates a need for the subsidy.

The loans should be allowed to be used by participating institutions as security for deposits and assignment by the banks for liquidity purposes. This could hopefully assist our weak banking system. You might also consider an annual legislative review of the amount of guarantees issued by the authority. For instance, allow AIDEA to guarantee up to $200 million in loans in the first year and every year thereafter establish a quota.

You were concerned about the banking community's support of such a program. Virtually every bank in the state that we have contacted, large and small, except for one, showed an interest in such a program. The other bank indicated that the state should get out of all lending activities.

NBA has participated in government guaranteed programs through SBA, Farmers Home Administration, business and industrial loan programs, the Bureau of Indian Affairs Guaranteed Loan Program and various home guaranteed loan programs. We have had good success in the operation of these guarantees. A guaranteed loan program allows the bank to structure loans around the needs of the consumer rather than in the current case of AIDEA's bond programs which has structured the loans to the needs of the bond underwriters. This has been very costly to the consumers and has provided restrictions that have caused substantial problems to consumers who relied on the expertise of this state authority to provide them with a program that would be reasonable to deal with.

We would also recommend AIDEA's consideration of the use of an equity participation program for problem work-out loans to reduce debt service to the consumer. Alternatively, a more flexible policy in reducing interest rates should be considered. If I can provide you with any additional advice in this regard, feel free to call upon me.

Sincerely yours,

J. K. Sieberts
Senior Vice President

js

cc: Rick Halford

FINANCIAL ASSISTANCE
Guaranteed Loans
GENERAL INFORMATION

Note: 25 CFR means Code of Federal Regulations, Title 25 (Indians)

1. **Purpose.** This supplement sets forth the types of loans eligible for guarantee pursuant to Title II of the Indian Financing Act of April 12, 1974 (88 Stat. 77, 25 U.S.C. 1461 et. seq.), and the Federal Regulations applicable thereto, 25 CFR 103, and the procedures for processing, approving and servicing such loans. The Act provides for guaranteeing up to 90% of a loan made by eligible lenders to Indians and Indian organizations. In addition the Act provides for paying an interest subsidy on such loans to reduce the rate of interest paid by the borrower to the cost of borrowing from the United States. The guaranty is subject to payment of a premium by the lender to the Bureau of Indian Affairs.

2. **Responsibility.** The full faith and credit of the United States Government, acting through the Commissioner of Indian Affairs, is responsible for all obligations entered into herein. Accordingly, Bureau employees have a responsibility to carefully review and analyze applications and supporting documents to assure compliance with the regulations and recommend or approve loans that indicate applicants have a reasonable prospect for repayment, based upon sound customary lending criteria. The Indian applicant has a responsibility and obligation to repay the amount borrowed, and the lender assumes the responsibility of servicing the loan adequately and effectively, exerting every reasonable means in default cases to assist the borrower against loss of his home, farm, or business. The Bureau of Indian Affairs, on behalf of the United States, must require that all parties fully discharge these responsibilities.

3. **Eligible Lender (25 CFR 103.9).** Those financial institutions subject to examination and supervision by an Agency of the United States, a State or the District of Columbia, having the capacity to evaluate, process, disburse and service loans and Indian tribes making loans from their own funds to other tribes or organization of Indians are eligible to have loans insured under these regulations. Loans may be guaranteed for any lender regularly engaged in making loans, having the capacity to accept and process applications and service loans, and who is satisfactory to the Commissioner.

4. **Eligible Organizations (25 CFR 103.7).** Loans to tribes and Indian organizations having a form of organization satisfactory to the Commissioner and recognized by the Federal Government as eligible for services from the Bureau of Indian Affairs are eligible to be guaranteed when there is reasonable assurance of repayment of the loan.
Cooperative associations, corporations and partnerships shall be organized pursuant to state, Federal or tribal law. Cooperative associations, corporations and partnerships applying for a guaranteed loan to purchase, establish or operate an economic enterprise on a reservation must comply with the requirements of applicable rules, resolutions or ordinances enacted by the governing body of the tribe.

5. **Eligible Individuals (25 CFR 103.8).** Only Indians who are members of tribes recognized by the Federal Government as eligible for services from the Bureau of Indian Affairs are eligible for guaranteed loans. Individuals applying for a guaranteed loan to purchase, establish or operate an economic enterprise on a

G. Non-Taxable Interest Income. Loans may not be guaranteed where the interest income from the loans is not taxable income under Chapter 1 of the Internal Revenue Code of 1954, as amended.

H. Term Restrictions Loans with repayment terms exceeding 30 years may not be guaranteed.

I. Educational Loans. Loans for educational purposes are not eligible under the Guarantee Program.

8. Amount of Guaranty (25 CFR 103.13). The percentage of a loan to be guaranteed shall be the minimum necessary to obtain financing for an applicant, but may not exceed 90% of the unpaid principal and interest.

A. The liability under the guarantee shall increase or decrease with any increase or decrease in the unpaid principal of the obligation. Loans to individual Indians may not be guaranteed where the principal amount exceeds $350,000. Loans to individuals may not be guaranteed where the principal amount is less than $2,500 or where repayment terms are less than one year. An exception to these limits on time and amounts may be approved by the Commissioner.

B. Applications of minors as determined by applicable state and Federal laws, may not be approved unless the natural parents or legal guardians, with reputations of being responsible individuals, co-sign the promissory note(s) and securing documents.

C. Not more than one guaranteed loan may be in effect with the same borrower at any time without prior approval of the Commissioner.

9. Interest (25 CFR 103.41). Interest rates charged by lenders on guaranteed loans, exclusive of loan service charges, if any, shall not exceed such percent per annum on the principal obligation outstanding as the Commissioner determines to be reasonable and legal at the time a loan is guaranteed, taking into account the rates prevailing in the private market for similar loans and the risks assumed by the United States. Each loan shall show the rate of interest to be charged. Interest shall be payable at least annually. Once a loan is closed, the interest rate may not be increased even though the lender increases the rate on new loans. Lenders may not charge interest on loan funds used for payment of loan service charges.

10. Interest Subsidy (25 CFR 103.42). The Commissioner will pay an interest subsidy to lenders on loans which are guaranteed under 25 CFR 103 at rates which are necessary to reduce the interest rate payable by the borrowers to a rate determined in accordance with Title 1, Section 104, of the Indian Financing Act of 1974 (P.L. 93-262, 88 Stat. 77).

A. The rate of interest subsidy will be established by the Commissioner at the time of issuance of a guaranty certificate on loans requiring approval by the Commissioner, or at the time of approval of Form 5-4755, Request for Loan Guaranty and Approval. Interest subsidies paid to lenders by the United States on behalf of borrowers shall continue to be paid over the remaining life of the original term of a loan even if the lender elects to discontinue the guaranty or otherwise causes the termination of the guaranty by failure to make guaranty payments as required in #103.43. Interest subsidy payments by the United States shall be discontinued on such loans when one of the following occurs.

B. The initial premium on guaranteed loans shall be remitted, payable to the Bureau of Indian Affairs, to the Superintendent of the local Agency within 10 days of the advance of loan funds to the borrower. The premium shall be for the six months or portion of six months in which the loan is made. Thereafter, premiums will be paid as of June 30 and December 31 on the principal balance outstanding at the end of each semi-annual period. The guaranty or a new loan, or of additional advances on existing loans, will not be effective until the Commissioner receives the premium due.

The guarantee of a loan shall cease to be effective if the premium is not remitted within 30 days of the close of the semi-annual period.

13. **Loan Servicing (25CFR 103.46).** The guaranty of a loan by the Commissioner will be based on the requirement that adequate loan servicing will be performed by the lender. Loan servicing will be without cost to the borrower, unless the Commissioner authorizes a charge at the time the loan is made pursuant to #103.44. Authorizations for such charges shall be in writing and included in the loan agreement. Lenders are expected to follow accepted standards employed by prudent lenders in the area in servicing similar type loans. In servicing loans lenders will make every effort to prevent and minimize potential losses. Lenders will use prudence in disbursing loan funds to borrowers to assure, to the extent feasible, that loan funds are used only for the purposes for which the loan is made. Unless approved by the Commissioner, any amounts disbursed for purposes other than those provided in the loan agreement shall be excluded in computing the amount for which the lender may be reimbursed in the event of a loss on a loan.

14. **Modification of Loan Agreements (25 CFR 103.21).** Guaranteed loans may be modified with the approval of the parties of the original loan agreement. The Commissioner's approval is required to modify guaranteed loans which required the Commissioner's approval only if the modification repayment (1) changes the repayment schedule, (2) changes the prime security, (3) changes the interest rate, (4) changes the use of loans funds, (5) increases the principal amount of a loan, except as provided on #103.22, (6) changes to the plan of operation, (7) amendment or changes in the organization papers of the borrower, (8) changes in partnership agreements, or (9) changes the location of an enterprise.

15. **Sale or Assignment of Guaranteed Loans (25 CFR 103.51).** Lenders may sell or assign a guaranteed loan, including the security and guaranty certificate, to any other financial institution that is subject to examination and supervision by an agency of the United States, a state or the District of Columbia. The institution acquiring the loan shall notify the Commissioner to writing within 30 days after acquisition. Form 5-4758, Notice of Acquisition of Loan, furnishes the required information and when furnished to the Superintendent of the Agency Office servicing the guaranteed loan shall constitute written notice to the Commissioner. Failure of the acquiring lender to furnish such notice within the 30 day period will void the guaranty unless the Commissioner authorizes an exception because of extenuating circumstances.

Lenders should submit the original and two copies of Form 5-4758 to the Agency Superintendent who is assigned responsibility for recordkeeping and servicing of the loan. The Superintendent will immediately acknowledge receipt on the bottom of the form and return a copy to the acquiring lender. The Superintendent will retain one copy for his records and submit the original, through the Area Director, to the Central Office, Division of Financial Assistance.

Handed out @ 1/29/88 mtg
Dave Rose

EQUITY CAPITAL
As of 9/30/87

	9/30/87	6/30/87	3/31/87	12/31/86	9/30/86	6/30/86
Alaska Continental	1,652,000.00	2,971,000.00	2,980,000.00	3,035,000.00	3,830,000.00	4,595,000.00
Alaska Mutual	(109,529,000.00)	(103,545,000.00)	(2,847,000.00)	6,562,000.00	38,996,000.00	48,098,000.00
Alaska Nat. Bank of the North	(5,854,000.00)	3,456,000.00	8,109,000.00	10,285,000.00	15,044,000.00	16,060,000.00
Alaska Pacific Bank	24,643,000.00	23,958,000.00	23,329,000.00	23,226,000.00	22,458,000.00	21,639,000.00
Alaska Statebank	11,520,000.00	13,432,000.00	15,433,000.00	16,825,000.00	17,467,000.00	17,573,000.00
B. M. Behrends	3,903,000.00	3,905,000.00	4,011,000.00	3,883,000.00	3,975,000.00	4,940,000.00
Denali Statebank	4,728,000.00	4,648,000.00	4,591,000.00	4,620,000.00	4,605,000.00	4,795,000.00
First Bank	12,946,000.00	12,666,000.00	12,558,000.00	12,095,000.00	11,836,000.00	11,274,000.00
First Fed. Bank of Alaska	10,631,000.00	12,162,000.00	15,205,000.00	15,778,000.00	17,166,000.00	17,128,000.00
First Int. Bank of Alaska	2,780,000.00	5,330,000.00	14,325,000.00	18,138,000.00	30,138,000.00	35,227,000.00
1st Nat. Bank of Anchorage	138,957,000.00	136,097,000.00	133,615,000.00	131,256,000.00	130,467,000.00	127,474,000.00
1st Nat. Bank of Fairbanks	21,121,000.00	20,333,000.00	15,707,000.00	15,596,000.00	15,419,000.00	15,051,000.00
Mt. McKinley Mutual Banks	8,172,000.00	8,022,000.00	7,852,000.00	7,680,000.00	7,511,000.00	7,350,000.00
National Bank of Alaska	153,169,000.00	148,450,000.00	153,311,000.00	150,801,000.00	147,378,000.00	142,902,000.00
Rainier Bank Alaska	12,252,000.00	12,061,000.00	12,400,000.00	12,380,000.00	12,270,000.00	12,213,000.00
United Bank of Alaska	(86,413,000.00)	(81,431,000.00)	(3,985,000.00)	6,479,000.00	21,523,000.00	27,044,000.00
United Bank Alaska S.E.	2,799,000.00	3,107,000.00	3,376,000.00	4,213,000.00	5,102,000.00	5,610,000.00
	$207,477,000.00	$225,622,000.00	$419,970,000.00	$442,852,000.00	$505,185,000.00	$518,973,000.00

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MISCELLANEOUS INFORMATION

FILE 1

(+ INDEX TO THIS FILE)

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; .... - Sen. Halford (House Labor & Commerce Committee)

SB 392 - An Act relating to delinquent loans of Alaska Industrial Development and Export Authority; .... - Sen. Halford (Senate Finance)

SB 408 - An Act relating to Alaska stabilization assistance program; .... - Sen. Kelly and Sturgulewski (S. Fin.)
...Memorandum - Sen. Kelly to All Senators 2/9/88
- 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 (S. Fin)

SB 471 - An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and to refinance debt; .... - Sen Halford (S. Fin)
...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 (S. Fin)

SB 476 - An Act creating the supplemental assistance fund for Railbelt Communities;.... - Sen. Halford (S. Fin)

SB 477 - An Act making a special appropriation to the Department of Community and regional Affairs for supplemental

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02-576(2/77)

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SB 477 - An Act making a special appropriation to the Department of Community and regional Affairs for supplemental

municipal assistance to Railbelt communities; .... - Sen. Halford (S. Fin)

SCR 32 - Urging the state's financial institutions to adopt more flexible lending and collection policies. - Sen. Fischer (H. L&C)

House: Housing and Banking Subcommittee Pending Legislation

HB 402 - An Act relating to the Alaska Industrial Development and Export Authority; .... Rules Committee/Governor

HB 429 - An Act relating to an optional exemption from municipal taxation - L & C Committee

HB 430 - An Act relating to the neighborhood business development program; .... - L & C Committee

HB 431 - An Act making an appropriation to the neighborhood business development fund; .... - L & C Committee

HB 432 - An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; .... - Rep. Donley

HB 433 - An Act establishing a moratorium on judicial and nonjudicial foreclosures; .... - L & C Committee

HB 434 - An Act relating to municipal development and redevelopment - Rep. Menard

HB 457 - An Act relating to the Alaska stabilization assistance program; .... - Rep. Pettyjohn

HB 458 - An Act making a special appropriation to the Alaska stabilization assistance fund; .... - Rep. Pettyjohn

Proposed Bills:

An Act providing interim payment reductions of the monthly mortgage payments payable by certain mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; .... - Sen. Halford

An Act providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; .... - Sen. Faiks

An Act establishing a moratorium on judicial and nonjudicial foreclosures; .... - Sen. Halford

Urging state agencies that make loans to withhold approval of loans for new construction in areas in which availability of

business and commercial facilities and residences substantially exceeds demand. - Sen. Faiks

Relating to opportunities offered by the present crisis in residential housing. - Sen. Faiks

Relating to the Alaska Industrial Development and Export Authority. - Sen. Faiks

FDIC Information:

Letter - Senators Jones and Sturgulewski and Representative Gruenberg to Lamar Kelly, FDIC 2/5/88

Article - Anchorage Daily News 2/20/88 - Real Estate Bailout? No way witnesses say.

Summary of Anchorage Economic Development Corporation proposal for purchase and management of FDIC assets - Robert B. Flint

A Development Venture Company: An Appropriate Financial Institution for Alaska - Peter McDowell.

Article - Anchorage Times 1/28/88 - Sealaska Eyes FDIC Properties.

Alaska Investment Bank & Trust: A Real Estate Holding Company for the People of Alaska - John M. Bashaw 2/15/88.

Reports and Letters:

Municipality of Anchorage Economic Recovery Program - Mayor Tom Fink.

Economic Recovery Task Force - Anchorage Chamber of Commerce.

Article - Anchorage Daily News - It's time to take economic action - Scott Hawkins.

Article - Seattle Times 2/7/88 - Agency set up to sell assets seeks bailout.

Can State Spending Speed Alaska's Economic Recovery? - ISER

Letter - David L.T. Knudson to Senators Sturgulewski, Faiks, Halford, and Kelly 2/11/88.

Letter - Joseph E. Heintz, Peat Marwick Main & Co. to Governor Cowper 1/8/88.

The Recession, the Real Estate Crash and Alaska's Economic Prospects - Gregg Erickson, OMB

Options to Improve the Alaskan Economy - David A. Rose, PFDC

Memorandum - Commissioner Hugh Malone to Representative Gruenberg 2/19/99.

Memorandum - Alfred G. Zangri, Economist, Dept. of Revenue to Milt Barker, Dpty Commissioner Dept. of Revenue 2/12/88.

Fact Sheet: The Southwest Plan - FSLIC 2/5/88

Commonwealth North Report

Fortune Properties Market News Vol 4, Issue 1, 1988 - Connie Yoshimura.

Letter - Norman Rokeberg - Economic Recovery: Commercial Real Estate.

Offered: 2/4/88
Referred: Rules

5-1512B

Original sponsors: Halford, Kelly, Uehling, et al.

BY THE LABOR AND COMMERCE COMMITTEE

IN THE SENATE

CS FOR SENATE BILL NO. 333 (L&C)(efd add)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to wage, salary, and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.05.045(a) is amended to read:

(a) Each [EVERY] state bank shall make at least four reports of condition each year to the department on days designated by it, and on forms prescribed by it. The report shall be verified by an oath of the president, vice president, or cashier and by at least three directors, certifying and subscribing under oath that they and each of them have personal knowledge of the facts stated in the report and that the facts are true. The reports shall exhibit in detail and under appropriate heads the resources and liabilities of the bank, and each report shall be transmitted or mailed to the department no later than 30 [WITHIN 10] days after the date designated for the report [OF THE RECEIPT OF THE REQUEST FROM THE DEPARTMENT].

* Sec. 2. AS 06.05.470(t) is amended to read:

(t) The following claims have priority in liquidation proceedings, in the order listed:

(1) obligations incurred by the department;

(2) wages, [AND] salaries, and benefits of officers and employees earned during the 12-month [THREE-MONTH] period preceding

the department's possession in an amount not exceeding $12,000 [$3,000] for each person;

(3) fees and assessments due to the department;

(4) deposits.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Offered: 2/29/88 5-1788B

Original sponsors: Halford, Faiks, Kelly, et al.

IN THE SENATE BY THE RULES COMMITTEE

CS FOR SENATE BILL NO. 392 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 44.88.165 is repealed and reenacted to read:

Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of excessive delinquencies among the loans previously purchased from the financial institution. In adopting the regulations, the authority shall take into consideration its delinquency experience with loans it has purchased from all financial institutions.

(b) The authority may include in the regulations other remedies it considers appropriate as alternatives to the discontinuance of purchasing loans from the financial institution.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 392 (Rules)
PUBLISH DATE: 2-29-1988
(SENATE)

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act relating to the AIDEA

Agency Affected: AIDEA
BRU: Same as above

Sponsor: Halford, Faiks, Kelly, et al.
Requester: Senate Rules

Components: Same as above

EXPENDITURES / REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Passage of this legislation will have no fiscal impact upon the Authority's budget.

Prepared by: Bertram L. Wagnon, Executive Director Phone: 274-1651
Division: AK Industrial Dev. and Export Authority (AIDEA) Date: February 26, 1988

Approved by Commissioner: J. Anthony Smith Kathy Nash Halford Date: 2/25/88
Agency: Department of Commerce and Economic Development

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

0691D-9/022688a

Introduced: 2/3/88
Referred: Finance

5-1788A

BY HALFORD, FAIKS, KELLY, STURGULEWSKI, HENSLEY, ABOOD, FISCHER, JONES, JOSEPHSON AND UEHLING

IN THE SENATE

SENATE BILL NO. 392

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to delinquent loans of the Alaska Industrial Development and Export Authority; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 44.88.165 is repealed and reenacted to read:

Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of excessive delinquencies among the loans previously purchased from the financial institution. In adopting the regulations, the authority shall take into consideration its delinquency experience with loans it has purchased from all financial institutions.

(b) The authority may include in the regulations other remedies it considers appropriate as alternatives to the discontinuance of purchasing loans from the financial institution.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/10/88
Referred: Finance

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 408

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose of the Alaska stabilization assistance program is to promote the stabilization of real property values in the state.

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1992, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the Railbelt energy fund established under AS 37.05.153.

(c) To encourage lenders not to attempt to dispose of real property in the state that has been foreclosed upon or otherwise acquired through actions taken on defaulted loans until the real estate market in the state becomes more stable, the authority may enter into contracts to provide for the management of the property. However, the authority may provide for the management of property only through June 30, 1992.

* Sec. 2. This Act is repealed July 1, 1992.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1569 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1346

STATE OF ALASKA

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE

SENATOR TIM KELLY

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7612

Feb. 9, 1988

To: All Senators
From: Senator Tim Kelly TDK

re: The Alaska Stabilization Assistance Program (ASAP)

I am introducing the attached legislation. It's essentially a "generic" bridge bank concept as originally proposed by Dave Rose.

Several different proposals for helping to slow the decline of property values throughout Alaska, and particularly Southcentral, have surfaced. I can support any number of these. If, however, the Legislature cannot within the next 90 days agree upon a more specific proposal, this legislation would enable AIEDA to contract with a separate entity to help maintain a floor on real estate values.

The problem is not just the portfolio the FDIC has assumed in Alaska, but also the Alliance Bank portfolio, which could be an even larger problem, as well as several other institutions and banks with similar serious concerns. If a separate entity can be created to pool these problem properties and effectively prevent competitive "dumping", I believe a service will be done. I understand that both the FDIC and Alliance Bank would be interested in exploring such a concept.

I have initially capitalized the ASAP through a $15 million loan from the Railbelt Energy Fund. I'm not wed to this source of funding. Either AIEDA or General Fund money might be used, but as the problem, while statewide, appears to be predominately a railbelt problem, I'm not shy about proposing borrowing the money from the Railbelt account.

Both private industry and the FDIC have been extremely active in trying to solve this serious problem. I believe the State should also become a limited player at this time.

I urge your co-sponsorship.

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE

STATE OF ALASKA

P.O. BOX V
JUNEAU, ALASKA 99811
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P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7812

SENATOR TIM KELLY

February 8, 1988

TO: Tam Cook
FROM: Sen. Tim Kelly TK

re: Alaska Stabilization Assistance Program (ASAP)

- -

Please draft legislation which:

1) Creates a distinct "Alaska Stabilization Assistance Program" within the Alaska Industrial and Export Development Authority (AIEDA);

a) stating that the purpose of the program is to facilitate the development of a separate organization to promote the stabilization of real estate values in Alaska;

b) placing the acc unt under the direction of the Board of Directors of AIEDA;

c) authorizing AIEDA to contract with an entity to assume management of foreclosed upon property held by financial institutions and loans collateralized by real estate, for the purpose of reorganizing and stabilizing that property, and;

d) stating that AIEDA shall contract to retain management of said property until such time as it is determined that property market values have stabilized and improved.

2) Appropriates $15 million from the Railbelt Energy Account to the "Alaska Stabilization Assistance Program" of the Alaska Industrial and Export Development Authority, for the purpose of paying operational costs involved in the management of foreclosed property;

Attach a letter stating:

It is the intent of the Legislature that these funds shall be construed as a five year interest bearing loan to AIEDA, with the interest to be determined by the annualized prime rate.

As funds are recovered from the management of this property, these funds shall be returned to the Stabilization Assistance Program which will distribute these funds first to the General Account of the State of Alaska, with appropriate notice to the legislature as to the derivation of these funds so they can be returned to the Railbelt Energy Fund, then to the lending institutions from whom the property management was assumed.

Effective Date: Immediate

Le Roccabella
24 Avenue Princesse Grace
Monte-Carlo
Principality of Monaco
Tel. (33) 93.50.95.50
Telecopy (33) 93.25.69.37
or (33) 93.50.71.45

To David Rose Alaska Permanent Fund By Fax 907 586 2057
18th Feb 1988

re Hallwood Alaskan Real Estate Stabilisation Trust

Dear David,
Herewith a clean ammended copy of the Trust Proposal.Please feel free to circulate the document at your discretion.I will be available for meetings in Alaska or elsewhere at any time after the 6th March next.
I have already copied the following on the proposal...
Governor Cowper
Tony Smith
Max Gruenberg
Senators Kelly and Sturgulewski
The Members of the House Subcommittee on Housing and Banking
Ashley Reed
I have also copied all our own people and the FDIC,FHLBB,MGIC, AHFC,AIDEA,Fannie Mae,N.Y.Life and any other Alaskan lending institutions which we feel may be interested in participating.
I look forward to speaking to you again before I leave for my holiday on Monday.
Regards,

Anthony J. Gumbiner

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecendented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska South Eastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not

only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be

considered as a more accurate indication of fair market value Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees.Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust

beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:-

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual stummary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:-

i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. with respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

While it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes of non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approxilmately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette,the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all of the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern

and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the US. Sales Brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only, basis utilising the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage and the Trustee will employ and/or retain employees, real

estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of Trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:-

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Institutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement , Procedures Agreement or Distribution Agreement.

Distributions to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance

80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds from the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18th 1988

The Hallwood Group Inc.
767 Third Avenue
New York NY 10017

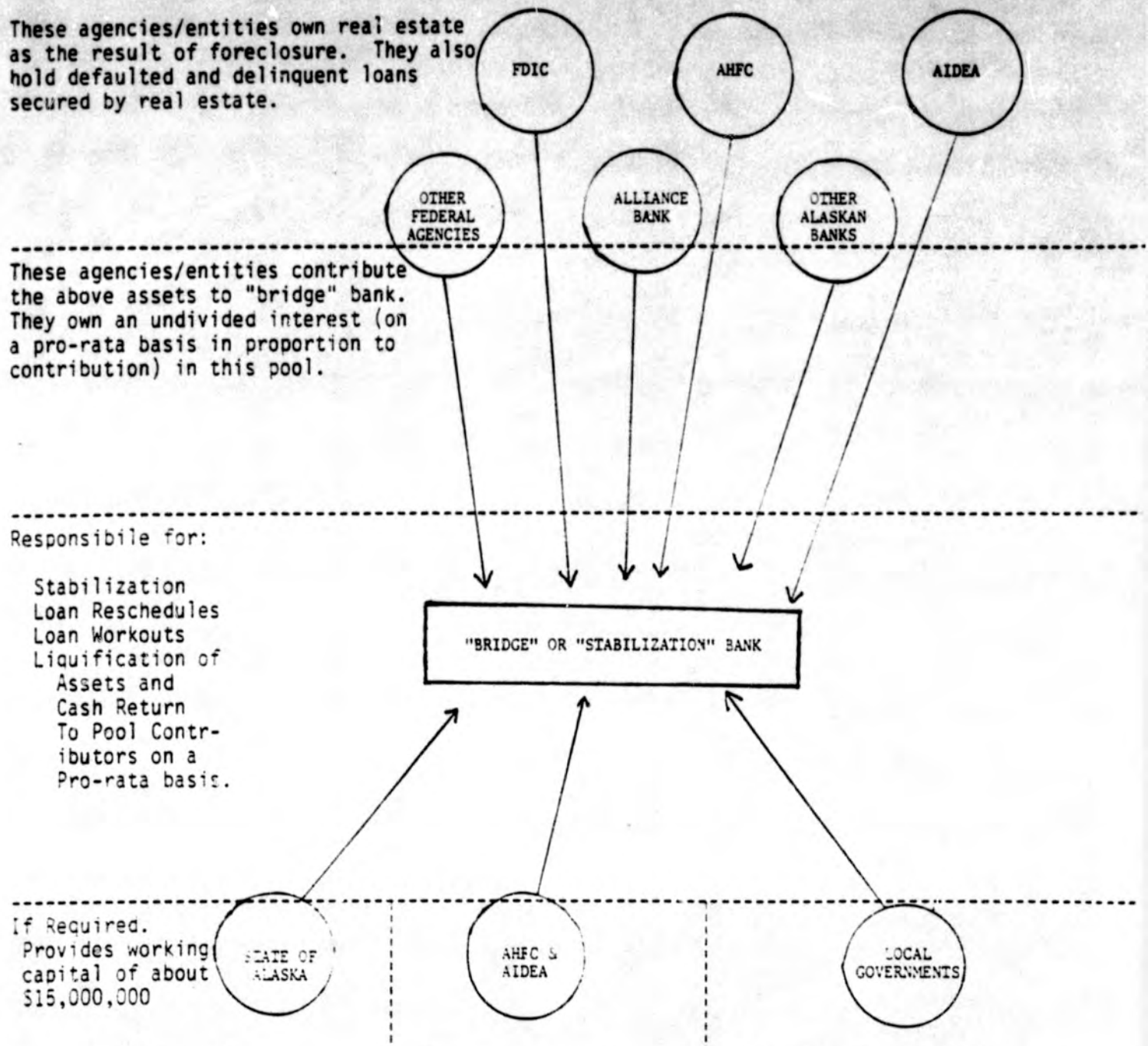
Tel: 212-319-2360

A CONCEPTUAL PLAN FOR AN ALASKA STABILIZATION ASSISTANCE PROGRAM

A FEDERAL, STATE, LOCAL GOVERNMENT AND PRIVATE SECTOR PARTNERSHIP

This paper expands, clarifies and combines some options set forth in a White Paper entitled "Options to Improve the Alaskan Economy" dated January 1988 and attached hereto.

DAR/FEB.88


These agencies/entities own real estate as the result of foreclosure. They also hold defaulted and delinquent loans secured by real estate.
FDIC
AHFC
AIDEA
OTHER FEDERAL AGENCIES
ALLIANCE BANK
OTHER ALASKAN BANKS
These agencies/entities contribute the above assets to "bridge" bank. They own an undivided interest (on a pro-rata basis in proportion to contribution) in this pool.
Responsibile for:
Stabilization
Loan Reschedules
Loan Workouts
Liquification of Assets and Cash Return To Pool Contributors on a Pro-rata basis.
"BRIDGE" OR "STABILIZATION" BANK
If Required.
Provides working capital of about $15,000,000
STATE OF ALASKA
AHFC & AIDEA
LOCAL GOVERNMENTS
Receives return of above prior to payout to pool "owners".
Impose new supply moratoriums which can be subject to waiver upon request of local governments.
Restrict new supply:
Platting
Zoning
Utility Expansion
May request waiver of moratoriums after public hearings.

1. This concept requires the combined efforts of federal, state, local and private entities.... A partnership to address mutual problems and solve them on a cooperative basis.

2. It does not "bail out" anybody. No purchases of assets occur, no checks are written. Those entities who "own" problems continue to own them through pro-rata interests in a common pool.

3. Valuation of assets does not present a problem because no purchase takes place. All assets are valued at municipal assessment levels as of a given date. Valuation is utilized only to determine pro-rata share of the common pool.

4. The pool holds assets to stabilize values, eventually liquifies these assets and returns proceeds to pool owners.

5. The State provides a loan (up to $15,000,000) for working capital which is repaid prior to distributions to pool owners. This working capital may not be needed if there is adequate cash flow generated by pool assets but it is evidence of the State's interest and intent to help address and solve this problem.

6. State agencies such as AHFC and AIDEA place moratoriums on financing new supply. These can be waived if local governmemts so request. (General, statewide moratoria may not be in the best interests of those communities which do not have excess suplly of all -- or certain types of -- real estate.)

7. Local governments cannot exacerbate the supply problem by encouraging new construction. Therefore they may consider local moratoria on rezones, replats and utility extensions in order to discourage new construction in those categories of real estate where there currently is excess supply.

NOTE: AHFC = Alaska Housing Finance Corporation is an instrumentality of the State.

AIDEA = Alaska Industrial Development and Export Authority is an instrumentality of the State.

EXECUTION

The establishment of the "Bridge" or "Stabilization" bank is coordinated by a State agency which also serves as the recipient of the State appropriation.

The State agency, using the appropriation (and subsequent loan) as a lever, binds the parties together by contract. It does not operate the bridge bank but does insure that it is contractually obligated to hold assets for stabilization.

The bridge bank is operated by a Board of Directors who set policy and appoint officers who select and direct staff. The Board of Directors of the bridge bank are chosen by the pool participants who vote their pro-rata share of asset contribution.

January 29, 1988

MEMORANDUM

TO: Jan

FROM: Dave

SUBJECT: Dave Rose's "Bridge Bank"

The idea would be to create an entity which would act like a bank. It would work like this: an institution or agency (AHFC, FDIC, private banks, Commission on Postsecondary Education) would give the "Bridge Bank" real estate and delinquent loans, in exchange for stock or debentures, or a combination.

Thus, these non-producing assets are exchanged for an interest (maybe preferred stock) in this new entity. Initially the Bridge Bank might produce only a minimal return, but it would be better than what these assets are currently generating.

The Bridge Bank would then buy, sell, and trade real estate and other loans, and reschedule debt to maximize the revenue from the overall portfolio. It would do everything possible to convert illiquid assets into cash and income producing assets while covering expenses and eventually making a profit.

Rose says it would probably take about $15 - 20 million to get the Bridge Bank initially capitalized. This financing could come from private sources, but more likely it would come from an agency like the FDIC. Currently the FDIC is spending a lot of money trying to deal with these non-producing assets, and they could probably solve their problems for less money by giving the assets and some initial capital to the Bridge Bank. As a last resort, consideration may have to be given to an initial State grant or loan, but Rose says that in all likelihood this

would only be necessary to capitalize a part of the $15 - 20 million.

Rose says this is very similar to how he started AIDA 8 years ago, a small initial capital outlay for substantial potential long term returns. He says this way the problem gets solved without a big state financial bailout.

Anchorage Daily News Monday, February 8, 1988

Value of Mat-Su property plunges 15 to 20 percent

By DAVID HULEN
Daily News reporter

WASILLA — New figures show that the value of property in the Matanuska-Susitna Borough, which grew like almost no place else in Alaska during the oil boom, has now plummeted to 1984 levels. Some real estate brokers say the price of property is continuing to slide.

Property tax assessment notices to be mailed out by the borough later this month spell out what many homeowners have known or suspected for months — that Mat-Su homes and businesses are worth an average of 15 to 20 percent less than they were a year ago.

To the borough, the drop in the total worth of Mat-Su property means a shrinking tax base. It'll put the borough assembly in the position later this year of deciding whether to raise tax rates to continue schools and services, making new cuts, or finding new sources of money.

To landowners, it could mean a corresponding drop in property taxes, although that may not be much consolation to people who've watched the real worth of their homes sink below the mortgage value.

The figures, which reflect the prices paid for homes that have been sold over the past year, are just another sign that the economy in the Valley continues its slide, along with the much of the rest of the state. Anchorage is expected to experience a similar drop this year.

The drop in real estate values — as much as 30 percent on some homes and commercial properties — has resulted in something of a mini-boom in real estate sales, especially in the latter months of 1987, according to several real estate brokers.

"Last year was definitely an improvement over '86," said Kristan Tanner, a Wasilla broker. The slow market had led brokers to dub the area as "Death Valley," she said. Four years ago, there were 275 licensed real estate brokers in the Valley; today there are 105.

"Most of the Realtors that

See Page B-2, VALLEY

VALLEY: Property values plummet 15 to 20 percent since last year

Continued from Page B-1

are left are doing quite well. It definitely has picked up. We're real happy," Tanner said.

About 600 Mat-Su homes were sold last year, according to borough figures.

The problem, Tanner and others noted, is that the increase in homes being sold is coming at the expense of people being forced to sell their houses at prices lower than their mortgage values. No longer able to make payments, people have been selling homes for whatever they'll bring, and prices have dropped further and further in recent months. Foreclosures and repossessions continue.

"I see institutions panicking and still lowering prices," said Penny Milton, a Wasilla broker whose agency handles homes repossessed by the Department of Housing and Urban Development.

"That pulls everything down. There are a lot of buyers now ... you have investors and people who are renting now. But it's getting to the point where anyone who owns a house here — anyone who bought in during the boom — is facing an impossible situation as far as selling at what they paid."

For the first time, many Mat-Su residents likely are seeing their property assessments from the borough dip below the mortgage value of their homes, said Borough Assessor Gary Lewis. While prices began sliding in Anchorage two or three years ago, the crash hit Mat-Su later and many properties didn't change in value during last year's assessment.

"Just about anybody who bought a house in '83-'84-'85 is looking at negative equity out here now," he said. About the only things that have held their value, he said, are recreation properties.

The borough assessments are used to compute the amount of property tax owed and are based on selling prices of similar properties. Until last year, the total value of Mat-Su property rose every year from the time the borough was established in 1964, peaking at $2.4 billion in 1985. Last year, values dropped between 1 percent and 2 percent, and will drop to around $2 billion this year, Lewis said.

Borough assemblymen have been vowing in recent weeks that they won't try to raise tax rates to make up for it. Instead, they say, they'll continue lobbying for more state assistance, and will consider further cuts when they write budgets this spring.

Mat-Su unemployment in December was 17.4 percent, the highest in this part of Alaska and nearly double the statewide rate. And that number includes only those classified by the state as actively looking for work, and generally doesn't count seasonal workers and those who only work from time to time.

Many people are working fewer hours or at lower wages. There are almost 1,000 fewer jobs in Mat-Su than two years ago, according to state figures.

No boroughwide population estimate has been done since 1986, but there are signs that people are continuing to trickle Outside to get away from the depressed economy. School enrollments and utility connections, for instance, are down about 4 percent from a year ago.

Businesses continue to close; the Chevrolet dealership in Wasilla is among the major ones to go under in recent months.

Although it is not dramatic, there have been a few positive signs. Some new retail businesses have opened. Over the next couple of weeks, VECO Inc., plans to temporarily hire between 50 and 60 ironworkers, welders and heavy equipment operators to build a pair of oilfield modules for use on the North Slope. The jobs, paying an average of about $15 an hour, are expected to last until March.

The $45 million Colony school project near Palmer has kept a flicker of heavy construction activity alive, with as many as 100 workers. The schools are scheduled to be completed later this year, although, because of drops in school budgets and number of pupils, it remains unclear whether the schools will be opened.

Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

FRED H. BURROW
President

: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. [redacted]

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves, individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that [redacted] Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, [illegible] American prospective purchasers through Hollywood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement. Procedures Agreement or Distribution Agreement.

Distribution to Beneficiery 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

Introduced: 2/10/88
Referred: Finance

Funding Information
General Fund $15,000,000
Other Funds -0-
$15,000,000

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 409

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska stabilization assistance fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $15,000,000 is appropriated from the Railbelt energy fund (AS 37.05.153) to the Alaska stabilization assistance fund.

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the Railbelt energy fund (AS 37.05.153) on July 1, 1992.

* Sec. 3. This Act takes effect on the effective date of a version of an Act enacted by the Fifteenth Alaska State Legislature establishing the Alaska stabilization assistance fund.

Introduced: 2/16/88
Referred: Finance

5-1796B

BY HALFORD, FAIKS, UEHLING, JOSEPHSON, STURGULEWSKI AND ABOOD

IN THE SENATE

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

(1) to guarantee loans to businesses that qualify under AS 44.88.510(a) and apply under AS 44.88.520(a); and

(2) to refinance the debt of businesses that qualify under AS 44.88.510(b) and apply under AS 44.88.520(b).

Sec. 44.88.510. APPLICANT QUALIFICATIONS. (a) 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.

(b) A business enterprise may apply under AS 44.88.500 - 44.88.599 to refinance existing debt. The authority may approve a refinancing of existing debt if the authority finds that

(1) the refinancing involves a viable project; and

(2) the refinancing will save existing jobs.

Sec. 44.88.520. APPLICATION. (a) An applicant for a loan guarantee shall provide an economic benefit analysis prepared by a person acceptable to the authority together with other information that the authority may require by regulation.

(b) An applicant for refinancing of existing debt shall provide the information that the authority may require by regulation.

Sec. 44.88.530. POWERS OF THE AUTHORITY. 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 and refinancing agreements 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, secured by adequate collateral, and 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 44.88.550 - 44.88.560. The ratio of the guarantee to the outstanding principal of the loan shall remain the same 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. CONDITIONS OF DEBT REFINANCING. The authority may not refinance debt unless the refinancing

(1) is necessary to extend substantial debt payments over a longer period of time, thereby improving the applicant's net cash flow and working capital position consistent with the useful life of the assets being refinanced;

(2) assists with short-term debt or cash expenditures when lenders will not extend reasonable longer terms to the applicant; or

(3) is necessary to place a permanent loan subsequent to an interim loan for financing construction of the project.

Sec. 44.88.560. INTEREST. The maximum interest rate on a loan guaranteed by the authority is

(1) for a loan guarantee that equals or exceeds 80 percent of the loan, one and one-half percentage points above the prime rate on the day the loan guarantee is made; and

(2) for a loan guarantee that is less than 80 percent of the loan, two and three-quarters percentage points above the prime rate on the day the loan guarantee is made.

Sec. 44.88.570. DEFAULT OR FORECLOSURE. (a) Payments received toward satisfaction of a default on a loan guaranteed under AS 44.88.500 - 44.88.599 shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance has been repaid.

(b) The authority shall dispose of property acquired through default or foreclosure of a loan guaranteed or refinanced 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. 44.88.580. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fund the foreclosure expense account. The account is established as a reserve from fund equity.

(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. 44.88.590. PREREQUISITE FOR OTHER LOANS. Notwithstanding other provisions of law, a business enterprise that qualifies under AS 44.88.510(a) to apply for a loan guarantee under AS 44.88.500 - 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 - 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).

STATE OF ALASKA
THE LEGISLATURE

POUCH Y STATE CAPITOL
JUNEAU ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM February 11, 1988

SUBJECT: Summary of business assistance program proposed for AIDEA (Work order 5-1796B)

TO: Senator Jan Faiks

FROM: Jack Chenoweth
Legislative Counsel

The proposed business assistance program would permit the Alaska Industrial Development and Export Authority to become involved with business loan guarantees and with refinancing of existing business debt. The costs of both the loan guarantees and the refinancing would be met from a proposed "business assistance fund" in AIDEA, to which the legislature would make appropriations. The bill grants AIDEA general powers to implement the proposed business assistance program.

Loan guarantees: The applicant must be a business enterprise that meets qualifications set by AIDEA. The applicant must submit an economic benefit analysis and other information that AIDEA may require. AIDEA may guarantee a loan that meets the specific requirements and conditions of proposed AS 44.88.540, but generally limited to 90 percent of the loan that qualifies, with a guarantee of not more than $1 million per loan. The bill sets maximum interest rates on a loan guaranteed by the authority expressed in terms of the relationship to the then-payable prime rate. Standard provisions are included to cover default and foreclosure. The bill would tend to make the AIDEA business assistance fund a principal source of state support for business borrowing in priority position to loans from other state sources in that it conditions further direct state loans to a qualifying business from other state sources on application for an AIDEA loan guarantee enterprise and rejection of the loan guarantee application.

Debt refinancing: The qualifications of an applicant for debt refinancing track those established for an applicant for a loan guarantee. Refinancing is limited to debt asso-

ciated with a viable project for which the refinancing may be show to save existing jobs. AIDEA may set specific requirements for information to be submitted in support of refinancing of debt, and may approve a debt refinancing application only if it meets the specific requirements and conditions of proposed AS 44.88.550. Under the grant of general authority to AIDEA to "exercise any other power necessary to implement" the business assistance program, the authority may establish additional procedures and requirements relevant to debt refinancing.

JBC:bb
wkb2/073

National Bank of Alaska

CORPORATE HEADQUARTERS • BOX 100600 • ANCHORAGE, ALASKA 99510-0600

ROBERT P. GRAY
PRESIDENT

December 21, 1987

Senator Jan Faiks
Senator Rick Halford
Senator Arliss Sturgulewski

Dear Senators:

It was refreshing and beneficial to have a candid meeting between you and representatives of some of the major financial insitutions in the State. It would be highly desirable if such interchanges of ideas should continue into the future.

On a general basis, we feel that the following represents some major economic realities in South Central Alaska:

1. There is an inbalance between supply and demand in the real estate area. This is largely caused by a gross oversupply of properties, particularly strip malls, condominiums and lots.

2. The real estate segment is the most adversely affected part of our economy.

3. Our economy suffers from tco much debt. This debt load needs to be worked down and, in some instances, renegotiated. It appears that additional debt would be, in general, counterproductive.

4. The mobile home program is a disaster and needs drastic solutions.

5. There is a general feeling of uncertainty in the marketplace which is causing customers and businesses to defer spending decisions.

6. There is a continuing tragic loss of good, highly qualified people from Alaska.

7. A stable banking environment (including State agencies) is necessary for an economic resurgence.

8. The present stituation will not allow a "quick-fix". Any such proposed solution should be judged very critically.

9. The banking industry unanimously expressed the opinion that they have an excellent working relationship with SBA. It would seem logical, therefore, that the SBA--banking relationship should be examined as a role model for a State agency - bank relationship.

10. The Alaska economy is uneven - some geographic areas are doing well (Kodiak, Ketchikan, etc.) while some are doing poorly (Wasilla, Anchorage, Kenai Peninsula). Specifically, there are actions that can be taken which we feel would be helpful.

    A. The State should not fund new building projects into areas of oversupply. Instead, it should look at buying some of that oversupply (at prices much below the cost of new construction) for such items as UAA dorms, ASHA low-income housing, etc.

    B. The legislature should alter or repeal the sections of the law setting a delinquency rate cap for individual banks. As it is presently enacted, if a bank exceeds that cap for that program, it is forbidden from participating further in the program. I understand AIDEA will be proposing a bill to rectify this.

    C. AIDEA should consider doing loans based on a guarantee (as does SBA) rather than direct funding. That guaranteed portion could then be sold to the Permanent Fund. The advantages of this approach are several:

        (1) The expensive bond underwriting costs are avoided.

        (2) Restrictive conditions that can be imposed by bond underwriters are avoided.

        (3) The Permanent Fund could acquire a large pool of Alaskan, good-yield, almost no-risk loans. By having these loans guaranteed by AIDEA, the Permanent Fund's prudent man rule would be met.

D. A change in composition of the AHFC and AIDEA boards toward more public representation would be helpful.

E. More cooperation and/or latitude is necessary in negotiating troubled commercial real estate loans with AIDEA. The comments by Mr. Cox were illustrative of tactics that could be useful.

F. The staffing needs of AHFC and AIDEA should be analyzed. Not only may they need more staff, the may need staff with different types of qualifications than the present staff have. In particular, AIDEA may need work-out specialists. AHFC probably is in need of operations/systems people.

G. The only solution I can see on mobile homes that would work is to move the homes from the glutted areas. If mobile homes were sold at very low prices, those customers that are presently paying on their homes may react precipitously.

In summary, most of the elements for the financial community are in place. However, the working relationships between the State agencies and the banks need to be improved if the customers are to receive efficient, timely and proper treatment. An AIDEA guarantee program seems to have merit. It could be used, for example, for a change of ownership in an existing property.

I hope these comments are of benefit.

Sincerely,

Robert P. Gray

Robert P. Gray
President

RPG:sl

National Bank of Alaska

Corporate Headquarters P.O. Box 100600 • Anchorage, Alaska 99510-0600 • (907) 276-1132

December 24, 1987

Senator Jan Faiks
Alaska State Legislature
3111 C Street, Suite 525
Anchorage, AK 99503

Re: AIDEA Guaranteed Loan Program

Dear Senator Faiks:

I was requested to provide a model of a guaranteed loan program that could be utilized by AIDEA. I am enclosing a copy of an outline provided by the Bureau of Indian Affairs for their guaranteed loan program which I believe covers most of the bases. Of course the name of the agency would have to be changed as would the eligibility requirements of the borrowers. I would recommend that such a guaranteed loan program not allow for a guarantee exceeding 20 years. I would also suggest that the maximum interest rates on loans with guarantees in excess of 80% be limited to prime + 1 1/2%. On those loans with guarantees of 80% or lower the maximum interest rate should be limited to prime + 2 3/4%. The SBA and BIA limit the maximum interest rate to prime + 2 3/4% either floating or fixed.

I would also recommend consideration of the subsidy feature as outlined in paragraph ten of the BIA document on loans that are currently financed through state loans programs when refinanced with a guaranteed loan. This subsidy should be allowed in cases where it is proven that the project cannot carry the interest rate with the existing state agency, that the project will not support a market interest rate such as prime + 1 1/2% under a refinance program, and the state agency and participating bank would face an economic loss if they foreclosed on the property. Such an interest subsidy, I believe, should be limited to 3% and only for the length of time that the property demonstrates a need for the subsidy.

The loans should be allowed to be used by participating institutions as security for deposits and assignment by the banks for liquidity purposes. This could hopefully assist our weak banking system. You might also consider an annual legislative review of the amount of guarantees issued by the authority. For instance, allow AIDEA to guarantee up to $200 million in loans in the first year and every year thereafter establish a quota.

You were concerned about the banking community's support of such a program. Virtually every bank in the state that we have contacted, large and small, except for one, showed an interest in such a program. The other bank indicated that the state should get out of all lending activities.

NBA has participated in government guaranteed programs through SBA, Farmers Home Administration, business and industrial loan programs, the Bureau of Indian Affairs Guaranteed Loan Program and various home guaranteed loan programs. We have had good success in the operation of these guarantees. A guaranteed loan program allows the bank to structure loans around the needs of the consumer rather than in the current case of AIDEA's bond programs which has structured the loans to the needs of the bond underwriters. This has been very costly to the consumers and has provided restrictions that have caused substantial problems to consumers who relied on the expertise of this state authority to provide them with a program that would be reasonable to deal with.

We would also recommend AIDEA's consideration of the use of an equity participation program for problem work-out loans to reduce debt service to the consumer. Alternatively, a more flexible policy in reducing interest rates should be considered. If I can provide you with any additional advice in this regard, feel free to call upon me.

Sincerely yours,

J. K. Sieberts
Senior Vice President

js

cc: Rick Halford

IN REPLY REFER TO:

UNITED STATES
DEPARTMENT OF THE INTERIOR

BUREAU OF INDIAN AFFAIRS
Juneau Area Office
P. O. Box 3-8000
Juneau, Alaska 99802

February 1 , 1987

Dear

Enclosed is information you have requested about our Loan Guaranty Program. Please be aware of our requirements for applicant/lender eligibility, eligible loans, and lender premium payments.

Not contained in the enclosed information are the following policies recently put into effect for our Loan Guaranty Program:

1. Lenders under our loan guaranty program should bear more than 10 percent of the risk, especially where the project generates sufficient revenue. However, no more than 90 percent of any loan will be guaranteed. This means that there can be no side guarantees for the 10 percent unguaranteed portion.

2. The interest rate that will be allowed under our loan guaranty program will be based upon the percentage of the loan guaranty. For a 90 percent loan guaranty, the maximum interest rate will be 1-1/2 percent above the prime rate as published in the Wall Street Journal. For a 80 or lower percent loan guaranty, the maximum interest rate will be 2-3/4 percent above the prime rate as published in the Wall Street Journal. The lender's interest rate would not be adjusted more often than quarterly. Every effort should be made to obtain a lower rate than the maximum allowed. There should be a relationship between risk and the interest rate charged.

3. The approval of an interest subsidy on a guaranteed loan is based on need. This determination will be made at the time of loan approval and will be reconsidered after five years. When submitting the loan guaranty request, calculate the interest subsidy that will be needed for the remainder of the year and three months of the next fiscal year. Submit a request for allotment for the interest subsidy with the loan guaranty request.

4. The Bureau's interest rate for the purpose of computing interest subsidies will be fixed for the term of the subsidy period.

5. Borrower must have at least 20 percent equity injection into their enterprise/project.

6. The Bureau of Indian Affairs will not consider a loan guaranty if such guaranty can be obtained from another source (i.e., the Small Business Administration).

Please call Roger Fitzjarrald at 586-7062 or me at 586-7103 should you have any additional questions or need clarification on any of the information presented above or enclosed.

Sincerely,

Marvin D. Morgan
Area Credit Officer

FINANCIAL ASSISTANCE
Guaranteed Loans
GENERAL INFORMATION

Note: 25 CFR means Code of Federal Regulations, Title 25 (Indians)

1. **Purpose.** This supplement sets forth the types of loans eligible for guarantee pursuant to Title II of the Indian Financing Act of April 12, 1974 (88 Stat. 77, 25 U.S.C. 1461 et. seq.), and the Federal Regulations applicable thereto, 25 CFR 103, and the procedures for processing, approving and servicing such loans. The Act provides for guaranteeing up to 90% of a loan made by eligible lenders to Indians and Indian organizations. In addition the Act provides for paying an interest subsidy on such loans to reduce the rate of interest paid by the borrower to the cost of borrowing from the United States. The guaranty is subject to payment of a premium by the lender to the Bureau of Indian Affairs.

2. **Responsibility.** The full faith and credit of the United States Government, acting through the Commissioner of Indian Affairs, is responsible for all obligations entered into herein. Accordingly, Bureau employees have a responsibility to carefully review and analyze applications and supporting documents to assure compliance with the regulations and recommend or approve loans that indicate applicants have a reasonable prospect for repayment, based upon sound customary lending criteria. The Indian applicant has a responsibility and obligation to repay the amount borrowed, and the lender assumes the responsibility of servicing the loan adequately and effectively, exerting every reasonable means in default cases to assist the borrower against loss of his home, farm, or business. The Bureau of Indian Affairs, on behalf of the United States, must require that all parties fully discharge these responsibilities.

3. **Eligible Lender (25 CFR 103.9).** Those financial institutions subject to examination and supervision by an Agency of the United States, a State or the District of Columbia, having the capacity to evaluate, process, disburse and service loans and Indian tribes making loans from their own funds to other tribes or organization of Indians are eligible to have loans insured under these regulations. Loans may be guaranteed for any lender regularly engaged in making loans, having the capacity to accept and process applications and service loans, and who is satisfactory to the Commissioner.

4. **Eligible Organizations (25 CFR 103.7).** Loans to tribes and Indian organizations having a form of organization satisfactory to the Commissioner and recognized by the Federal Government as eligible for services from the Bureau of Indian Affairs are eligible to be guaranteed when there is reasonable assurance of repayment of the loan.
   Cooperative associations, corporations and partnerships shall be organized pursuant to state, Federal or tribal law. Cooperative associations, corporations and partnerships applying for a guaranteed loan to purchase, establish or operate an economic enterprise on a reservation must comply with the requirements of applicable rules, resolutions or ordinances enacted by the governing body of the tribe.

5. **Eligible Individuals (25 CFR 103.8).** Only Indians who are members of tribes recognized by the Federal Government as eligible for services from the Bureau of Indian Affairs are eligible for guaranteed loans. Individuals applying for a guaranteed loan to purchase, establish or operate an economic enterprise on a

reservation must comply with the requirements of applicable rules, resolutions or ordinances enacted by the governing body of the tribe and state and Federal laws, if applicable.

An Eligibility Certificate for Guaranteed Loan, Form 5-4752, may be obtained from the Agency having jurisdiction over the area in which the applicant resides.

6. **Eligible Loans (25CFR 103.3).** Loans to eligible organizations and individuals for financing economic enterprises which will contribute to the economy of a reservation and loans for housing on a reservation to be occupied by the borrower may be guaranteed. The following loans, when meeting the criteria of the preceding sentence, may be guaranteed.

A. Business. Loans to purchase land, buildings, supplies, equipment, machinery, tools, inventory and for working capital to be used in a business enterprise or in pursuing a gainful occupation may be guaranteed.

B. Agriculture. Loans to acquire lands, buildings, livestock, equipment, machinery, supplies and operating capital necessary to develop and operate all types of farming, ranching or other agricultural enterprises are eligible.

C. Land. Loans to purchase and develop land, within or adjacent to a reservation, to be used by an economic enterprise owned by the borrower may be guaranteed if there is economic benefit to the reservation.

D. Refinance. Funds loaned to refinance unsecured debts may be guaranteed only when it is clearly justified by the financial condition of the borrower and is clearly in his benefit.

F. Non-Recoverable Items. Funds included in loans for nonrecoverable items may be guaranteed only if the items are required in the direct operation of an economic enterprise.

7. **Ineligible Loans (25 CFR 103.3 and 103.10).** The following loans may not be guaranteed:

A. Payment of Personal Bills. Amounts included in loans to pay personal bills or obligations may not be guaranteed.

B. Non-Recoverable Items. Amounts included in loans for purchase of furniture, passenger carrying automobiles, trucks or pickups, household appliances, and similar items may not be guaranteed.

C. Refinance. Funds included to refinance debts to reduce the debt exposure of the lender may not be guaranteed.

D. Financing a Relending Program. Loans for financing a relending program may not be guaranteed.

E Loans by Other Federal Agencies. Loans made by any agency or instrumentality of the Federal Government may not be guaranteed.

F. Funds Borrowed from the United States. Loans made by an organization of Indians making loans from funds borrowed from the United States may not be guaranteed.

G. Non-Taxable Interest Income. Loans may not be guaranteed where the interest income from the loans is not taxable income under Chapter 1 of the Internal Revenue Code of 1954, as amended.

H. Term Restrictions Loans with repayment terms exceeding 30 years may not be guaranteed.

I. Educational Loans. Loans for educational purposes are not eligible under the Guarantee Program.

8. **Amount of Guaranty (25 CFR 103.13).** The percentage of a loan to be guaranteed shall be the minimum necessary to obtain financing for an applicant, but may not exceed 90% of the unpaid principal and interest.

A. The liability under the guarantee shall increase or decrease with any increase or decrease in the unpaid principal of the obligation. Loans to individual Indians may not be guaranteed where the principal amount exceeds $350,000. Loans to individuals may not be guaranteed where the principal amount is less than $2,500 or where repayment terms are less than one year. An exception to these limits on time and amounts may be approved by the Commissioner.

B. Applications of minors as determined by applicable state and Federal laws, may not be approved unless the natural parents or legal guardians, with reputations of being responsible individuals, co-sign the promissory note(s) and securing doeuments.

C. Not more than one guaranteed loan may be in effect with the same borrower at any time without prior approval of the Commissioner.

9. **Interest (25 CFR 103.41).** Interest rates charged by lenders on guaranteed loans, exclusive of loan service charges, if any, shall not exceed such percent per annum on the principal obligation outstanding as the Commissioner determines to be reasonable and legal at the time a loan is guaranteed, taking into account the rates prevailing in the private market for similar loans and the risks assumed by the United States. Each loan shall show the rate of interest to be charged. Interest shall be payable at least annually. Once a loan is closed, the interest rate may not be increased even though the lender increases the rate on new loans. Lenders may not charge interest on loan funds used for payment of loan service charges.

10. **Interest Subsidy (25 CFR 103.42).** The Commissioner will pay an interest subsidy to lenders on loans which are guaranteed under 25 CFR 103 at rates which are necessary to reduce the interest rate payable by the borrowers to a rate determined in accordance with Title 1, Section 104, of the Indian Financing Act of 1974 (P.L. 93-262, 88 Stat. 77).

A. The rate of interest subsidy will be established by the Commissioner at the time of issuance of a guaranty certificate on loans requiring approval by the Commissioner, or at the time of approval of Form 5-4755, Request for Loan Guaranty and Approval. Interest subsidies paid to lenders by the United States on behalf of borrowers shall continue to be paid over the remaining life of the original term of a loan even if the lender elects to discontinue the guaranty or otherwise causes the termination of the guaranty by failure to make guaranty payments as required in #103.43. Interest subsidy payments by the United States shall be discontinued on such loans when one of the following occurs:

1) The loan is paid in full prior to the expiration of the original term.

2) The loan is refinanced by a new loan.

3) The repayment schedule on the principal balance owing is extended beyond the original term, unless an exception is approved by the Commissioner. The interest subsidy shall only be discontinued as to the balance which has been extended beyond the original term of the loan.

4) The lender on a defaulted loan is reimbursed for a guaranteed loss. The date of the check shall be the date of reimbursement.

B. After receiving notice from the lender, the Commissioner will establish the interest subsidy rate and notify the lender of the rate established.

At the option of the lender, interest subsidies will be paid on the unpaid principal balance owed by a borrower either annually, semiannually, quarterly or monthly. Using Form 5-4749, Lenders Report of Premiums and interest Subsidies Due. Lenders should notify the Commissioner of loan payments received from borrowers and request payment of the subsidy. The interest subsidy, computed to the date payment was made by the borrower, will be paid to the lender. Interest subsidies may not be prepaid. Lenders shall promptly notify the Commissioner when borrowers pay interest or principal in advance of the due date(s) provided in the loan agreement.

11. **Lender's Service Charge (25 CFR 103.44).** Lenders may charge borrowers reasonable fees for appraisals and compliance inspections; for lien searches and filing and recording; for tax assessments and similar items necessary to protect the integrity of the loan; for insurance premiums, survey costs, title examinations and insurance; and for such other charges as may be authorized by the Commissioner at the time a loan is made. Service charges, if any, may be paid from the proceeds of a guaranteed loan when authorized in the loan agreement if the borrower cannot pay the charges from his own funds. However, if this is done, lenders may not charge interest on the amount advanced to pay service charges.

Borrowers shall not be required to pay points, finder's fees, loan origination fees, bonuses, commissions or similar charges.

12. **Premium (25 CFR 103.43).** A premium will be charged lenders on the unpaid principal balance of guaranteed loans at a rate established by the Commissioner.

A. Premium charges will not be charged to, collected from, or otherwise passed on to borrowers. The Commissioner will establish the premium rate to be charged on guaranteed loans made during a specified period of time and will notify lenders of the rate which will be charged during the period established. By advance written notice to lenders making guaranteed loans, the Commissioner may change or continue the rate established for the preceding period. The premium rate established for loans made during a given period of time will remain in effect for the duration of the loan. The Commissioner may require a change in the premium rate on refinanced guaranteed loans to the rate in effect at the time of refinancing.

B. The initial premium on guaranteed loans shall be remitted, payable to the Bureau of Indian Affairs, to the Superintendent of the local Agency within 10 days of the advance of loan funds to the borrower. The premium shall be for the six months or portion of six months in which the loan is made. Thereafter, premiums will be paid as of June 30 and December 31 on the principal balance outstanding at the end of each semi-annual period. The guaranty or a new loan, or of additional advances on existing loans, will not be effective until the Commissioner receives the premium due.

The guarantee of a loan shall cease to be effective if the premium is not remitted within 30 days of the close of the semi-annual period.

13. **Loan Servicing (25CFR 103.46).** The guaranty of a loan by the Commissioner will be based on the requirement that adequate loan servicing will be performed by the lender. Loan servicing will be without cost to the borrower, unless the Commissioner authorizes a charge at the time the loan is made pursuant to #103.44. Authorizations for such charges shall be in writing and included in the loan agreement. Lenders are expected to follow accepted standards employed by prudent lenders in the area in servicing similar type loans. In servicing loans lenders will make every effort to prevent and minimize potential losses. Lenders will use prudence in disbursing loan funds to borrowers to assure, to the extent feasible, that loan funds are used only for the purposes for which the loan is made. Unless approved by the Commissioner, any amounts disbursed for purposes other than those provided in the loan agreement shall be excluded in computing the amount for which the lender may be reimbursed in the event of a loss on a loan.

14. **Modification of Loan Agreements (25 CFR 103.21).** Guaranteed loans may be modified with the approval of the parties of the original loan agreement. The Commissioner's approval is required to modify guaranteed loans which required the Commissioner's approval only if the modification repayment (1) changes the repayment schedule, (2) changes the prime security, (3) changes the interest rate, (4) changes the use of loans funds, (5) increases the principal amount of a loan, except as provided on #103.22, (6) changes to the plan of operation, (7) amendment or changes in the organization papers of the borrower, (8) changes in partnership agreements, or (9) changes the location of an enterprise.

15. **Sale or Assignment of Guaranteed Loans (25 CFR 103.51).** Lenders may sell or assign a guaranteed loan, including the security and guaranty certificate, to any other financial institution that is subject to examination and supervision by an agency of the United States, a state or the District of Columbia. The institution acquiring the loan shall notify the Commissioner to writing within 30 days after acquisition. Form 5-4758, Notice of Acquisition of Loan, furnishes the required information and when furnished to the Superintendent of the Agency Office servicing the guaranteed loan shall constitute written notice to the Commissioner. Failure of the acquiring lender to furnish such notice within the 30 day period will void the guaranty unless the Commissioner authorizes an exception because of extenuating circumstances.

Lenders should submit the original and two copies of Form 5-4758 to the Agency Superintendent who is assigned responsibility for recordkeeping and servicing of the loan. The Superintendent will immediately acknowledge receipt on the bottom of the form and return a copy to the acquiring lender. The Superintendent will retain one copy for his records and submit the original, through the Area Director, to the Central Office, Division of Financial Assistance.

16. **Release of Security (25 CFR 103.35).** The prime security for a loan will not be released unless the property is to be sold and the net proceeds will be applied to the loan. When approved by the Commissioner, the prime security may be released when the proceeds from property sold are to be used to purchase property of similar nature and use and of at least equal value and lien priority, and when the lender, borrower and Commissioner agree that the sale and such use of the proceeds are necessary for the success of an economic enterprise. Lenders may release property which is planned to be sold in the regular course of business when the proceeds are to be used for purposes which the lender determines are necessary and proper in connection with the type of economic enterprise involved. Releases of security involving trust income or trust or restricted land will require prior approval of the Commissioner.

17. **Preparation of Applications.** It is immaterial whether an applicant makes arrangements for a loan with the lender first or approaches the Bureau. The following sets forth in general the responsibility of the applicant, lender and the Bureau of Indian Affairs (BIA).

A. Loan Applicant. The applicant will need to obtain written proof that he is eligible to obtain a guaranteed loan. To evidence eligibility of an applicant for a guaranteed loan, an Eligibility Certificate for Guaranteed Loan, Form 5-4752, will be issued at the request of an applicant, by the Superintendent of the reservation on which the applicant resides or which will benefit from the business venture. In addition, each applicant will be responsible to develop data to prepare a loan application. Many Indians have dealt with commercial lenders for some time either as an individual or in business, and they should continue to do so.

B. Lender's Responsibility. The lender shall make the necessary credit evaluation to determine if an applicant is a good credit risk and if a loan applicant has a reasonable chance to repay a loan. If the lender feels he could make a loan, providing that the Bureau will guarantee it, he will prepare the Request for Loan Guaranty and Approval, Form 5-4755.

(1) Guaranteed Loans. The lender will attach required financial statements and the loan application to Form 5-4755 and submit the docket to the local Agency Superintendent requesting a guarantee certificate.

C. Bureau Responsibility. Indian applicants may seek advice and assistance from the Bureau, as to probable lenders, necessary plans, financial data, feasibility reports, etc., in preparing a loan docket. Upon request, the Bureau credit staff will, to the extent possible, advise Indian applicants regarding the feasibility of a proposal.

Introduced: 2/16/88
Referred: Finance

5-1874A

BY HALFORD, FAIKS, UEHLING, FANNING, SZYMANSKI, KERTTULA AND ABOOD

IN THE SENATE

SENATE BILL NO. 474

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act increasing property exemptions."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 09.38.010(a) is amended to read:

(a) An individual is entitled to an exemption as a homestead of the individual's interest in property in this state used as the principal residence of the [THAT] individual or the dependents of the [THAT] individual, but the value of the homestead exemption may not exceed $54,000 [$27,000].

* Sec. 2. AS 09.38.010(b) is amended to read:

(b) If property owned by the entirety or in common is used by one or more individual owners or their dependents as their principal residence, each owner is entitled to a homestead exemption of that owner's interest in the property as provided in (a) of this section. The aggregate value of multiple homestead exemptions allowable with respect to a single living unit may not exceed $54,000 [$27,000]. If there are multiple owners of property exempt as a homestead, the value of the exemption of each individual owner may not exceed the [THAT] individual owner's pro rata portion of $54,000 [$27,000].

* Sec. 3. AS 09.38.020 is amended to read:

Sec. 09.38.020. EXEMPTIONS OF PERSONAL PROPERTY SUBJECT TO VALUE LIMITATIONS. (a) An individual is entitled to an exemption in property not to exceed an aggregate value of $3,000 [$1,500] chosen by the individual from the following categories of property:

(1) household goods and wearing apparel reasonably

necessary for one household;

(2) if reasonably held for the personal use of the individual or a dependent, books and musical instruments; and

(3) family portraits and heirlooms of particular sentimental value to the individual.

(b) An individual is entitled to exemption of jewelry, not exceeding $1,000 [$500] in aggregate value, if held for the personal use of the individual or a dependent.

(c) An individual is entitled to exemption, not exceeding $2,800 [$1,400] in aggregate value, of implements, professional books, and tools of the trade.

(d) An individual is entitled to the exemption of pets to the extent of a value not exceeding $1,000 [$500].

(e) An individual is entitled to an exemption of one motor vehicle to the extent of a value not exceeding $3,000 [$1,500] if the full value of the motor vehicle does not exceed $20,000 [$10,000].

* Sec. 4. AS 09.38.025(a) is amended to read:

(a) Except as provided in this section, an individual is entitled to exemption of unmatured life insurance and annuity contracts owned by the individual. If the contracts have accrued dividends and loan values available to the individual aggregating more than $10,000 [$5,000], a creditor may obtain a court order requiring the individual debtor to pay the creditor, and authorizing the creditor on the debtor's behalf to obtain payment of, the amount of the accrued dividends and loan values in excess of $10,000 [$5,000] or the amount of the creditor's claim, whichever is less.

* Sec. 5. AS 09.38.030(a) is amended to read:

(a) Except as provided in (b) and (c) of this section and AS 09.38.050, an individual debtor is entitled to an exemption of the

individual debtor's weekly net earnings not to exceed $350 [$175]. The weekly net earnings of an individual are determined by subtracting from the weekly gross earnings all sums required by law or court order to be withheld. The weekly net earnings of an individual paid on a monthly basis are determined by subtracting from the monthly gross earnings of the individual all sums required by law or court order to be withheld and dividing the remainder by 4.3. The weekly net earnings of an individual paid on a semi-monthly basis are determined by subtracting from the semi-monthly gross earnings all sums required by law or court order to be withheld and dividing the remainder by 2.17.

* Sec. 6. AS 09.38.030(b) is amended to read:

(b) An individual who does not receive earnings either weekly, semi-monthly or monthly is entitled to a maximum exemption for the aggregate value of cash and other liquid assets available in any month of $1,400 [$700], except as provided in AS 09.38.050. The term "liquid assets" includes deposits, securities, notes, drafts, accrued vacation pay, refunds, prepayments, and receivables.

* Sec. 7. AS 09.38.050(b) is amended to read:

(b) The exemption amounts under AS 09.38.030 may be increased when the individual submits an affidavit, under penalty of perjury, stating that the individual's earnings alone support the individual's household; by so doing, the maximum part of the individual's aggregate disposable earnings for any week subject to execution may not exceed the amount by which the individual's disposable earnings for that week exceed $550 [$275], or, if the individual is claiming an exemption for cash or other liquid assets under AS 09.38.030(b), a maximum amount of $2,200 [$1,100] available in a [ANY] month is exempt.

Patrick M. Rodey
Senator

Alaska State Legislature

Senate

1024 W. 6th Avenue, Suite 308
Anchorage, Alaska 99501
(907) 276-6731

During Session:
P.O. Box V
Juneau, Alaska 99811
(907) 465-3717

TO : Senator Arliss Sturgulewski

FROM: Senator Patrick M. Rodey

DATE: February 29, 1988

RE: Limitation on use of new exemption in bankruptcy proceedings

Attached is a copy of the drafted amendment I mentioned which would exempt interests and payments under certain retirement plans from seizure by creditors.

I would appreciate you reviewing this proposal and would welcome your suggestions and input.

Attachment

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

MEMORANDUM February 29, 1988

SUBJECT: Limitation on use of new exemption in bankruptcy proceedings

TO: Senator Pat Rodey

FROM: Theresa L. Bannister TB
Legislative Counsel

This memo accompanies the amendment for SB 474 that you requested to exempt interests and payments under certain retirement plans from seizure by creditors. Please be aware, however, that with regard to bankruptcy proceedings the bill will not protect those plans where the individual establishes the individual's plan or where the individual can invade the corpus of the trust before retirement, disability or death. Legislation will not prevent this result because it is based on court interpretation of the bankruptcy law. Change in the federal law would be necessary to extend the protection to the presently unprotected plans. The court interpretation is based on the belief that a person should not be able to prevent creditors from reaching assets by establishing a retirement plan.

Please review proposed AS 09.38.017(c) of the bill to make sure it accomplishes what you want. The meaning of the corresponding section (sec. 33-1126 B.1.) in the Arizona bill was unclear, so I drafted what I thought it meant.

If I may be of further assistance, please advise.

Attachment

TLB:bb
WKB3:041

AMENDMENT

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 of 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

LAW LIBRARY KING CO.

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.

t in excess of a fair market value of one hundred dollars.

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or one rifle or one pistol, not in excess of an aggregate fair market
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prescribed prostheses for the debtor or a dependent of the debtor,
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, Ch. 170, § 22; Laws 1983, Ch. 237, § 10.

nd application of Laws
te following § 12-2401.

Law Review Commentaries
Arizona's new exemption statute. 19 Ariz.Bar J. No. 3, p. 32 (1983).

enefits or proceeds

property of a debtor shall be exempt from execution, attachment or
ssued from any court:

ived by or payable to a surviving spouse or child upon the life of a
rent or legal guardian, not exceeding twenty thousand dollars.

the minor child of a debtor or the proceeds thereof by reason of
debtor not contracted for the special benefit of such minor child.

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or installment basis to the insured or any beneficiary under any
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surviving spouse, child, parent, brother, sister, or any dependent,
ousand dollars for each surviving spouse, child, parent, brother,
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defined as one who is dependent upon the insured debtor for not
s support.

mages recoverable by any person by reason of any levy upon or
his exempt personal property or by reason of the wrongful taking
roperty by any person, and the judgment recovered for such

ndred fifty dollars held in a single account in any one financial
§ 6-101. The property declared exempt by this paragraph is not
ervice charges assessed against the account by the financial
account is carried.

her assets payable to a participant or beneficiary from, or any
nt or beneficiary in, a retirement plan which is qualified under
408 or 409 of the United States Internal Revenue Code of 1986,
empt from any and all claims of creditors of the beneficiary or
shall not apply:

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1 Section 33-11

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1976, Ch. 170,

Reviser's Notes.
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Cross Reference
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§ 33-1130. To
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Law Review Co
Arizona's new
J. No. 3, p. 32 (

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[1] 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).

Introduced: 2/16/88
Referred: Finance

5-1994A

BY HALFORD, FAIKS, JOSEPHSON, COGHILL, KELLY, FAHRENKAMP, KERTTULA AND SZYMANSKI

IN THE SENATE

SENATE BILL NO. 476

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act creating the supplemental assistance fund for Railbelt communities; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.60 is amended by adding a new section to read:

ARTICLE. 4A. SUPPLEMENTAL MUNICIPAL ASSISTANCE TO RAILBELT COMMUNITIES.

Sec. 29.60.380. SUPPLEMENTAL MUNICIPAL ASSISTANCE TO RAILBELT COMMUNITIES. (a) There is established in the department the supplemental municipal assistance fund for Railbelt communities as an account in the general fund. The fund consists of money appropriated to it. Money in the fund shall be used to make payments to Railbelt communities.

(b) The department shall adopt regulations for the determination of entitlement to payments from the supplemental municipal assistance fund, application and approval of payments, and administration of payments.

(c) In this section "Railbelt community" means a municipality located within 25 miles of the right-of-way of the Alaska Railroad.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c)

Introduced: 2/16/88
Referred: Finance

5-1989A

Funding Information
General Fund $31,752,215
Other Funds -0-
$31,752,215

BY HALFORD, FAIKS, JOSEPHSON, COGHILL, KELLY, FAHRENKAMP, KERTTULA AND SZYMANSKI

IN THE SENATE

SENATE BILL NO. 477

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $31,752,215 is appropriated from the interest earned on the principal of the Railbelt Energy Fund (AS 37.05.153) and deposited into the general fund to the Department of Community and Regional Affairs for supplemental municipal assistance to Railbelt communities under AS 29.60.380 for the fiscal year ending June 30, 1988.

* Sec. 2. This Act takes effect on the effective date of an Act passed by the Fifteenth Alaska State Legislature that establishes the supplemental municipal assistance fund for Railbelt communities.

Introduced: 1/11/88
Referred: Finance

BY FISCHER, HALFORD, FAIKS, JONES, STURGULEWSKI, UEHLING, KERTTULA, KELLY

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO. 32

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Urging the state's financial institutions to adopt more flexible lending and collection policies.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the state is experiencing a difficult economic period, and many persons are finding it difficult to meet their financial obligations and to improve their economic conditions; and

WHEREAS it would greatly help the state's economy if the state's financial institutions would adjust their lending and collection policies to the present abilities and needs of their customers by using more flexible approaches, such as collection moratoriums and flexible payment schedules;

BE IT RESOLVED that the Alaska State Legislature urges the financial institutions of the state to adopt more flexible lending and collection policies in order to help improve the economy of the state.

Introduced: 1/27/88
Referred: Labor & Commerce
and Finance

go00548h

IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST OF THE GOVERNOR

HOUSE BILL NO. 402

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 44.88.155(d) is amended to read:

(d) A loan purchased in whole or in part by the authority with assets of the enterprise development account or with proceeds of bonds secured by assets of the enterprise development account, other than a loan <u>that</u> [WHICH] is financed with the proceeds of bonds of the authority and secured only by a project applicant or a project,

(1) may not exceed

(A) <u>$25,000,000</u> [$10,000,000]; or

(B) <u>$1,000,000</u> [$500,000] if the loan is purchased under AS 44.88.158;

(2) may not exceed the cost of the project or 75 percent of the appraised value of the project, whichever is less, unless the amount of the loan in excess of this limit is federally insured or guaranteed or is insured by a qualified mortgage insurance company;

(3) may not be for a term longer than three-quarters of the authority's estimate of the life of the project or 25 years from the date the loan is made, whichever is earlier;

(4) shall contain complete amortization provisions satisfactory to the authority requiring periodic payments by the borrower;

(5) shall be in the form and contain the terms and

provisions with respect to insurance, repairs, alterations, payment of taxes and assessments, default reserves, delinquency charges, default remedies, acceleration of maturity, secondary liens, and other matters the authority prescribes;

(6) shall be secured as to repayment by a mortgage or other security instrument in the manner the authority determines is feasible to assure timely repayment under a loan agreement entered into with the borrower;

(7) may not be made unless

(A) at least 10 percent of the principal amount of the loan is retained by the originator of the loan; or

(B) 100 percent of the principal amount of the loan is guaranteed by the United States or an agency or instrumentality of the United States;

(8) must be

(A) at least partially guaranteed by the United States or an agency or instrumentality of the United States, subject to the provisions of AS 44.88.158;

(B) financed from the proceeds of bonds; or

(C) expected by the authority to be financed from the proceeds of bonds.

* Sec. 2. AS 44.88.159(c) is amended to read:

(c) The interest rate <u>to be received by the authority</u> on a <u>federally guaranteed</u> loan purchased <u>under AS 44.88.158</u> [BY THE AUTHORITY WITH MONEY IN THE SMALL ENTERPRISE LOAN ACCOUNT] that is not from the proceeds of the sale of a series of bonds is <u>the lesser of (1) the prevailing prime rate adopted by the United States Small Business Administration; (2) Moody's Investors Service Aa corporate bond yield index; or (3) such other index as established by regulation of the</u>

authority. The interest rate to be received by the authority on a federally guaranteed loan purchased by the authority may be either floating or fixed [EQUAL TO THE MOST RECENT INDEX OF Aa CORPORATE BOND YIELD AVERAGES AS PUBLISHED BY MOODY'S INVESTORS SERVICE].

* Sec. 3. AS 44.88.165 is repealed and reenacted to read:

Sec. 44.88.165. DELINQUENT LOANS. The authority shall adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of excessive delinquencies among the loans previously purchased from the financial institution. In adopting the regulations, the authority shall take into consideration its delinquency experience with loans it has purchased from all financial institutions. The authority may include in the regulations other remedies it considers appropriate as alternatives to the discontinuance of purchasing loans from the financial institution.

* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/3/88
Referred: Community & Regional
Affairs and Finance

5-1668A

IN THE HOUSE

BY THE LABOR AND
COMMERCE COMMITTEE

HOUSE BILL NO. 429

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to an optional exemption from municipal property taxation."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.45.050 is amended by adding a new subsection to read:

(l) A municipality may by ordinance exempt or partially exempt from taxation real property from which an improvement that is more than 30 years old has been removed if the removal occurs after June 1, 1988. An exemption under this subsection may remain in effect for no more than 10 years and only until a new improvement is constructed on the property.

Introduced: 2/3/88
Referred: Labor & Commerce and Finance

5-1743B

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

HOUSE BILL NO. 430

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the neighborhood business development program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. PURPOSE. The purpose of AS 44.33.431 - 44.33.433, added by sec. 2 of this Act, is to promote the economic development of commercial neighborhoods in the state's principal cities by financial institutions, relying on local initiative for the specific design of local programs.

* Sec. 2. AS 44.33 is amended by adding new sections to read:

ARTICLE 6A. NEIGHBORHOOD BUSINESS DEVELOPMENT PROGRAM.

Sec. 44.33.431. NEIGHBORHOOD BUSINESS DEVELOPMENT FUND. There is created the neighborhood business development fund, to be administered by the commissioner. The commissioner shall deposit to the credit of the fund

(1) grants and contributions to the fund; and

(2) appropriations to the fund.

Sec. 44.33.432. POWERS OF THE DEPARTMENT. (a) The commissioner may use money in the fund to make grants to nonprofit development corporations that qualify for assistance from the Neighborhood Reinvestment Corporation organized under 42 U.S.C. 8101-8107 (Neighborhood Reinvestment Corporation Act), for purposes of neighborhood housing services, community revitalization, and economic development projects in a city that has more than 20,000 persons.

(b) The commissioner may adopt regulations necessary to carry out the department's functions under AS 44.33.431 - 44.33.433.

Sec. 44.33.433. DEFINITIONS. In AS 44.33.431 - 44.33.433

(1) "commissioner" means the commissioner of commerce and economic development;

(2) "department" means the Department of Commerce and Economic Development;

(3) "fund" means the neighborhood business development fund established in AS 44.33.431.

* Sec. 3. AS 44.33.020 is amended by adding a new paragraph to read:

(30) administer the neighborhood business development program under AS 44.33.431 - 44.33.433.

* Sec. 4. This Act takes effect July 1, 1988.

Introduced: 2/3/88
Referred: Labor & Commerce and Finance

5-1744B

Funding Information

General Fund	$3,000,000
Other Funds	-0-
	$3,000,000

BY THE LABOR AND COMMERCE COMMITTEE

IN THE HOUSE

HOUSE BILL NO. 431

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making an appropriation to the neighborhood business development fund: and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $3,000,000 is appropriated from the general fund to the Department of Commerce and Economic Development for the neighborhood business development fund (AS 44.33.431).

* Sec. 2. This Act takes effect on the effective date of an Act establishing the neighborhood business development fund that is enacted by the Fifteenth Alaska State Legislature.

Introduced: 2/3/88
Referred: Labor & Commerce
Judiciary and Finance

5-1644A

BY DONLEY, ELLIS, BOUCHER, KOPONEN, FURNACE, MENARD, BROWN, GRUENBERG, BOYER, COLLINS, ULMER, HUDSON AND ZAWACKI

IN THE HOUSE

HOUSE BILL NO 432

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds that a sizeable proportion of the residents of the state have mortgages that exceed both the present value of the property and the present ability of the mortgagors of the property to make the payments agreed to in the past. The purpose of this Act is to encourage the Alaska Housing Finance Corporation to use creative solutions to the present crisis in the housing market and, at the same time, to permit the corporation to seek the disposal of surplus residences within the corporation's inventory.

(b) The Alaska Housing Finance Corporation may permit mortgagors who are experiencing difficulty in meeting their mortgage payments to return the residence and its mortgage to the Alaska Housing Finance Corporation and to enter into a new mortgage for different residential property subject to the control of the corporation at rates that are more within the ability of the mortgagors.

(c) The Alaska Housing Finance Corporation may also permit a mortgagor who is willing to accept the responsibility for a larger mortgage to offer an existing residence and its mortgage to the corporation and enter into a new mortgage for different residential property subject to the control of the corporation.

* Sec. 2. This Act is repealed July 1, 1991.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/3/88
Referred: Labor & Commerce,
Judiciary and Finance

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

HOUSE BILL NO. 433

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing a moratorium on judicial and nonjudicial foreclosures; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. LEGISLATIVE DETERMINATION AND FINDINGS. (a) The legislature determines the present emergency in the state requires that it enact legislation granting the courts of the state emergency authority to deal with the economic emergency facing the state. The legislature further determines that the following legislation does not impair the obligation of contract guaranteed under the Constitution of the United States or of the State of Alaska when it enacts legislation within its police power and within its reserved power to protect its sovereignty, its government, its people, and their welfare against exigencies that may arise in the present great emergency.

(b) The legislature finds that the state is experiencing a great economic crisis and that it is in the public interest to declare a moratorium on the foreclosure of certain liens on property in the state. The legislature finds that among the reasons for the declaration of the moratorium as provided in this Act are the following purposes:

(1) to give the owner of mortgaged property protection during the emergency;

(2) to afford relief to mortgagors finding themselves in oppressed and straitened circumstances due to the economic conditions in the state;

(3) to prevent valuable property from being sold at distressed prices;

(4) to prevent a sale or foreclosure of property at a time when there is no market for the property and limited opportunities for refinancing;

(5) to prevent double recoveries by mortgagees; and

(6) to prevent creditors, as well as debtors, from suffering unnecessary losses resulting from the economic conditions in the state.

* Sec. 2. NONJUDICIAL FORECLOSURES. (a) In a nonjudicial foreclosure of a mortgage or deed of trust where the period for the redemption by the mortgagor or trustor has not expired, the owner of the property may apply to the superior court for an order delaying the expiration of the period for redemption or other proceedings related to the foreclosure until one year after the effective date of this Act. Until one year after the effective date of this Act, the owner of the property has the exclusive right to redeem the property and is entitled to possession of the property.

(b) The superior court, on an application for an extension of the period of redemption or of other proceedings related to the foreclosure under (a) of this section, shall issue an order delaying the expiration of the period for redemption on its determination, after notice and an opportunity for a hearing, that the owner of the property has agreed to and has made the payment of a reasonable rental for the property for the period. The reasonable rental shall be determined by the court based on the reasonable economic value of the property on the date of the request, the past-due or anticipated expenses of taxes, insurance, and other amounts required to preserve the property, and the payment by the owner of the amounts due as principal under the mortgage.

(c) If the owner of the property subject to an order issued under (b) of this section fails to comply with the order, the order extending the

period of redemption may be set aside after notice and an opportunity for a hearing.

(d) The provisions of (a) - (c) of this section supersede, for one year after the effective date of this Act, the provisions of any other law inconsistent with this section.

* Sec. 3. JUDICIAL FORECLOSURES. (a) In a judicial foreclosure of a mortgage or deed of trust where the period for the redemption by the mortgagor or trustor has not expired under AS 09.35.250, other law, or under the mortgage or deed of trust, the owner of the property may apply to the superior court for an order delaying the expiration of the period for redemption or other proceedings related to the foreclosure until two years after the effective date of this Act. Until two years after the effective date of this Act, the owner of the property has the exclusive right to redeem the property and is entitled to possession of the property.

(b) The superior court, on an application for an extension of the period of redemption under (a) of this section, shall issue an order delaying the expiration of the period for redemption on its determination, after notice and an opportunity for a hearing, that the owner of the property has agreed to and has made the payment of a reasonable rental for the property for the period. The reasonable rental shall be determined by the court based on the reasonable economic value of the property on the date of the request, the past-due or anticipated expenses of taxes, insurance, and other amounts required to preserve the property, and the payment by the owner of the amounts due as principal under the mortgage.

(c) If the owner of the property subject to an order issued under (b) of this section fails to comply with the order, the order extending the period of redemption may be set aside after notice and an opportunity for a hearing.

(d) The provisions of (a) - (c) of this section supersede, for two

years following the effective date of this Act, the provisions of any other law inconsistent with this section.

* Sec. 4. If the period for the redemption by the mortgagor or trustor expires within 30 days after the effective date of this Act, the period for the redemption is extended to 30 days after the effective date of this Act.

* Sec. 5. In this Act, "property" means real property and vessels.

* Sec. 6. This Act is repealed two years after the effective date of this Act.

* Sec. 7. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/5/88
Referred: Community & Regional Affairs and Finance

5-1025L

IN THE HOUSE

BY MENARD, LARSON AND ZAWACKI

HOUSE BILL NO. 434

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to municipal development and redevelopment."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 29.10.200 is amended by adding a new paragraph to read:

(49) AS 29.35.035 (development and redevelopment projects).

* Sec. 2. AS 29.35 is amended by adding a new section to read:

Sec. 29.35.035. DEVELOPMENT AND REDEVELOPMENT PROJECTS. (a) A municipality may undertake development and redevelopment projects in the municipality and issue bonds for development or redevelopment purposes in blighted areas.

(b) A municipality may by ordinance create a public corporation to exercise all or some of the powers authorized under (a) of this section. The corporation so established

(1) is an instrumentality of the municipality, but has a legal existence independent of and separate from the municipality; and

(2) has continuing succession by its corporate name until terminated by ordinance.

(c) A municipality may provide by ordinance that the tax increment from the taxes levied each year by or on behalf of the municipality on the property in a development or redevelopment project shall be used to repay the principal and interest on bonds, notes, and other indebtedness that is incurred for the project. To enable and assist a public corporation to repay bonds, notes, and other indebtedness for a

development or redevelopment project, the municipality may irrevocably pledge the tax increment from the project for the payment of debt service on the bonds, notes, or other indebtedness issued to finance the project. In this subsection "tax increment" means the portion of the tax that is attributable to the difference between the value of the property shown on the taxing agency's assessment roll for the year when the taxes are levied and the value of the property shown on the taxing agency's last assessment roll that was equalized before the project was authorized.

(d) This section applies to home rule and general law municipalities.

Introduced: 2/11/88
Referred: Labor & Commerce
and Finance

5-1888A

IN THE HOUSE BY PETTYJOHN

HOUSE BILL NO. 457

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose of the Alaska stabilization assistance program is to promote the stabilization of real property values in the state.

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1992, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the Railbelt energy fund established under AS 37.05.153.

(c) To encourage lenders not to attempt to dispose of real property in the state that has been foreclosed upon or otherwise acquired through actions taken on defaulted loans until the real estate market in the state becomes more stable, the authority may enter into contracts to provide for the management of the property. However, the authority may provide for the management of property only through June 30, 1992.

* Sec. 2. This Act is repealed July 1, 1992.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/11/88
Referred: Labor & Commerce and Finance

5-1889A

Funding Information

General Fund	$15,000,000
Other Funds	-0-
	$15,000,000

IN THE HOUSE BY PETTYJOHN

HOUSE BILL NO. 458

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska stabilization assistance fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $15,000,000 is appropriated from the Railbelt energy fund (AS 37.05.153) to the Alaska stabilization assistance fund.

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the Railbelt energy fund (AS 37.05.153) on July 1, 1992.

* Sec. 3. This Act takes effect on the effective date of a version of an Act enacted by the Fifteenth Alaska State Legislature establishing the Alaska stabilization assistance fund.

5-1794B
Chenoweth
2/10/88

#2 There are two drafts of this one. Yours with criteria and the first without.

IN THE SENATE BY HALFORD

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act providing interim payment reductions of the monthly mortgage payments payable by certain mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that

(1) a sizeable proportion of the residents of the state have mortgages that exceed the present ability of the mortgagors of the property to make the payments agreed to in the past;

(2) a substantial number of the mortgagors most heavily burdened with mortgage loan payments have been delinquent in the payments, and some have contemplated abandonment of the residences and forfeiture of the title to the lending institution;

(3) direct interim relief to the mortgagors who are most heavily burdened should allow most of them to continue to meet mortgage loan payment obligations, thereby substantially reducing the rate of abandonment and forfeiture of residential properties;

(4) it is in the interests of the state to take extraordinary action to provide relief to the mortgagors who are most heavily burdened with mortgages supported in part by financial assistance from the principal state lending agency in a way that provides a measure of interim relief for payments without reducing the mortgagor's debt obligations.

* Sec. 2. REDUCTION OF MONTHLY MORTGAGE PAYMENTS ON CERTAIN OUTSTANDING

MORTGAGE LOANS PURCHASED BY THE ALASKA HOUSING FINANCE CORPORATION. (a) Notwithstanding the terms and conditions of the mortgage agreement entered into between the mortgagor and lender, the monthly mortgage payment payable by a mortgagor qualifying under (b) of this section on a mortgage loan that qualifies under (c) of this section that is outstanding on July 1, 1988, is adjusted as follows:

(1) for a loan whose loan-to-value ratio is 90 percent or less,

(A) if the mortgagor's total payment ratio is greater than 28 percent but does not exceed 30 percent, the mortgagor's total monthly mortgage payment is reduced by an amount that will reduce the total payment ratio to 28 percent;

(B) if the mortgagor's total payment ratio is greater than 30 percent, the total monthly mortgage payment is reduced by an amount that will reduce the total payment ratio by two percentage points;

(2) for a loan whose loan-to-value ratio is greater than 90 percent,

(A) if the total monthly mortgage payment exceeds the maximum total payment ratio for that loan by two percentage points or less, the total monthly mortgage payment is reduced by an amount that will reduce the monthly mortgage payment to the maximum total payment ratio;

(B) if the total monthly mortgage payment exceeds the maximum total payment ratio for that loan by more than two percentage points, the total monthly mortgage payment is reduced by an amount that will reduce the total payment ratio by two percentage points.

(b) The provisions of this section apply to a mortgagor who

(1) if employed, involuntarily lost employment after June 30, 1987; and

(2) if self-employed, lost substantial income after June 30,

1987, because of the decline of the economy of the state or the community in which the perron is self-employed.

(c) The provisions of this section apply to mortgage loans for residential housing purchased by the Alaska Housing Finance Corporation through

(1) the special mortgage loan purchase program under AS 18.56.-098;

(2) the simplified refinancing mortgage loan purchase program under AS 18.56.102; or

(3) the nonconforming housing loan program under AS 18.56.106.

(d) The adjustment made under (a) of this section

(1) applies to mortgage loan payments payable by a qualifying mortgagor from July 1, 1988, through June 30, 1990;

(2) provides interim payment reduction and is not intended to affect the debt obligation of the mortgagor on the mortgage loan.

(e) The Alaska Housing Finance Corporation shall enter into agreements with lending institutions from which it has purchased mortgages and with persons who service mortgage loan payments to provide the adjustments required under (a) of this section.

(f) In this section

(1) "maximum total payment ratio" means the limit of the total payment ratio set by the Alaska Housing Finance Corporation as a condition for the corporation's acquisition of the loan;

(2) "total payment ratio" means the total monthly first mortgage payment and, when applicable, any secondary financing, homeowners' association charge, and space rent, expressed as a percentage of the mortgagor's allowable gross income.

* Sec. 3. This Act takes effect July 1, 1988.

DRAFT

S-17945
Chenoweth
2/3/88

IN THE SENATE BY FAIKS

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that

(1) a sizeable proportion of the residents of the state have mortgages that exceed the present ability of the mortgagors of the property to make the payments agreed to in the past;

(2) a substantial number of mortgagors burdened with mortgage loan payments have been delinquent in the payments, and some have contemplated abandonment of the residences and forfeiture of the title to the lending institution;

(3) direct interim relief to mortgagors should allow most mortgagors to continue to meet mortgage loan payment obligations, thereby substantially reducing the rate of abandonment and forfeiture of residential properties;

(4) it is in the interests of the state to take extraordinary action to provide relief to mortgagors with mortgages supported in part by financial assistance from the principal state lending agency.

* Sec. 2. REDUCTION OF INTEREST PAYABLE ON OUTSTANDING MORTGAGE LOANS PURCHASED BY THE ALASKA HOUSING FINANCE CORPORATION. (a) Notwithstanding the terms and conditions of the mortgage agreement entered into between the mortgagor and lender, the rate of interest payable by a mortgagor on a

mortgage loan for residential housing purchased by the Alaska Housing Finance Corporation through the special mortgage loan purchase program under AS 18.56.098, the simplified refinancing mortgage loan purchase program under AS 18.56.102, or the nonconforming housing loan program under AS 18.56.106 that is outstanding on July 1, 1988, is reduced by two percentage points for mortgage loan payments due from July 1, 1988, through June 30, 1990.

(b) The Alaska Housing Finance Corporation shall enter into agreements with lending institutions from which it has purchased mortgages and with persons who service mortgage loan payments to provide the mortgage loan interest rate adjustment required by (a) of this section.

* Sec. 3. This Act takes effect July 1, 1988.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1570 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1367

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

PO Box V
State Capitol
Juneau, Alaska 99811
Phone: (907) 465-3114

MEMORANDUM

TO: Senator Jan Faiks

FROM: Sheila F. Helgath, PhD SFH
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

	Vacancy Rate	# Units Vacant	Total # Units
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 houseing 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 Resolutory 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 8[illegible] 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

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 Anchorages 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.

5-1624A
Bradley
1/29/88

DRAFT

IN THE SENATE BY HALFORD

SENATE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act establishing a moratorium on judicial and nonjudicial foreclosures; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. LEGISLATIVE DETERMINATION AND FINDINGS. (a) The legislature determines the present emergency in the state requires that it enact legislation granting the courts of the state emergency authorities to deal with the economic emergency facing the state. The legislature further determines that the following legislation does not impair the obligation of contract guaranteed under the Constitution of the United States or of the State of Alaska when it enacts legislation within its police power and within its reserved power to protect its sovereignty, its government, its people, and their welfare against exigencies that may arise in the present great emergency.

(b) The legislature finds that the state is experiencing a great economic crisis and that it is in the public interest to declare a moratorium on the foreclosure of certain liens on real property in the state. The legislature finds that among the reasons for the declaration of the moratorium as provided in this Act are the following purposes:

(1) to give the owner of mortgaged property protection during the emergency;

(2) to afford relief to mortgagors finding themselves in oppressed and straitened circumstances due to the economic conditions in the state;

(3) to prevent valuable property from being sold at distressed prices;

(4) to prevent a sale or foreclosure of real property at a time when there is no market for the property and limited opportunities for refinancing;

(5) to prevent double recoveries by mortgagees; and

(6) to prevent creditors, as well as debtors, from suffering unnecessary losses resulting from the economic conditions in the state.

* Sec. 2. NONJUDICIAL FORECLOSURES. (a) In a nonjudicial foreclosure of a mortgage or deed of trust where the period for the redemption by the mortgagor or trustor has not expired, the owner of the property may apply to the superior court for an order delaying the expiration of the period for redemption or other proceedings related to the foreclosure until one year after the effective date of this Act. Until one year after the effective date of this Act, the owner of the property has the exclusive right to redeem the property and is entitled to possession of the property.

(b) The superior court, on an application for an extension of the period of redemption or of other proceedings related to the foreclosure under (a) of this section, shall issue an order delaying the expiration of the period for redemption or its determination, after notice and an opportunity for a hearing, that the owner of the property has agreed to and has made the payment of a reasonable rental for the premises for the period. The reasonable rental shall be determined by the court based on the reasonable economic value of the property on the date of the request, the past-due or anticipated expenses of taxes, insurance, and other amounts required to preserve the property, and the payment by the owner of the amounts due as principal under the mortgage.

(c) If the owner of the property subject to an order issued under (b) of this section fails to comply with the order, the order extending the

period of redemption may be set aside after notice and an opportunity for a hearing.

(d) The provisions of (a) - (c) of this section supersede, for one year after the effective date of this Act, the provisions of any other law inconsistent with this section.

* Sec. 3. JUDICIAL FORECLOSURES. (a) In a judicial foreclosure of a mortgage or deed of trust where the period for the redemption by the mortgagor or trustor has not expired under AS 09.35.250, the owner of the property may apply to the superior court for an order delaying the expiration of the period for redemption or other proceedings related to the foreclosure until two years after the effective date of this Act. Until two years after the effective date of this Act, the owner of the property has the exclusive right to redeem the property and is entitled to possession of the property.

(b) The superior court, on an application for an extension of the period of redemption under (a) of this section, shall issue an order delaying the expiration of the period for redemption on its determination, after notice and an opportunity for a hearing, that the owner of the property has agreed to and has made the payment of a reasonable rental for the premises for the period. The reasonable rental shall be determined by the court based on the reasonable economic value of the property on the date of the request, the past-due or anticipated expenses of taxes, insurance, and other amounts required to preserve the property, and the payment by the owner of the amounts due as principal under the mortgage.

(c) If the owner of the property subject to an order issued under (b) of this section fails to comply with the order, the order extending the period of redemption may be set aside after notice and an opportunity for a hearing.

(d) The provisions of (a) - (c) of this section supersede, for two

years following the effective date of this Act, the provisions of any other law inconsistent with this section.

* Sec. 4. If the period for the redemption by the mortgagor or trustor expires within 30 days after the effective date of this Act, the period for the redemption is extended to 30 days after the effective date of this Act.

* Sec. 5. This Act is repealed two years after the effective date of this Act.

* Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM January 20, 1988

SUBJECT: Sale of property in foreclosure
(Work Order No. 5-1624)

RECEIVED JAN 2 0 1988

TO: Senator Rick Halford

FROM: Richard A. Bradley
Legislative Counsel

Theresa Maser has requested that we prepare a bill that would contain a one year prohibition on the sale of property that has gone into a non-judicial foreclosure, and a two-year prohibition on the sale of property that has gone into a judicial foreclosure. I would like to offer you a progress report on the drafting of the measure.

While I was certain that legislatures had enacted mortgage moratoriums before, I was also aware that they seemed facially to violate the constitutional prohibition on the impairment of contracts. Mortgages are, of course, simply contracts that involve the title to land. Art. I, sec. 10, cl. 1 of the U.S. Constitution provides that "No state shall . . . pass any . . . law impairing the obligation of contracts . . . ." Art. I, sec. 15 of the Alaska Constitution is to the same effect.

The answer appears to be that the legislature may enact such laws provided that there is an actual economic emergency, and that the measures contained within the moratorium are limited to those affected by the emergency. Other provisions are suggested in the legal literature and I expect to have such a bill for your consideration in the near future.

If you have any questions, please give me a call.

RAB:bb
WKB1/079

STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

RECEIVED FEB 1 1988

MEMORANDUM January 30, 1988

SUBJECT: Moratorium on judicial and nonjudicial foreclosures (Work Order No. 5-1624)

TO: Senator Rick Halford

FROM: Richard A. Bradley
Legislative Counsel

Evan Recovery Packet

I have prepared a bill for you that I believe is responsive to your request.

In my view, a bill simply declaring the moratorium that you requested would not work. And while we seek to draft all bills to withstand close judicial scrutiny, there are some in which that kind of review is inevitable--and this seems to be one.

While the legislature may direct executive agencies to forbear in the collection of amounts due or to accept "production credits" as payment, it seems clear to me that forbearance is not the answer when the state intrudes itself between two private parties, each of whom may be short on funding.

Since the receipt of your request, I have read a number of cases involving moratory legislation. I have found no case where the constitutional challenge to the legislation was sustained if the debt was simply suspended.

The most direct and on point constitutional provision is the "impairment of contracts" problem that I addressed briefly in my earlier memorandum. The provisions are found at art. I, sec. 10, cl. 1 of the U.S. Constitution and art. I, sec. 15 of the Alaska Constitution.

The solution that the court employed during the Great Depression was to state that while the impairment of contracts provision had to be noted, the states nonetheless

retained "their police power and the power to sustain their sovereignty and government, and their existence as states." Des Moines Joint Stock Land Bank v. Nordholm, 253 N.W. 701, 705 (Iowa 1934). Unless the police power was made inferior to the impairment of contracts provision (a problem in some states but not, it seems, in Alaska), the police power was sufficient to uphold the moratory Acts.

The impairment of contracts provision is not the only problem. The cases usually contain allegations that these Acts also deprive the mortgagee-lenders of vested property rights without due process of law and other more generalized arguments. While the property rights argument is not without force, easily the most critical problem is the impairment problem.

The courts address that by concluding that the moratory Acts do not impair the contract; rather, they affect the remedies. The distinction between substantive and procedural effects is not uncommon in these analyses or in the law generally.

But for that argument to work, there needs to be some consideration continuing to flow from the owner-mortgagor to the mortgagee-lender. The usual answer is that the mortgagor-owner remains liable for the taxes that are due on the property as well as for the maintenance of the property. In the usual case not involving commercial or farm property with an income, this usually means that the insurance contract must be maintained in effect.

And the debt itself must be addressed.

Different Acts and the cases construing them employ different concepts, but the common thread is the concept of "economic rent" (not always in those words): the cases recognize that while the terms of an existing mortgage may have been premised on different economic conditions, nevertheless the property has a present economic value to the owner-mortgagor and it is unjust to exclude payments to the mortgagee-lender. Thus, in Home Building and Loan Ass'n v. Blaisdell, 290 U.S. 398, the U.S. Supreme Court approved a law that required the mortgagor-owner to pay "the rental value of the premises as ascertained in judicial proceedings, and this amount is applied to the carrying of the property and to indebtedness on the property." As the Court noted, "The extension (of the period of redemption) is

made upon application to the court, on notice, for an order determining the reasonable rental value of the income on the property involved in the sale, or, if it has no income, then the reasonable rental value of the property, and directing the mortgagor to pay all or a reasonable part of such income or rental value, in or toward the payment of taxes, insurance, interest, mortgage indebtedness at such times and in such manner as shall be determined by the court. Prior to the expiration of the extended period of redemption, the court may revise or alter the terms of the extension as changed circumstances may require."

An Iowa law from that period dealt ambiguously with the obligation of the mortgagor-owner to make payments on the principal or interest due to the mortgagee-lender. Over a strong dissent, the majority of the Iowa Supreme Court construed the law as requiring payments to the lender.

> It is said, however, that the Iowa statute does not provide for reasonable compensation to the mortgagee. When the Iowa act is fairly read and due significance is given to all of its provisions, it appears beyond peradventure of doubt that the act contemplates and provides for at least a reasonable rental of the mortgaged premises during the year of redemption. Des Moines Joint Stock Land Bank v. Nordholm., 253 N.W. 710 at 707 (Iowa, 1934).

Other cases are consistent. In Southold Savings Bank v. Fisher, 52 NYS2d 162, (N.Y. Supr. Ct., App. Term 1945), the court was concerned with a similar situation and a similar law: The New York moratory law required the owner of the mortgaged premises to "pay the unpaid principal amount at the rate of one percent per annum" until a specified date and then two percent per annum. The owner was in default of several installments of principal and thus the lender was permitted to sue to recover the entire debt.

> [Moratorium statutes] prevented the mortgagees from maintaining an action for the principal only; but a default in the payment of interest and taxes was beyond the protection afforded by such moratorium statutes. The statutes thus effected a legal severance to the extent that if interest and taxes were paid, the principal need not be paid. 52 NYS at 166, quoting from Union Trust Co. of Rochester v. Kaplan, 292 NYS 152, (App. Div.).

While the court suggests a generalized condition that I do not believe is accurate (except, perhaps, within New York; that it was uniformly true that principal need not be paid under moratoriums), it is true that the cases seem uniformly to require the payment of taxes and insurance and then some economic rent or other concept that results in the payment of amounts due the mortgagee on the debt.

The bill enclosed requires the payment of the principal due under the mortgage.

I note that some moratory bills authorize the governor, by proclamation, to establish or limit the period during which the moratorium is in effect. That was not part of your request and is not included.

Because this legislation should be viewed as questionable apart from the economic emergency that justifies it, I believe that the bill should address the economic emergency. If you have any specifics that might bolster my rhetoric, I would welcome it.

If I may be of further assistance, please advise.

Enclosure

RAB:bb
wkb2/015

Alaska State Legislature

SENATE

Office of the President

P.O. Box V
State Capitol
Juneau, Alaska 99811
(907) 465-3755

February 8, 1988

MEMORANDUM

TO: All Committee Members
Senate Joint Committee on Economic Recovery

FROM: Senator Jan Faiks
President of the Senate

SUBJECT: Draft Banking Legislation

Enclosed are copies of several items of draft legislation which I had drafted following the January 29th meeting of the committee, as well as brief summaries of the bills and resolutions.

I would like for the committee to consider introducing this legislation this week. If you have any suggestions after reviewing these materials, please let me know.

SENATE CONCURRENT RESOLUTION

Urging state agencies that make loans to withhold approval of loans for new construction in areas in which availability of business and commercial facilities and residences substantially exceeds demand.

Requests the Governor to direct appropriate agencies not to make loans for construction of new commercial, industrial, and residential units in communities where there is an oversupply unless demand cannot be met from existing facilities, or unless the local governing body requests a waiver of the moratorium by resolution.

S-1797A
Chenoweth
2/3/88

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

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.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS many state agencies have been authorized by law to make loans to finance and provide the means to finance industrial, manufacturing, and business enterprises, and to expand the supply of adequate residential housing in the state; and

WHEREAS, in recent years, these loan programs have operated successfully and have been the state's chief catalysts in financing and developing industrial, manufacturing, and business facilities, a significant source of employment opportunity for many Alaskans, and in marketing of a wide range of housing for state residents; and

WHEREAS plummeting oil prices and the erosion of business vitality during the past two years have required the state to adjust to changing times, to act to stabilize the state's economy, and to protect the sources of property value that are the principal means by which municipalities finance essential public services; and

WHEREAS there now exists in many Alaska communities an excess of business and commercial facilities and residences; and

WHEREAS the excess capacity of these improvements in some communities is so substantial as to warrant a moratorium on new construction in order

to sustain value in the existing supply of facilities and residences; and

WHEREAS state policy should preserve the value of the existing supply of facilities and residences in order to stabilize real property assessed valuations that support municipal ad valorem taxes; and

WHEREAS state loan programs that are the principal sources of financial assistance for new construction should be restrained in order to stabilize the economy and protect the values of existing improvements;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Governor to direct the appropriate commissioners and directors of agencies and authorities that have authority to make loans to refrain from financing construction of new commercial, industrial, and residential facilities in communities having substantial excess capacity among these improvements unless demand for a proposed commercial, industrial, or residential project cannot be satisfied from excess stock within the community or until the governing body of the municipality requests, by resolution, a waiver of the moratorium in order to expand the supply of these improvements.

SENATE CONCURRENT RESOLUTION

Relating to opportunities offered by the present crisis in residential housing.

This resolution requests that appropriate State agencies to; (1) remove substandard, low income housing from the market, and to convert other property to low income housing so there is no additional cost to the low income recipient, (2) ship vacant mobile homes out of Alaska, and (3) convert existing unrentable condominiums or similar units to University of Alaska student housing.

S-1795A
Bradley
2/5/88

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to opportunities offered by the present crisis in residential housing.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the legislature finds that the state is undergoing a substantial financial crisis in the residential housing market; and

WHEREAS the financial crisis has resulted in financial institutions in the state becoming landlords of many residential housing units; and

WHEREAS it has been noted that to some extent the financial institutions in the state have not yet developed a coherent policy that addresses this crisis; and

WHEREAS it would exacerbate the crisis in the market for residential housing if the financial institutions in the state were to place these homes on the market; and

WHEREAS much of the vacant and unsalable housing on the market is substandard and should, if possible, be removed from the market;

BE IT RESOLVED by the Alaska State Legislature that the Governor is respectfully requested to direct the state agencies having responsibilities for the solutions to the financial crisis in the residential housing market to

(1) remove substandard low income housing from the market and, where possible, convert other residential property to low income housing at no additional cost to the residents of low income housing;

(2) ship vacant and unsalable mobile homes from the state; and

(3) convert vacant and unrentable condominiums or similar units to housing for students at the University of Alaska.

SENATE CONCURRENT RESOLUTION

Relating to the Alaska Industrial Development and Export Authority.

This resolution requests that AIDEA develop a new program to assist commercial property owners in avoiding foreclosure. The key elements of this program would include selling the commercial properties to AIDEA, with the seller retaining an option to repurchase within 3 years, and allowing the seller to lease the property from AIDEA during this 3 year period.

5-1793A
Cook
02/03/88

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the Alaska Industrial Development and Export Authority.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS Alaska is currently experiencing a severe economic downturn; and

WHEREAS some owners are experiencing difficulties in making loan payments on commercial properties and are facing the possibility of losing commercial properties through foreclosures; and

WHEREAS numerous foreclosures on commercial properties will adversely affect other segments of the Alaska economy;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Governor to request the Alaska Industrial Development and Export Authority to develop a program to enable owners of commercial properties to avoid foreclosure by

(1) selling the properties to the authority while retaining an option to repurchase the properties within three years; and

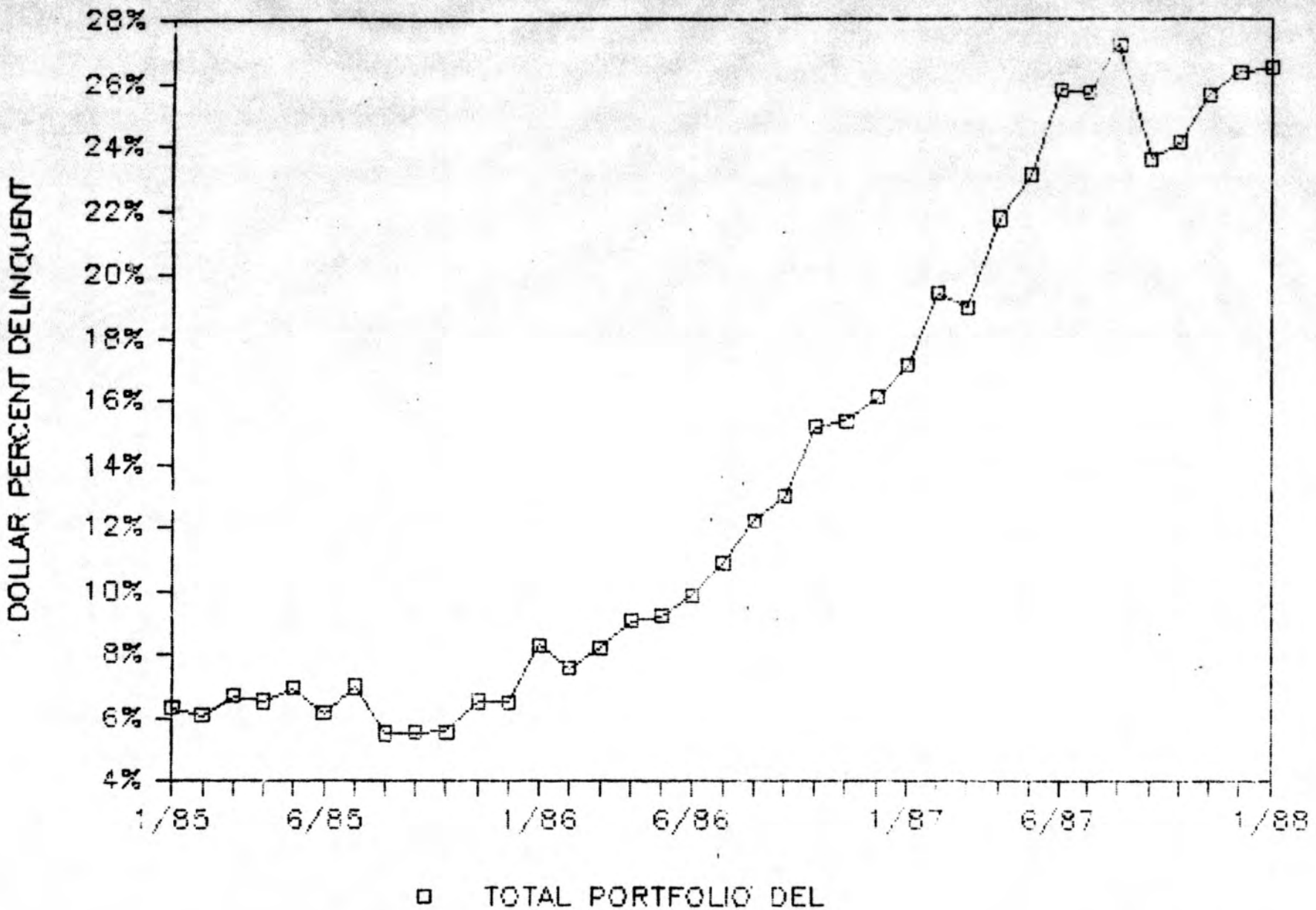
(2) leasing the properties from the authority during the three-year period.

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

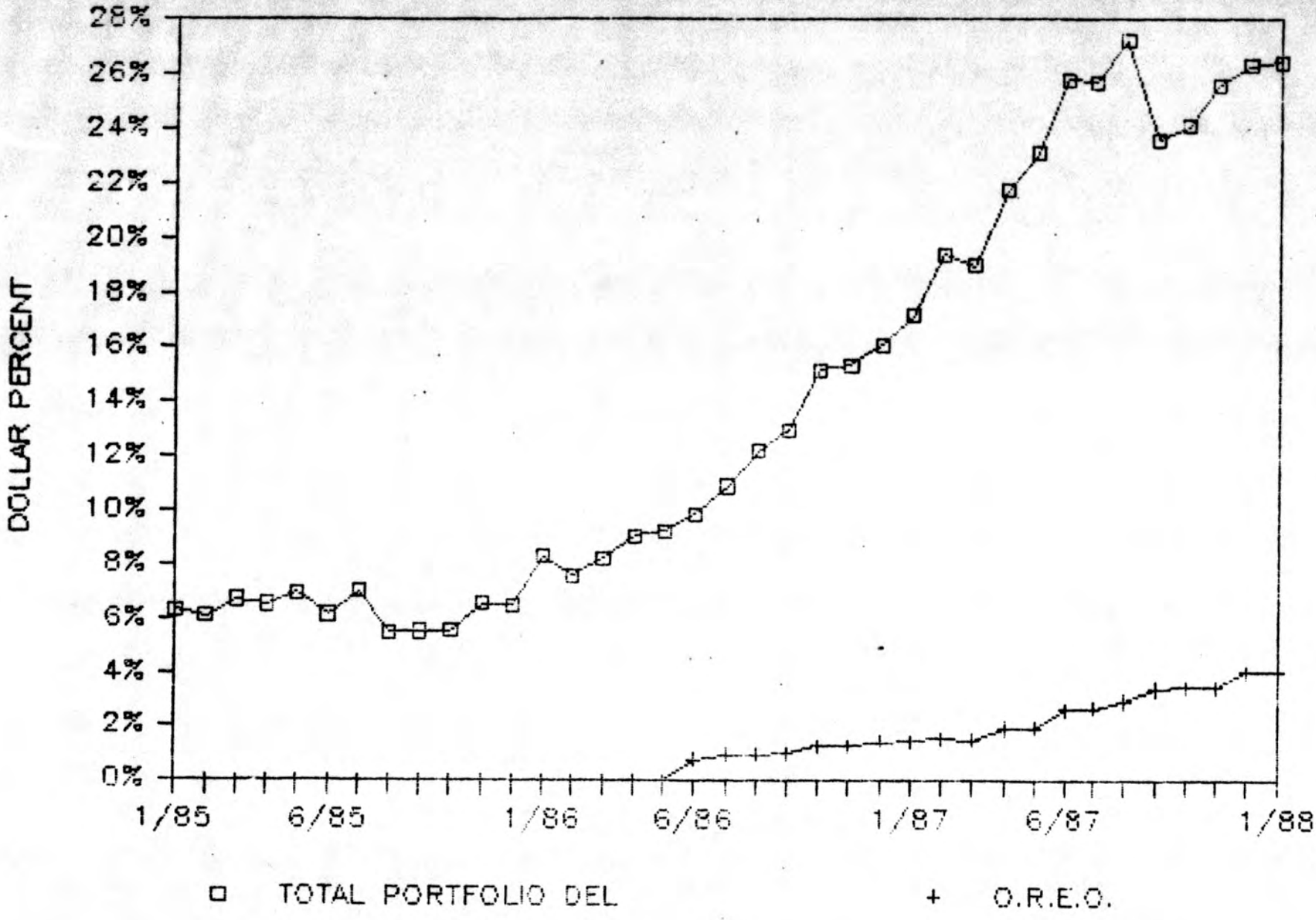
Income Statement Highlights

	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

Location	# Loans	Percent	$(000's Omitted)	Percent
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	63	13	43,830	15
TOTALS	499		299,020	

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022488a

Delinquent Bond Sale Loans by AREA
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	2	1.74	891,683.93
	69	100%	$51,157,003.15

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022488a

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	1	.43	219,110.67
TOTAL	69	100%	$51,157,003.15

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022488a

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
hopping mall orth Pole	$5,943,671.93 80%	$6,000,000 07/87	$2,555,000	$ 70,426	$35,000	06/87 - 05/88	Current
unit apt. complex neau	$ 386,755.75 90%	$ 340,000 10/87	$ 40,000	$ 4,516	min $ 3,000	10/87 - 03/89	Current
rehouse neau	$ 81,184.43 90%	$ 110,000 03/87	N/A	$ 1,184	$ 850 int. only	05/87 - 11/87	Paid to 12/01/87
room motel neau	$ 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
pping mall & za Hut th 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
ommercial ail condo's rbanks	$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
ice/warehouse horage	$ 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
ce/warehouse/ orage	$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
nit apt. bldg. orage	$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	$ 6,367 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	$ 245,247.58	$ 500,000(10 lots)		$ 5,580	int only	8/87 - 7/88	Waiting for documents from servicer
2nd on above and	$ 177,531.10	1987					
2nd on additional lot		$ 67,500 (add. lot)		$ 9,782	int only	8/87 - 7/88	
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	Activ
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	Reside sold 10/06/ for $10 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 unit sold 3,700 be lea to Fre 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 offe 8/87. wldn't counte
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 tena
Leasehold int. in L3 & 4, 3900, 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.	
1A, Forest Dr. S/D - Anchorage - 1,872 sft. 228 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 wrhse w/2,400 sf mezzanine stge.	8/21/87	$375,000	$317,456.37		
USS 2729 Sitka	16 unit, 20,000 sf business park	8/17/87	$1,150,000 (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 Twnst 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)		

Legal	Type of Property	Foreclosure Date	Appraised Value	Amt in OREO Account	Listing	Activity
L12A,B14A, East Add Anchorage Twnst	13,500 s.f. retail/wrhs at East 6th & Juneau	10/30/87	$576,000 (1987 est)	$432,000 (132,368.20 to loan loss reserve 12/08/87		
Tract "B", Bowers S/D, Kachamak View Add. Homer	8686 s.f. shopping mall/office building in Homer	11/13/87	$506,000 (1987 est)	$455,400 ($71,271.63 to loan loss reserve 12/09/87		
Lot 49-A,B2,Wasilla Airport Heights S/D Wasilla	24,096 s.f. retail/wrhs bldg in Wasilla	12/24/87 (Deed-in-lieu)	$630,000 (1987 est)	$630,000 ($145,465.25 to loan loss reserve 12/31/87)		
			Total #28	Total in OREO $12,350,789.97		
				Total to Loan Loss Reserve $ 2,574,817.72		

FDIC
Federal Deposit Insurance Corporation

Memorandum to: Laurence D. Schannault
Deputy Regional Director (DOL)
San Francisco Regional Office

From: 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 catagorized 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.

Commercial Loans	ANBN		FIB	
Secured by:	#	BV	#	BV
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	17.8mm
Stocks	4	3.0mm	6	.2mm
Miscellaneous	3	1.2mm	65	4.3mm
Unsecured	94	3.5mm	61	3.4mm
Totals	602	54.2mm 59.2mm	549	76.3mm

Real Estate Mortgage Loans	ANDN		FIB	
A. Real Estate Construction Type	#	$V	#	$V
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	9	5.1mm
Totals	64	18.4mm	54	28.3mm

B. Covered Transaction-Type				
Condos	7	400m		N/A
Zero Lot Lines	7	600m		
SFR	7	700m		
Vacant	3	160m		
Commercial	1	375m		
Mobile Homes	1	68m		
Hotel/Motel	1	680m		
Other	1	210m		
Totals	28	3,193m	0	* 0

* FTR did not segregate covered transactions.

	ANBN		FIB	
C. Amortized/Term-Type	#	BV	#	BV
SFR	60	5.0mm	167	13.3mm
Convential 2-4 Units	10	1.2mm	30	5.1mm
FHA	3	100,000	--	
VA	2	160,000	--	--
Commercial	20	2.0mm	148	34.4mm
Vacant Lots	2	50,000	9	4.8mm
Other	13	500,000	12	5.6mm
Totals	110	8.9mm	376	63.2mm
GRAND TOTALS	804	84.8mm	969	167.8mm

The breakdown above includes the original inventory retained by the FDIC and all putbacks to 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 $900,000.00, from both banks. These were not included in the schedules above. The schedules above also exclude charged off loans, owned real estate, bank properties and other fixed assets.

Attached to this memorandum is a listing of OREO 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

TYPE	BANK NO: 2608 BANK: SNB	BANK NO: 5915 BANK: ANBN	BANK NO: 2766 BANK: FIAK	TOTAL
SFR (B.V.)	10 (1,165,132.35)	18 (1,315,087.06)	24 (1,649,920.07)	52 (4,130,139.48)
COMMERCIAL OFFICE (B.V.)	2 (427,000.00)	8 (830,351.51)	13 (1,827,890.50)	23 (3,085,242.01)
COMMERCIAL OTHER (B.V.)	1 (63,636.14)	3 (291,508.41)	13 (4,064,632.95)	17 (4,419,777.50)
DUPLEX (B.V.)	-0-	1 (64,800.00)	1 (704,444.06)	2 (769,244.06)
4-PLEX (B.V.)	1 (234,351.50)	6 (723,632.65)	10 (1,181,821.94)	17 (2,139,806.09)
6-PLEX (B.V.)	2 (493,969.22)	-0-	2 (9,165.75)	4 (503,134.97)
APTS MULTI-FAMILY (B.V.)	-0-	-0-	4 (3,476,099.19)	4 (3,476,099.19)
CONDOS (B.V.)	2 (145,816.99)	20 (843,272.62)	120 (3,781,043.59)	142 (4,770,133.20)
1-4 SFR LOTS (B.V.)	33 (1,359,016.32)	61 (1,502,188.33)	247 (3,178,157.89)	341 (6,039,362.54)
COMMERCIAL LOTS (B.V.)	5 (455,344.00)	1 (103,153.57)	3 (2,300,881.65)	9 (2,859,379.22)
TRAILORS MOBILE HOMES (B.V.)	-0-	1 (35,700.00)	1 (36,000.36)	2 (71,700.36)
TOTAL: (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

	BANK NUMBER: 5915 BANK: ALASKA NATIONAL BANK	BANK NUMBER: 2766 BANK: FIRST INTERSTATE BANK	TOTAL
COMMERCIAL	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

Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
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

Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
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.

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.

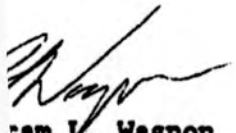
I am unsure what such a program would accomplish. The banks should endorse such a program in that it appears they receive a five year risk free option to sell the property for greater than .30¢ on the dollar and if it does not work out, the Authority will repurchase the loan from them.

e proposal seems a trifle bizarre in that there has been much scussion on "FDIC Dumping" yet here we are dumping first to the thority for .25¢ on the dollar, then the banks have the option of mping to someone else. While hopefully not sounding to negative, this pears to be an exercise in activity that most likely accomplishes thing. The end result is the banks would sell the property most likely the same people, firms and groups, etc. that the FDIC will.

"carrot", I guess, for having the Authority assume the risk on the ns (the banks have recourse to put them back to the Authority) is the ferential between what they are purchased for, ($50.0 million) and d to the banks for, ($60.0 million).

t is overlooked is that this portfolio has already been picked over e by National Bank of Alaska and some of these loans may be worth 80% 90% of their par amount while I am sure many are worthless. I ition how the sale of such marginal properties will be the negative e discussed when much of the testimony has illustrated the flight to ity in commercial space.

ectfully,



ram J. Wagnon
itive Director

s

Alaska State Legislature
House

Official Business

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 Mssrs. Chenault and Hone next Monday and Tuesday, when the Joint Committee on Economic Recovery has scheduled a hearing at which they will testify.

During our preparatory discussions and that hearing we expect to learn the details of the problem and explore all possible solutions. We would like the legislature and the FDIC to work together and find an equitable solution as speedily as possible. Given the time needed to develop, draft and pass the necessary legislation, we believe this process can, if begun next week, if necessary be completed by no later than the date the legislature adjourns, May 9, 1988.

As we explained in the telephone conference yesterday, the Alaska State Legislature, like all other state legislatures, operates under constitutional, statutory, and procedural rules and requirements. Thus, any solutions that contemplate a statutory enactment will require the approval of a majority of the members of each house. Accordingly, no committee or group of legislators can purport to commit those majorities in advance of the event. At the same time, we can represent

that members of both houses, of both parties, including those of us who have been designated to consider and develop possible solutions, are personally committed to working with you and your representatives diligently, and in good faith. We look forward to starting this process on Monday.

Cordially,

The Joint Committee on Economic Recovery
By:

Max F. Gruenberg, Jr.
House Chair

Arliss Sturgelewski
Senate Co-Chair

Lloyd Jones
Senate Co-Chair

FDIC LIQUIDATION PROCEDURES

- Establish a permanent FDIC office in Anchorage to liquidate assets
- Evaluate assets based on financial statements and collateral
- List and sell real estate for independent appraised value
- Bulk sale performing loans to highest bidder
- On non-performing loans, attempt workout with debtors/guarantors (this includes compromises, refinance, extension or modifications of terms, interest moratorium, substitution of collateral). Bulk sale to highest bidder
- Refer assets for litigation (including foreclosure) when workout efforts fail
- Repossess collateral when workout efforts fail

Q Receivership may requirement to go to appropriate ct. Natl or State Bank. (may have to go to receivership ct.).

FDIC PLAN IF ASSETS ARE SOLD

- Temporary FDIC office in Anchorage would be closed

Uniform Appraisal Instructions To Appraisers For FDIC Real Estate Properties

(Not Required for Residential Single Family Properties)

1. *Appraisals are to be made assuming a sale on a cash basis;* however, if the appraiser is uncomfortable with supplying a valuation on a cash basis because of lack of comparable sales on a cash basis, a valuation based on typical terms, as provided for in item 2 below, may be used instead. If the appraiser prefers, he/she may also value the property on both a cash basis and on a typical terms basis. FDIC *does not* want fire sale or liquidation value appraisals.

2. Appraisals are expected to reflect values based on sales prospects considering *existing* economic conditions.

3. When an appraiser supplies a valuation based on typical terms, FDIC needs specifics as to what the appraiser feels are typical terms for the subject property. For example, x percent (%) down payment, x-year mortgage, with or without a balloon payment in x years and x percent (%) interest rate.

4. All appraisals are to be on an "as is" basis.

5. Estimates to complete essential repairs and to cure violations should be provided, and the appraiser should specify whether those expenses (with a breakdown) have already been considered in estimating the property's appraised value.

6. The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition.

7. All appraisals, *including updated appraisals,* must be in writing.

8. Generally, appraisals should be based on existing zoning; however, the appraiser may value the property based on both current zoning and any other zoning the appraiser feels is *likely* obtainable within a short period. The likelihood of the alternative zoning should be explained in the report for all cases in which the appraiser feels it is appropriate to supply both valuations.

9. When an appraiser is valuing distressed property solely on a land value basis that implies demolition or removal of improvements, the cost of demolition and/or removal should be netted against the land value with the estimated costs of removal so reflected.

10. The account officer is requested to supply the appraiser with a copy of the property's legal description, the survey, leases for income producing properties, etc.

11. The appraiser should provide the amount of annual property taxes and any past due taxes in the appraisal report.

12. The appraisal may be used for multiple purposes, such as bids at foreclosure sales, large protective advances, operating budgets, and sale of the property.

13. A copy of these instructions should be made a part of the appraisal report.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-88
File Name: 015Geogstrat.wk1

	Anchorage Girdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Elelson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL ##	
Bank of the North																								
Real Estate/Const	15,758,131	85	1,132,290	8	284,832	5	2,536,787	28			367,492	2	2,523,366	16	3,617,356	9			1,632,293	9	2,052,075	10	29,904,622	172
Other Real Estate	2,249,168	12	0	0	158,913	3	1,444,578	18			128,160	1	1,577,924	7	287,608	5			21,184	1			5,867,535	47
Commercial	17,616,406	83	1,450,707	14	96,041	3	10,489,694	149			56,917	2	1,705,584	25	706,862	11			2,091,524	18	2,357,472	21	36,571,206	326
Installments	193,188	27	33,128	11	18,518	2	256,889	45	740	1			64,052	8	2,401	1	2,059	1	16,884	4	56,899	15	644,758	115
Subtotal	35,816,892 49.07%	207	2,616,125 3.58%	33	558,303 0.76%	13	14,727,948 20.18%	240	740 0.00%	1	552,569 0.76%	5	5,870,926 8.04%	56	4,614,227 6.32%	26	2,059 0.00%	1	3,761,885 5.15%	32	4,466,447 6.12%	46	72,988,121	660
Judgements																								
Charge-Offs ##	6,432,197	552	479,955	72	481,242	37	4,333,409	398	12,095	5	10,892	11	1,529,237	106	382,629	31	73,976	15	2,516,280	179	964,279	421	17,216,191	1,827
Subtotal	6,432,197 37.36%	552	479,955 2.79%	72	481,242 2.80%	37	4,333,409 25.17%	398	12,095 0.07%	5	10,892 0.06%	11	1,529,237 8.88%	106	382,629 2.22%	31	73,976 0.43%	15	2,516,280 14.62%	179	964,279 5.60%	421	17,216,191	1,827
ANB Total	42,249,090 46.84%	759	3,096,080 3.43%	105	1,039,545 1.15%	50	19,061,357 21.13%	638	12,835 0.01%	6	563,461 0.62%	16	7,400,163 8.20%	162	4,996,856 5.54%	57	76,035 0.08%	16	6,278,165 6.96%	211	5,430,725 6.02%	467	90,204,312	2,487
TOTAL (CHG-OFFS & JDGMENTS EXCLUDED)	144,537,681 67.93%	504	2,970,207 1.40%	35	5,754,000 2.70%	33	14,992,530 7.05%	243	2,673,824 1.26%	25	3,718,040 1.75%	27	6,762,409 3.18%	60	16,776,233 7.88%	95	68,921 0.03%	4	4,498,220 2.11%	37	10,022,290 4.71%	78	212,774,354	1,141
TOTAL INCLUDING CHG-OFFS & JDGMENTS	159,290,301 65.20%	1,170	3,450,162 1.41%	107	6,326,888 2.59%	77	19,325,939 7.91%	641	2,830,761 1.16%	36	4,218,067 1.73%	49	8,291,646 3.39%	166	17,850,582 7.31%	151	205,070 0.08%	20	11,032,371 4.52%	257	11,470,623 4.70%	516	244,292,410	3,190

** Unknown locations were found only for Bank of the North Chargeoffs
All others in this category are located within Alaska.

Figures on Bank of the North Chargeoffs for "Other Alaska" and "Outside Alaska" are approximate.

Totals reflect gross loan balances; i.e., "Participations Sold" balances plus FDIC book value.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-98
File Name: 0156eogstrat.wk1

	Anchorage Girdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Elelson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL ##	
First Interstate																								
Real Estate/Const	57,411,882	94	337,388	1	715,128	2			1,290,472	4	861,983	5			8,085,047	18			549,118	1	3,975,404	14	73,226,422	137
Other Real Estate	17,921,277	60			142,050	4			632,335	7	802,394	4	671,356	1	1,940,908	27	1	1	98,900	1			22,209,221	105
Commercial	33,041,204	131	16,694	1	4,338,519	14	243,871	2	748,671	11	1,452,259	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	139,786,233	481
	77.78%		0.25%		3.72%		0.19%		1.91%		2.26%		0.64%		8.70%		0.05%		0.53%		3.97%			
Judgements	457,732	18			26,060	2			23,734	2	38,827	3			53,729	4	62,174	1			60,038	5	722,294	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	154,088,098	701
	75.96%		0.23%		3.43%		0.17%		1.83%		2.37%		0.58%		8.34%		0.08%		3.09%		3.92%			

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 if off the market, they said. Such schemes would be too risky and too expensive, costing hundreds of millions of dollars. They could backfire, just like state loan subsidies backfired. Or they might give some property owners an unfair advantage over others, the witnesses said.

"We spent ourselves into this problem. Now the situation seems to be: Can we spend ourselves out of it?" Malone said. In theory it would be best, he said, to let natural market forces take over.

"Proposals to assist only a segment of the market, say the

See Back Page, REAL ESTATE

REAL ESTATE BAILOUT: Witnesses tell legislative panel that it is a bad idea

Continued from Page A-1

commercial real estate market, are hard to take seriously when so many others also have been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford," said Erickson, senior economist for the governor's Office of Management and Budget.

He reminded legislators that some Alaskans are winning because of the current economic slump. The legislature, in a good-hearted attempt to help property owners, could hurt renters who have benefitted from the real estate collapse.

About 31,000 Anchorage households pay rent, he said.

"Assuming 2.4 persons per household, and if the average rental cost two years was $200 per month per person, the roughly 40 percent drop in rents has added an average $960 to the annual spendable incomes of these 75,000 people," Erickson said. "This 'renter's dividend' has thus increased Anchorage's spendable income by about $72 million, and it has had about the same economic impact as would result from hiring 1,400 new state employees in Anchorage."

Malone, Erickson and the others testified before a House subcommittee examining Alaska's sick real estate market and ailing banks.

Some Alaskans, including Anchorage Mayor Tom Fink, want legislators to use state money to reverse the estimated $8 billion drop in real estate values during the past two years. Fink suggested that the Alaska Permanent Fund buy foreclosed property and keep it off the market until conditions improve. Others want more small-scale help. Some witnesses suggested that legislators in some way help the little guy, particularly condominium owners, cope with declining property value.

But the big bailouts drew the strongest criticism from the witnesses. Rose, the permanent fund's executive director, suggested instead that the banks and the Federal Deposit Insurance Corporation form their own corporation to manage foreclosed property and schedule it for sale. That way the private sector, not the state, would be attempting to influence real estate values by regulating supply.

The state, at the most, should help the banks form their own corporation by giving it some operating funds, Rose said.

Yoshimura, a commercial real state 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.

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 largly 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 ~~new~~ near term profit is the overall goal.

PURCHASE OF ASSETS

1. The assets will be purchased from the proceeds of a bond issue. Cash flow must be sufficient to service debt and operating expenses. Negotiated price must not require subsidy.

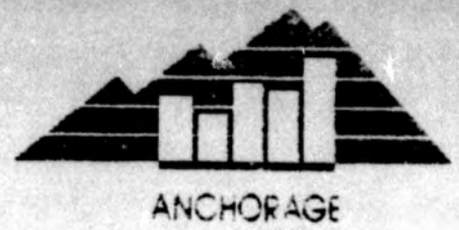
2. Terms of sale will depend on appraisal of portfolio.

3. Financing will require a) credit enhancement, or b) FDIC to take part cash, part subordinated debt or c) both.

4. Credit enhancement can take the form of a State "moral obligation".

$250,000 REQUEST

The purchase cannot proceed without a thorough assessment of the FDIC portfolio with banking, real estate and financial experts. The $250,000 will fund such an assessment. If the sale take place the $250,000 will be repaid from bond proceeds. If it does not it becomes a grant.



ANCHORAGE ECONOMIC

DEVELOPMENT CORPORATION

$250,000

Appropriation to Review FDIC Properties

- BUDGET -

$ 150,000	Accountants
65,000	Banking Consultants
25,000	Legal Fees
10,000	Administrative Expenses
$ 250,000	TOTAL

Time to complete study after award - 30 days.



ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

February 9, 1988

Honorable Kay Brown
Joint Committee on Economic Recovery
Alaska State House
P.O. Box V
Juneau, Alaska 99811

Re: FDIC Asset Purchase

Dear Representative Brown:

All of the proposals dealing with the acquisition of the $300 million Alaska FDIC portfolio require a prospective purchaser to conduct a thorough analysis of the assets. At a potential price range of $75 to $125 million no purchaser can simply take the FDIC's price since, as receiver, the FDIC is required to maximize its own return for the benefit of bank creditors, stockholders and itself. The proposed $250,000 appropriation in the Jobs bill for this analysis is thus an essential step no matter what solution is eventually found to this problem.

The Development Corporation has accepted the FDIC's offer to review 20 sample files from the portfolio to establish the basic assumptions under which we would conduct a full review. We have assembled a three-person team of Alaska banking experts with loan, real estate and finance expertise who will begin work on these files this week. We will be happy to share their conclusions with the Legislature. A full review would require a much larger team working over a period of several weeks. In the meantime, we urge the passage of the $250,000 appropriation in order that the Development Corporation can facilitate the total review when and if necessary.

Very truly yours,

S. Hawkins

Scott Hawkins
President

550 West 7th Avenue
Suite 850
Anchorage, AK 99501
Telephone (907) 258-3700

FORTUNE PROPERTIES
MARKET NEWS
Volume 4, Issue 1, 1988

1988 Is The Year For a Turnaround in Residential Real Estate and Here Are The Reasons Why...

By Connie Yoshimura

The 1988 real estate market is going to be a buyer's market. Although the fear still exists amongst buyers that a home purchase today will be worth less in a few months, that fear will abate in the second quarter of 1988.

At that time, it will be apparent that there is a tremendous lack of quality inventory. Already in 1988, many foreclosed HUD properties which are sold by the bid process are receiving multiple offers at the first offering and, in some cases, are selling for more than the asking price by HUD.

The year end MLS statistics also substantiate that inventory is sinking. MLS reports that residential inventory was down by over 38% on the basis of number of properties listed for sale. At the same time inventory went down, the number of unit sales reported declined by only 13%. These two figures, measured by number of listings and reported sales, as opposed to dollar volume, indicate that there is a healthy absorption of residential inventory going on in the Anchorage marketplace. It's true that this absorption has not yet helped prices but it will before the end of 1988. One of the reasons that prices will stabilize in 1988 is the fact that there will be very little new construction.

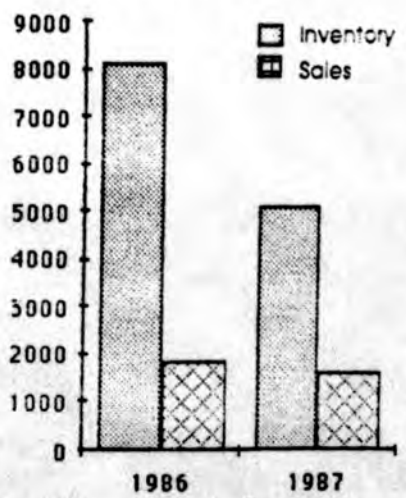
New building permits for houses didn't even reach the 200 mark for 1987 and, although it is anticipated that there will be between 200-225 building permits issued in 1988, most of that won't come until the third quarter. That's because banks aren't interested in lending for more house building when they are straddled with innumerable repossessed properties.

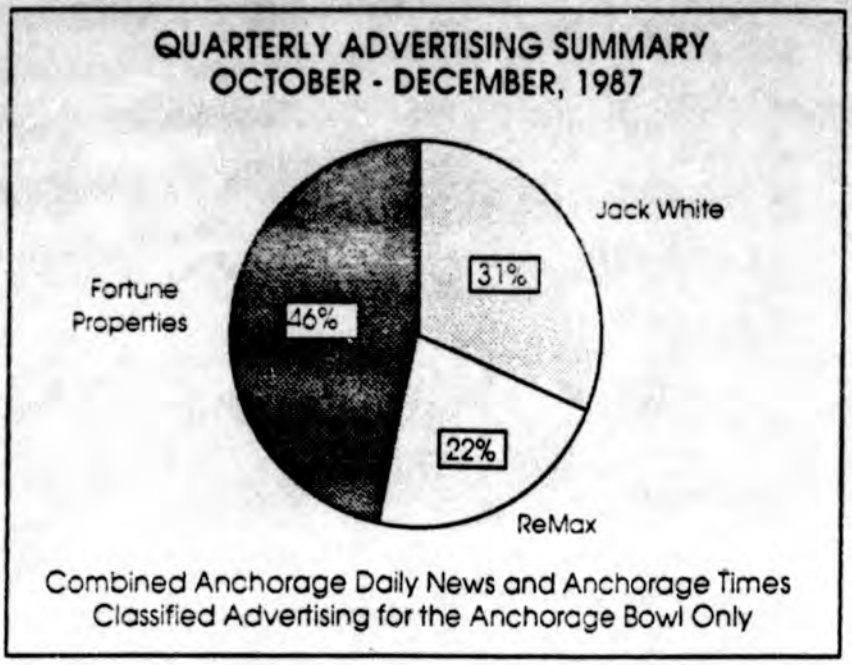
The repossessed inventory owned by institutional sellers such as Fannie Mae, AHFC, MGIC, FHA, and VA are mostly in the lower price ranges under $100,000. The majority of it is in condos which will take many years to sell. However, the average priced single family home as reported sold by MLS is $127,000.

The foreclosed inventory held by institutional sellers is therefore not going to fulfill the buying needs of the public. This will become apparent as buyers in the spring try to find quality housing to purchase.

For buyers, 1988 may be the last year that they are going to be able to purchase at non-escalating prices. All residential real estate statistics, as well as state economic projections, indicate that we are going to hit the bottom of the recession in 1988 and that things will begin to turn around in the third quarter. For residential real estate, it will happen a few months sooner.

Residential Inventory vs. Sales Activity-- January - November





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 outadvertised 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

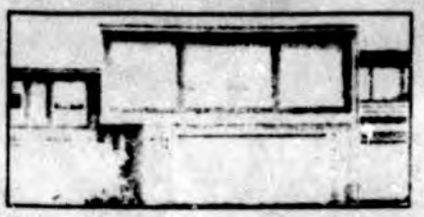
Carolyn Abney	*345-5824*
Bob Allen	*274-8081*
Nelda Anderson	*563-7132*
Dave Aquino	*337-2264*
Chip Baye	*272-0500*
Carole Bennett	*278-9682*
Jack Blair	*345-1828*
Dolores Bowman	*345-3832*
Dave Brock	*694-6090*
Sara Cheatham	*345-5782*
Bill Davis	*338-2526*
Dick Decker	*562-5765*
Sue Dvorak	*243-0153*
Darlene Eliason	*346-2835*
Barbara Garroutte	*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 car garage and gas heat.



$115,000
Wrangler's Way

Lovely two-level home off Bliss 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 buses, college, and hospitals. Quarry tile in entry, kitchen, and dining room. Rock fireplace in living room PLUS WOODSTOVE IN THE REC ROOM. Four bedrooms, two baths. Kitchen complete with Jenn Air and refrigerator...DOUBLE HEATED GARAGE...and a beautiful treed lot.

$324,500
Retreat
Southpark

Private family living above Potters Marsh. 3,867 square foot home. FOUR BEDROOMS AND FOUR BATHROOMS. Two fireplaces, one in den and one in living room, complete kitchen with breakfast nook. Private guest area with full kitchen plus family room, six person jacuzzi. All this and more located on a quiet cul de sac in south Anchorage.

FORTUNE MANAGEMENT Created To Handle Residential Property Management

In the fourth quarter of 1988, FORTUNE PROPERTIES created a new corporation called FORTUNE MANAGEMENT to handle the residential property management needs of its clients, including major institutional sellers. The Municipality's Housing and Population study, which was released in September 1987, confirmed a need which Fortune had felt all during 1987. With over 14,000 vacant residential properties in Anchorage, it was obvious there was a need for a new property management company.

FORTUNE MANAGEMENT already has accumulated an inventory of several hundred properties which it manages and makes available for lease. The new company's services include residential leasing, property management and computerized income and expense statements and rent reports for property owners. The corporation was funded by HOME SAVINGS BANK. It is headquartered in the second floor of the CHUGACH ALASKA NATIVE BUILDING, 3000 A Street, Anchorage, Alaska and is open seven days a week. For competitive leasing and property management rates, call 562-5868.

- Residential Leasing
- Property Management
- Computerized Accounting and Rent Reports
- Open 7 days

562-5868

FORTUNE MANAGEMENT

From: Connie Yoshimura

FORTUNE PROPERTIES
3000 "A" Street, Suite 101
Anchorage, AK 99502



Senator Arliss Sturgulewski
P.O. Box V
Juneau, AK 99811

Peter McDowell
STRATEGIC DEVELOPMENT SERVICES

A DEVELOPMENT VENTURE COMPANY
AN APPROPRIATE FINANCIAL INSTITUTION FOR ALASKA

Background

Rural Alaska (Alaska excluding the boroughs of Anchorage, Fairbanks, Juneau, the Kenai Peninsula, Ketchikan, and Mat-Su) is the source of much of Alaska's economic wealth (60-80 percent depending on the export value of crude oil). It only contains about 10-15 percent of Alaska's population and about 12-15 percent of the nonseasonal jobs. Those people and jobs, however, produce most of the wealth enjoyed by the other 85-90 percent who live and work in urban Alaska. With the exception of Kenai and Ketchikan, most urban Alaskans do not live near any basic economic activity other than tourism and national defense installations at Anchorage and Fairbanks. Future expansion and diversification of the Alaskan economy's basic sectors will also take place in rural areas, because much of it will depend on the locational, fish, timber, subsurface and scenic and recreational resource values which are concentrated there.

Moreover, any vision of the future of Alaska's economic growth should be solidly grounded in "fundamentalist 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:

P.O. Box 210348
Auke Bay, Alaska
99821-0348

Telephone (907) 463-3663
Residence (907) 789-2343

- 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:

Entity	Corporation Unit	Corporation Subsidiary	Joint Venture	Investment Bank	Commercial Bank
Control	Most				Least
Economies of Scale	Least				Greatest
Financial Risk - Spreading	Least				Greatest
Capital Requirements	Low				High
Complexity and Cost of Implementation	Least				Most
Degree of Government Regulation	Least				Greatest

Peter McDowell
June 1987

Sealaska eyes FDIC properties

By Robert Lavrio

JUNEAU — The Sealaska native corporation has taken the lead in forming an investor group to buy real estate taken over by the Federal Deposit Insurance Corporation in the failure of two Alaska banks.

Sealaska president and chief operating officer Bill Howe confirmed Monday the corporation has hired Juneau consultant Peter McDowell to research whether a private group could profitably buy and hold the properties until the market improves.

The FDIC holds more than 600 properties worth an estimated $28 million from the failures of the Alaska National Bank of the North and First Interstate Bank.

It also owns another 3,000 troubled commercial and consumer loans valued at about $320 million.

Commerce and Economic Development Commissioner Tony Smith began the process several weeks ago by talking with several native corporations and "major investors."

Smith said he is seeking to prevent an outside investor from picking up the properties from the FDIC for a fraction of their value, then dumping them on the market, forcing other property values down.

Smith said he could "facilitate" the formation of a Real Estate Investment Trust by making the initial contacts, but said a private entity would have to lead the group.

"It's time for someone to get this thing focussed," said Sealaska's Howe, "so we're picking up the ball."

Howe said the corporation is putting up about $30,000 to explore the idea.

McDowell is meeting with other potential investors to measure interest in the concept.

"It's bigger than Sealaska, there has to be a lot of other players, too," Howe said.

McDowell also touched base with the FDIC to get an accurate accounting of the properties in its hands.

FDIC official Herbert Chin said it will take the agency another couple of weeks to inventory and value the property it holds.

Chin said the FDIC is interested in selling the assets and would "look at any offer that comes in to us."

Howe said McDowell will add experienced real estate professionals, including an appraiser to his study team.

Howe said he expects the results of McDowell's study in about six weeks. "If it's possible to structure a REIT on an economically sound basis, we would have some fairly significant dollars to invest," said Howe.

But Howe said the native corporation doesn't plan to lead the group once it's formed.

"We aspire to be an investor, not necessarily the manager," said Howe.

Sealaska is familiar with the state's real estate and banking industries. It was a major owner of United Bank Alaska before its consolidation with Alaska Mutual Bank into to form Alliance Bank.

See Properties, page D-8

Properties: 'We're picking up the ball'

Continued from page D-6

If Sealaska is successful in its efforts, it could pre-empt a Senate proposal to form a "bridge bank."

Sen. Tim Kelly, R-Anchorage, is drafting a measure that would set up a corporation to buy and hold commercial real estate until the market improves.

As initially proposed by permanent fund Corporation Executive 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 Sealaska venture, but "I suspect it will be put on our platter."

He cautioned it was a very high-risk venture.

"Every single one of these assets is something someone looked at and determined was substandard (a poor risk)," Smith said.

Nevertheless, Smith told the committee the Sealaska effort could work out.

"If the people doing it are successful, I assure you we'll be accused of giving away the store," said Smith.

Anchorage Times
c. 1/28/85

D

ALASKA INVESTMENT BANK & TRUST

A Real Estate Holding Company
for the people of Alaska

Proposal by:
John M. Bashaw, Jr.
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CORRECTED COPY FEBRUARY 15, 1988

OVERVIEW

We have, at this moment in time, one of the greatest opportunities for all citizens of the State of Alaska to participate in an investment that should help to provide stability in our economy and, in turn, a profit to themselves.

Most people realize we have an increasing loss of demand and an escalating overabundance of supply of real estate. There is not much that can be done in the near future to move the demand curve to a more favorable position. One that will have a dynamic impact on our economy ($40/barrel oil excepted). This is not true; however, of the supply side.

Simply put - we now have the opportunity to buy low, deposit in savings, and (hopefully) sell at a profit in the near future - as with any investor. Also, I might add, I think we can safely say that we may never see this opportunity again.

Essentially, I see the current situation in three distinct categories.

1. The individual investor who is now buying properties and loans on the open market and from institutional owners such as FDIC. This is ideally where the market should remain, however, it does have enough positive impact on the current economy.
2. Institutional and strong individual investors who have been, and are continuing, to look for bulk purchases at large discounts. These buyers speculate (for cash) that these properties and loans can be "worked" until the economy improves and the assets sold at a profit. Simply said - high risk, cash intensive, with potentially large losses or gains. Please note, when we speak of assets we are talking about

two separate types. One is the buying of the actual real estate and the other is the purchase of loans and mortgages. The latter generates fair interest from potential buyers, however, I am not aware of any investors who are seriously interested in buying Alaska real estate in bulk.

3. The third approach, which seems to be the most touted and certainly the one getting the most attention, is the exclusive use of public funds or public debt to purchase speculative and selective real estate. We should strongly oppose any such plan!

JURY APPROACH

This plan of attack is simple, easy, and just takes one key participant or agency to coordinate the initial effort.

Lets get any and all ideas out on the table and come up with one recommended course of action that has a reasonable probability of being acceptable to the people first, and in turn public representatives and private industry. At the present time we have a number of proposed solutions and recommendations in various degrees of quality and territorial imperatives. Now is the time to draw all these efforts into one cohesive plan.

JURY SELECTION...The Department of Commerce recommends, and the Governor invites key participants to a conference to develop a workable economic plan. The jury will consist of <u>one</u> representative from the following areas and agencies with consideration to be on a statewide basis.*

Native Corporations
Private Industry
Legal Profession
Corporation Taxation
University of Alaska
Banking Industry
Legislature
Department of Commerce
Permanent Fund
AIDA
AHFC
Real Estate Industry
Local Government

*Names available upon request.

These representatives are to be invited with only a few rules to the game.

1. Only the final plan will be made public. Any ideas expressed or explored during the conference are to be totally confidential and will not be discussed outside of the "jury" room.
2. Nothing is sacred. Any and all sources of funding, participation, and structure will be looked at and there will be no dumb ideas Of course, some ideas may be rejected sooner than others.

3. There is no designed final plan, up to and possibly a final recommendation to do nothing.
4. All attendees must be willing to participate full time and continue until a majority agrees on a published plan or disband as a "hung jury".
5. All attendees must be willing to accept input from the public. This includes related professionals, as the "jury" has been limited to insure a workable number of participants.

EVERYONE CAN PARTICIPATE

As Dr. Hayden Green pointed out the other day - "Everyone wants to go down in history as the slayer of the economic dragon."

Question? Is there a way we can turn our current economic situation into an investment opportunity that will:

1. Not increase public debt.
2. Minimize the use of public funds.
3. Spread any use of public funds over a number of sources (risk management).
4. Cultivate and attract private capital to the maximum extent possible.
5. Establish a profit motivated entity that will benefit all participants and investors.
6. Assist in stabilizing our economy and stop or slow the erosion of property values.
7. Cease operation when no longer required.

YES!

Before I continue, I'd like to give credit to some of the clear thinkers on this issue. Thank you for your thoughts and ideas.

Dave Rose
Buz Hoffman
Hayden Green
Ken Gain

<u>Establish a holding bank with the clear purpose of buying foreclosed real estate at discount prices, moth balling the real estate, and liquidating these assets, at a profit, in the near future.</u>

Seed money for development to be obtained by grants from

1. Municipality of Anchorage
2. State of Alaska
3. Federal funds (grant application)
4. Railbelt Energy Fund

The holding bank is to be profit motivated and structured.
The institution is to be chartered for no more than a 10 year life.

The Bank & Trust is to be (initially) equity financed with three basic stock issues.

1. Preferred stock (cumulative, first out, non voting) to be made available to any and all private investors, large or small, institutional* or individual. Issue to be at a $1 par and, (as an additional incentive to attract private capital) for each share of preferred the stock holder automatically receives one share of Class A common stock.
2. Class A common stock (second out, voting) to be issued at a $10 par and to be purchased with public funds from all of the following (spread the risk):

   AHFC

   AIDA

   Permanent Fund earnings

   Railbelt Energy Fund

   Legislative appropriation from:

   operating budget

   capital budget

   ASBA
3. Class B common stock, (last out, non voting) at a $100 par to be purchased through an exchange of real estate at discounted values. These purchases (exchange of real estate for stock) are to be limited to real estate owned by institutional investors (lenders or mortgage insurance agencies) such as:

   Banks

   FNMA

   HUD

   AIDA

   AHFC

   MGIC

   FDIC (may require cash only)

*examples: Native Corporations, Alaska Railroad, Banks, Alascom, ARCO, North Slope Borough, Municipality of Anchorgae, Alaska Airlines.

It is important to stop and point out that these proposed numbers have not been fine tuned to computer accuracy and are only conceptual in nature. For example: if the holding company purchases a piece of real estate currently appraised for $100,000 and expects to hold that property for ten years and sell it for $100,000, then, at a 7% desired annual return on invested dollars the holding company should pay $50,000 (actual $49,759.63) less anticipated holding costs. Of course, if the property can be sold earlier at the same price, then the yield to the investors increases accordingly. Also, before I receive a rash of "boy is that a good deal for someone" then let me also point out that "someone" is anyone who is willing to put their dollars down and take the corresponding risk for a possible profit - someday. Also, this concept addresses the supply side only and I leave the demand side solutions to other experts.

All plans must have some game rules, so let me throw some of these on the consideration table.

1. The Commission of Banking and Securities contract an external consulting firm to create the financing and accounting functions.
2. The Commission of Banking and Securities contract an external annual audit (published).
3. Purchases to be negotiated at a best buy price with significant discounts for bulk buys. No seller would be forced to sell and may certainly elect to keep their inventory (FDIC included).
4. Establish a moratorium on issue of Class B stock (real estate exchange) - say three years.
5. Establish guidelines (not limitations) on liquidation of assets, at less than face or appraised values, - example:

year 1	0%
2	5%
3	10%
4	15%
5	20%
6 - 10	as market dictates

6. Do not purchase loans or mortgages. These investments should be owned and operated from the private sector only.
7. Defer profits until liquidation.

8. The Governor appoints the chairman of the board and the legislature confirms the board members who will come from the following investment areas:

AHFC	Department of Commerce
AIDA	Appraiser
Real Estate Broker	Banker
Public at large	

9. The president and CEO plus all other employees to be private sector type hires with salary commensurate with the limited employment period, complexity, trust responsibilities and lack of retirement opportunities.
10. Earnings are not to be reinvested in anything other than a sinking trust fund and liquidation of equity position.
11. Asset liquidation to be accomplished through the real estate industry on a open listing type basis similar to HUD's current operation - selling commission only.
12. Place all acquired assets on the market at face or appraised value to allow the market to catch up with the price.
13. Establish a watch dog procedure to monitor appraisals, building permits, foreclosures, bankruptcies, etc. so that assets can be sold in the most favorable market conditions and at the earliest opportunity.
14. Do not close on property that is occupied. The selling agency must relocate all tenants, hopefully to other properties they own, prior to closing. The Bank and Trust should function as a holding company, not a competitor for property management.
15. Pursue unique markets such as sale of condos to the University of Alaska for use as dorms and the bulk sale of condos to Pacific Rim countries (at discount prices) for use as cultural exchange homes.
16. Yes, it might be necessary to obtain additional funds through debt financing. If so, then consideration should be given to bonds (not convertible) that could be raised on the strengths of the corporation alone. If that is not possible, then consider loans from either the public and/or private sectors. However, lest we forget, the creditor is now the first out and the equity owners take second position in case of forced liquidation.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1571 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1368

EXTERNAL COMMITMENTS

No entity can operate in a vacuum or in isolation from its surrounding economic influences. Therefore, it is important that in developing this holding bank we also obtain written commitments to:

1. Demolish marginal and unsafe properties whenever possible.
2. Place a moratorium on any rezoning that results in a higher density.
3. Place a moratorium on expansion of utilities, at least until there is a better utilization of highest and best use of our present land.
4. Mothball or export all excess mobile homes.

CONCLUSION

I doubt that my plan, which is really a conglomerate of my ideas and other proposals, will slay the economic dragon (wounded - maybe). However, after a stop, look and listen posture for the last three years, I am now convinced that the time is right to bring together some of the best talent in the state who will, in turn, analyze the problem, evaluate alternative courses of action, and develop a proposal that WILL WORK!

If there is a problem in our economy, and that problem is an excess in the supply of real estate and we have decided that something must be done - then let's do it right!

1. a combined effort from the private and public sectors.
2. put our money down and accept the risk and profit.
3. spread the risk.
4. and most importantly do not debt finance with public funds. Let's treat this problem as an investment opportunity not a bail out program.

P.S. If we are going to moth ball real estate, let's start with the PAC! It's a little silly to walk around town in a mink coat and no shoes.

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

Submitted

by Mayor Tom Fink

Approved by the Assembly

March 1, 1988

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

I. Anchorage's Current Economic Condition

II. Objectives of the Economic Recovery Program

III. Description of the Economic Recovery Program

IV. Economic Recovery Program Elements

V. Proposed Capital Projects

I. ANCHORAGE'S CURRENT ECONOMIC CONDITION

Anchorage has been hit hard by the Alaska recession. The statistics are dramatic, but give only a glimpse of the suffering and despair felt by so many residents. Nearly 15,000 jobs (and the associated incomes) have been lost in Anchorage since January 1986. The rate of job loss is higher in Anchorage than in the state as a whole.

Population declines coupled with falling incomes have reduced the demand for goods, services and housing. These impacts continue to ripple throughout the economy resulting in personal and business financial distress. Personal bankruptcies are occurring at an average monthly rate which is 2.6 times that experienced in 1985; business bankruptcies are 75% above the average 1985 level.

The real estate market has been jolted. The total value of taxable property in the Municipality of Anchorage has declined by a third -- over $5 billion dollars -- since January 1, 1986. Alaska Housing Finance Corporation, the largest mortgage lender in the state, has a delinquency rate of approximately 15%; and has foreclosed on nearly 3600 properties in 1987, compared with 630 in 1985. Survey data indicate that as many as 40% of local residential mortgage holders may now owe more on their properties than the value of these homes in the current market. These "under water" loans represent the loss (at least on paper) of the major savings of many families. If individuals need to sell now, the effect is devastating. Even for those who have no immediate requirement to sell, the loss in wealth has a dampening effect on family expenditures and financial confidence.

The story is repeated in the commercial real estate market. Vacancy rates are unusually high. The imbalance between existing supply (a fixed amount) and falling demand, has resulted in numerous foreclosures on commercial property. Businesses still viable today may be pulled under by the inability to indefinitely "feed" related investments in commercial real estate. Several financial institutions have closed their doors; other are taking substantial losses.

As the tax base and other sources of government revenue shrink, local government loses its ability to provide goods and services. The Municipality of Anchorage is currently facing a budget problem of approximately $20 million, exclusive of utility revenue shortfalls. Projections of 1989 revenues indicate even more severe drops. These cuts translate into hundreds of jobs. Local government program reductions and employee layoffs exacerbate the economic decline, feeding the downward spiral.

As documented in the Fischer Report, the situation is critical. The length of this recession is uncertain. Although employment is still falling, the <u>rate</u> of decline has lessened, at least temporarily. But, even when the nadir is reached, local economic problems are not over. The natural readjustment process is painful; projected future growth is slow.

II. OBJECTIVES OF THE ECONOMIC RECOVERY PROGRAM

A. Purpose: The purpose of the Municipality's program for economic recovery is to mitigate the problems caused by the current economic recession to decrease the depth and severity of this recession, and to contribute to the long-term stable recovery and growth of the Anchorage economy.

B. Objectives:

* Create jobs for local residents; avoid further job losses. (Rationale: Jobs generate income which then cycles through the economy in a manner based on choices by individuals; increased incomes enable individuals to meet obligations and avoid financial ruin.)

* Establish a floor under falling residential and commercial property values. (Rationale: Stable property values are necessary to begin the correction of the imbalance between supply and demand and to reestablish confidence in the local economy.)

* Provide interim relief for businesses. (Rationale: Target limited resources to maintain ventures which will not require continual, long term subsidies to survive. Provide for limited, well defined involvement of government in the private economy.)

* Reduce costs or avoid cost increases to businesses and individuals. (Rationale: Alleviate business and personal financial distress by reducing costs of living and operations; for example, utility increases, increased cost of regulations, taxes.)

III. DESCRIPTION OF THE ECONOMIC RECOVERY PROGRAM.

Anchorage's program for economic recovery is organized in three phases. Phase 1 includes the immediate requests for state action, concentrating on areas which can begin to impact the economy in the short run or those actions which can be pursued administratively. Phase 2 is directed to economic issues which will be dealt with throughout the 1988 Legislative Session. Phase 3 includes those projects and proposals with longer lead times or which require additional analysis and evaluation. In this third phase, more emphasis is placed on activities which provide for the economic growth which must underlie real and lasting recovery for Anchorage and all of Alaska. Section IV outlines the primary elements of these phases.

Section V describes in more detail the approach and recommendations for capital projects. Also shown are descriptions of the individual projects, which are divided into two stages on the basis of timing factors described.

IV. ECONOMIC RECOVERY PROGRAM ELEMENTS.

A. Phase 1 - Immediate State Action

* Supplementary Municipal Assistance distributed according to existing Municipal Assistance formula

  - Purposes:

    Keep taxes and utility rates down
    Avoid further layoffs
    Get small/local capital projects underway

  - Advantages:

    Local option so can apply to local priorities
    Short lead time (quick implementation)

* Early State Capital Appropriations for projects with immediate start-up and/or federal match projects (Jobs bill).

  - Purposes:

    Employment
    Repair and rehabilitation (lower O&M costs)
    Economic Development (infrastructure)

  - Advantages:

    Impact employment in hard hit sector
    Multiplier impacts help support sector

* Real Estate Market Participation

  - Purposes:

    Re-establish confidence in the economy
    Speed readjustment
    Reduce loss of employment and income

  - Advantages:

    Potential for long run return on investments initially made in distressed markets

Commercial Real Estate

Consider Alternative Methods of Investment in or Removal of Commercial Real Estate from Market

AIDEA and other agencies assist borrowers through loan modifications and refinancing.

Residential Real Estate

AHFC - administrative action/workout programs.

University of Alaska Anchorage purchase or lease of foreclosed condominiums for student housing.

ASBA/HUD remove substandard housing from market, utilize foreclosed properties to provide housing for needy individuals.

State actions to discourage auctions and other forms of dumping of real estate.

Encourage agencies to facilitate trades in condominium market.

Encourage removal of mobile homes from market.

* Other

Bradley Lake - fast track APUC review exemption. Move forward with construction.

Court Building financing - fast track project.

B. Phase 2 - 1988 Legislative Session, Economic Priorities

* Operating Budget Issues

- School Foundation Program

  Support Forward Funding

- Municipal Assistance, State Revenue Sharing, School Debt Reimbursement

  Increase Funding levels

  Change payment schedule for Municipal Assistance

  Support Forward Funding

- Social Services Block Grant Funding

- Support Police/School Liaison Program

- Maintain share of State employee position count in Anchorage

- Encourage state funding for employment of young and adult Alaskans to carry out conservation and development projects.

* Capital Improvements

  - Assembly Resolution #88-39 requesting the Anchorage legislative delegation to follow Municipal priorities as approved by the Assembly and Administration

  - High Priority 1988 Construction

    -- Group I - Assembly Priorities $61,836,900

    -- Group II - Other Priorities $41,802,900

    -- High Priority 1989 Construction $38,890,000

    -- Anchorage School District Priorities

    -- Railbelt Energy Fund - Municipality of Anchorage's support for maintaining the Railbelt Energy Fund for railbelt communities' energy projects

    -- Alaska Department of Environmental Conservation sewer and water community grant program

C. Phase 3 - Longer Term Economic Recovery Program

Specific proposals have not been finalized for all elements in this phase. Some would require State action while others are primarily local initiatives. A series of proposals and actions are being evaluated--including the items listed below.

* Local development opportunities

  - Home Port, location of Navy installation in Southcentral Alaska

  - 1994 Winter Olympics

  - Ski Resorts

  - Ship Creek Development

  - Tourism Promotion

* Stabilize taxes and utility rates

* Extra Permanent Fund Dividend payments

* Heritage Land Bank as a source of land for industrial development

* Legislation permitting use of tax incentives for business development

* Streamlining of local permitting requirements

* Local purchase/import substitution

V. Proposed Capital Projects

The attached list of projects has been developed and grouped based on criteria geared toward generating an immediate stimulus to the professional design/engineering and construction sectors of Anchorage's economy. Primary criteria favored projects which are ready to proceed, labor intensive, employ local workers and reduce Municipal operation and maintenance costs. Secondly, we considered projects which maximize use of local materials, have been endorsed through the public review process, have positive life safety and health impacts, and are a positive influence on future economic development. The Assembly has passed Resolution No. 88-39 requesting the Anchorage Legislative delegation to follow Municipal priorities as approved by the Assembly and Administration.

A. High Priority-1988 construction: High priority projects which can be constructed in 1988.

* Group I - Projects that have been specifically endorsed by the Assembly as top priority.

* Group II - Other high priority projects identified by the Administration which can be constructed in 1988.

B. High Priority-1989 construction: High priority projects endorsed by the Assembly or identified by the Administration which, due to the constraints of design, right-of-way acquisition or permitting, cannot be bid for construction until 1989 or 1990.

C. Anchorage School District Capital Projects

The Anchorage School District has compiled a separate listing of capital projects which was submitted to the Legislature early in this session. Many of these projects are necessary for the life/safety of Anchorage students and other projects address deferred maintenance needs or are considered essential to the instructional program by the School Board.

The Anchorage Assembly has responsibility to establish funding for community-wide capital projects. The Assembly has discussed and approved the capital projects included in the Anchorage Economic Recovery Program as priorities for Anchorage; however, it has not prioritized the projects proposed by the School District.

D. Railbelt Energy Fund

The Railbelt Energy Fund was established to address electrical needs of communities from the Kenai Peninsula Borough to Fairbanks. There have been several proposals this session to reallocate these funds for other purposes. The Alaska Power Authority, through funds authorized by the 1987 Legislature, has undertaken a major effort to examine the electrical/power requirements of Railbelt communities and examine a series of proposals, including expansion and upgrade of the existing intertie distribution system. Contracts for this analysis are underway with final conclusions and recommendations due in March 1989. An interim report will be distributed to the 1989 Legislature.

If no other sources of state funds are made available for economic recovery then the Railbelt Energy Fund should be used for that purpose.

E. Alaska Department of Environmental Conservation Community Sewer and Water Grants

The State of Alaska has for the past several years supported a level of ADEC grants (50% State, 50% local) to Anchorage for basic sewer and water improvements throughout the Anchorage area. The fiscal year 1989 budget currently under Legislative consideration contains no continued funding for this vital program in Anchorage. The funding request to the State for the 1988 construction year includes the Eagle River Wastewater Treatment Facility upgrade, water improvement districts, transmission mains, distribution reservoirs and utility improvements related to road construction. The funding request for the Eagle River Treatment facility will provide partial funding of the local share requirement for an EPA grant of approximately $4 million. The Anchorage request to ADEC for the State's 50% grant share is summarized as follows:

Anticipated Improvement Districts	$1,700,000
ADOTPF Highway Related	132,000
Miscellaneous Transmission Mains	732,000
Distribution Reservoirs	177,000
Accelerated Sewer Program	177,000
Eagle River WWTF Upgrade	3,500,000
Total	$6,418,000

APPROVED
Date: 3-1-88

Submitted by: Chairman of the Assembly at the Request of the Mayor
Prepared by: Office of Management and Budget
For Reading: March 1, 1988

ANCHORAGE, ALASKA
AR NO. 88-39

A RESOLUTION OF THE ANCHORAGE ASSEMBLY REQUESTING THE ANCHORAGE LEGISLATIVE DELEGATION FOLLOW THE ASSEMBLY/ADMINISTRATION-APPROVED MUNICIPAL CAPITAL PROJECTS LIST WHEN APPROPRIATING CAPITAL FUNDING FOR ANCHORAGE PROJECTS.

WHEREAS, State funding for capital projects has declined significantly in the past several years; and

WHEREAS, the Municipality of Anchorage has many unmet capital needs; and

WHEREAS, the Municipality of Anchorage has a capital improvement process which includes the Community, Administration and Assembly through which capital projects are prioritized on a community-wide basis; and

WHEREAS, the Capital Projects Section of the Anchorage Economic Program reflected the local priorities reviewed and approved by the Assembly and Administration.

NOW, THEREFORE, the Anchorage Assembly resolves:

Section 1. To strongly recommend that the Anchorage Legislative Delegation seek funding for those Municipal capital projects on the Assembly-approved priority list.

Section 2. If a Legislative priority project including Anchorage School District projects is not on the Municipality's approved list, adequate opportunity should be allowed the Municipality to evaluate the project and make a joint Assembly/Administration recommendation back to the Legislature.

PASSED AND APPROVED by the Anchorage Assembly this _____ day of _____, 1988.

_____
Chairman

ATTEST:

_____
Municipal Clerk

ANCHORAGE CAPITAL PROJECTS

Name of Project	1988 ($000)	Notes
HIGH PRIORITY - 1988 CONSTRUCTION		
GROUP I - ASSEMBLY PRIORITIES		
Lake Otis Parkway, III (Tudor to Dowling)	$ 2,500.0	Electrical undergrounding, sewer/water, bike path & landscaping
Klatt Road (Timberline to Southport)	$ 3,400.0	Paving, curb & gutter, sidewalks, bike path, lighting & landscaping
Spenard Road, II (International to Turnagain) **(HB 512 - $3,500,000)**	$11,400.0	ROW acquisition $4.2M Roadway construction $7.2M
Hiland Road - Phase II	$ 500.0	Road improvement and slope stabilization - needs design
Santa Maria Drive	$ 850.0	Upgrade gravel road - design is being negotiated
Hiland Bridge Pedestrian Walkway	$ 450.0	State DOT project. Widen pathway from 8' to 12' on future bridge. Under design for 1988 construction.
36th Avenue (Arctic to Spenard)	$ 4,800.0	ROW acquisition funded; roadway and landscaping construction
East 6th Ave. (Muldoon-Cherry)	$ 2,000.0	Road Construction - needs design
Lake Otis Parkway, IV (66th to Abbott)	$15,800.0	ROW acquisition $2.1M; roadway and landscaping construction $13.7M
Arctic Blvd. (Raspberry to Dimond)	$ 3,500.0	Utility relocations and construction $3.5M
Huffman Rd. (New Seward to Bragaw) **(HB 512 - $3,002,200)**	$ 3,500.0	Bid package ready by July, State DOT project
Baranoff	$ 1,620.0	Upgrade gravel road - design is being negotiated
Klondike	$ 270.0	Upgrade gravel road - design is being negotiated
Eagle River Roads **(HB 512 - $650,000 Eklutna to Eagle River)**	$ 900.0	Strip paving. Design negotiation underway.
Lake Otis (O'Malley-Huffman)	$ 3,100.0	ROW acquisition $.3M; design $.4M; and construction $2.4M.

Name of Project	1988 ($000)	Notes
GROUP I - ASSEMBLY PRIORITIES (continued)		
ARDSA Rehab Projects (HB 512 - $1,115,000) Venus Way $200,000 Oceanview $200,000 Admirality Bay $74,000 Dare Avenue $17,000	$ 4,000.0	Implementation of 5-yr. road improvement plan - needs design Collins Way $17,000 Imlach $37,000 Tall Spruce $150,000 E. 20th $110,000 Turpin $150,000 First Avenue $160,000
Hillside Drainage Plan Phase I Study	$ 300.0	Complete assessment of drainage problems on Hillside identifying specific capital projects
Hollywood Vista Apartments	$ 2,146.9	Provide for the asbestos removal ($646,875) and demolition ($1,500,000) of the apartment building recently transferred from HUD to Municipal ownership
Willow Park Apartments	$ 2,200.0	Demolition and restoration of apartment building site
W. Northern Lights Blvd. I (Forest Park to Wisconsin)	($ 1,400.0)	Landscaping complete; request transfer of residual funds to Spenard Road II
Subtotal	$61,836.9	
GROUP II - OTHER PRIORITIES		
Windemere Phase I Reconstruction	$ 697.0	Paving, curbs, drainage. Design complete, construction contract
Heather Meadows Phase III (HB 512 $400,000 Heather Meadows and Windemere)	$ 724.0	Subdivision reconstruction roads and drainage (design 50% complete)
Central Business District Rehabilitation	$ 600.0	Sidewalk, curbs, drainage (design complete)
Downtown Sidewalk, Lighting and Landscape Improvements	$ 1,000.0	Upgrade and improve curbs, sidewalk, signals and lighting in areas of 5th and 6th between C and G. Design in progress.
Post Road	$ 448.0	Paving overlay (design 95% complete)
Ocean Dock	$ 170.0	Paving overlay (design 95% complete)
Lakeview Terrace	$ 1,720.0	Subdivision reconstruction, roads and drainage. Under design for summer construction.

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Emerald Hills	$ 1,357.0	Subdivision reconstruction roads and drainage. Under design for summer construction.
Municipal Building Energy Projects	$ 180.0	Conversion to gas heat, mechanical modifications, setbacks on fans and heating systems, lighting reductions. Will save an estimate of $140,000 in future annual O&M costs.
Town Square Park	$ 400.0	Construct Phase I including site preparation and underground utility work. Design under contract for 1988 construction
Maritime Receiving Area	$ 2,000.0	Installation of a fish handling and small freight dock at Ship Creek for tenders and barge
ADEC Sewer and Water Match	$ 500.0	Provide required local matching funds for the ADEC Construction Grant Program for improvement district, transmission mains, distribution centers, etc.
Water/Wastewater Repair and Rehabilitation	$ 1,200.0	Replace antiquated woodstave water and sewer lines and outdated clay sewer pipe in downtown and Government Hill
Golden View Water Extension	$ 750.0	Construct 24" oversized water line and pump station in the Golden View area - being designed
Girdwood Wastewater Treatment Facility	$ 2,700.0	Upgrade of Girdwood treatment facility Phase I, outfall from treatment facility to creek $1M - in design
Hiland Drive Project	$ 2,770.0	Construct sewer pump station, force main and interceptor serving the Hiland Drive area (Eagle River ski resort, prison and residential). Design will be completed by summer construction.
Port/Landfill Development Project	$ 4,800.0	Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement.

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Merrill Field Runway Construction Grant (matching grant) **(HB 512 - $147,000)**	$ 147.0	FAA Federal grant to upgrade the Merrill Field north/south runway $2.3M. Grant is being processed, design to be Completed in May, construction August 1, completion mid-November.
Merrill Field Passenger Terminal	$ 4,000.0	Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.
Public Works - Deferred Municipal Building Maintenance		
Historical Fine Arts Museum	$ 250.0	Repair/replace damaged wall coverings in art galleries.
Tudor Road Building	$ 150.0	Heating system replacement (design complete)
Woodland Park School	$ 78.4	Heating system repairs - 3-4 weeks designs
Municipal Buildings Roof Repairs	$ 39.7	Roof maintenance and repair on 9 buildings
Paint Municipal Buildings **(HB 512 - $5,000 Goose Lake)**	$ 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 **(HB 512 - $6,500 Mt. View)**	$ 37.0	Construct and repair interior walls and carpet

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Asbestos Abatement (HB 512 - $54,410 Goose Lake)	$ 1,300.3	- Fire stations $173,300 (design Complete) - Old City Hall $250,500 (designs - 3-4 weeks required) - Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, - Goose Lake Center, Government Hill Community Center $326,400 (design - 2-3 weeks required) - Public Health Facility $363,600 (design 2-3 weeks required) - Other municipal buildings $186,500 (design - 2-3 weeks required)
Parks and Recreation - Meet additional criteria of life/safety improvements		
Delong Lake Park	$ 50.0	Replace public use dock
Nunaka Valley Park (HB 512 - $25,000)	$ 25.0	Replace broken playground equipment
Jewel Lake Park (HB 512 - $107,000)	$ 130.0	Playground and equipment repair, dock Replacement
Goose Lake Park (HB 512 - $80,000)	$ 80.0	Parking lot redesign and traffic barriers
Kincaid Park	$ 50.0	Replace public use dock
Sand Lake Park	$ 50.0	Replace public use dock
University Lake (HB 512 - $80,000)	$ 70.0	Bike trail bridge replacement
Valley Street	$ 85.0	Lake shore steep bank improvements
Taku Lake (HB 512 - $125,000)	$ 225.0	Lake shore steep bank improvements and dock construction
Chester Creek Trail System (HB 512 - $400,000)	$ 1,625.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Campbell Creek Trail System	$ 875.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Parks and Recreation Improvements		
Willow Housing Park	$ 45.0	Park repair and rehabilitation
Browns Pt. Park **(HB 512 - $40,000)**	$ 40.0	Park repair and rehabilitation
Delaney Park	$ 260.0	Top soil and reseed
Duldida Park **(HB 512 - $85,000)**	$ 85.0	Park repair and rehabilitation
Kanchee Park **(HB 512 - $85,000)**	$ 85.0	Park repair and rehabilitation
Fairview Park	$ 10.0	Barrier posts and rehabilitation
Ruth Arcand Park	$ 35.0	Entry road improvements
So. Russian Jack Springs Park	$ 35.0	Picnic area entrance rehabilitation
Davenport Fields	$ 80.0	Parking improvements
Lyn Ary Park **(HB 512 - $20,400)**	$ 30.0	Repair and rehabilitation
Campbell Park **(HB 512 - $65,000)**	$ 65.0	Shoreline and park repair and rehabilitation
"C" Street Community Garden **(HB 512 - $20,000)**	$ 20.0	Soil and parking improvements
Cope Street Park **(HB 512 - $35,000)**	$ 35.0	Repair and rehabilitation
Wilson St. Park **(HB 512 - $35,000)**	$ 35.0	Repair and rehabilitation
Pena Field	$ 45.0	Parking and playfield improvements
Davis Park **(HB 512 - $195,000)**	$ 220.0	Basketball court construction and playfield rehabilitation
Pop Carr Park	$ 180.0	Tennis court, walkway and park rehabilitation
Storck Park	$ 200.0	Playfield, playground and park Improvements

Name of Project	1988 ($000)	Notes
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 **(HB 512 - $10,000)**	$ 5.0	New park improvements
Town Square **(HB 512 - $15,000)**	$ 15.0	Park improvements -
Schroeder Park	$ 35.0	Planning and construction document preparation
Eagle River Tennis Court	$ 160.0	Construction
Chief Alex Park **(HB 512 - $15,000)**	$ 15.0	Park improvements
Mirror Lake **(HB 512 - $55,000)**	$ 55.0	Drainage and parking improvements
Girdwood **(HB 512 - $200,000)**	$ 120.0	Pathway completion
Girdwood Water	$ 5,700.0	Rehabilitate Girdwood water systems donated to Municipality. O&M costs will be offset by user revenues
Performing Arts Center add backs which are revenue generating	$ 400.0 300.0 500.0 300.0	Large Rehearsal Hall Small Rehearsal Hall Orchestra Pit Lifts Concession Equipment
Huffman School Pathway Lighting	$ 50.0	Lighting of two pathways providing access to school through Huffman Park
O'Malley School Pathway	$ 90.0	Provide access to school along Rockridge Road
Girdwood EMS Vehicle	$ 75.0	Replacement of a 1980 Medic Unit serving the Girdwood area

Name of Project	1988 ($000)	Notes
Girdwood Pedestrian Trail	$ 325.0	Design and construction of a walkway from the resort along Alyeska Highway to the Old Girdwood townsite
Subtotal	$41,802.9	
HIGH PRIORITY - 1988 CONSTRUCTION TOTAL	$103,639.8	
HIGH PRIORITY-1989 CONSTRUCTION		
Edwards (DeBarr to Ptarmigan School)	$ 500.0	Road Construction - needs design
Sullins/Chugach Park Road	$ 390.0	Upgrade gravel road - design is being negotiated
Spenard Road, III (Turnagain to McRae)	$ 7,100.0	Roadway and landscaping construction $7.1M
Dimond Blvd. (New Seward to 88th)	$ 4,700.0	Design $.6M; ROW acquisition $4.1M; roadway and landscaping construction
West Northern Lights, II (Wisconsin to Aero)	$ 5,600.0	Design $.5M; roadway and landscaping construction $5.1M
Hillside Drainage Plan Phase I Implementation	$ 5,000.0	Implementation of drainage improvements - needs design
Birch Road, Huffman to DeArmoun	$ 1,700.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Buffalo Street	$ 2,200.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Elmore Street	$ 2,300.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Bragaw Street	$ 2,500.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Arctic (Raspberry to Dimond)	$ 5,700.0	Road construction

Name of Project	1989 ($000)	Notes
Windemere Phase II	$ 700.0	Subdivision reconstruction roads and drainage
Town Square Phase II	$ 500.0	Construct Phase II - final development
HIGH PRIORITY-1989 CONSTRUCTION	$ 38,890.0	
TOTAL 1988/1989 CONSTRUCTION	$142,529.8	

88cib/n/g4

SECOND DRAFT

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

Submitted to the Assembly
by Mayor Tom Fink, January 19, 1988

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

I. Anchorage's Current Economic Condition

II. Objectives of the Economic Recovery Program

III. Description of the Economic Recovery Program

IV. Economic Recovery Program Elements

V. Proposed Capital Projects

I. ANCHORAGE'S CURRENT ECONOMIC CONDITION

Anchorage has been hit hard by the Alaska recession. The statistics are dramatic, but give only a glimpse of the suffering and despair felt by so many residents. Nearly 15,000 jobs (and the associated incomes) have been lost in Anchorage since January 1986. The rate of job loss is higher in Anchorage than in the state as a whole.

Population declines coupled with falling incomes have reduced the demand for goods, services and housing. These impacts continue to ripple throughout the economy resulting in personal and business financial distress. Personal bankruptcies are occurring at an average monthly rate which is 2.6 times that experienced in 1985; business bankruptcies are 75% above the average 1985 level.

The real estate market has been jolted. The total value of taxable property in the Municipality of Anchorage has declined by a third -- over $5 billion dollars -- since January 1, 1986. Alaska Housing Finance Corporation, the largest mortgage lender in the state, has a delinquency rate in excess of 15%; and has foreclosed on nearly 3600 properties in 1987, compared with 630 in 1985. Survey data indicate that as many as 40% of local residential mortgage holders may now owe more on their properties than the value of these homes in the current market. These "under water" loans represent the loss (at least on paper) of the major savings of many families. If individuals need to sell now, the effect is devastating. Even for those who have no immediate requirement to sell, the loss in wealth has a dampening effect on family expenditures and financial confidence.

The story is repeated in the commercial real estate market. Vacancy rates are unusually high. The imbalance between existing supply (a fixed amount) and falling demand, has resulted in numerous foreclosures on commercial property. Businesses still viable today may be pulled under by the inability to indefinitely "feed" related investments in commercial real estate. Several financial institutions have closed their doors; other are taking substantial losses.

As the tax base and other sources of government revenue shrink, local government loses its ability to provide goods and services. The Municipality of Anchorage is currently facing cutbacks in excess of $14 million. Projections of 1989 revenues indicate even more severe drops. These cuts translate into hundreds of jobs. Local government program reductions and employee layoffs exacerbate the economic decline, feeding the downward spiral.

The length of this recession in uncertain. Although employment is still falling, the 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
HIGH PRIORITY - 1988 CONSTRUCTION		
GROUP I - ASSEMBLY PRIORITIES		
Lake Otis Parkway, III (Tudor to Dowling)	$ 2,500.0	Electrical undergrounding, sewer/water, bike path & landscaping
Klatt Road (Timberline to Southport)	$ 3,400.0	Paving, curb & gutter, sidewalks, bike path, lighting & landscaping
Spenard Road, II (International to Turnagain)	$11,400.0	ROW acquisition $4.2M Roadway construction $7.2M
Hiland Road	$ 500.0	Road improvement and slope stabilization - needs design
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East 6th Ave. (Muldoon-Cherry)	$ 2,000.0	Road Construction - needs design
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Klondike	$ 270.0	Upgrade gravel road - design is being negotiated
Eagle River Roads	$ 900.0	Strip paving. Design negotiation underway
Lake Otis (O'Malley-Huffman) signalization at Huffman	$ 3,100.0	ROW acquisition $.3M; design $.4M; and construction $2.4M. Potential private development under reimbursement plan.
ARDSA Rehab Projects	$ 4,000.0	Implementation of 5-yr. road improvement plan - needs design

Name of Project	1988 ($000)	Notes
GROUP I - ASSEMBLY PRIORITIES (continued)		
Hillside Drainage Plan Phase I Study	$ 300.0	Complete assessment of drainage problems on Hillside identifying specific capital projects
W. Northern Lights Blvd. I (Forest Park to Wisconsin)	($ 1,400.0)	Landscaping complete; request transfer of residual funds to Spenard Road II
Subtotal	$57,490.0	
GROUP II - OTHER PRIORITIES		
Windemere Phase I Reconstruction	$ 697.0	Paving, curbs, drainage. Design complete, construction contract awarded
Central Business District Rehabilitation	$ 600.0	Sidewalk, curbs, drainage (design complete)
Downtown Sidewalk, Lighting and Landscape Improvements	$ 1,000.0	Upgrade and improve curbs, sidewalk, signals and lighting in areas of 5th and 6th between C and G. Design in progress.
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Municipal Building Energy Projects	$ 180.0	Conversion to gas heat, mechanical modifications, setbacks on fans and heating systems, lighting reductions. Will save an estimate of $140,000 in future annual O&M costs.
Town Square Park	$ 400.0	Construct Phase I including site preparation and underground utility work. Design under contract for 1988 construction
Maritime Receiving Area	$ 2,000.0	Installation of a fish handling and small freight dock at Ship Creek for tenders and barge

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
ADEC Sewer and Water Match	$ 500.0	Provide required local matching funds for the ADEC Construction Grant Program for improvement district, transmission mains, distribution centers, etc.
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Port/Landfill Development Project	$ 4,800.0	Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement.
Merrill Field Runway Construction Grant (matching grant)	$ 147.0	FAA Federal grant to upgrade the Merrill Field north/south runway $2.3M. Grant is being processed, design to be completed in May, construction August 1, completion mid-November.
Merrill Field Passenger Terminal	$ 4,000.0	Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.
Public Works - Deferred Municipal Building Maintenance		
Historical Fine Arts Museum	$ 250.0	Repair/replace damaged wall coverings in art galleries.
Tudor Road Building	$ 150.0	Heating system replacement (design complete)
Woodland Park School	$ 78.4	Heating system repairs - 3-4 weeks designs

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Municipal Buildings Roof Repairs	$ 39.7	Roof maintenance and repair on 9 buildings
Paint Municipal Buildings	$ 110.0	Small painting projects on 14 building interiors and exteriors
Fleet Service Building	$ 125.0	Fire sprinkler system - 4-5 weeks design required
Transit Storage Building	$ 57.5	Repair doors and floor
Hill Building	$ 12.0	Upgrade air conditioner in 5th floor computer room
Gateway Park (International Airport Road)	$ 125.0	Replace underground sprinkler system for landscaping - 2 weeks design required
West Chester Lagoon Park	$ 35.0	Replace underground sprinkler system for landscaping - 2 weeks design required
Libraries and Maintenance Shop	$ 37.0	Construct and repair interior walls and carpet
Asbestos Abatement	$ 1,300.3	- Fire stations $173,300 (design complete) - Old City Hall $250,500 (designs - 3-4 weeks required) - Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center $326,400 (design - 2-3 weeks required) - Public Health Facility $363,600 (design 2-3 weeks required) - Other municipal buildings $186,500 (design - 2-3 weeks required)
Parks and Recreation - Meet additional criteria of life/safety improvements		
Delong Lake Park	$ 50.0	Replace public use dock
Nunaka Valley Park	$ 25.0	Replace broken playground equipment
Jewel Lake Park	$ 130.0	Playground and equipment repair, dock replacement
Goose Lake Park	$ 80.0	Parking lot redesign and traffic barriers
Kincaid Park	$ 50.0	Replace public use dock
Sand Lake Park	$ 50.0	Replace public use dock

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
University Lake	$ 70.0	Bike trail bridge replacement
Valley Street	$ 85.0	Lake shore steep bank improvements
Taku Lake	$ 225.0	Lake shore steep bank improvements and dock construction
Chester Creek Trail System	$ 1,625.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Campbell Creek Trail System	$ 875.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Parks and Recreation Improvements		
Willow Housing Park	$ 45.0	Park repair and rehabilitation
Browns Pt. Park	$ 40.0	Park repair and rehabilitation
Delaney Park	$ 260.0	Top soil and reseed
Duldida Park	$ 85.0	Park repair and rehabilitation
Kanchee Park	$ 85.0	Park repair and rehabilitation
Fairview Park	$ 10.0	Barrier posts and rehabilitation
Ruth Arcand Park	$ 35.0	Entry road improvements
So. Russian Jack Springs Park	$ 35.0	Picnic area entrance rehabilitation
Davenport Fields	$ 80.0	Parking improvements
Lyn Ary Park	$ 30.0	Repair and rehabilitation
Campbell Park	$ 65.0	Shoreline and park repair and rehabilitation
"C" Street Community Garden	$ 20.0	Soil and parking improvements
Cope Street Park	$ 35.0	Repair and rehabilitation
Wilson St. Park	$ 35.0	Repair and rehabilitation
Pena Field	$ 45.0	Parking and playfield improvements
Davis Park	$ 220.0	Basketball court construction and playfield rehabilitation
Pop Carr Park	$ 180.0	Tennis court, walkway and park rehabilitation

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Storck Park	$ 200.0	Playfield, playground and park improvements
Fence, Barricades and Backstop	$ 100.0	Repair and/or replacement of existing park fencing, barricade and backstops
Sand and Soil Cleaning and Replacement	$ 100.0	Replacement and improvements to swimming beaches and sand lots
Parking Repair	$ 200.0	Upgrading of existing parking areas and drainage repairs
Eagle Glenn Park	$ 5.0	New park improvements
Spirit Park S. Fork	$ 5.0	New park improvements
Town Square	$ 15.0	Park improvements
Schroeder Park	$ 35.0	Planning and construction document preparation
Eagle River Tennis Court	$ 160.0	Construction
Chief Alex Park	$ 15.0	Park improvements
Mirror Lake	$ 55.0	Drainage and parking improvements
Girdwood	$ 120.0	Pathway completion
Girdwood Water	$ 5,700.0	Rehabilitate Girdwood water systems donated to Municipality. O&M costs will be offset by user revenues
Performing Arts Center add backs which are revenue generating	$ 400.0 300.0 500.0 300.0	Large Rehearsal Hall Small Rehearsal Hall Orchestra Pit Lifts Concession Equipment
Subtotal	$41,262.9	
HIGH PRIORITY - 1988 CONSTRUCTION TOTAL	$98,752.9	
HIGH PRIORITY-1989 CONSTRUCTION		
Edwards (DeBarr to Ptarmigan School)	$ 500.0	Road Construction - needs design
Sullins/Chugach Park Road	$ 390.0	Upgrade gravel road - design is being negotiated

Name of Project	1988 ($000)	Notes
HIGH PRIORITY-1989 CONSTRUCTION (continued)		
Spenard Road, III (Turnagain to McRae)	$ 7,100.0	Roadway and landscaping construction $7.1M
Dimond Blvd. (New Seward to 88th)	$ 4,700.0	Design $.6M; ROW acquisition $4.1M; roadway and landscaping construction
West Northern Lights, II (Wisconsin to Aero)	$ 5,600.0	Design $.5M; roadway and landscaping construction $5.1M
Hillside Drainage Plan Phase I Implementation	$ 5,000.0	Implementation of drainage improvements - needs design
Birch Road, Huffman to DeArmoun	$ 1,700.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Buffalo Street	$ 2,200.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Elmore Street	$ 2,300.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Bragaw Street	$ 2,500.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Arctic (Raspberry to Dimond)	$ 5,700.0	Road construction
Windemere Phase II	$ 700.0	Subdivision reconstruction roads and drainage
Town Square Phase II	$ 500.0	Construct Phase II - final development
HIGH PRIORITY-1989 CONSTRUCTION	$ 38,890.0	
TOTAL 1988/1989 CONSTRUCTION	$137,642.9	

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BOARD MEMBERS: REVIEW, THEN DISCUSS AT 15 JANUARY BOARD MEETING!

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 circumstnaces. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

* Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's $1.5 billion in equity.

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ANCH. CHAMBER OF COMMERCE

* The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.

* The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

Real Estate Market

The real estate market in Anchorage, both commercial and residential, is characterized by a significant imbalance of supply and demand. The excessive supply cannot be reasonably absorbed in the near or mid-term (say next five years) and will have the ongoing effect of depressing real estate prices. The impact is not limited to real estate speculators but is pervasive to most citizens in that most have major investments in real estate. So as personal and business income decline, the ability to continue to function is jeopardized by the debt service with the resulting effect in foreclosures, bankruptcies, etc.

We believe the imbalance in supply and demand can be partially adjusted by reducing the supply of real estate. Specifically, we would recommend the following:

* For residential property:

  ** Remove sub-standard, low income housing from the market and destroy the properties. Convert other property to low income housing so there is no additional cost to the low income person.

  ** Ship mobile homes that have been vacated out of the state.

  ** Convert existing condo or similar units to University of Alaska student housing.

* For commercial property:

  ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

to an REIT which would acquire FDIC-owned property and other obsolete property at a nominal price simply for the purpose of holding the property off the market.

** Consider use of the Permanent Fund as a "Vulture Fund" to finance the property acquisition in conjunction with Heritage Land Bank.

AIDEA

AIDEA should be instructed to adopt restructuring policies that provide a cushion to commercial borrowers. For example, these procedures should include interest rate reductions when loss of jobs would occur if the loan defaulted. AIDEA should be allowed to take an equity participation in consideration for restructuring the terms and conditions which result in the survival of a business.

AIDEA should modify its requirements so that banks can participate even if their loan delinquency rate exceeds two percent.

AIDEA should expand its lending activities to provide for a new guaranteed loan program modelled after the federal SBA program. The essentials of the program should include:

* Bank administered with AIDEA guarantee.

* Loans would be available to finance existing AIDEA debt; other debts could not be refinanced.

* $1,000,000 limit on loan.

* Funds could be used for new construction if the project had an economic benefit analysis.

The revisions to the AIDEA programs should result in the survival of the viable small businesses, thereby maintaining statewide employment and minimizing the effects of the current recession.

Employment Incentives Fund

The State should identify a portion (say $50 million) of the construction fund budget to be used as a venture capital fund. The fund should be used somewhat along the following guidelines:

* An applicant could apply for capital funds up to

$10 million. Matching funds would be available on a dollar-for-dollar basis. In other words, an applicant could receive $1 of State funds to the extent the applicant put in $1 of private sector funds.

* The private sector project would need to create new jobs for the state of Alaska to qualify. These new jobs would need to be permanent positions as a result of the project and not as a result of any capital construction.

* The criteria for qualifying may be that for each $1 million of State participation, five new positions must be created.

* The criteria might also include that the project results in new dollars coming into the state of Alaska and the economy. In other words, it will result in exporting local products or services.

The State and local municipalities have no specific program incentives to entice business. While this would be a onetime subsidy program, it would create new jobs throughout the state and provide a sustaining boost to the economy.

Public Forum

Town hall meetings should be held wherein local businesses are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).

It's time to take economic action



By Scott Hawkins

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 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. Long-time, 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 goverenments 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.

Bob Bruss E 5
Seattle Times Sunday 2/7/88

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 [illegible] has given contracts to [illegible]

/ Seattle Times

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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.

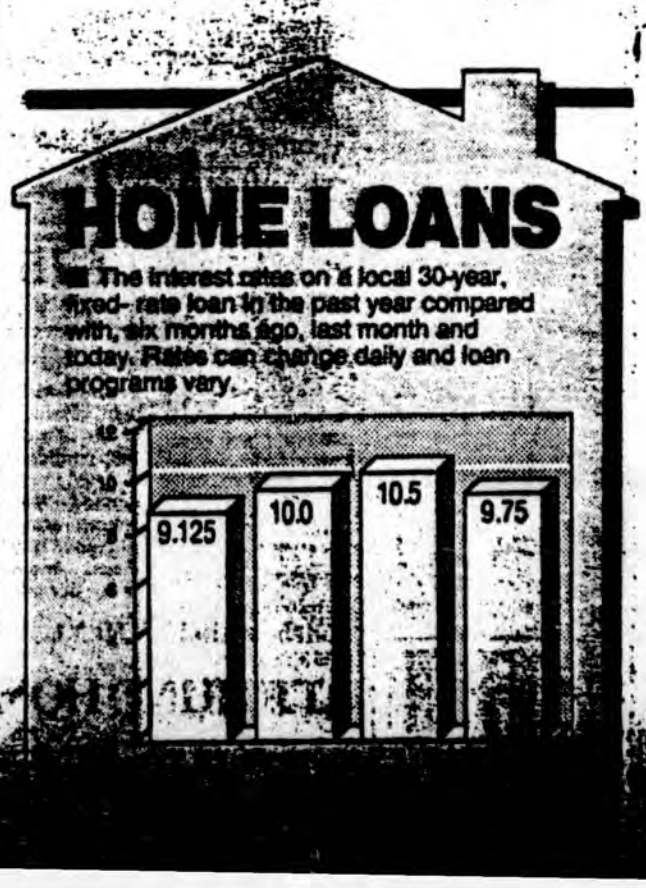
Florio, who is chairman of the House subcommittee on commerce, consumer protection and competitiveness, and Rep. Fernand St Germain, D-R.I., chairman of the House Banking Committee, have been investigating FADA for months.

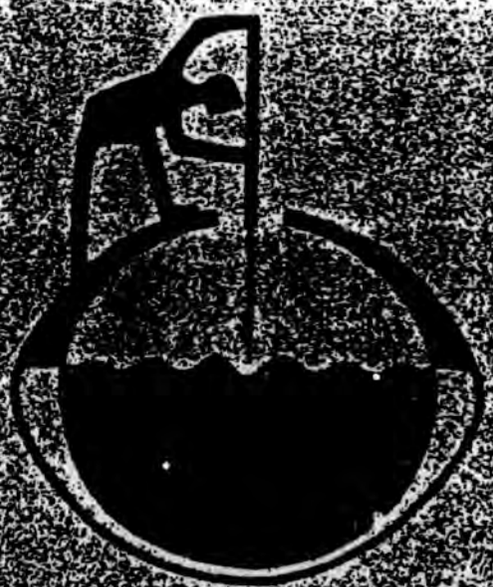
Recently St Germain said he might call for FADA's abolishment.

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.





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

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Anchorage, Alaska 99508
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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, Alasks'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.

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.

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

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

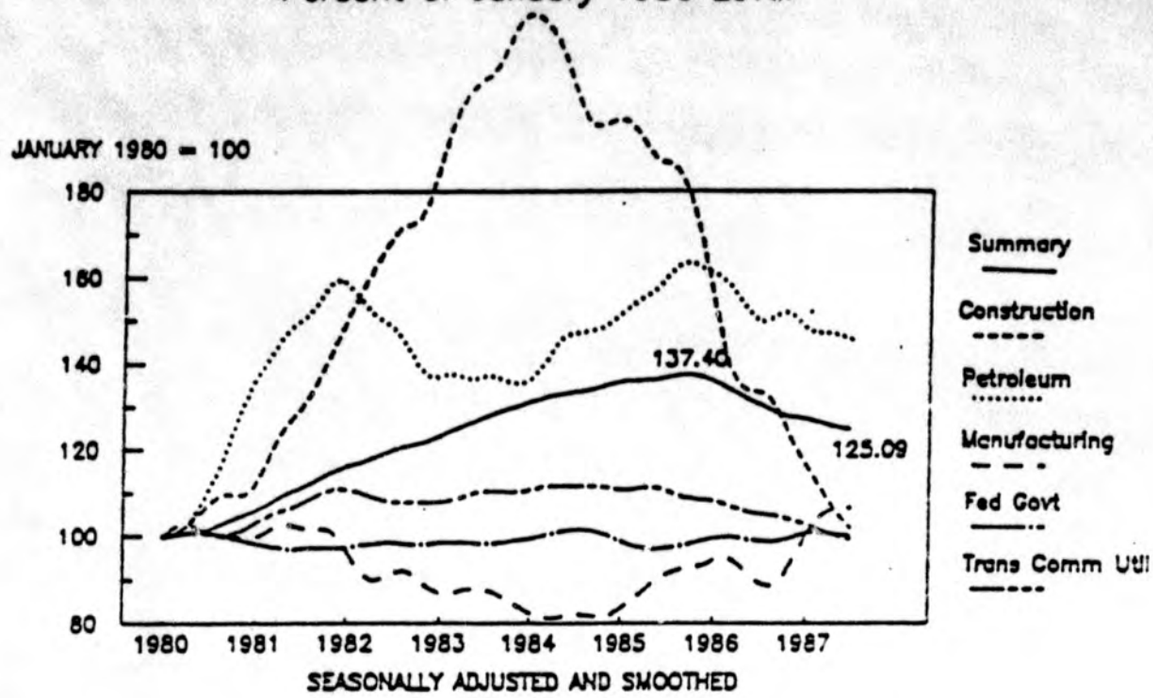


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

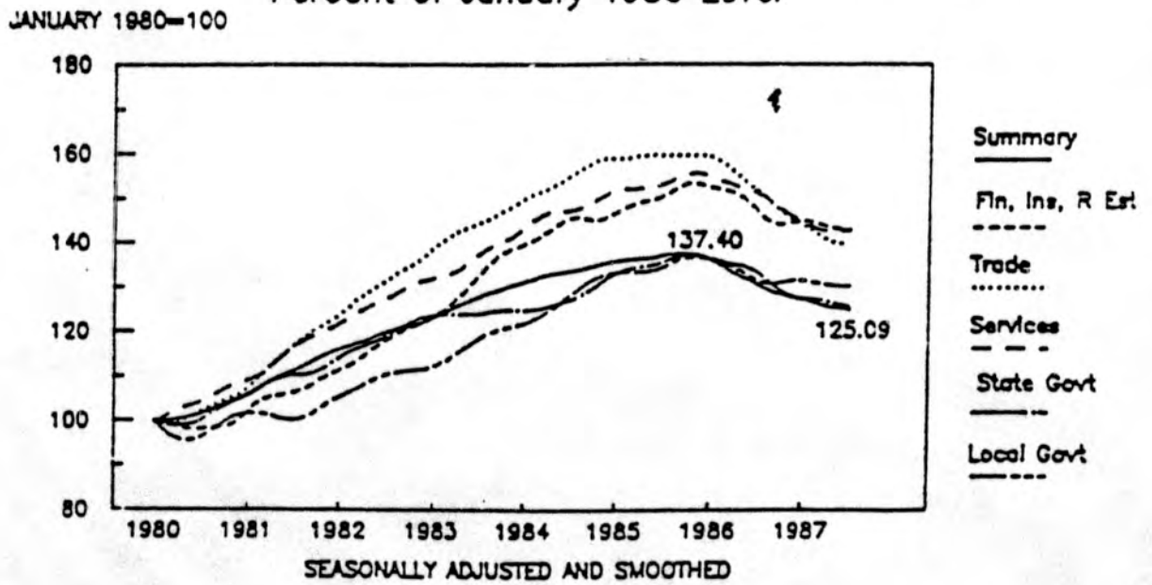


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

	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

[a]No significant loss from peak to date. These industries are experiencing a cyclical peak.

[b]Peak month--January 1984.

Figure 2.5

ANCHORAGE EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

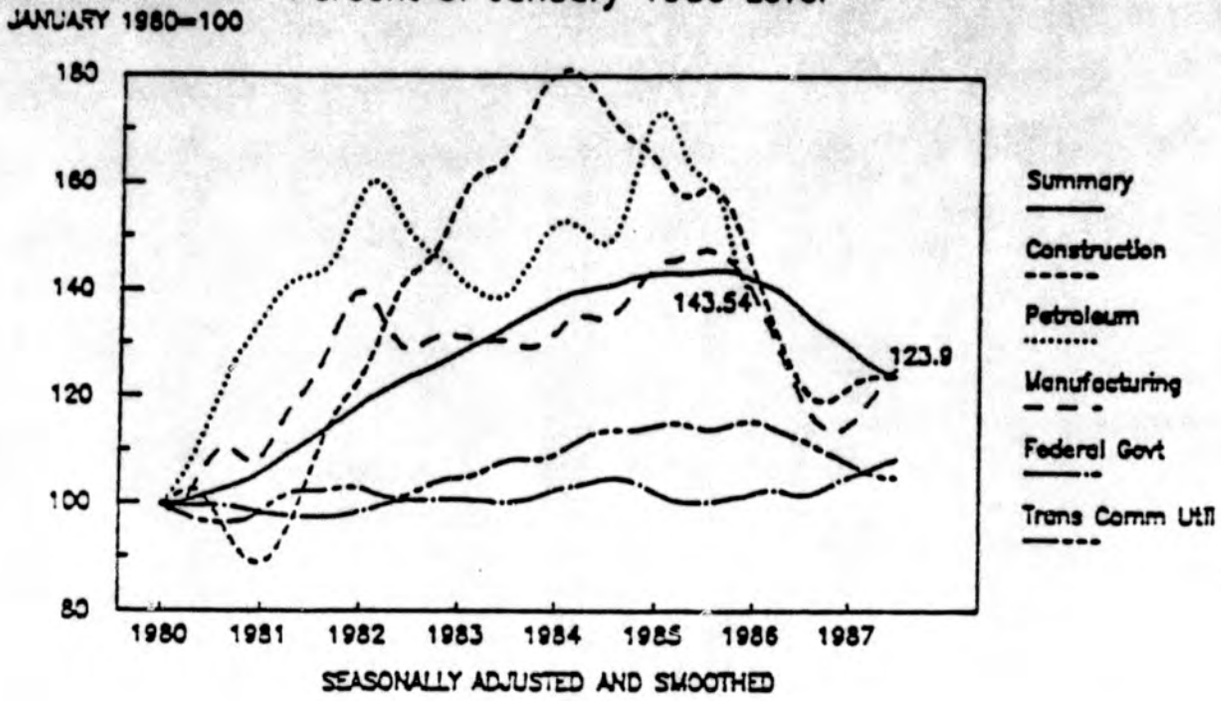


Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

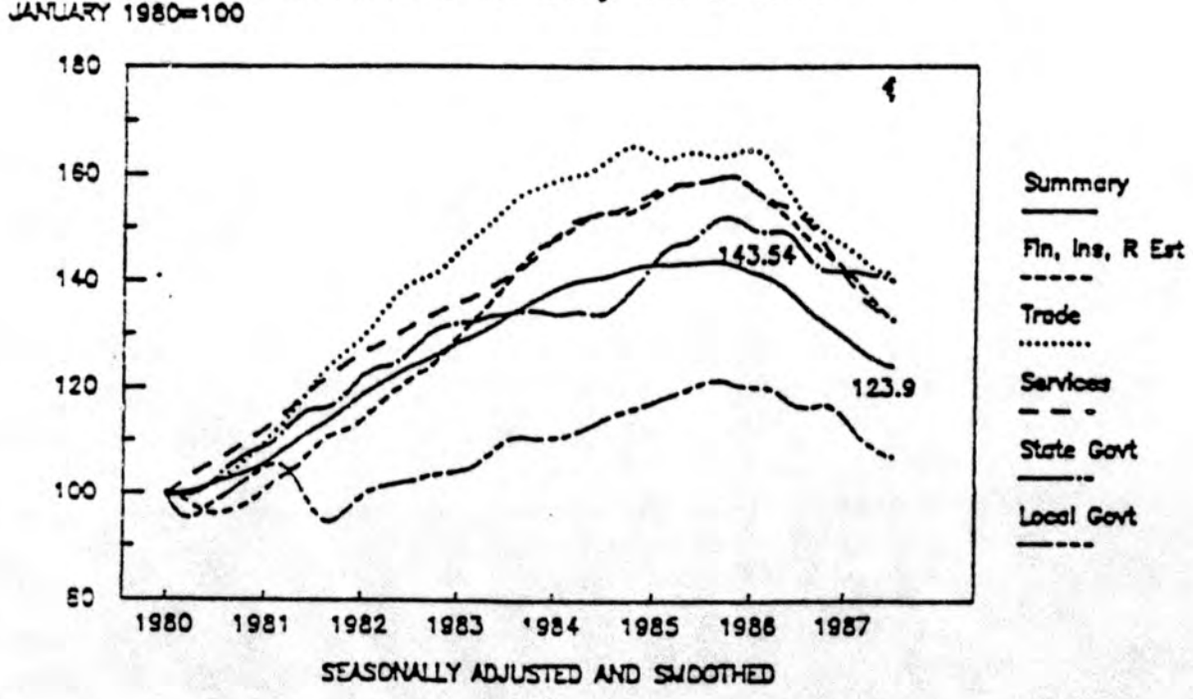
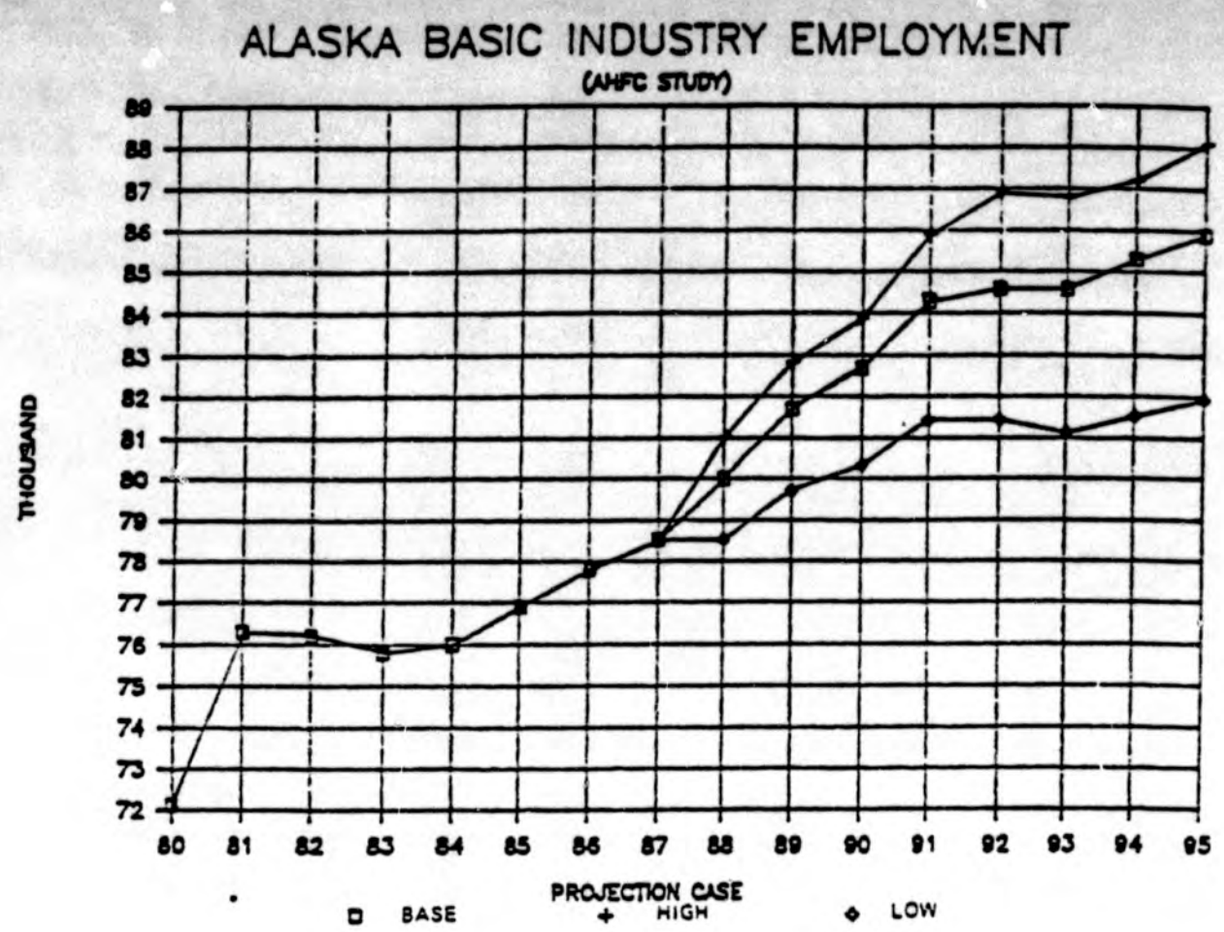


Figure 2.11



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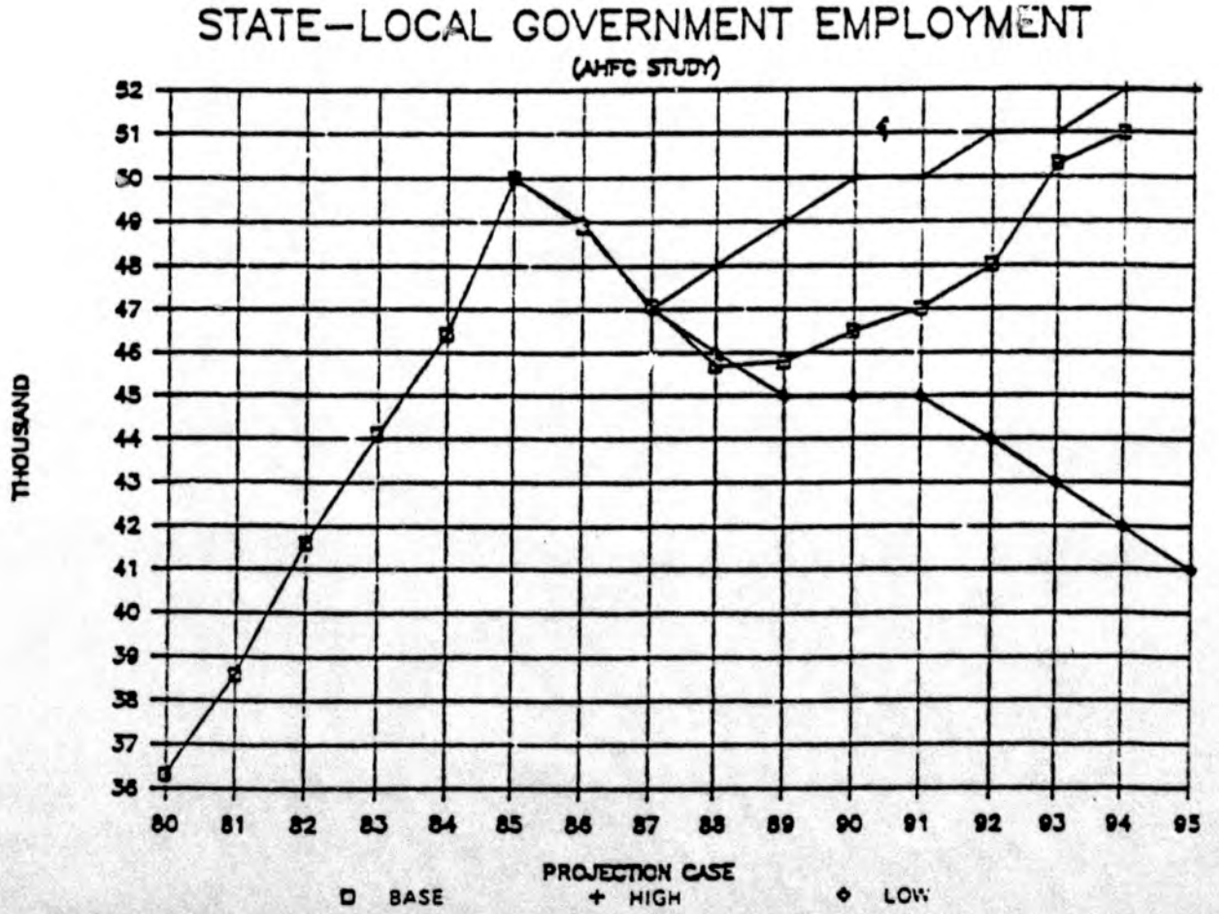

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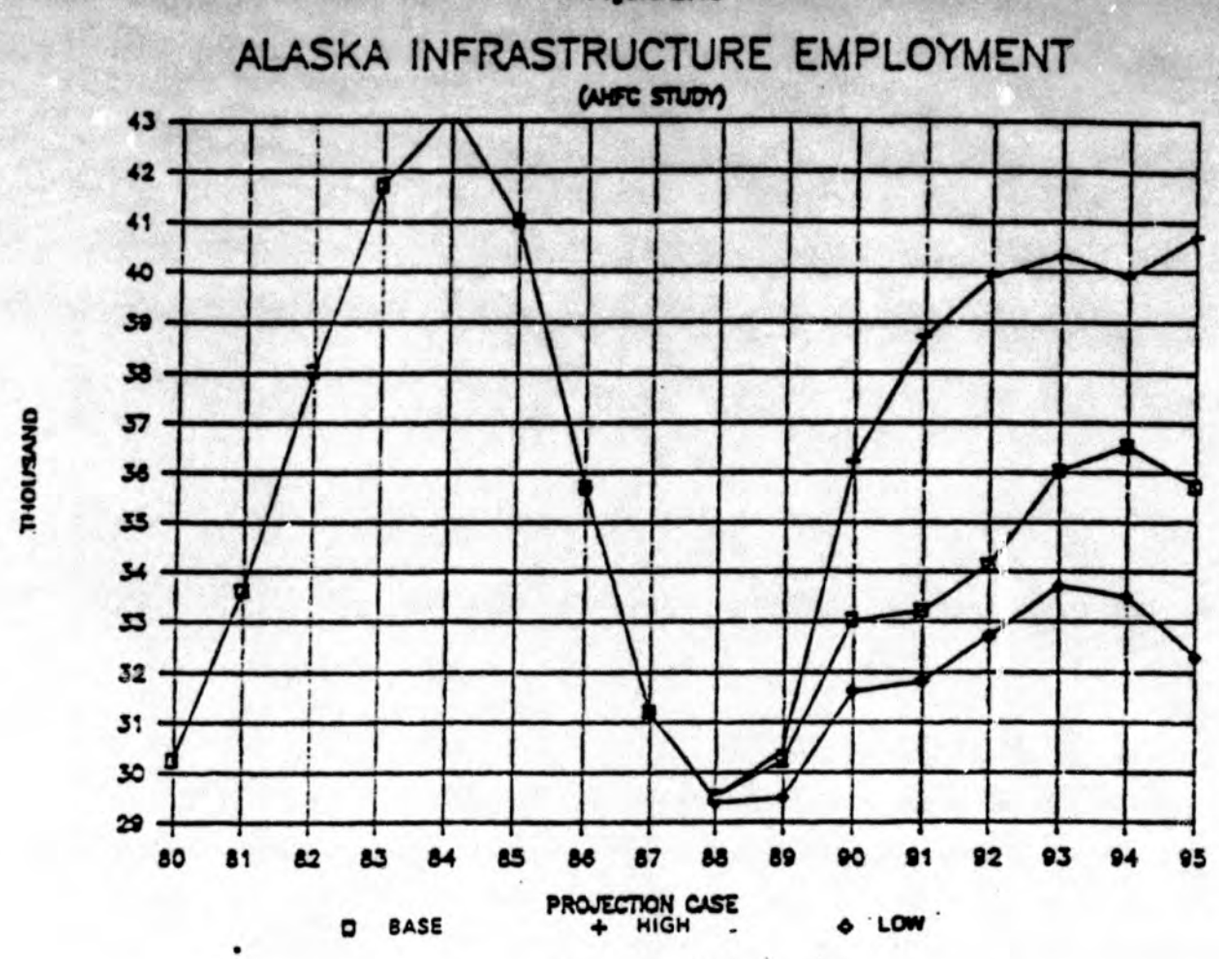

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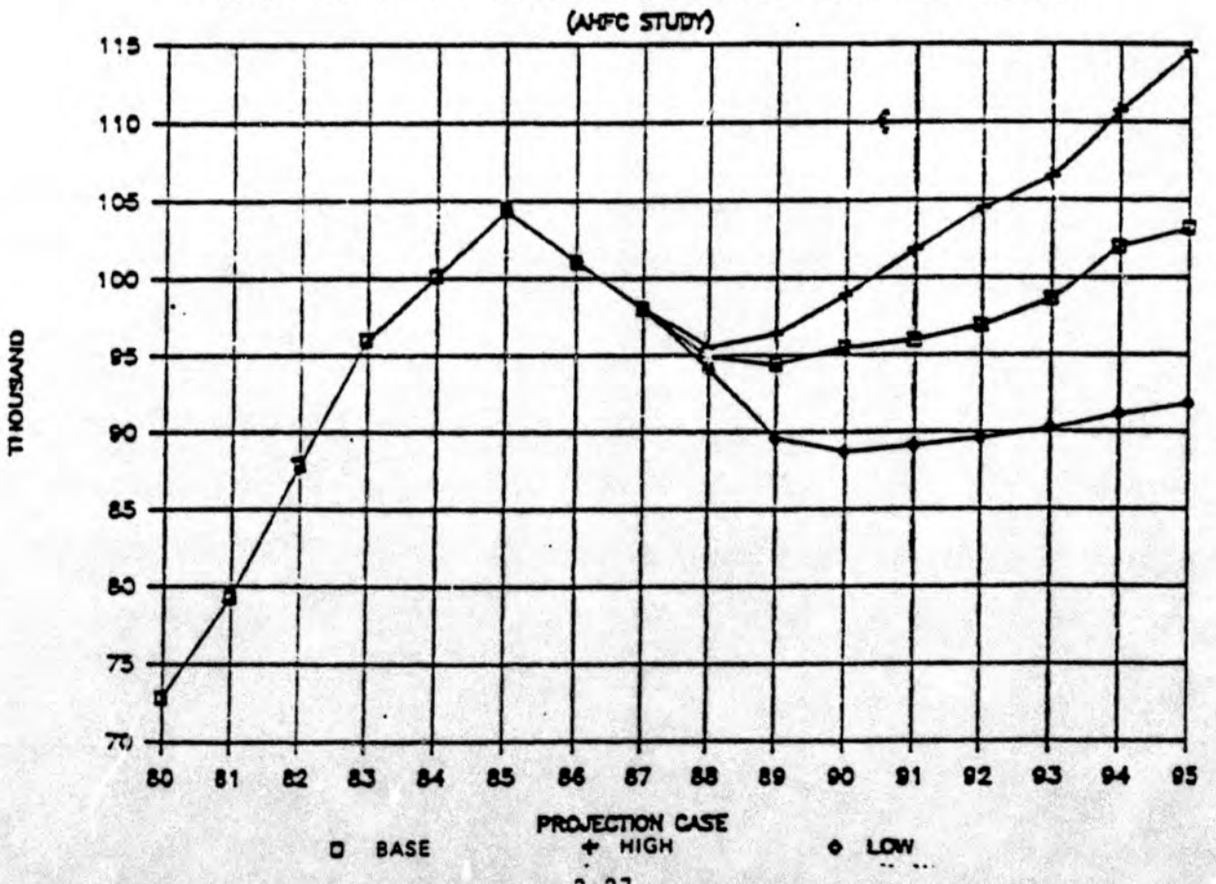

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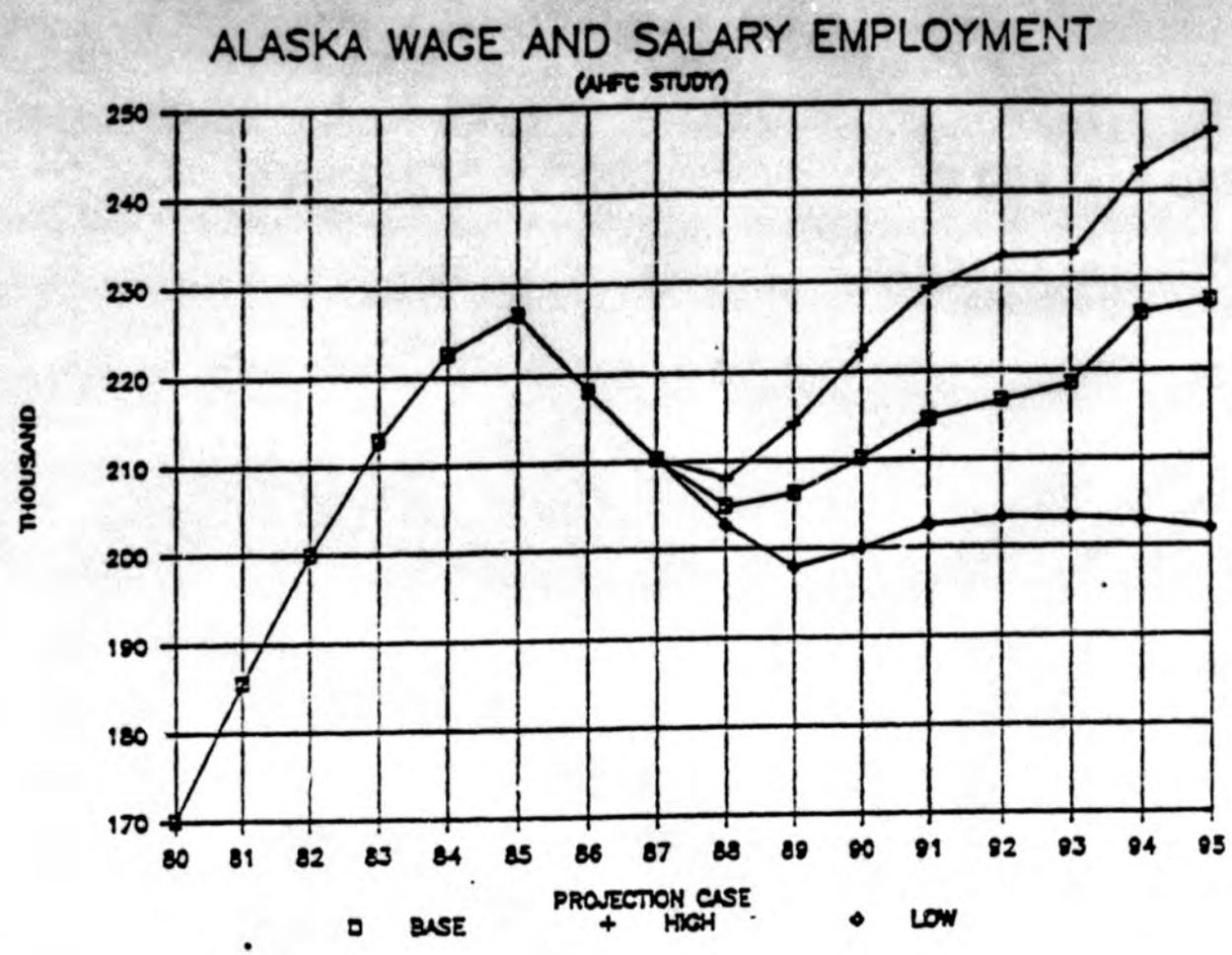

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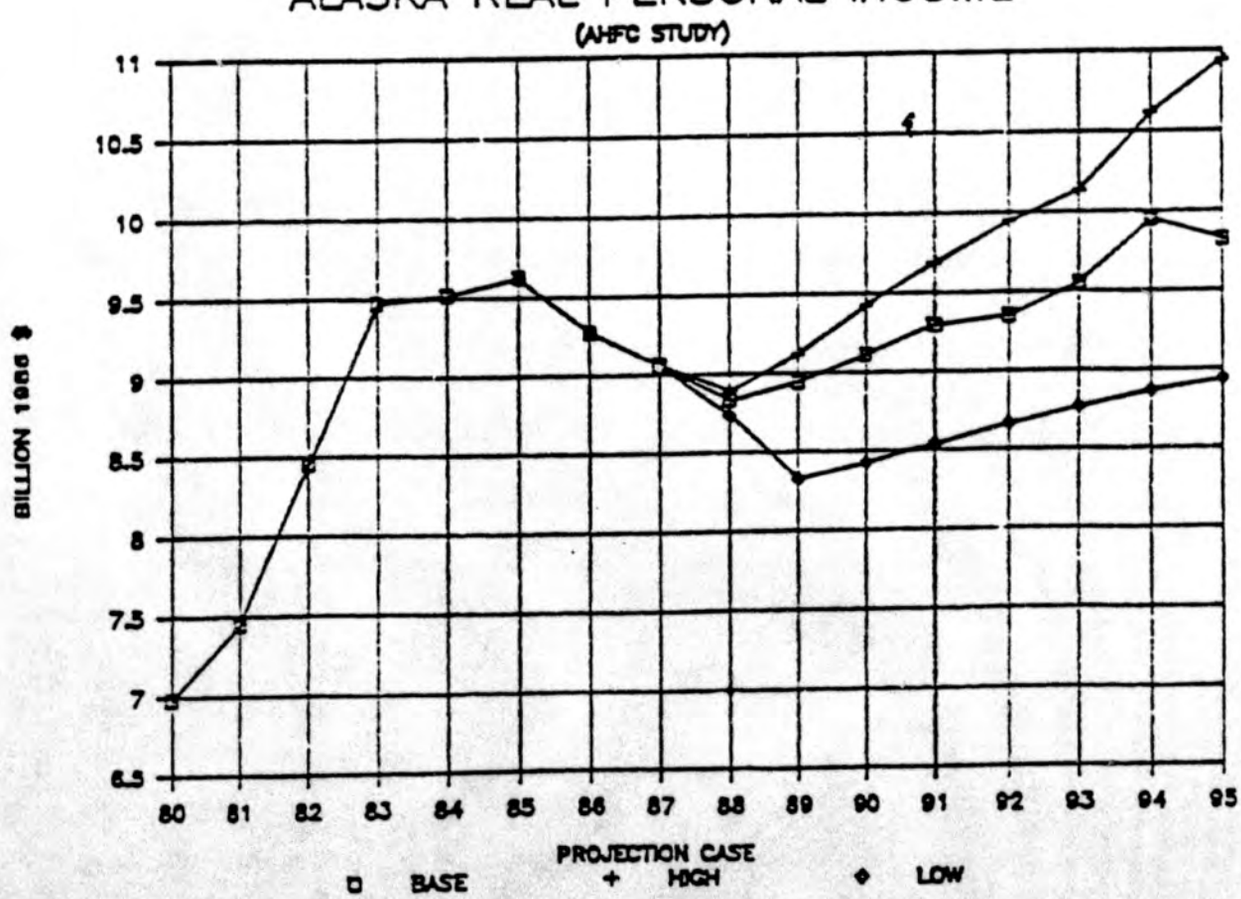

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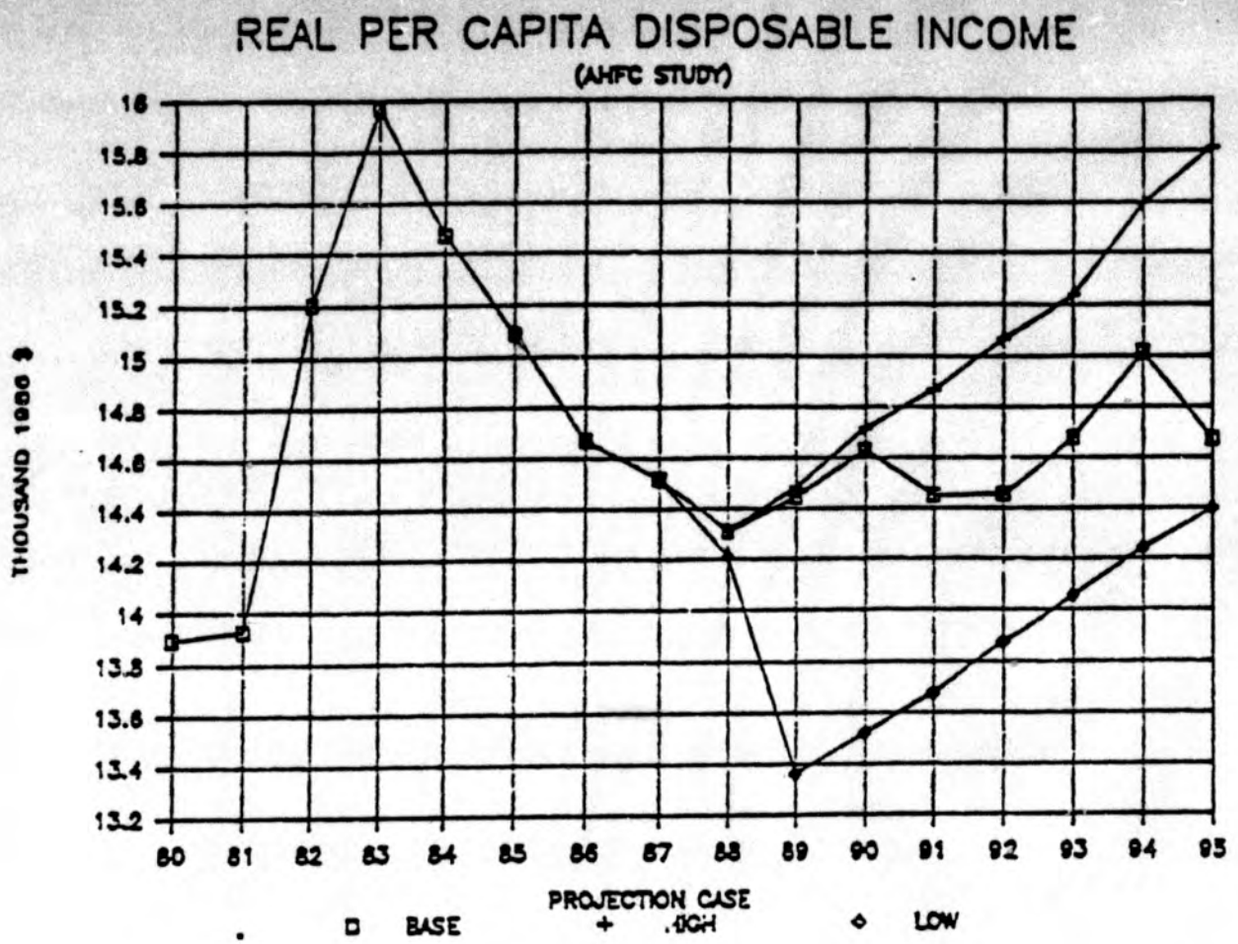

REAL PER CAPITA DISPOSABLE INCOME
(AHFC STUDY)
THOUSAND 1980 $
16
15.8
15.6
15.4
15.2
15
14.8
14.6
14.4
14.2
14
13.8
13.6
13.4
13.2
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95
PROJECTION CASE
BASE
HIGH
LOW

Figure 2.20

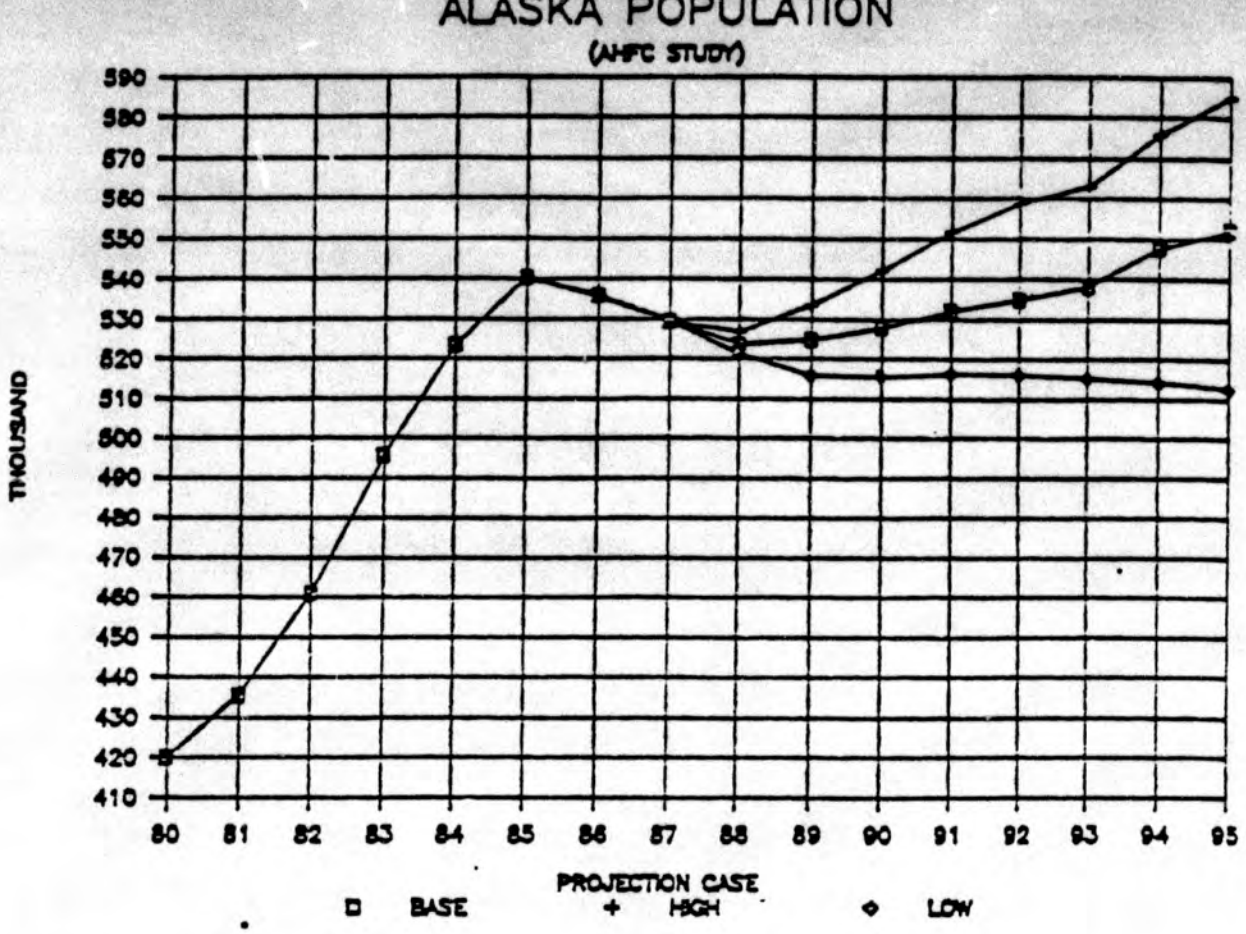


Figure 2.21

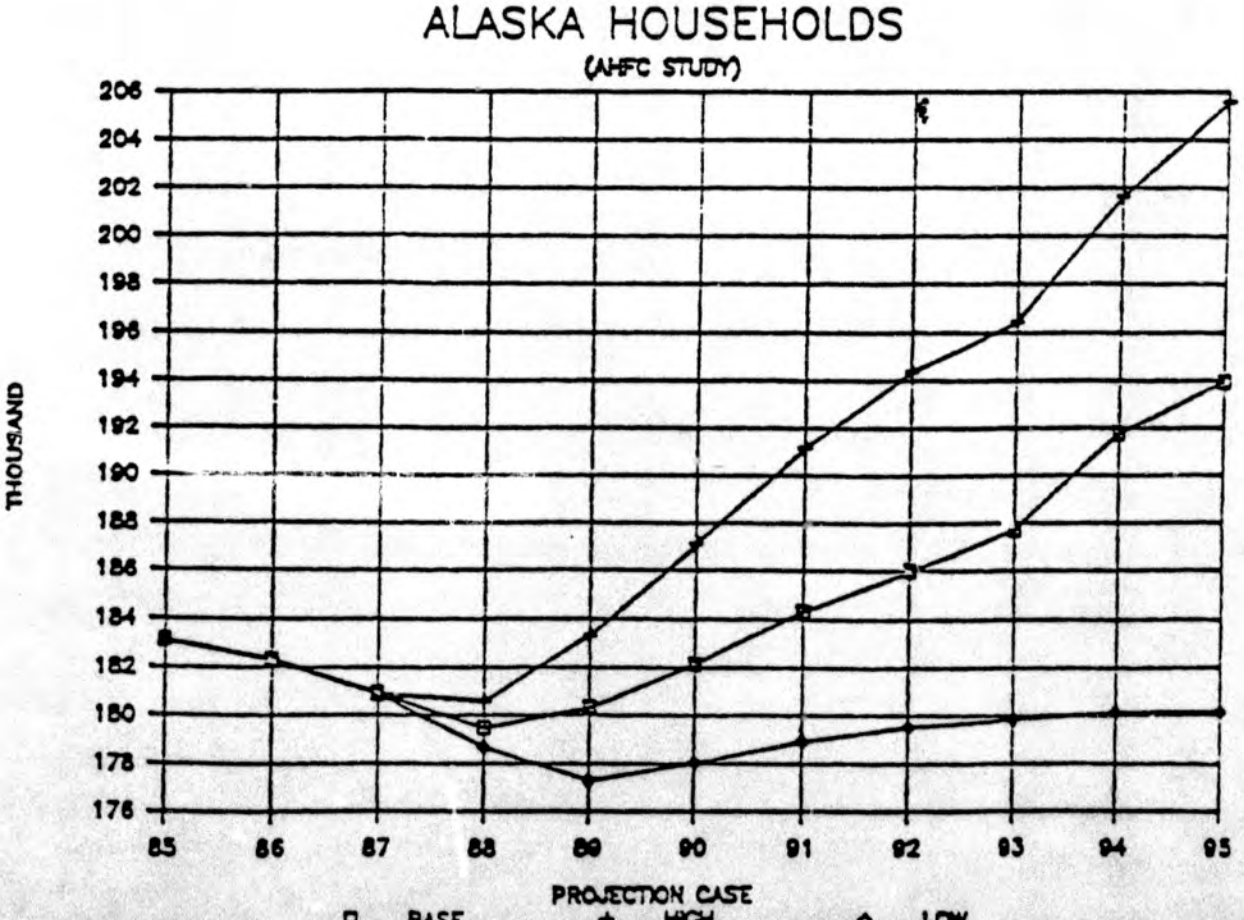


Figure 2.13

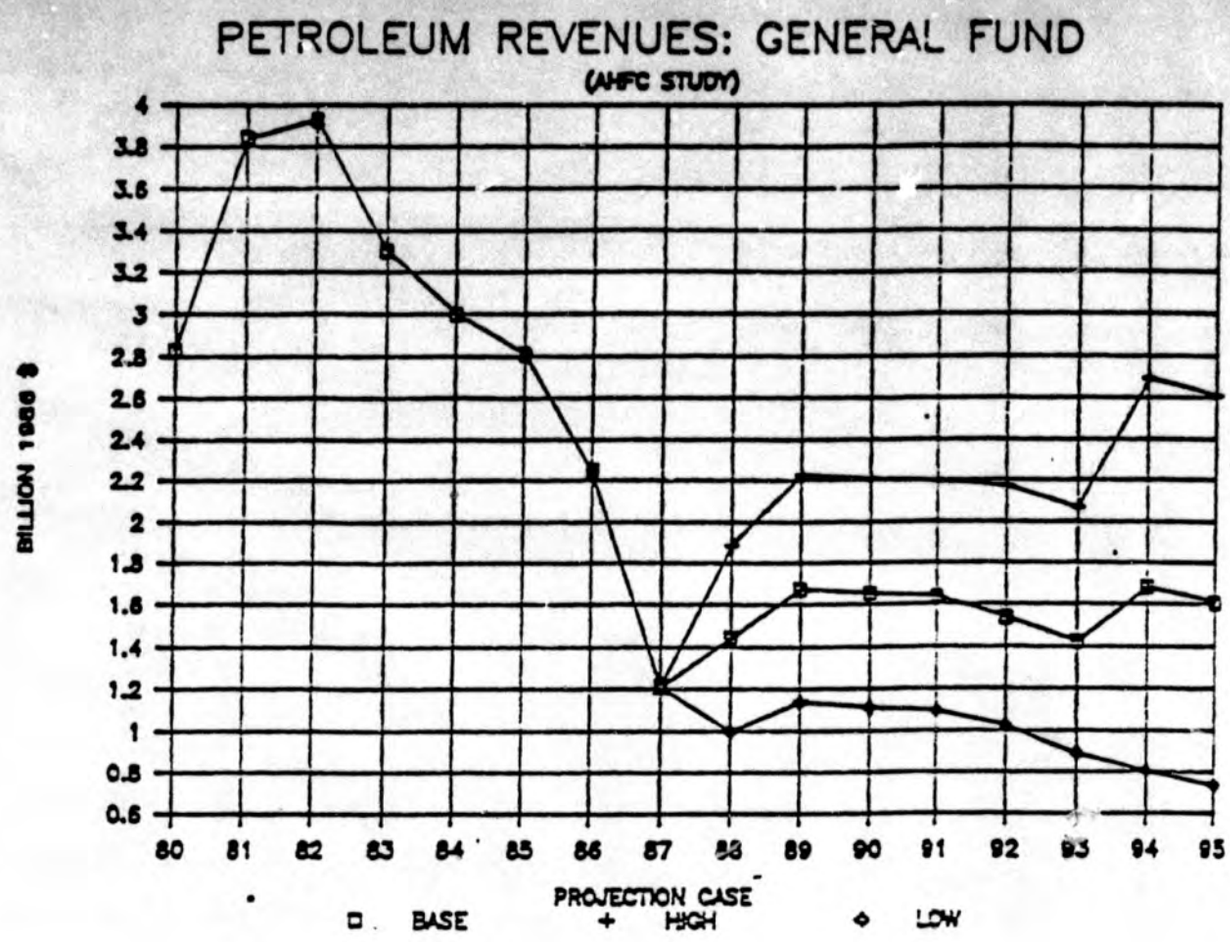


Figure 2.14

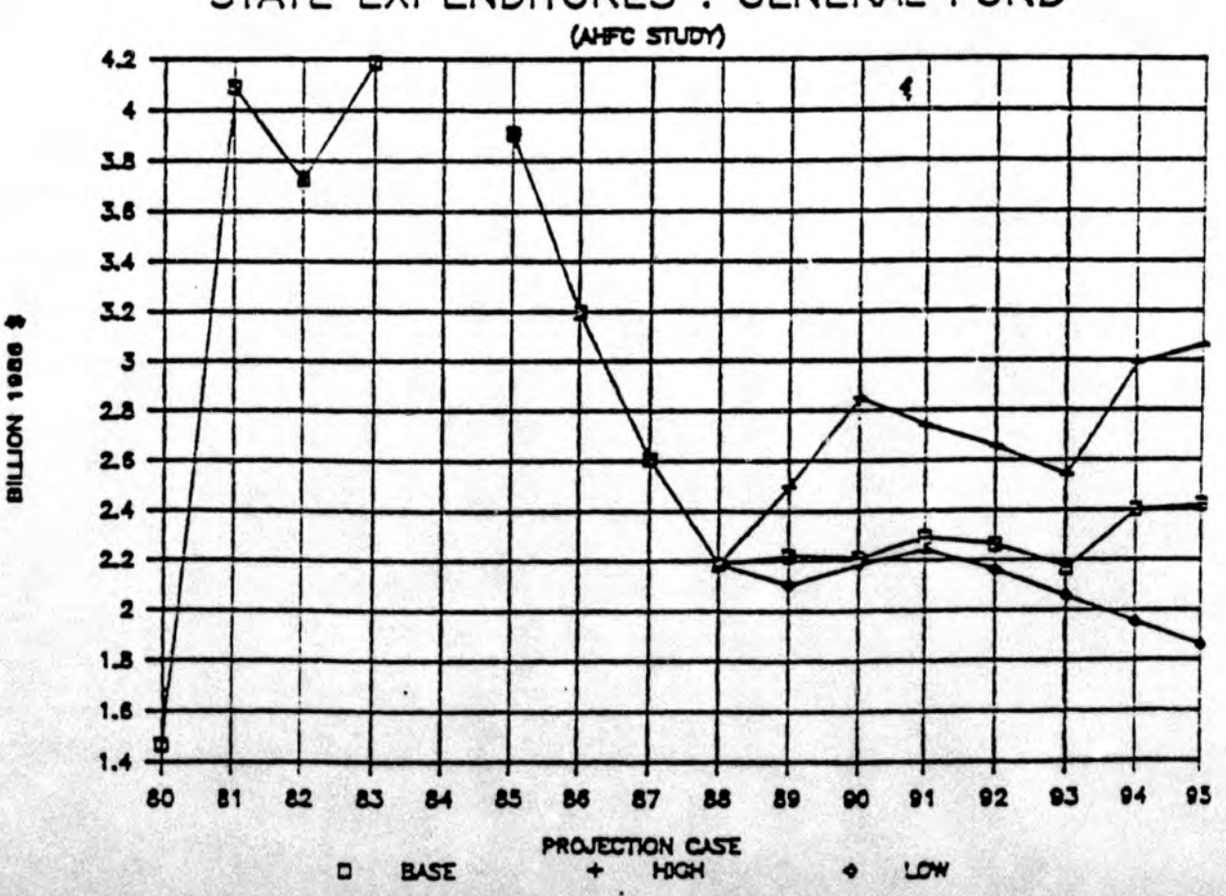


Figure 2.26

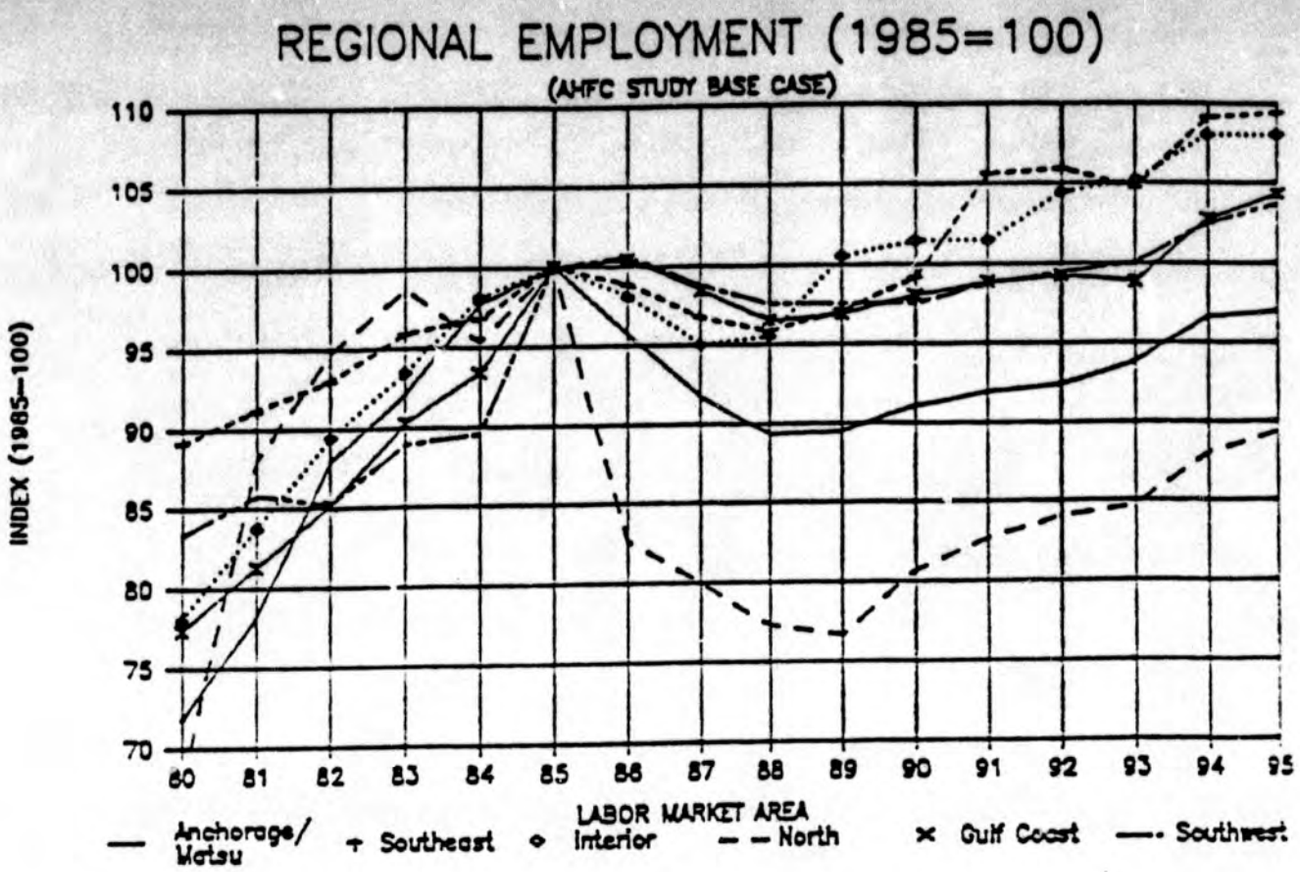


Figure 2.27

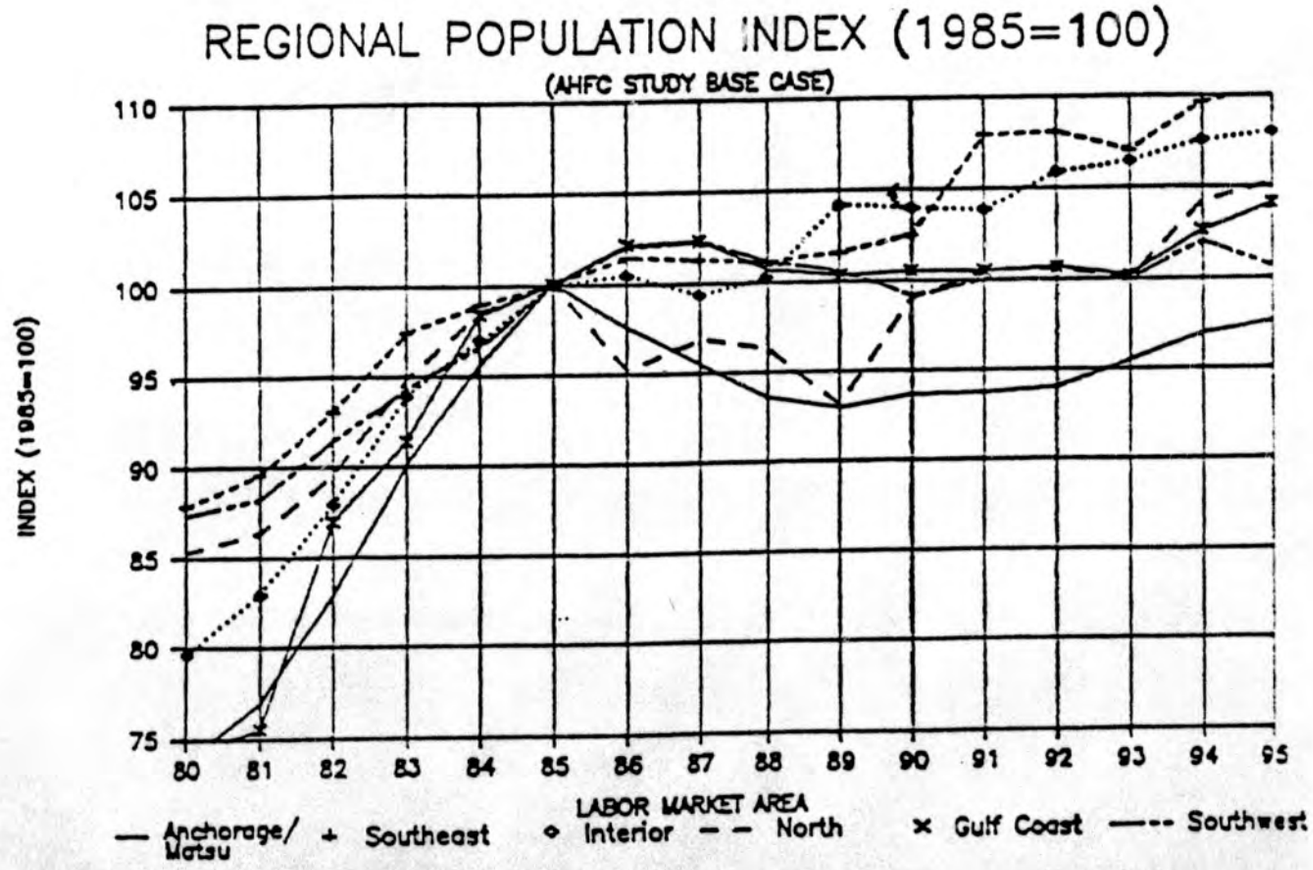


Figure 2.28

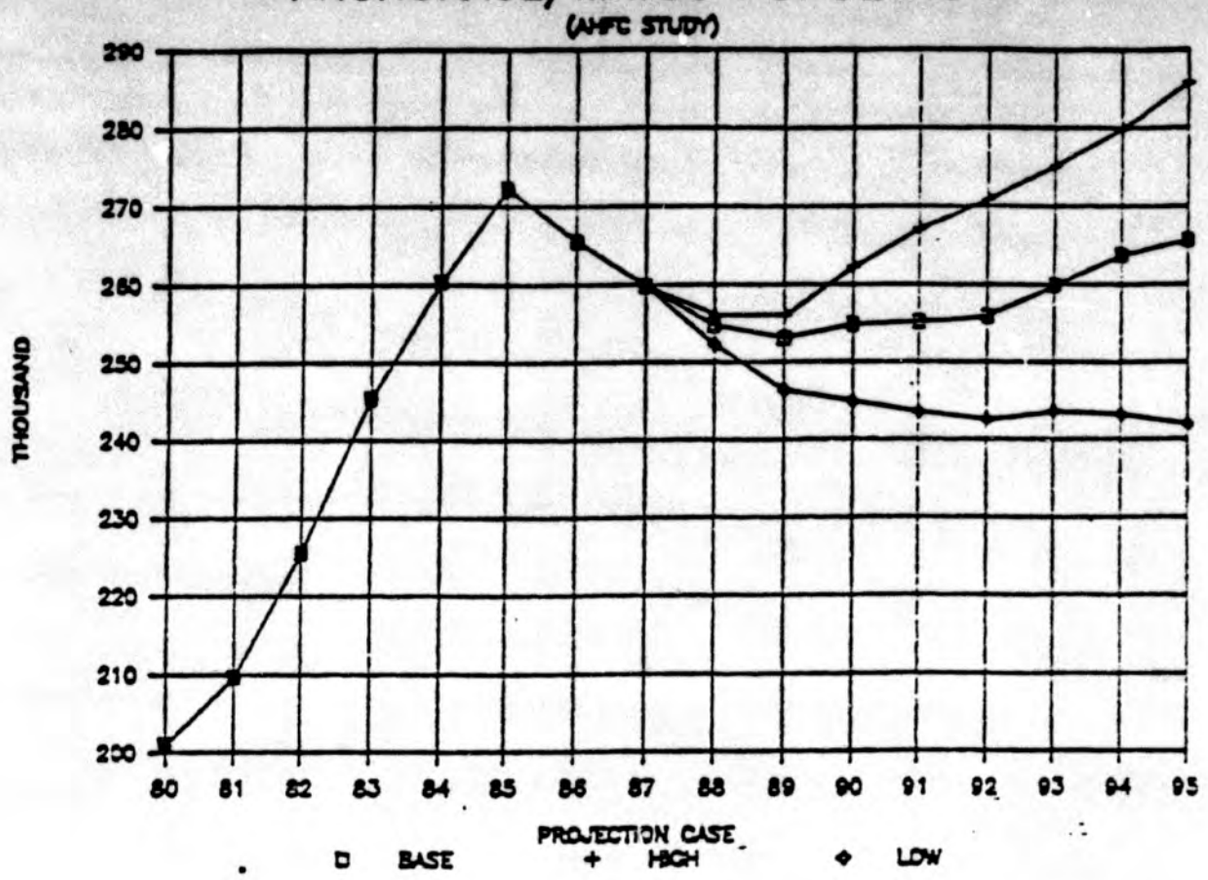
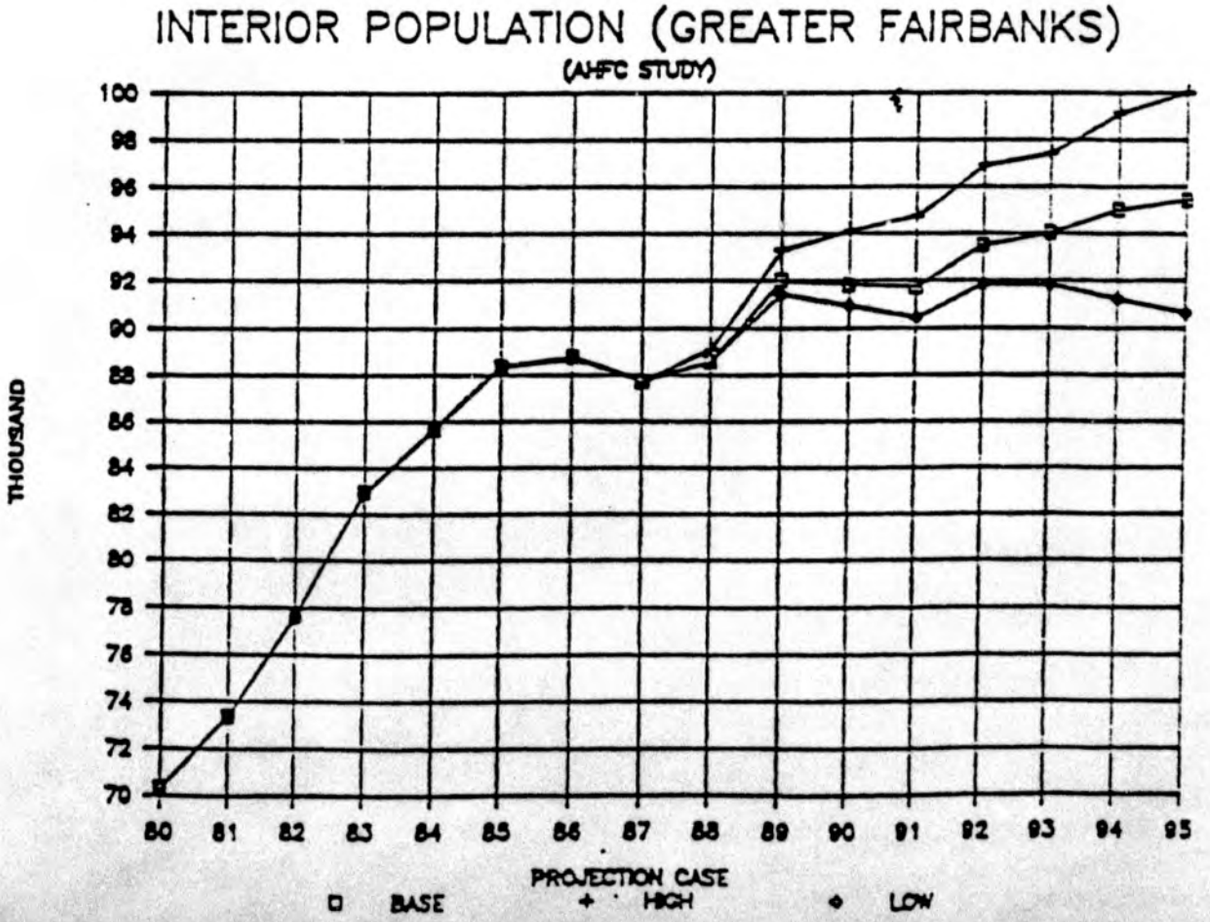


Figure 2.29



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 name 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, Revenue Sources (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, Revenue Sources (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].

B.2. Permanent Fund

10. Permanent Fund Principal	Continuous accumulation from petroleum revenues [EXPF1]; 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].

B.3. Revenues

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 development 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 development activity associated with Bering Sea and Arctic areas peaks at about 7,000 in 2005. Direct employment continues through the following decade at a level of about 3,000 (OCS.6NGT -12).
5. Oil Industry Headquarters	Oil company headquarters employment in Anchorage remains at about 3,900 through 2010 (OHQ.S86).
6. Healy Coal Mining	Export of approximately 1 million tons of coal annually adds 25 new workers to current base of 100 by 1986 (HCL.84X).
7. Beluga Chuitna Coal Production	Development of a 4.4 million ton/year mine for export beginning in 1989 provides employment of 524 (BCL.04T -4).
8. U.S. Borax	The U.S. Borax mine near Ketchikan is brought into production with operating employment of 685 beginning in 1993 and eventually increasing to 1,020 (BXM.F84-4).

9. Greens Creek Mine	Production from the Greens Creek Mine on Admiralty Island results in employment of 150 people from 1988 through 2003 (GCM.F84).
10. Red Dog Mine	The Red Dog Mine in the Western Brooks Range begins operation in 1991 with production employment of 393 rising to 428 (RED.F84-1).
11. Other Mining Activity	Mining employment not included in special projects increases from current level at 1 percent annually (OMN.S86).
12. Agriculture	Reduction in state support results in constant employment in agriculture (AGR.S86).
13. Logging and Sawmills	Logging for export by Native corporations expands employment to 3,100 by 1992 before declining at 1% annually due to productivity gains (FLL.S87).
14. Pulp Mills	Productivity gains result in employment declines at a rate of 1 percent per year after 1991 from the present level of 600 (FPU.S86).
15. Commercial Fish Harvesting--Nonbottomfish	Employment levels in traditional fisheries harvest remain constant at 7,500 through 2010 (TCF.S86).
16. Commercial Fish Processing--Nonbottomfish	Employment in processing traditional fisheries harvest remains at 7,000 (TFP.S87).
17. Commercial Fishing--Bottomfish	The total U.S. bottomfish catch expands at a constant rate to allowable catch in 2000, with Alaska resident harvesting employment rising to 1.033 thousand. Onshore processing capacity expands in the Aleutians and Kodiak census divisions to provide total resident employment of 1.471 thousand by 2000 (BCF.S86).
18. Federal Military Employment	Employment declines at 1 percent per year, consistent with the long-term trend since 1960 (GFM.S86).

19. Light Army Division Deployment	A portion of a new Army division is deployed to Fairbanks and Anchorage beginning in 1986, augmenting active-duty personnel by 3,800 by 1989 (GFM.S87)
20. Federal Civilian Employment	After remaining constant from 1987 through 1990, employment rises at 0.5 percent annual rate consistent with the long-term trend since 1960 (GFC.S87).
21. Tourism	Number of visitors to Alaska increases by 30,000 per year to over 1.3 million by 2010 (TRS.J85).
22. State Hydroelectric Projects	Construction employment from Alaska Power Authority projects includes several projects in Southcentral and Southeast Alaska, including Bradley Lake (SHP.F85) and (SHP.B86).

D. NATIONAL VARIABLE ASSUMPTIONS

1. U.S. Inflation Rate	Consumer prices rise at an annual rate of 3% in 1987, 4.6% from 1988 to 1992, and gradually increase to 5.4% in 1997. This assumption is consistent with petroleum price and revenue.
2. Real Average Weekly Earnings	Growth in real average weekly earnings averages 1 percent annually.
3. Real Per Capita Income	Growth in real per capita income averages 1.5 percent annually.
4. Unemployment Rate	Long-run rate of 6.5 percent.

E. REGIONAL ASSUMPTIONS

1. Population	Regional population growth allocated on the basis of employment growth.
2. Employment	No significant shifts in the location of support industries.

February 11, 1988

Dear Senators Arliss [redacted], Jan FAIKS, Richard HALFORD, and Tim KELLY,

I feel that your current rushed efforts to stop potential dumping of Anchorage and Alaska real estate properties are utterly foolish.

Please stop trying to buy them up to prevent "dumping". Please do not waste millions of dollars in a quasi-public agency that will never be able to liquidate its portfoilo 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 portfoilos of real estate properties or portfoilos of real estate properties, the State of Alaska establishes a market stabilization tax. For all real estate properties or financial portfoilos of real estate properties selling at a price less than 80% of the existing outstanding loan balance on that property or portfoilo of properties, the State of Alaska levees a tax on the buyer of that real estate property (or portfoilo of real estate properties) equal to 80% of the outstanding mortgage loan balance on that real estate property (or portfoilo) minus the sales price of the real estate property (or portfoilo)

(Outstanding Loan Balance*80%) - Sales Price) = Tax

This tax is designed to raise revenue and to prevent windfall profits and losses in the Alaskan real estate market during times of distress.

Sincerely yours,

David L.T. Knudson

David L.T. Knudson (907-344-8423)
7510 Chad
Anchorage, AK 99518

Peat Marwick

Joseph E. Heintz
Managing Partner

Peat Marwick Main & Co.
601 West 5th Avenue, Suite 700
Anchorage, AK 99501-2258

JAN 18 1988

January 8, 1988

presented to Gov Cowper

Governor Steve Cowper
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

During the past several weeks an Economic Recovery Task Force has been meeting to discuss the status of the Anchorage economy and proposed solutions. The attached listing of members of the Task Force indicates the breadth and depth of the community participation. The Task Force was initiated by the Anchorage Chamber of Commerce and the Task Force recommendations will be submitted to the Chamber of Commerce Board of Directors at its meeting on January 15, 1988. However, the Task Force wanted to submit to you its findings and recommendations at the earliest possible date, whether or not they are approved by the Chamber Board of Directors.

The findings of the Task Force were passed unanimously by the Task Force members. I must add that not every member agreed with every specific recommendation. However, there was no exception to the finding that the economy in Anchorage is depressed and there is no immediate indication there will be an economic rebound. While there is tremendous support for letting the market forces guide the economy, there is the strong belief that appropriate government intervention can assist without further aggrevating the functioning of the economy.

The Task Force members recommend you adopt the recommendations as your own, and the members pledge their support for you in implementing any of the recommended programs. We look forward to working with you as we navigate through these troubled waters.

Very truly yours,

Signed

Joseph E. Heintz

* 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

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02-576(2/77)

Peat Marwick

Joseph E. Heintz
Managing Partner

Peat Marwick Main & Co.
601 West 5th Avenue, Suite 700
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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 circumstnaces. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

* Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's $1.5 billion in equity.

* The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.

* The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

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* 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.).

wp-1

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

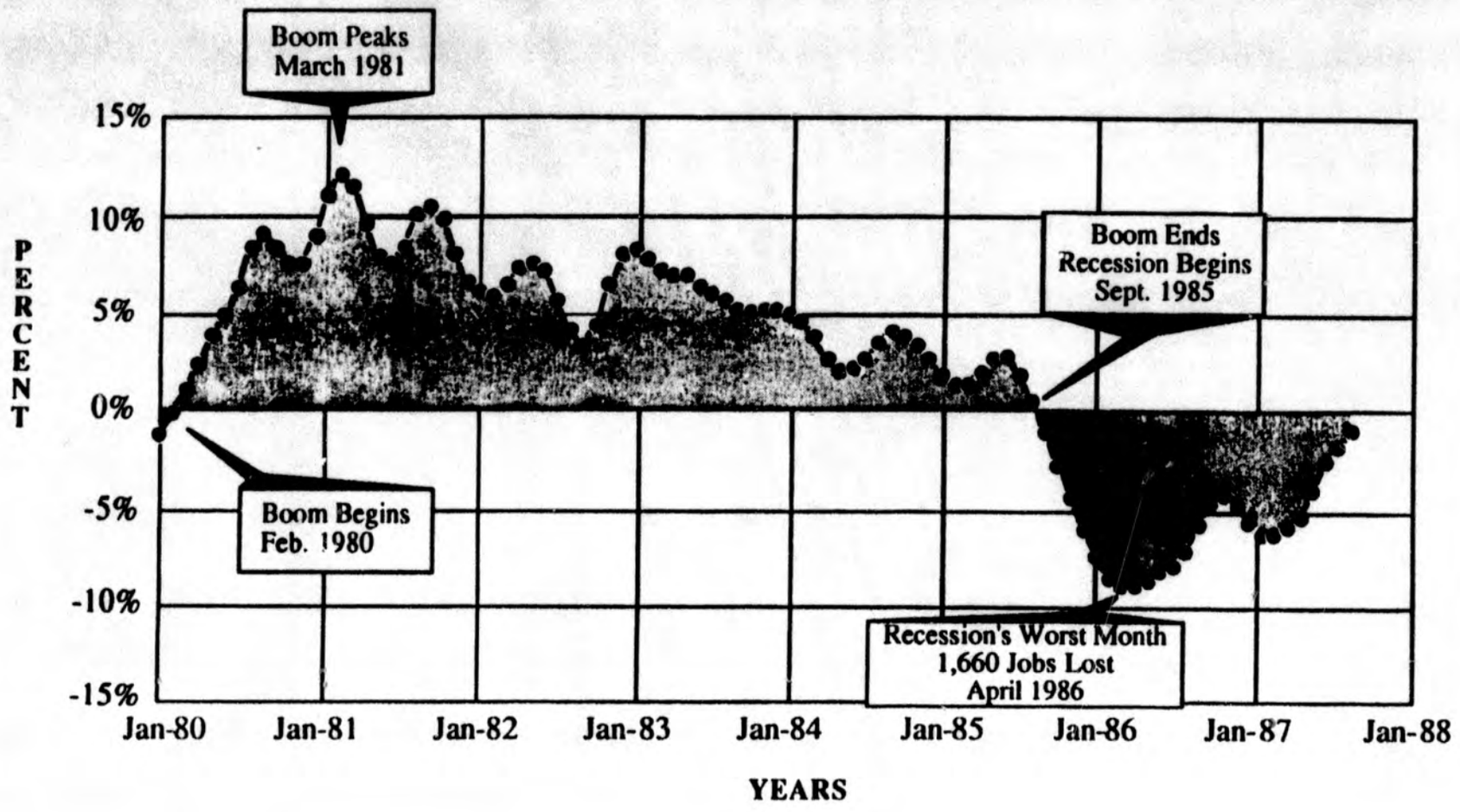
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. ***When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.*** Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott 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]

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[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 shakey technical assumption underlying the vulture/Phoenix fund idea -- that purchasing distressed properties will stabilize the market for holders of other properties. The Anchorage market has seen a "distinct flight to quality." She argues that the demand for mid- and high quality property is largely independent of the demand for the low quality properties that constitute virtually all the distressed assets. According to Yoshimura, removing those assets by demolition might make sense as an urban renewal strategy, but will have no effect on prices or demand for anything except the the very lowest quality properties, most of which are already in foreclosure. Professor Green expresses similar concerns.

Loss of Confidence

Despite economists belief that the direct economic effects of the real estate crash will be positive, the regional recession in Alaska is at least partly beyond the range of econo nic 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. Goldsmiths 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. Goldsimth 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 spce figures are from Alaska Valuation Services, Fred Ferrara, president, as provided by Connie Yoshimura in testimony to the trustees of the Alaska Permanent Fund, February 10, 1988.

The Greg Carr quotation is from an Associated Press story datelined Fairbanks, December 2, 1987.

OPTIONS

TO IMPROVE THE

ALASKAN ECONOMY

DAR/JAN 88

This paper summarizes the present economic situation within Alaska; discusses fundamental economic principles which must be adhered to in order to create a lasting and positive change for improvement; and sets forth a series of detailed options for implementation.

Alaska's Economic Situation

Alaska's present plight can be summed up in two simple words -- "Excess Capacity".

Alaska currently has:

Excess residential housing to include condominiums and mobile home units
Excess strip malls
Excess shopping mall space
Excess office space
Excess industrial and warehouse space
Excess (high) retail inventories
Excess work force as manifested by unemployment rates

True, there are some sectors of our economy which are doing well -- fishing, timber and tourism. These should continue to prosper as long as the dollar retains its low valuation relationship to the yen and other currencies. Some of Alaska's hard-core base industries (not always appreciated during the oil boom but now winning long-deserved recognition) include the military and Federal government sectors which offer high prospect of growth.

This paper will primarily concern itself with real estate because it is clear that the excess capacity referred to above relates predominantly to real estate and its support industry of: banking and mortgage institutions; private mortgage insurance companies; highly leveraged investors and mortgagees; real estate sales firms; and governmental institutions which now hold ownership in: loans secured by real estate; defaulted or delinquent real estate loans; and foreclosed upon property.

Fundamental Economic Principles

It should be clear to any student of basic economics that the supply curves of certain elements of the Alaskan economy are out of

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1572 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1369

desired equilibrium with demand. Conversely, demand curves are out of desired equilibrium with supply.

In short, the long-term solution to our problem can be found in:

(1) Decreasing available supply.

(2) Increasing business and consumer demand.

(3) A blend of the two.

Unless our actions result in a permanent movement of either the supply or demand curve, or both, any benefit will be fleeting, costly and of no long-term consequence.

We do not require the implementation of actions which can be termed as "political", "placebo", "quick fix", or "bailout".

What we do need are well-thought-out approaches that effectively reduce (and certainly not increase!) supply. Increasing demand is a tougher venture because in almost all cases it falls outside of effective unilateral action.

Programs and Actions

The following options are submitted for consideration. Some programs are dependent on others; some stand alone. The adoption of any, all or a portion of a single option may be beneficial. The rejection of a particular option should not negatively affect viewpoints on others. Many of these options are not new; some are simply being set forth in writing for the first time. All are in the public domain.

1. Move Supply Curve (decrease supply) Permanently

Create an entity or a subsidiary of an existing entity such as AIDA.

Vest that entity with funds on a loan or grant basis from the General Fund of the State.

Entity purchases developed property held as "real estate owned" by financial institutions, mortgage companies, mortgage insurance companies, and governmental agencies such as FDIC, AHFC, AIDA, Permanent Fund. Purchase is for land value only.

Following acquisition, entity removes improvements thus reducing supply but retains underground utilities.

Entity holds what is now vacant land for the long term and eventually sells at acquisition value or (hopefully) appreciated value.

Proceeds of sales are returned to the State which has bankrolled the operation. Or vacant land is returned to the State and appropriated to a long-term trust. (Mental Health, Public Education, Permanent Fund, etc.)

2. Move Supply Curve (decrease supply) Permanently

Demolish and do not replace old and deteriorating low-income development housing, such as Hollywood Vista and Willow Park.

Aggressive action on the joint State-Federal level must be taken. If the Federal government will not act, the State must be prepared to take quick and decisive unilateral action -- at its expense.

Occupants of demised developments are placed in AIDA-or AHFC-owned multi-family or condominium units. To the degree necessary, condo owners will be given the opportunity to trade their units for other AHFC-owned property.

AIDA/AHFC will be reimbursed for their housing assets used by this program. Funds utilized are from Federal and/or State sources. The program should be coordinated by the Alaska State Building Authority.

3. Move Supply Curve (decrease supply) Permanently

We must step back and review the thought process involved in continually spending huge sums of money on maintaining mobile homes. There is a huge excess and no demand. Clearly, since there is no demand for the foreseeable future, this must be recognized and acted upon. Spend a few dollars for some full-page advertising in active construction areas around the world, find a buyer, load them on a barge and remove them from the state. Funds saved on maintenance and ground rent could be channeled toward work outs or rescheduling loans on quality assets.

4. Move Supply Curve (decrease supply) Five Years

Create a financial entity empowered to act like a bank -- except for receipt of consumer deposits -- under State regulation.

Regulation is important to assure that the entity does not become a super bank in competition with existing Alaskan financial institutions.

The entity is capitalized with stock or debentures or a combination thereof.

Stock is issued in exchange for real estate owned, defaulted loans and delinquent loans held by: FDIC; banks; mortgage companies; mortgage insurance companies; and state governmental agencies. Non-producing assets are exchanged for preferred stock which provides a minimal (but better than non-producing) return.

The entity is permitted to buy, sell and trade real estate. It is to service and collect on loans; to work out loans; and to reschedule debt. It may invest in financial assets.

It must do everything necessary to convert illiquid assets into cash and into income-producing cash assets while covering expenses and eventually making a profit.

The entity would sell off assets over the long term with major emphasis on stabilization.

As the entity becomes profitable and liquid, it distributes paid-in-capital and dividends.

NOTE: In the event that the entity cannot be capitalized entirely with problem assets, consideration may have to be given to an initial State grant or loan to <u>partly</u> fund the capitalization.

5. <u>Stabilize Supply Curve (keep increases in supply to a minimum) Five Years</u>

The board of directors of AIDA (Alaska Industrial Development Authority) should place a moratorium on the financing of construction of new commercial or industrial facilities.

This moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others. AIDA would continue to finance existing structures with changing ownership.

Obviously, the curtailment of new activity assists local government in that controls on new supply create value in existing supply and thus stabilize or raise assessed valuation used in the computation of ad valorem taxes.

Curtailment of new activity can have a chilling effect on economic development in communities where there is no excess capacity in commercial or industrial facilities or in communities where a special purpose facility is required. It is envisioned that a moratorium would remain in effect unless the local governmental unit which is intended to be the beneficiary of the moratorium formally requests its waiver by the action of its local city council or borough assembly.

6. Stabilize Supply Curve (keep increases in supply to a minimum) Five Years

This is similar to the proposal for AIDA except it applies to residential housing financed by AHFC, PERS, TRS, Permanent Fund and any other State line organization or agency.

Place by board, commissioner or trustee action, a moratorium on the financing of construction of new residential housing units to include single and multi-family residences, including condominiums and mobile homes. The moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others.

Existing housing stock which is changing ownership would continue to be financed by the respective agencies and organizations.

The curtailment of new supply will create value in existing supply and thus stabilize or raise assessed valuations used by local governments in the computation of ad valorem taxes.

This program, similar to its complimenting commercial and industrial program, contemplates that the moratorium can be lifted at the request of the local government governing body.

7. Stabilize Supply Curve (keep increase in supply to a minimum) Three Years

The State of Alaska is planning to construct an addition to its court complex in downtown Anchorage. This facility is important to the Court System and to the Municipality of Anchorage as it centralizes expanded court activity and anchors downtown economic activity against mid-town drift. Also, the project is important in that it does produce a substantial number of construction jobs.

Unfortunately, the creation of new office space supply at the same time that huge excess exists is self-defeating from a macroeconomic perspective. If this project is to be completed within the concept of stabilizing supply, it can be done in such a way that it meets immediate Court System needs on one hand and defers meeting other needs for a three-year period.

Here, the building would be constructed as planned. However, only essentially needed courtroom space would be finished. Other space -- office space available through existing supply -- would not be finished in the initial phase. A subsequent construction phase, perhaps three years after completion of phase I, would provide the needed office space.

Absent this kind of compromise which curtails the wrong kind of supply (offices) and permits the right kind of supply (courtrooms), the project should be deferred.

8. Stabilize Supply Curve (keep increases in supply to a minimum) Three Years

Local governments have a strong, vested interest in the stabilization of supply. To the degree that new supply can be curtailed, value to existing supply increases as does assessed valuation and the local tax base.

Expansion in many communities has required the rapid extension of utilities. In some cases this extension has been imprudent in that it has leap-frogged undeveloped areas to reach new residential or commercial subdivisions.

The expansion has been imprudent -- in an economic sense -- because the rate base of the new development does not always carry the operation, maintenance or debt service costs of the extension.

Local governments should be encouraged to place moratoriums on utility expansions, rezonings and replats to discourage the new construction of the types of developed real estate now in excess. Flat moratoriums in this area offer a better prospect than selective ones because of inherent fairness and equal treatment to all.

9. Move Demand Curve (increase demand)

To the degree that demand can be stimulated to reduce or eliminate excess capacity, such stimulation should be encouraged.

If major financial institutions such as pension funds, endowments, foundations, the Permanent Fund, etc. -- who are long-term buyers and holders of commercial and industrial property -- can be induced to take major, institutional-grade buildings off the market for a long period of time, such action could remove upwards of $50 million from the current real estate marketplace.

The absorption of this "high end" sector of the market has the impact of channeling investment capital of other (smaller) investors toward the distressed portfolio of loans.

The importation of investment capital through the formation of investment pools would increase the demand for ownership of Alaskan real estate and fundamentally move the ownership demand curve.

This proposal, however, would not move the demand curve for office space occupancy since investors only bring their money and not new tenants to the table. However, any ownership diversification outside of Alaska brings with it a degree of outreach, new contacts and beneficial exposure.

10. Move Demand Curve (increase demand)

Alaska has been the beneficiary of "settlement waves" in the past such as the gold rush, building of the railroad, construction of military bases, statehood, and pipeline construction.

Each new wave of Alaskans has contributed to the economy and stimulation of the next wave can create some of the demand needed to reduce excess capacity and stimulate economic activity across many business sectors.

Perhaps Alaska's best opportunity lies with the military. Restructuring of some domestic and overseas forces with Alaska as the beneficiary would have a dramatic impact.

Navy homeporting is on everyone's lips. But it can only occur in the context of a well-thought-out plan, positive naval interest and the actual execution of long-term leases and agreements which are clearly advantageous to Alaska and its people. It is strongly urged that Alaska not embark on a program which provides for construction of infrastructure in hopes of "luring" the navy. Secure the firm, documented commitment and then as part of the agreement, utilize State resources as necessary.

The Army, Air Force, and Coast Guard have been mainstays of our economy for many years. Recently, these institutions have taken a back seat to the glitter of black gold and its overwhelming economic power. It's time to return to a full appreciation of these military institutions and to actively pursue a greater presence in the state. As the balance of trade continues to falter, some consideration may have to be given to a restructure of some foreign-based units (Korea, Germany). Alaska should open initiative's to welcome shifts should they occur.

11. No Fundamental Change to Supply or Demand

The easiest measure -- but one with virtually no positive long-term impact -- is a capital projects appropriation.

Elements of the construction industry have been hit hard and it is apparent that we will not need new residential, commercial, industrial, office and strip mall construction for many years to come. This sector cannot and should not be propped up lest we either provide wasted subsidy or create false expectation. Jobs must be centered around preventative and actual maintenance of existing roads, ports, airports and governmental facilities rather than new construction which creates a need for increased operation and maintenance costs.

It is suggested that rather than expend a huge amount of funds on a placebo, some should be diverted toward activity which will fundamentally affect supply and demand, some of which is set forth in this paper.

12. A Caution

Both AIDA and AHFC have some unencumbered capital. This has been eyed -- covetously -- by those who feel that these "pots of money" are available for appropriation for "quick fix" programs or for funding additional programs or functions assigned to these two agencies. This capital should be viewed as reserves critically required by the agencies to support existing programs in this time of stress. Before consumption of these funds is seriously considered, inquiry should be made to respective agency boards of directors.

In Summary

* Raze uneconomic residential and commercial buildings
* Raze deteriorating low-income residential units
* Sell excess AHFC-owned mobile homes
* Create a work-out bank emphasizing stabilization
* Moratorium on new construction of residential and commercial properties, subject to local government waivers

* Construct the Anchorage Court complex addition in phases

* Moratoriums on local government utility expansions, rezonings and replats

* Encourage institutional purchases of quality commercial and industrial properties

* Seek agreement regarding Navy homeporting before initiating construction of infrastructure

* Regarding construction projects, emphasize preventative and actual maintenance rather than new construction

* Leave existing capital reserves in AHFC or AIDA

MEMORANDUM State of Alaska

TO: Milt Barker
Deputy Commissioner, Treasury
Department of Revenue

DATE: February 12, 1988

FILE NO:

TELEPHONE NO:

THRU: Vincent Wright 2/12
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 $1[illegible] million to $165 million represents two to three times the FY88 authorization to the Municipal Assistance program[2]. State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

Both the direct and indirect costs will be imposed upon the State economy even if it is the lowest quality space that is taken off the market since this will keep rents higher than necessary and could well keep many start-up businesses from ever making it. Actual estimation of the net costs and benefits of higher rents for commercial space would require a difficult and, due to data availability problems, perhaps impossible, empirical study. It is likely, however, that since the proportion of businesses that rent space is greater than the proportion that own space, the losses of the losers from higher rents will more than offset any gains to the gainers.

Further if, as is likely, the income of commercial real estate investors is higher than the average income of the rest of the population of the state then the leakage to Federal income taxes will be greater than if the funds were used in alternative ways. It may also be more likely that commercial real estate owners will spend incremental income on out-of-state travel and other out-of-state goods and services. Additionally, to the extent that buildings are owned by out-of-state individuals or corporations, this leakage from the economy is increased.

It has been argued that the owners of other buildings will be unable to compete with buildings sold at distress sales. It is true that market conditions are causing building owners to accept reduced returns on their buildings as rents fall. On the other hand, if current owners believe that prices at any potential distress sale will be so low that they will be unable to compete, they have the option of purchasing the distress priced buildings themselves. This option will allow the owners of other buildings to minimize the reduction in their revenue.

In summary, the outcome of a State program to reduce excess capacity in commercial real estate will be to keep rents higher than they would have been in the absence of such a program which will, in turn, drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, implementation of this type of program will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment

period and delay the process of economic recovery. Banks and owners of commercial real estate will be the beneficiaries of this program while the costs will be borne by all the other citizens of the State.

FOOTNOTES

1. Memorandum to Mary Holloran, "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso, Table 1, Jan. 29, 1988.

2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.

Frank

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX S
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.

84-0214

Intervening is <u>not</u> 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:mll
88-46

cc: Members, Joint Committee on Economic Recovery

FACT SHEET

SOUTHWEST PLAN

OBJECTIVE: Achieve viability of Texas thrifts through consolidation. Reduce cost of funds in Texas and ultimately nationwide.

STRATEGY: Consolidate 143 ailing (104 insolvent) out of 281 thrifts currently operating in Texas, so that surviving viable institutions number between 160 and 180. Approximately 70 percent of troubled institutions have signed consent-to-merge agreements.

Reduce number of branches from more than 1800 to nearly 1400.

Divide Texas into 14 thrift regions and ensure that each region has appropriate service to meet needs of its people.

RESULTS: Potential size of surviving thrifts

Local.....Up to $800 million
Regional.....$800 million to $2.5 billion
Multi-regional.....More than $2.5 billion
Statewide.....None

Estimated Size of all Texas thrifts before and after consolidation

	Pre-plan	Post-plan
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

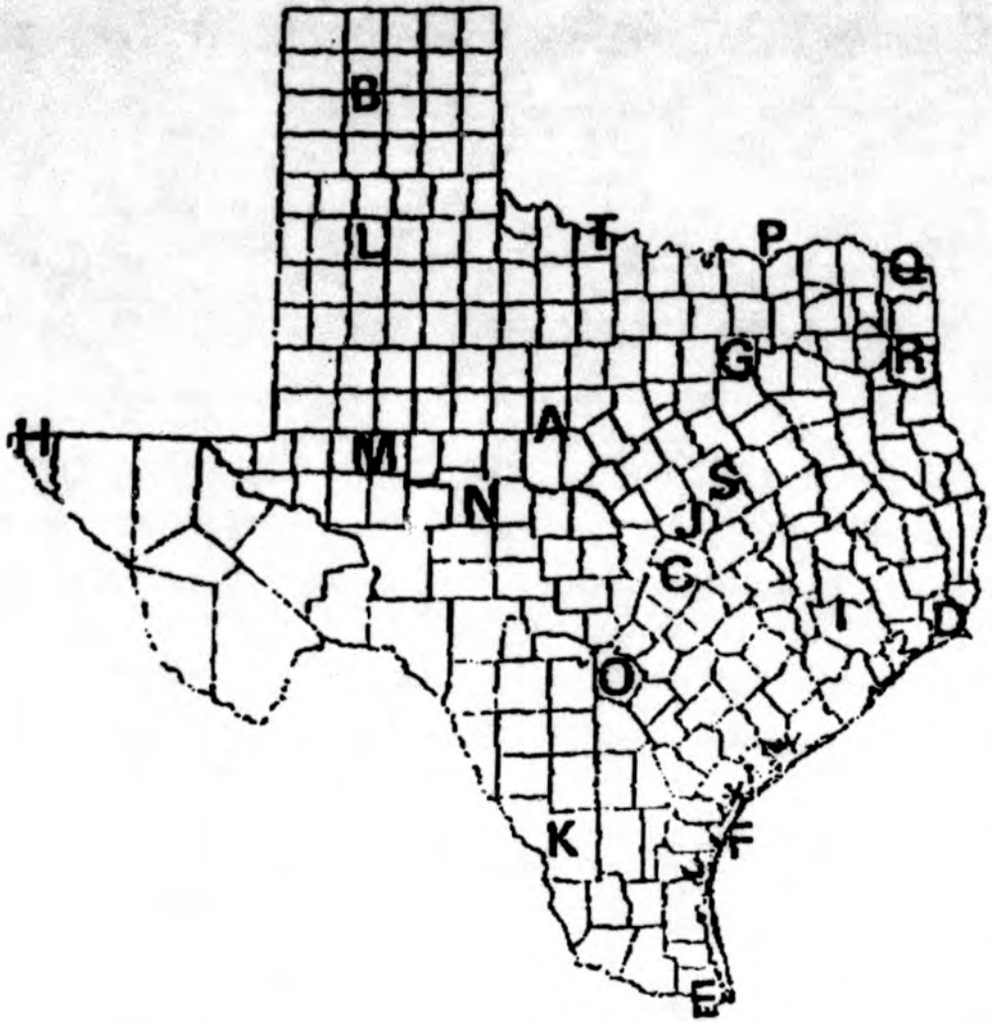
POTENTIAL RESULTING THRIFTS
(ASSETS)

LOCAL	UP TO $800 MILLION
REGIONAL	$800 MILLION - $2.5 BILLION
MULTI-REGIONAL	MORE THAN $2.5 BILLION
STATEWIDE	NONE

SIZE OF THRIFTS

	PRE-PLAN	POST-PLAN
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/	1, 2, 3
	FORT WORTH	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

REGION	ANCHOR AREA	GEOGRAPHIC DESCRIPTION
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:

- The financial strength, ability, amount and type of capital that the interested party will provide when pursuing consolidation within the targeted area;
- The strength of proposed management;
- Applications for acquisitions with the Southwest submitted within the last 12 months to either the Dallas Bank or FSLIC;
- 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 _____.

ADDENDUM

PRE-SCREENING REQUIREMENTS

The following information must be submitted in order to ascertain the identity and legal form of a potential acquiror and to develop a basis for a preliminary financial evaluation:

FINANCIAL INSTITUTIONS

Financial Institutions that wish to be included on the National Marketing List are required to submit the following information:

On the institution's letterhead, a statement indicating their interest to be placed on the National Marketing List;

A statement detailing geographic and asset preferences; plus

Name, address and telephone number of the contact person to whom marketing information should be addressed.

Submission of this information will allow for inclusion on the FSLIC's National Marketing List. However, invitation(s) to submit a proposal is subject to supervisory clearance from an institution's primary regulator. The general parameter used to determine those financial institutions to be invited is twice the asset size of the target institution. Exceptions to the general parameter must be coordinated with the institution's primary regulator and the FSLIC.

INDIVIDUAL INVESTORS

A completed copy of the Investor's Information Form and the Confidential Biographical and Financial Report (FHLBB Form 1393) or a signed personal financial statement with supporting schedules detailing assets and liabilities.

Executed Affidavit that the information supplied is true and accurate.

Executed Certification regarding criminal and civil litigation.

A statement indicating business/financial background and/or management resources that will be made available for the acquired institution.

Additional information may be required in the course of the pre-screening process.

ADDENDUM: Page 2

COMPANIES (CORPORATIONS, PARTNERSHIPS, ETC.)

A copy of the company's annual report to shareholders for the last two years and the most recent quarterly statement (consolidated when appropriate).

1934 Act Reporting Corporations must also provide Forms 10-K, plus the recent 10-Q and proxy statements.

A statement that the financial information supplied is true and accurate.

A statement indicating the company's business/financial capabilities and management resources that will be made available for the acquired institution.

In addition, principals of non-publicly traded corporations must submit those items listed under the Individual Investors section for each principal involved in the transaction.

Note: All prospective acquirors are subject to credit and background checks. Once the pre-screening has been completed, you will be notified by the Marketing Section of the Mergers and Acquisitions Division/FSLIC.

REQUIREMENTS FOR CORPORATE AND PRIVATE INVESTORS TENDERING A PROPOSAL

In order for the FSLIC to proceed with an evaluation of a proposal tendered by a private or corporate investor, the offeror is required to submit the following additional information:

1) Statement as to the amount and source of capital to be provided.

2) Adequate evidence that the capital is available, e.g., letter of credit, commitment letter, subscription agreements, escrow verification, etc.

   For those parties seeking to infuse non-cash capital, especially where no readily discernible market exists, please provide detailed information regarding the type of assets, the fair market value and the method of valuation used. Additional information may be required.

This information must be submitted no later than the submission deadline for receipt of proposals on this institution.

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ADDENDUM: Page 3

The FHLBB/FSLIC reserves the right to reject an offeror's proposal based upon on inadequate demonstration of financial capability, inadequate management experience/depth or other factors which would impair the restoration of the savings institution to viability.

Please direct Client Clearance Pre-Screening questions and information to:

Mr. Thomas L. Batties
Marketing Director
Mergers and Acquisitions Division
1700 G Street, N.W.
Washington, D.C. 20552
(202) 254-2593

COMMONWEALTH NORTH

EMBARGOED UNTIL

FEBRUARY 23, 1988 7 AM

PRESS RELEASE

The annual earnings from the Permanent Fund, after dividends have been distributed to all Alaskans, can and should be used as a positive, counter-cyclical force in the Alaska economy. So says a report released today by Commonwealth North, a bi-partisan organization of community leaders who study public policy issues affecting Alaska and its future.

"The use of Permanent Fund earnings is a sensitive and easily misunderstood issue," said Dave Chatfield, Chairman of Commonwealth North's Permanent Fund Committee. "The highly charged environment surrounding this issue has made Alaska's political leaders hesitant to act. As a result, the central question has remained unanswered: What are we saving this money for?"

The committee recommends that when statewide economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be added to the principal of the Permanent Fund for "inflation-proofing".

Comparing this approach to the way the Federal Reserve Board uses monetary policy to control inflation and combat recession, Chatfield said that Alaska's Permanent Fund earnings could play an equally important and significant role in Alaska through fiscal or spending policy.

"Our aim is to help level out the sharp peaks and valleys of Alaska's historic economic cycle," said Chatfield. "Used as we have suggested in this report, the Permanent Fund earnings can help reduce the dramatic fluctuations."

The committee endorsed the annual dividend program as beneficial and opposed using Permanent Fund earnings for state government operations except in dire emergencies. It also recommended that a portion of the $516 million currently in the Permanent Fund's Earnings Reserve Account be set aside to establish an Alaska Development Fund.

This fund would help provide financing for the construction of major, revenue-generating, in-state investments which would help expand and diversify the Alaska economy.

To research and determine the feasibility of such projects, Commonwealth North urges that the Alaska Legislature establish an Alaska Development Board, patterned after the Permanent Fund Trustees. To qualify for board approval and endorsement before the Legislature, projects would have to demonstrate an assured source of repayment, through the generation of revenues, tariffs, rents or user fees. Examples include docks, railways, causeways, electrical generation units, water systems and waste water plants.

"The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example," Chatfield said.

The 12-page report is available at a cost of $5 from Commonwealth North at 935 West 3rd Avenue, Anchorage, Alaska 99501.

For a list of the members of the Permanent Fund committee and a description of Commonwealth North, please see the inside back cover of the report.

A POSITIVE COUNTER-CYCLICAL FORCE IN THE ALASKA ECONOMY

SUMMARY:

The Permanent Fund represents visionary public policy and, as a savings account, has been well managed. Its earnings should be used as a counter-cyclical force to funnel monies into the grassroots economy through local government in particularly troubled economic times. When times are good, these earnings should be placed in the Fund. The more fundamental crisis, the long-term lack of diversification in the Alaska economy, must also be addressed by the Legislature. To research revenue-generating proposals, the Legislature should establish an Alaska Development Board, the specifics of which are outlined in this report.

A report by
The Commonwealth North
Permanent Fund Committee

First printing . . . . February 1988

935 West Third Avenue
Anchorage, Alaska 99501

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IN ADDITION TO DIVIDENDS, WHAT SHOULD THE EARNINGS OF THE PERMANENT FUND BE USED FOR?

The Alaska Permanent Fund was created by a public referendum in 1976. It was established as an inviolate trust with the principal of the Fund to be invested in perpetuity. The beneficiaries of the trust were to be all present and future generations of Alaskans.

At its origination, nearly everyone agreed upon one purpose for the Fund — to remove a portion of Prudhoe Bay revenues from the appropriations table, making them unavailable for state spending. This has worked. Indeed, 22% of the $26 billion in oil revenues received by the state since Prudhoe Bay production began has been deposited into the Permanent Fund, saved and invested. At the end of 1987, total assets of the Fund totalled close to $9 billion.

Although the citizens of Alaska are nearly unanimous in their enthusiasm for the Fund and its management, there is less of a consensus on how to use the Fund's earnings, except for the popular dividend program. These earnings since 1978 total $4.3 billion, 30 percent of which was distributed as dividends to the Alaska people.

Numerous conflicting proposals have been introduced on how to best use the earnings of the Fund. Most of these proposals have been met with suspicion and cries from some quarters warning against "raiding the Fund." This highly charged environment has led to hesitancy and inaction by Alaska's political leaders, and the central question has gone unanswered: what are we saving this money for?

What are we saving this money for?

During the mid-1980's there was little need for using the "non-dividend" or undistributed earnings. Times were good generally throughout the state. Local and regional economies were booming, fueled by oil activity at Prudhoe Bay and the attendant revenues amassed by state government. After the distribution of dividends to all Alaska residents, the remaining Permanent Fund earnings were simply set aside and from time to time added to the corpus of the Fund by the Legislature with encouragement from the Governor.

However, as 1988 begins, many Alaskans face difficult economic circumstances, and there is a growing sense of urgency and frustration.

"We've been saving money for a rainy day," many say. "Can't they see it's raining out there?"

"This recession is not a dip, it's an abyss," said an Anchorage property owner and builder. Many of his colleagues have filed bankruptcy, walked away from years of investments, and left Alaska. State and federal regulators have either closed or merged eight financial institutions. Thousands of residents have lost their homes and businesses.

Economists who look beyond the immediate crisis to the long-term economic health of the state express grave concern that North Slope oil production will begin a steady decline within 24 months.

It is against this backdrop that the Board of Directors of Commonwealth North commissioned a committee to study the Permanent Fund and how best its earnings might be utilized to help Alaskans, both in the short-term and in the long-term.

The Committee met weekly for three months. It heard presentations from policy makers and reviewed materials provided by the Permanent Fund staff and other sources.

After weeks of debate, the Committee determined that, in addition to dividends, the earnings have the capacity to play a major positive role in the Alaska economy. The members then prepared the following report.

RECOMMENDATIONS

Recommendation One:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

Recommendation Two:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation proof" the Fund.

Recommendation Three:

The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

Recommendation Four:

Using a portion of the $516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Recommendation Five:

The Permanent Fund dividend program is beneficial and should be continued; however, there should be a limit on the size of the dividends.

Recommendation Six:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth, but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

Recommendation Seven:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Recommendation Eight:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

RECOMMENDATION ONE:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

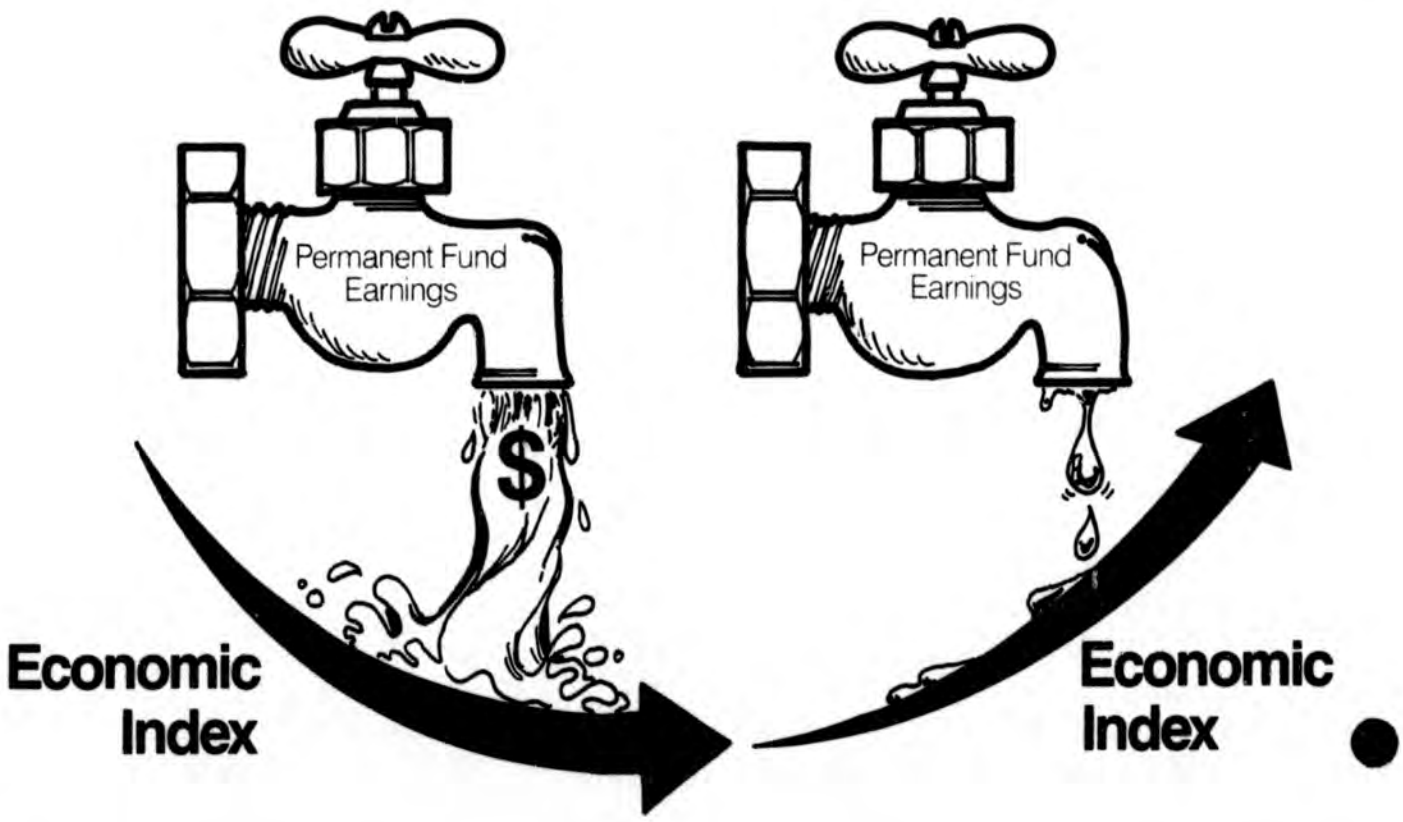
Earnings from the Permanent Fund can and should help level the peaks and valleys of Alaska's traditional boom and bust economic cycles. Appropriations of the earnings should be an important aspect of the state's overall fiscal policies, with additional money injected into the economy during hard times and money withdrawn from the economy during times of rapid growth.

At the national level the Federal Reserve Board has achieved success in controlling inflation and in combatting recession. The Board makes its decisions based on a number of leading and trailing economic indicators. The instruments it uses in pursuing its objectives are monetary in nature, i.e., interest rates and other mechanisms which affect the quantity of money in circulation.

Although Alaska has no comparable monetary tools, Alaska's Permanent Fund earnings could play an equally important and significant role through fiscal (appropriation) policy. This approach should and can be handled carefully so that the earnings are used wisely and distributed fairly throughout the state.

Establishing an economic "spigot"

To begin with, the Legislature should establish a broad-based economic index, written in law, which will determine when Permanent Fund earnings should be injected into the economy and when they should be withdrawn.



This index should include available Alaska economic indicators such as

- Consumer spending
- Savings and investments
- Public and private sector employment
- Wage and salary rates
- Housing starts
- Retail and wholesale sales
- Value of contract construction
- Personal income
- Gross state product
- State revenues

This index will enable the Alaska Legislature and the Governor to determine objectively the performance of the economy and its outlook and become the basis for formulating the state's fiscal policy.

If the index begins to drop, the administrative department, legislative committee, or board of advisors the Legislature designates would recommend appropriation of a portion of the earnings. If the index rises, such spending would be reduced or terminated and the earnings retained instead. In this way, the Permanent Fund would operate as a counter-cyclical force designed to minimize the volatility of economic contractions and expansions.

RECOMMENDATION TWO:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation-proof" the Fund.

Because of the unique nature of the Permanent Fund, drawn from one-time resource revenues and held in trust for all, it is recommended that the flow of money from the earnings (apart from the dividends) be directed to local governments on a consistent per-capita basis. In this way each local entity can make its own judgments as to what its citizens most need, whether jobs, street repair, tax relief, etc. This dispersion will strengthen local decision-making authority and responsibility.

In the unorganized borough, service areas or regional education districts should be the recipients of these funds so that the per-capita disbursement reaches all Alaskans.

The Legislature may wish to establish certain parameters for local governments to use in order to ensure that this special distribution of the Permanent Fund earnings is spent in the most economically beneficial manner. For example, services obtained with these funds should be contracted out to private firms wherever possible. This approach will support the private sector while permitting more rapid expansion and reduction of services without enlarging local bureaucracies.

Use of an impersonal barometer such as the index suggested above and a per-capita formula will help to negate the regional and personal politics which too often dominate the legislative spending process.

RECOMMENDATION THREE:

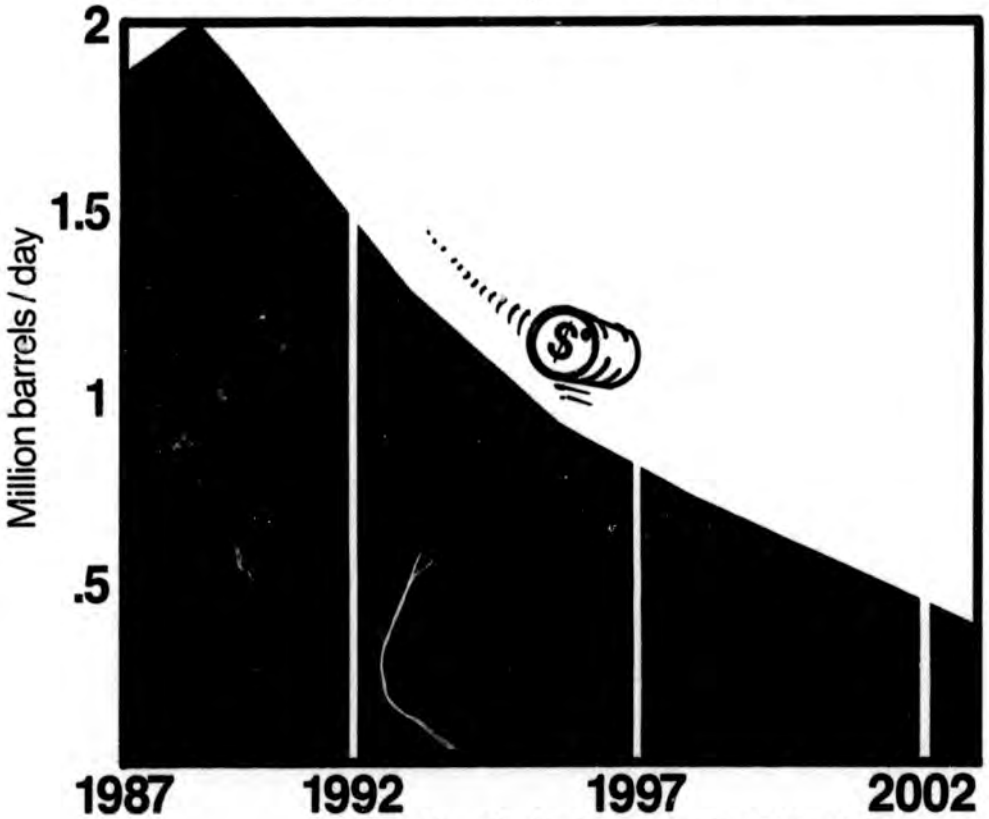
The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

As mentioned earlier, Prudhoe Bay production will begin a rapid decline within the next 24 months. According to the Alaska Division of Oil and Gas, that decline will reduce the trans-Alaska pipeline throughput from today's 2 million barrels a day to 500,000 a day by the year 2002.

In other words, in just 14 years, production from the resource development activity which now accounts for 82% of state revenue will be just one-quarter of what it is today.

Unless other major sources of revenue are developed, Alaska has a calamity in the making. No other Alaska resource comes close to the potential of North Slope oil for generating revenues. In FY 82 these revenues peaked at $4.1 billion, but by FY 87 they had dropped to $1.7 billion. If oil prices stay in the $16-$18 range, Prudhoe Bay revenues in 2002 will be just $425 million (in nominal dollars).

Estimated Production of Alaska North Slope Crude Oil



Statistics: Alaska Department of Natural Resources

The Alaska Development Board

The crying need, the missing element in Alaska's overall state spending and investment strategy, is an aggressive program to diversify the economy and replenish the sources of jobs and revenues now provided on the North Slope.

To begin to accomplish this end in a thoughtful but activist manner, the Legislature should create an Alaska Development Board similar in structure to the Permanent Fund board of trustees. The task of this new board would be to research, study feasibility, and recommend to the Legislature and the Governor major revenue-generating, in-state capital investments which can help diversify the economy into the next century.

Projects that would qualify would have to have an assured source of repayment; i. e., they must have the capacity to generate substantial revenues through tariffs, rents, and user fees. Examples include docks, railways, causeways, electrical generation units, water systems, and wastewater plants.

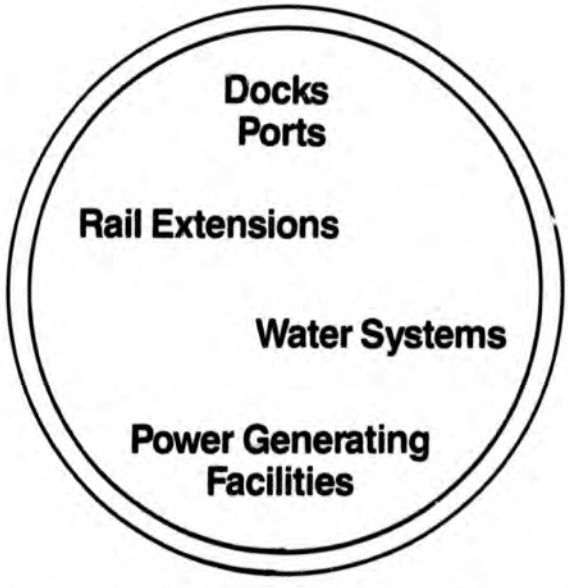
The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example. The Navy traditionally rents such facilities over a many year period.

Only revenue-generating projects would be considered.

It is vital that a distinction be drawn between capital projects, such as quality-of-life facilities (of which Anchorage's Project 80's is a prime example) and the kinds of revenue-generating projects that can pay their own operating and maintenance costs and return the original start-up investments to the state. It is only the latter which would be considered by the Alaska Development Board.

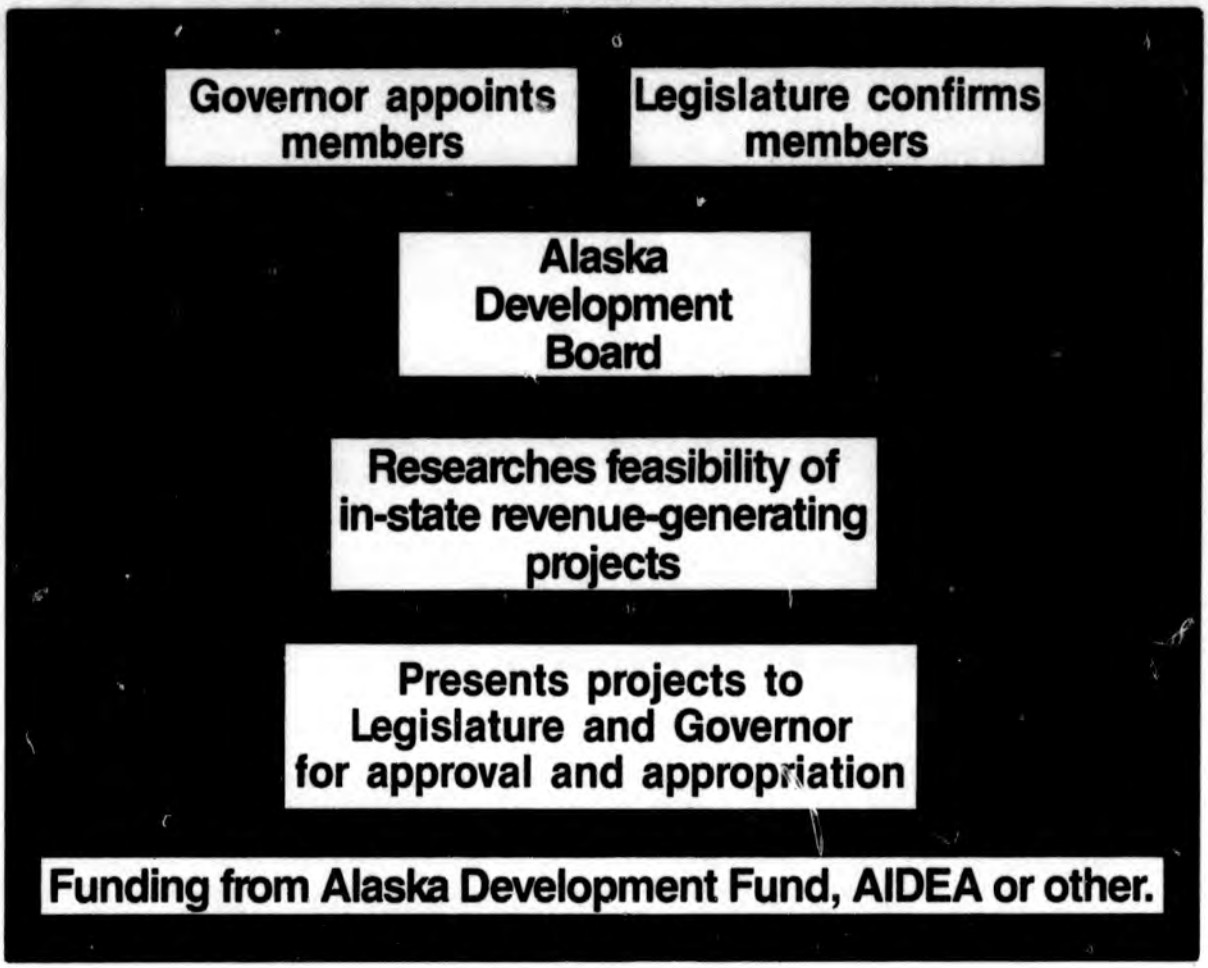


Capital projects which require on-going taxes or revenues to operate.



Revenue-generating projects which pay back investments and cover own O/M costs.

The Alaska Development Board



Membership of the Board

The members of the Board should be appointed by the Governor and approved by the Legislature. They should be given an arm's length relationship and a mandate to take a statewide viewpoint, just as the Permanent Fund Trustees divorce themselves from the special interest entanglements of the political process. Individuals must be named to this board on the basis of professional qualifications, emphasizing experience in designing, financing, guiding, and operating major projects of the magnitude which can strengthen Alaska's economic future.

RECOMMENDATION FOUR:

Using a portion of the $516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Funding for the projects recommended by the Development Board and approved by the Legislature can be derived from several sources, including revenue bonds through the Alaska Industrial Development and Export Authority (AIDEA). This approach was used to finance the construction of the road to the vast Red Dog lead and zinc reserve northeast of Kotzebue.

In addition, the Legislature should set aside a one-time deposit of a portion of the undistributed earnings from the Fund. This large pool of dollars, known as the Earnings Reserve Account, currently contains $516 million. Another possible source to establish an Alaska Development Fund is the windfall monies from oil litigation such as the Dinkum-Sands settlement ($329 million). The reserves in the Alaska Development Fund would be saved and invested by the Permanent Fund Trustees until they are appropriated by the Legislature to facilitate projects recommended by the Development Board.

The Legislature has the final say.

It is important to emphasize that the Alaska Development Board would not have the power to allocate monies from the Alaska Development Fund. That prerogative would remain with the Legislature (with the concurrence of the Governor) which is charged by the Constitution with the task of appropriating funds.

RECOMMENDATION FIVE:

The Permanent Fund dividend program is beneficial and should be continued; however there should be a limit on the size of the dividends.

One of the very positive benefits of the Permanent Fund dividend has been the link it has created between the citizens of the state and the government. Just as personal income taxes in other states keep citizens alert to the spending decisions of their elected representatives, so the Permanent Fund dividend program has made Alaskans sensitive and attuned to how resource revenues are used.

Since the program's inception, a total of $1.48 billion has been distributed and the benefits to the state's economy are recognized by nearly all Alaskans. The size of the dividend distribution, however, should be capped at an amount such as 40% of the annual earnings, as recommended last year by the State Senate, or at $1,000 per person per annum.

RECOMMENDATION SIX:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

A portion of the Permanent Fund's earnings has been used annually to strengthen the Fund and help it to grow and combat inflation.

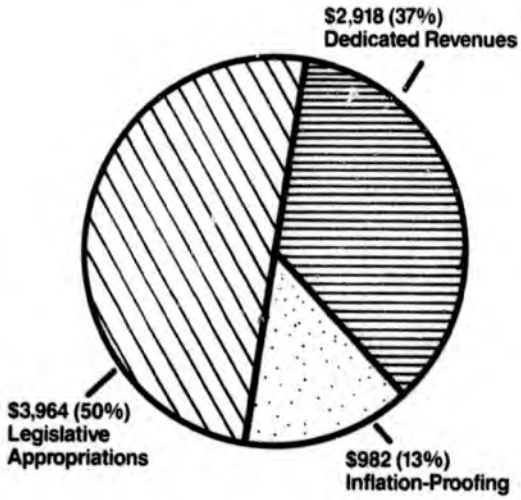
The Legislature has also demonstrated fiscal wisdom by appropriating large additional sums to the principal of the Permanent Fund during years of affluence. In fact, an impressive $3.964 billion of the Fund resulted from such actions. This policy has been a wise one, especially in times of great wealth.

But "inflation-proofing" in a seriously depressed economy does not fulfill the original intent of the Fund which was to benefit all generations of Alaskans, including those currently trying to survive and make ends meet. In times of a shrinking economy, "inflation-proofing," if continued apace, will choke out all other uses of the earnings when, instead, a portion of those earnings should be injected into the economy through Alaska's communities as recommended herein.

And, as suggested in Recommendation One, it should be written into law that, in times of growth and expansion in the state's economy, the Fund should be strengthened by the Legislature through redeposit of the earnings.

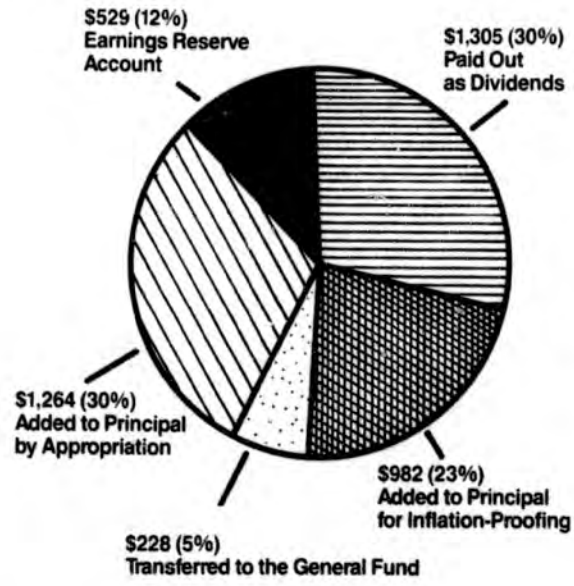
SOURCE OF PERMANENT FUND

Contributions to Principal Since Inception
Total at June 30, 1987: $7.86 Billion
(in millions)



USE OF EARNINGS

Distribution of Earnings 1978 – 1987
Total Net Earnings: $4.3 Billion
(in millions)



Such action will help combat the erosion of the Fund due to inflation, avoid overheating of the economy and at the same time reduce public spending.

But the Legislature should not make annual anti-inflation appropriations regardless of the real world circumstances being faced by Alaska's citizens.

RECOMMENDATION SEVEN:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Alaskans are keenly aware that state government grew rapidly at the advent of Alaska's oil wealth, far outdistancing all other states as to number of employees per capita, wage levels and benefits.

The waste in state government must be dealt with and the excesses curbed.* None of the earnings from the Permanent Fund should be allocated to state government operations in the foreseeable future, absent a major calamity or emergency.

To date, the earnings have been almost entirely used for inflation-proofing the Fund or dividends distributed equally to all Alaska residents. The recommendation in this paper that earnings be used as a counter-cyclical force in the economy calls for a per-capita distribution, maintaining the philosophy that this Fund is held in trust by all residents of the state and therefore any distribution should be made on an equal basis.

It should be remembered that approximately 85% of all royalties and revenues derived from North Slope oil activities are funneled directly into the General Fund out of which the Legislature appropriates monies for government operations. It is the firm conviction of this committee that earnings from the remaining 15% set aside in the Permanent Fund should be added to the General Fund only in case of a major calamity or emergency.

* *Note:* For strategies to reduce state government spending without precipitating a "crash landing", see the December 1986 Commonwealth North report, *Alaska's Budget Crisis, Facing the Facts — Closing the Gaps.*

RECOMMENDATION EIGHT:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

Public policies for using Permanent Fund earnings should be written in statute and thus remain flexible so that the Governor and the Legislature can respond to changing circumstances. World oil prices, the main determinant in state revenues, are too volatile to incorporate spending policies into the Constitution.

A number of fixed formulas were reviewed and studied carefully, including the 40-30-30 amendment proposed by the State Senate last session. All of them contain a number of excellent concepts. They should not, however, be incorporated in the Constitution.

Likewise, Commonwealth North's 1982 recommendation to create a Capital Investment Fund through a Constitutional amendment should be replaced by the approach outlined in this report.

If the recommendations in this report are adopted by the Legislature and function successfully, then there will be no need to lock them into the Constitution. Public support will keep them intact. If they are poorly managed, or fail to be successful for other reasons, they can and should be changed by a future Legislature without having to go through the Constitutional amendment process.

Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. Non-partisan in nature, its purpose is to inject enlightened vitality into the world of commerce and public policy.

As well as providing a forum for national and international speakers, working committees study critical issues facing the state and the nation and prepare well-researched action papers, such as this one.

THE COMMONWEALTH NORTH
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Executive Director


COMMONWEALTH
NORTH

HALLWOOD

Alliance Bank

15 Mm? may be sufficient
carrying Loan
10% of assessed value trust assets.
outside - outside 800 MM @ 10%

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

FRED H. BURROW
President

:khc1/30

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W. Benson Boulevard • PO Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern, and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

Probably total is 700-800MM all sources

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves, individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust. 15MM

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination. the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet. income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. **With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.**

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls. Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. **Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.**

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement. Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

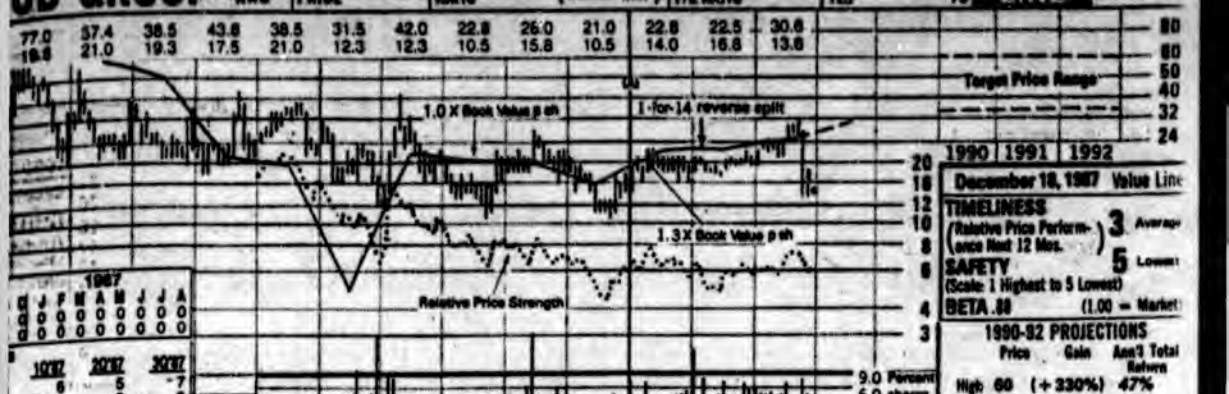
February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360

OD GROUP

NYSE -HWG | RECENT PRICE 14 | P/E RATIO 7.1 (Trailing 0.3, Median 11.7) | RELATIVE P/E RATIO 0.65 | DIV'D YLD 8.0 % | VALUE LINE 2063



December 18, 1987 Value Line

TIMELINESS (Relative Price Performance Next 12 Mos.) 3 Average
SAFETY (Scale: 1 Highest to 5 Lowest) 5 Lowest
BETA .88 (1.00 = Market)

1990-92 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+330%)	47%
Low	35	(+150%)	30%

© VALUE LINE, INC.

1975	1976	1977	1978	1979	'980	1981	1982	1983	1984	1985	1986	1987	1988	1989		90-92E
186.93	120.76	50.37	21.24	20.01	5.25	22.71	20.98	20.29	16.66	16.94	18.04	19.70	22.35		Book Value per sh	32.00
d89.82	d65.06	d66.68	d44.36	d34.25	d14.76	.55	.82	.63	.28	1.26	2.07	2.00	2.85		"Cash Flow" per sh	5.50
d89.78	d66.25	d70.31	d49.16	d37.54	d17.23	.56	.56	.14	.10	.84	1.79	1.56	2.45		Earnings per sh (B) (A)	4.00
6.16	--	--	--	--	--	--	1.12	1.12	1.12	1.12	1.12	.84	1.12		Div'ds Decl'd per sh (C)	1.20
940.90	892.65	830.26	666.18	428.68	322.45	28.94	26.27	30.12	23.24	27.92	18.49	16.65	13.65		Loans & Real Est per sh	16.00
.21	.21	.21	.21	.21	.21	2.16	2.38	2.38	4.58	4.58	4.58	4.66	4.70		Common Shs Outst'g (D)	5.00
18%	-80%	-71%	-17%	30%	158%	42%	-19%	-10%	-5%	1%	5%	14.5%			Premium over Book	50.0%
--	--	--	--	--	--	40.3	31.0	NMF	NMF	20.4	10.6	14.25			Avg Ann'l P/E Ratio	12.0
--	--	--	--	--	--	4.90	3.41	NMF	NMF	1.66	.70	.90			Relative P/E Ratio	1.00
10.5%	--	--	--	--	--	--	6.5%	6.1%	6.3%	6.6%	5.9%	3.8%			Avg Ann'l Div'd Yield	2.5%

Bold figures are Value Line estimates

	10.1	7.4	6.7	8.9	6.8	14.5	8.9	21.4	25.5	37.9	55.0		Gross Income ($mill) (A)	90.0
	d10.4	d7.9	d3.7	.7	1.5	.4	.9	4.0	8.2	7.1	11.5		Net Profit ($mill)	20.5
	NMF	NMF	NMF	8.0%	21.6%	3.0%	12.7%	18.7%	32.2%	18.7%	21.0%		Net Profit Margin	23.0%
	140.8	90.6	68.2	62.5	62.5	71.7	106.4	82.1	84.7	77.6	65.0		Loans & Real Est ($mill)	80.0
	24.0	17.1	9.1	8.5	5.1	6.3	1.1	.5	.4	1.0	1.0		Loss Reserve ($mill)	1.0
	5.9%	5.3%	4.2%	5.0%	7.9%	9.4%	11.5%	11.5%	7.5%	15.2%	10.0%		Avg Interest Paid	10.0%
	99.5	56.1	46.8	.2	.2	6.7	6.5	3.8	.7	.3	1.0		Short-Term Debt ($mill)	1.0
	6.3	13.4	13.0	12.9	12.7	18.0	24.9	24.5	16.5	20.4	65.0		Long-Term Debt ($mill)	60.0
	4.5	4.2	1.1	49.0	49.9	48.3	76.4	77.5	82.6	91.8	105		Net Worth ($mill)	160
	10.7%	15.7%	13.9%	90.7%	91.1%	76.2%	77.7%	78.0%	81.5%	86.3%	65.0%		% Cap Funds to Tot Cap	72.5%
	2.0%	2.5%	2.7%	3.4%	3.4%	3.7%	2.5%	5.5%	7.0%	11.9%	12.0%		% Expenses to Assets	12.0%
	NMF	NMF	NMF	3.7%	4.0%	3.2%	NMF	5.6%	9.5%	8.0%	7.5%		% Earned Total Cap'l	9.0%
	NMF	NMF	NMF	2.3%	2.9%	.9%	NMF	5.2%	10.5%	8.3%	11.0%		% Earned Net Worth	12.5%

BUSINESS: The Hallwood Group Inc., initially known as First Pennsylvania Mortgage Trust and then as Atlantic Metropolitan, emerged with UMET Properties in 1984. Primary business is aiding in restructuring financially distressed companies, also engages in real estate and merchant banking activities. Holds equity positions in Brock Hotel Corp., Saxon Oil Company, GCA Corp. Asset mbt. (end of '87): 60% financial services and 40% real estate. Currently liquidating real estate holdings in the U.K. Has about 25,000 shareholders. Hallwood Securities owns about 10% of fully-diluted stock. Incorporated: Delaware. Chairman: A.J. Gumbiner. President: Brian M. Troup. Address: 767 Third Avenue, New York, New York 10017. Telephone: 212-319-2360.

Hallwood has completed restructuring two failing Alaska banks. The two banks, formerly Alaska Mutual Bancorporation and United Bancorporation Alaska, have merged to form Alliance Bancorporation. As is typical of these transactions, Hallwood will raise $65.8 million in equity for the new bank through a stock rights offering, while the FDIC has agreed to provide $295 million by buying warrants for common stock. This rights offering will have a unique twist, however. Usually, shareholders in the failing company are given the option of purchasing stock in the restructured company at a discount; any shares remaining after expiration of the offering are then peddled to institutional investors. Hallwood generally keeps about a 10% stake as part of its compensation, but it doesn't put any of its own money at risk. Because of very weak equity market conditions, however, for this deal Hallwood pledged to purchase any unsubscribed shares after the offering. In return, after 18 months Hallwood has the option of selling all but 9.99% of the shares back to the FDIC. Hallwood will not receive any fee for the deal, but if the new bank becomes profitable, Hallwood stands to benefit greatly, while at the same time not incurring any balance sheet risk. Furthermore, in making this very complicated and difficult deal Hallwood has gained considerable goodwill with the FDIC, ensuring future participation in bank rescues. The lack of a fee will hurt earnings this quarter, however . . .

Fiscal 1988 per-share earnings should show healthy growth (about 65%) over fiscal 1987 (years end July 31st). We expect Hallwood will participate in at least one, or possibly two additional bank rescues this year. We also expect Hallwood to move into rescues involving very highly leveraged firms, many the result of the LBO craze. The sale of the company's residential properties in the United Kingdom should help improve bottom line performance over the next twelve months.

Although not timely for the year ahead, this equity is well above average for 3-to 5-year appreciation potential. Since revenue recognition is so erratic, however, it is probably only suitable for risk-tolerant portfolios (Safety Rank 5: Lowest). *Richard Lynch/Richard Anderson*

(A) Fully diluted: '78, $2.59; '80, 18¢; '81, $1.14; '82, 4¢; '84, 16¢; '85, 84¢; '86, 32¢; '87, $1.51. (C) Plus ½% BancTEXAS com. for ea. Hallwood sh. Next div'd meet'g about Feb. 25. Goes ex about Dec. 31. Div'd paym't dates: Jan. 15, Apr. 17, July 19, Oct. 16. (D) Shs. increased tenfold after Dec. '90 restruc. incl. 7-for-1 rights offering. Adj. for rev. stk. split.

Company's Financial Strength	C+
Stock's Price Stability	10
Price Growth Persistence	10
Earnings Predictability	30

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FEB 22 1988

H. Norman Rokeberg
6534 Lakeway Drive
Anchorage, AK 99502

February 18, 188

Senator Jan Faiks
Alaska State Senate
P.O. Box V
Juneau, AK 99811

Subject: Economic Recovery
Commercial Real Estate

Dear Ms. Faiks:

Attached is an outline of a plan to help stop the downward trend in Alaska's commercial real estate market. In a nutshell, it calls for "imploding" the failed inventory of properties held by the Alaska Industrial Development and Export Authority (AIDEA) on it's existing equity.

A brief overview shows Anchorage's real estate problems are a result of over supply and diminished demand. The best statistical example can be seen in the office space market.

Presently, Anchorage has an inventory of 7.8 million square feet, of which 1.7 million is vacant, or 21.7 percent. (These are my preliminary year end numbers.)

During the past 15 years over 6 million square feet of office space was built with annual absorption of approximately 350,000 square feet per year. During the past two years we have experienced a net negative absorption of more than 400,000 square feet.

The drop in demand has depressed rent levels by more than 33%, for example, Class "A" rates have decreased from ranges of $2.35 to $1.50 per square foot per month. Income properties are valued on their ability to produce revenues. Warehouse and strip retail rents have dropped by as much as 40 to 50 percent.

AIDEA, in concert with poor commercial banking practices, was a primary cause of the over supply problem. When traditional mortgage lenders were constrained by prime rates of eighteen percent and more, the State of Alaska clearly meddled with market forces by stimulating construction with IDB subsidized loans. Buildings mushroomed and caused the 1985 real estate recession prior to the oil collapse.

I remain a firm believer in a free market, however, once the State disrupts that market with "economic engineering", it has a social as well as an economic responsibility to help correct its mistake.

Please call me at 563-5500 if you have any questions.

Sincerely,

H. Norman Rokeberg
Associate Broker
Jack White Company

HNR/sc

enclosure

cc: Tony Smith
Dave Rose
Ron Lehr

ALASKA ECONOMIC RECOVERY PROGRAM

Demolition of Commercial Property Alternative

Intent: Use equity of AIDEA to pay for demolition of properties foreclosed upon by AIDEA.

Purpose: Implementation of this public policy will: 1) diminish the supply of commercial property; 2) be a clear statement to the private sector that the state is acting to correct a recognized economic problem; and 3) minimize the demand on the public treasury.

Rationale: The State of Alaska's AIDEA was a proximate cause in creating an over supply of commercial properties. During the boom period of 1982 to 1985, AIDEA subsidized construction of more than 300,000 square feet of office space in the Anchorage market.

Assumptions: Given bond obligations in the 300 million range and an equity of approximately 300 million, AIDEA has the existing resources to assist in curing a problem it helped to create.

Suggested Mechanics: 1) As a first step AIDEA would endeavor to "work out" the problem loan; 2) failing a satisfactory work out, AIDEA would accept a deed-in-lieu or foreclose on property; 3) if a statutory foreclosure is instituted, AIDEA would attach the existing income stream (by assignment of rent provisions) to avoid "creaming" by the borrower; 4) after a suitable period (say six (6) months) if the property could not be resold for cash (i.e., non-AIDEA financing) then the building would be scheduled for demolition; 5) any existing tenants would be relocated and the leases terminated. In the event of relocation, the tenant would be granted a maximum ninety (90) day rent abatement to facilitate relocation; 6) upon completion of the above steps, AIDEA would contract for the total demolition of the building and

foundation; 7) AIDEA would bear the interim holding costs and demolition; 8) participating private lenders would be required to write off their portion of the loan; and 9) the land would be held by AIDEA as part of its asset base until market conditions allow for sale.

Legislative Action: The legislature would adopt the above procedures, together with a public directive prohibiting AIDEA from lending on commercial properties in urban areas anytime in the future.

Conclusions: A similar policy directive could be applied to residential housing loans held by AHFC.

This alternative is not a bail out, as it applies only to failed properties. However, it may aid the liquidity problem by encouraging deed-in-lieu return of property, and, therefore, save some borrowers from bankruptcy.

While this program is not a total solution, it has the following advantages: 1) it requires no state funding; 2) it is relatively simple to implement; 3) it uses an existing organization to execute; and 4) it can be started very quickly.

Submitted by: H. Norman Rokeberg
2/88

Introduced: 2/15/88
Referred: Resources and Finance

5-1944A

Funding Information
General Fund $6,828,000
Other Funds -0-
$6,828,000

BY HERRMANN, GRUENBERG AND SUND

IN THE HOUSE

HOUSE BILL NO. 492

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making special appropriations to the Department of Administration for grants and to the Office of the Governor for operating expenses to implement the Alaska bottomfish development plan; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $2,638,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.315 to the city of Unalaska for the Ballyhoo Road water project.

* Sec. 2. The sum of $1,298,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.-315 to the city of Unalaska for the Ballyhoo Road sewer project.

* Sec. 3. The sum of $2,350,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.-315 to the city of Unalaska for Ballyhoo Dock expansion, including related upland improvements.

* Sec. 4. The sum of $232,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.315 to the Municipality of Anchorage for a program to implement the Alaska bottomfish development plan within the municipality.

* Sec. 5. The sum of $250,000 is appropriated from the general fund to the Department of Administration for payment as a grant under AS 37.05.315 to the Municipality of Anchorage to establish a computerized fisheries information system within the Port of Anchorage to implement the Alaska

bottomfish development plan.

* Sec. 6. The sum of $60,000 is appropriated from the general fund to the Office of the Governor to fund a position in that office to coordinate the implementation of the Alaska bottomfish development plan.

* Sec. 7. The unexpended and unobligated portion of the appropriations made by secs. 4 - 6 of this Act lapse June 30, 1989.

* Sec. 8. This Act takes effect immediately under AS 01.10.070(c).

ALASKA BOTTOMFISH DEVELOPMENT PLAN

If a company were in deep economic trouble it could do two things:

1. Analyze its strengths and invest resources into realizing the potential of these strengths so as to rebuild the company.

2. File bankruptcy and go out of business.

Our State does not have the luxury of going out of business for the people. We must build on our strengths, especially when different cities and regions of the State can cooperate with each other in real economic development.

The booming Alaska Bottomfish industry is such an opportunity - not our only opportunity - but an opportunity that is immediately realizable. There is a high rate of return to the State, and the potential for creating thousands of jobs for Alaskans.

The stakes are huge: 2 million metric tons of 43 different species of Bottomfish in the Bering Sea are harvested annually. That is 4.5 billion pounds of fish! The Bering Sea can be a perpetual Prudhoe Bay if we manage it wisely.

The Japanese estimate that the Bering Sea fishery is responsible for more than 500,000 jobs in Japan. This includes fishing and processing, value added reprocessing, transportation, marketing and the service industry necessary to keep it all operating. To make the best decisions they have the best fisheries research and information systems available.

As the Foreign fleets are being phased out, this fishery is being Americanized. But how much of this Americanization will benefit Alaska? That depends on what we do to take advantage of this opportunity. The State of Washington commissioned a study to determine its role in the Alaska Bottomfishery and found that 93% of the value of the fishery goes to Washington.

Now is the time for Alaska to stake our claim on the enormous economic potential of this industry during its developmental stage. This is an opportunity to put the "Bush vs: Anchorage" syndrome behind us and work together to put our State back on a sound economic footing.

Some of these plan elements are immediate, some are more long term. Along with seizing the immediate opportunities, we need to look out for the long-term interests of the whole State in this endeavor. As a coordinated effort this plan is substantial enough to really accomplish something. The plan includes capital projects and policies designed to capture a large share of the Bottomfish industry for Alaska.

The capital projects portion of the plan would be a supplemental capital budget. We do not seek to alter the Governor's Jobs Bill as it is a necessary relief measure which will distribute State money throughout the whole State. However, along with relief, it is necessary for the State to target economic development projects which will move the State's economy ahead.

PLAN ELEMENTS:

1) Primary production: Many companies want to locate onshore in Alaska. Our communities do not have the basic infrastructure to accommodate this development. $6 million in capital projects in Unalaska/Dutch Harbor will bring $60 million dollars of private investment in fish processing, cold storage, salvage and other associated services. The projects are a water and sewer extension and an 800 foot extension of the City Dock. (See attached project description #1). It is Unalaska's #1 capital projects priority.

St. Paul harbor completion - $4 million is already included in the Governor's capital budget so the Bottomfish industry can locate some of their operations in the Pribilofs.

2) Services and marketing: Anchorage is the logical location for the service center for Alaska's Bottomfish industry. It means millions of dollars a year to Seattle's economy and it can mean the same thing for Anchorage's economy if we analyze which segments of the service industry it is reasonable to locate in Anchorage. We can then design an aggressive campaign to show our existing businesses which services are needed and also convince new businesses to locate in Anchorage.

The obvious industries are cold storage and transportation at Anchorage International Airport, banking, primary and secondary processing, office location (the price is right), fisheries data bank location, retailing parts and commodities to rural fish production centers such as marine repair parts, food, automobiles, processing equipment, etc.

The cost of this project is $232,000. (See attached project description #2)

3) Value added processing: Most of the value added in the Bottomfish industry is in processing the product to final form. Most of our seafood leaves the State in the least processed form possible, sometimes even frozen whole.

The purpose of the Fisheries Industrial Technology Center (FITC) in Kodiak is to provide research and training on value added processing techniques. Dr. Jong Lee expresses the philosophy of the Center: "When I think of fish I see money -- Kodiak is left with the fish guts and the smell and somebody else gets the money."

The FITC will be an important addition to Alaska's strategy to keep more of the jobs in Alaska. This project is 7 million dollars and is Kodiak's #1 capital project priority. (See attached Project Description #3)

4) Information Systems: A computerized fisheries information system is necessary to provide information on fisheries performance, research and import/export marketing information. This information system would be a function of the Port of Anchorage through a working agreement with other ports and private users in Alaska who would pay for operational costs through users fees. The cost for establishing the system, including hardware is $250,000. (See attached project description #4)

5) To become more self-sufficient in port and harbor development, Southwest Alaska should form into an Economic Development District under EDA or should join with Anchorage and other Alaskan ports to form the Alaska Port Authority.

6) Support the proposal by Southwest Alaska Municipal Conference before the North Pacific Fisheries Management Council (NPFMC) to implement the priority U.S. cargo carriers and bulk fuel distributors are given under the Magnuson Act. The proposal would require foreign JV processors to utilize domestic support capacity before foreign operations could be brought in. This would mean millions of dollars of support activity for Alaskan ports.

7) Support the allocation of a percentage of the total Bottomfish quota directly to Alaska coastal communities as a Community Development Quota. The smaller villages especially need this development quota to ensure that they will benefit from Bottomfish development. Federal Bottomfish limited entry proposals could otherwise legally disenfranchise our people from participating in the fishery.

8) Orient our local and University school systems to train Alaskans so they can fully participate in the development of the fishery. So often we wring our hands about other people taking our work when in fact we also need to make the commitment to offer qualified people.

The State legislature should amend the State raw fish tax law to allow processors to check off 3% of their fish tax which would be administered by the Department of Education. Funds would be granted to secondary school systems to allow for development of fisheries education programs in local schools.

9) Establish the Governor's proposed Alaska Science and Technology Foundation. This is necessary to accomplish applied research to keep us current with new trends in the industry.

10) Extend the effective date of the State's investment tax credit program on fish tax to encourage on shore processing development. Last year this program was responsible for more than $49 million of private investment in onshore operations.

11) Resource protection: Establish a mandatory observer program on floating processing vessels. Support enforcement measures to control foreign fishing in our waters, including a mandatory check-in, check-out system. Support bi-lateral agreements with the Soviet Union on taking fish management control in the "Donut hole" under the closed and semi-closed seas section of the Law of the Sea Convention. Oppose increases in the Bottomfish quota at this time until illegal foreign fishing and other management uncertainties can be eliminated.

CONCLUSION: The State has a responsibility not only to provide relief for hurting Alaskan communities. We also have the responsibility to build our economy for the future. This Bottomfish development plan is an ambitious but realistic proposal to ensure that Alaskans benefit from this developing industry. Other people may be able to indicate further opportunities in Bottomfish development. This is a good start.

The additional capital project portion of this plan is $13.7 million dollars. The appropriation of these funds is a sound investment in the future of Alaska.

For more information contact:

Paul Fuhs, Mayor, City of Unalaska, (907)581-1251
Jerome Selby, Mayor, Kodiak Island Borough, (907)486-5736
Tom Fink, Mayor, City of Anchorage, (907)343-4804

CITY OF UNALASKA
P.O. BOX 89
UNALASKA, ALASKA 99685
(907) 581-1251



SYNOPSIS OF ESSENTIAL CAPITAL PROJECTS
CITY OF UNALASKA
FY 89

Ballyhoo Road Water and Sewer

WATER

The water project would replace approximately twenty thousand feet of World War II vintage water line varying in size from 3 inch galvanized iron to 12 inch wood stave line. The new line would be 12"-20" ductile iron pipe.

The Delta Western Complex which presently exists is seriously under utilized because there is not enough water pressure to provide sprinklers in two of their new warehouses.

Icicle Seafoods has brought in a barge for fish processing and has a long term development plan for property they have leased from the Ounalashka Corporation. Without additional water capacity these plans will not be able to be carried out.

The Ounalashka Corporation has had a number of inquiries from processors, and service providers about leasing land along the road , but the lack of city services makes the land undevelopable. There is no other area of the community that is close to tidewater that can be used by deep draft vessels. The total cost of the water project is estimated to be $2,638,000.

With the addition of the Icicle barge which is now processing fish, there has been a substantial reduction in water pressure at the Ballyhoo Dock, the major watering point for large vessels. This slows the turnaround time on the dock, worsening the dock congestion problem.

SEWER

The sewer project would extend the city sewer system to this area which is presently unserved. It would bring in approximately 10,000 feet of sewer line which would make the area useful. DEC has prohibited further development of the area without a public sewer.

The Ounalashka Corporation and the City of Unalaska, both of which are land owners along Ballyhoo Road have had to turn down requests for long term land leases because of the lack of a public sewer in the area.

The City of Unalaska has had some preliminary engineering done on this project which gives a cost estimate of $1,298,000 for a conventional system. This would assure a relatively trouble free line which would be handling extensive industrial activity.

DOCK EXPANSION

The third priority component of the City of Unalaska's capital requests is the expansion of the Ballyhoo Dock. This project would include an 800 foot extension to the existing 400 foot dock, removal of rock from a hillside on the property to provide additional staging area, and placement of the rock in the water to increase the amount of available land for storage and transshipment of cargo

We expect fifteen to twenty factory trawlers to be using the facility in the next year. We have presently seven factory trawlers each using the facility every twenty days to load supplies and unload three million pounds of fish product at each off load.

In addition Petro Marine Services has put a multi-million dollar tank farm on the uplands on the Ballyhoo Dock property. This tank farm has pumped many millions of gallons of fuel oil to fishing, processing, and cargo vessels in the six months it has been in operation. The agreement we have with Petro Marine calls for first priority to be given to vessels loading and unloading cargo. The lack of additional docking facility reduces Petro Marine's ability to deliver fuel, and revenue to the city from the sale. In the first two weeks of this year, 114 fishing vessels were denied moorage at city dock facilities due to lack of space.

The companies desiring to locate on Ballyhoo Road if we can provide the basic infrastructure are: Icicle Seafoods, Artic Storm, Amfish and Golden Alaska (fish processors); Sunmar, Delta Western and Sealand Services (shipping and cold storage); Fred Devine Salvage and Marco-Seattle (vessel repairs); and Hokodate Seimo Sengu a net manufacturer.

The total cost of the dock project is $2,350,000.

UPDATE!

COMING UP
ON
PUBLIC
TELEVISION

Currents

The Question: **Should we legalize private salmon farming in Alaska?**

The Players: **Norwegian Businessmen; Washington & British Columbia Fish Farmers; Alaskans** - Pro & Con

The Place: **KTOO -TV**

The Time: **Thursday, April 7th 8:00 pm**

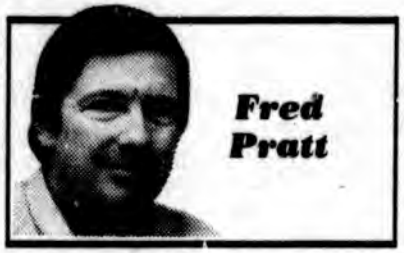
Watch this special half-hour documentary as it re-airs with an UPDATE on the current status of mariculture legislation.

KTOO-TV is Southeast Alaska's only regional television station.

KTOO TV
JUNEAU

Opinion

Mayor Fink's solution part of the problem



Fred Pratt

Views expressed here do not necessarily represent those of the Daily News-Miner

Tom Fink is a special type of politician, even by Alaskan standards.

He is intelligent and straightforward. He can be charmingly inflexible. He's unaccommodating in victory and unrepentant in defeat. I like him.

Now that Tom Fink is mayor of Anchorage, he's been visiting Fairbanks to drum up some sort of Railbelt coalition of municipal and business leaders. He proposes a joint effort to persuade the Legislature to divert a few hundred million dollars from somwhere (the Permanent Fund) to a massive welfare program for the "haves."

There's a certain appealing ring in Mayor Fink's pitch. The end of the state spending spree after the 1986 oil price crash certainly brought its share of hardships. If the state government has money in the bank, Mayor Fink suggests, why not spend a little of it to soften the blow?

But Mayor Fink's solution is, in fact, the problem itself.

In talking about state budget cuts, we must keep in mind how there are several components of the state budget and cuts in each one affect regions of the state in different ways.

The state operating budget for the current fiscal year is about what it was four years before, in Fiscal Year 1984. This part of the budget, which covers the day-to-day operations of the state government, peaked in FY 1985 at just under $3 billion, and has since been cut 11 percent to $2.63 billion this year.

The capital budget, which covers construction projects and major purchases, dropped 75 percent in the same period, from $1.44 billion in FY 85 to $358 billion in FY 88.

State loans declined about the same proportion as the capital budget, from $372 million in FY 85 to $77 million this year.

Thus, if you're in a community like Juneau that gets a lot of money from the operating budget for state employee salaries, you weren't hurt as much as a community that gets most of its state spending in the form of capital projects and state loans.

Fairbanks has a healthier mix of operating money, construction and loans. Anchorage, on the other hand, pulled more money from the state treasury for the direct benefit of its private industry sector; construction companies, builders who rely on state mortgages and businesses that rely on state loans.

That's why the cut in state spending has hurt Anchorage so much.

In 1981, for instance, Anchorage's share of state loan programs was $1,237 per capita, compared to $809 per capita in Fairbanks and $989 per capita statewide.

Last year, after the cuts, Anchorage's loans were down to $158 per capita, virtually the same as Fairbanks' and considerably less than the state average of $263 per capita.

The comparison is even more clear in state mortgages. In FY 87 Anchorage got $278 million in Alaska Housing Finance Corp. mortgage money for its overblown housing industry, which works out to about $1,200 per capita. In Fairbanks we got $61 million in state mortgages, or $841 per capita.

In the past decade the Alaska Housing Finance Corp. sold bonds to borrow more than $4 billion that it loaned back out in the form of home mortgages, more than half going to Anchorage. The AHFC bonds make up half the state's total debt burden.

The Anchorage housing industry is overbuilt because the state was subsidizing mortgages. The state further subsidized Anchorage's sprawling growth with road projects and low-interest loans to strip mall developers.

But before we feel too sorry for Anchorage, let's remember a few more things.

Unemployment in Anchorage last December was 8.2 percent, while in Fairbanks it was 12.9 percent without even counting all the guys from Anchorage who come up here to take jobs away from Fairbanksans out of our union halls.

The number of people unemployed in Anchorage was 8,229, compared to 4,112 here. That means that Anchorage, with three times our population and labor force, has only twice as many people out of work.

The Anchorage mayor's solution is to pump more money into the very programs that so disproportionately benefited Anchorage in the past, and from which the governor and Legislature have wisely cut the greatest amount of surplus spending.

In effect, Anchorage is like a drunk who's been knocking down three shots for our two. It's no wonder if Anchorage is suffering a worse economic "hangover".

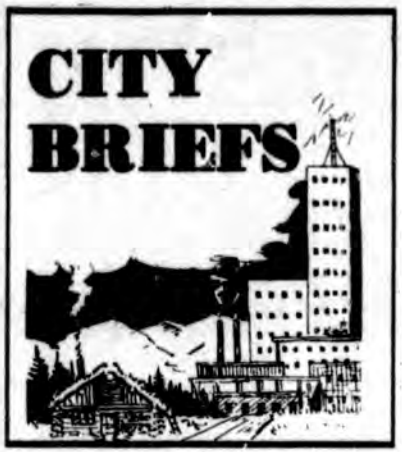
Mayor Fink's solution to his city's binge isn't an aspirin and a late morning snooze. He's asking for some "hair of the dog," another huge round of state spending.

It's hard to see how that will help Fairbanks.

Fred Pratt, a freelance writer living in Fairbanks, is a reporter and long-time observer of Alaska politics.

Fairbanks Daily News-Miner, Fairbanks, Alaska

Fairbanks



TODAY

6 p.m.—**Fairbanks Libertarian Party Supper Club** meeting, 1604 Madison Dr. Information: 479-4250.

6:30 p.m.—**Military Retiree Council** meeting, NCO Club, Fort Wainwright. Plans for social will be completed. Information: 457-4697.

8 p.m.—**Nugget Squares** dance, Alaskaland Dance Center. Caller: Gordy Oseth. Cuer: June Kaiser. Information: 488-6970.

8 p.m.—**Farthest North Dairy Goat Association** meeting, North Pole. Information: 488-9615.

8 p.m.—**Midnight Sun Chapter No. 6, Order of the Eastern Star** meeting, Masonic Temple, 809 First Ave. Information: 479-6861.

8:30 p.m.—**University Contra**

Joling named News-Miner news staff chief

Dan Joling, who has worked as a reporter, legislative correspondent, columnist and copy editor since joining the Daily News-Miner in 1978, today was named the newspaper's managing editor.

Joling, 33, a native of Wisconsin, has been writing the newspaper's Hometown Reporter column since July 1986. He recently had been promoted to assistant city editor.

The appointment, effective March 28, was announced by Charles Gray, president and general manager of the newspaper.

Joling has a master's degree in journalism from the University of Missouri and a bachelor's degree with honors in English literature from Bethel College in St. Paul, Minn. In 1977, he was a participant in Missouri's highly regarded Washington, D.C. graduate-reporting program, covering regional issues for several newspapers, primarily the Yakima (Wash.) Herald-Republic.

"I believe working in daily journalism is a privilege and a trust," Joling said. "A newspaper is the primary vehicle used by citizens in



DAN JOLING
Promoted

reassignment to the copy desk where he is in charge of the Saturday and Sunday AMs editions. Sturgis served as managing editor from 1975 through August 1986. He is an investor in and recently was named president of Epicenter Press Inc.—a new Alaska-based book publishing company incorporated in January.

Joling was born in Sheboygan, Wis. He and his family moved in 1962 to Rhinelander, Wis., Joling graduated from high school in

Borough pushes

By PATRICK HUND
Staff Writer

The borough joined the city Thursday in calling upon the state to make it a crime to possess marijuana in the home.

The Fairbanks North Star Borough Assembly Thursday voted 6-3 in favor of a resolution that says current law "sends a harmful and mixed message to the youth of our state by having a law which allows the use and possession of marijuana in the home . . ." The Fairbanks City Council approved a similar measure Wednesday.

The State Senate recently approved a measure that would make marijuana posession in the home a crime. The bill is awaiting consideration in the State House.

Assemblyman Ed Linkous said every student organization in the state has recognized that marijuana use is a problem and wants the situation rectified.

Assemblyman J.B. Carnahan said young people need to recognize the effects of the drug. "We as adults need to send a clear message to our children," he said.

Others assembly members supporting the measure were: Walt Johnson, Joe Ryan, Chris Birch and Jerry Norum.

Assembly members Buzz Otis, Valerie Therrien and Jeff Weltzin voted against the resolution, while Paul Chizmar and Sandra Stringer were excused from the meeting.

Therrien said the resolution is not in compliance with the state constitution.

"This is one more attempt by the assembly to take away the rights of privacy of the people," she said.

Weltzin agreed with Therrien.

"They're willing to give up sacred rights of Alaskans," he said. "It's too sacred to be tampered with."

Weltzin said that state laws already prohibit the sale of marijuana and possession by a minor.

In other action, the assembly voted 8-1 to take some land from Alaska Northwest Properties Inc. by eminent domain if the company does not sell a parcel of property at the borough's offer of $526,570, which exceeds the appraised value.

The assembly plans to authorize building a new elementary school on the site off Loftus Road to re-

Report of the Subcommittee on Small Business

Joint Committee on Economic Recovery

members

Rep. Red Boucher, Chair
Rep. Bill Hudson, Vice-chair
Rep. Johnny Ellis
Rep. Adelheid Herrman
Rep. Lyman Hoffman
Rep. Steve Frank

Background

The Small Business Subcommittee held seven teleconferences between February 4 - 16, 1988. The teleconference sites included Anchorage, Juneau, Fairbanks, Mat-Su, Homer, Bethel, Sand Point, Kodiak and Dillingham. The Small Business Subcommittee's agenda was to listen to, identify the needs of, and network small businesses with the agencies and services currently available.

Discussion

The participants most frequently said they lacked information about what funding, services and agencies are available to help them.

Small business has long been touted as the backbone of the American economy. A recent study indicates that the formation and expansion of firms that employ fewer than twenty people have generated virtually all of America's net employment gains since 1981.

The strength of Alaska's economy rests on a vigorous and diverse small business community. Small business produces more new jobs, ideas and technology than any other sector. As they prosper, new enterprises account for significant government revenues, and their innovative entrepreneurial policies stimulate industries to greater productivity.

Policies favoring economic diversification, import substitution, and value-added exports are an unqualified call-to-action for Alaska's small businesses and manufacturers. As other states with similar policies have discovered, direct investments in the development of marketable products is the most cost effective and expedient means of establishing a stable employment base.

The Subcommittee on Small Business has reviewed the following programs and services already established in the state and believes that the efforts of business assistance should be focused through a delivery system that utilizes these programs and services.

The Small Business Development Center of Alaska (SBDC) represents a unique partnership between the Alaska Department of Commerce and Economic Development, the Small Business Administration, and the statewide University of Alaska System. SBDC has offices in Juneau, Fairbanks, Anchorage, Kenai, Kodiak, Valdez, Bethel, Kotzebue, Nome and Ketchikan.

The Small Business Development Center is funded by the State of Alaska and the Federal Small Business Administration. Because of its association with a federal agency and the state University system, SBDC can access national, state and local procurement systems, international trade networks and various databases.

The Small Business Development Center provides instruction in the areas of development of new ideas for products and services, financial management, marketing, export and importing financing information, export and import trends and potential of a region. Additionally, it offers courses, seminars and workshops on current business topics. SBDC has a natural tie with the Alaska Center for International Business which, like SBDC, is a part of the University system.

The Alaska Center for International Business conducts research, including research on market information and market strategies, relating to trade by businesses in the state with foreign nations, and, in particular, Asian nations.

Additionally, the Center for International Business assesses the potential of various markets for the state's natural resources and technical and informational resources. It identifies and analyzes the import requirements of and trade barriers to commodity sales in other nations. It also identifies the state's trade competitors and assesses the public policy and programs used by the competitors to foster trade with potential markets for the state's goods and services.

Another program that has been invaluable for its hands-on technical assistance and training to small businesses in rural Alaska is the Alaska Business Assistance Center. The Business Assistance Center helps rural Alaskans through the myriad requirements of establishing and running a small business in the state. The Business Assistance Center has helped many people regarding loan foreclosures. Foreclosing on loans is cumbersome and confusing to rural Alaskans, and the Assistance Center has prevented many people from losing their loans and their livelihood. Through the efforts of the Assistance Center, many loans have been saved before they got to the point of foreclosure.

The three-year-old Made In Alaska program of the Department of Commerce and Economic Development remains the most substantive state effort to stimulate manufacturing jobs in Alaska to date. However, this program remains unfunded.

The problem, as previously discussed, deals with informing and offering instructional assistance to small business persons. The Small Business Subcommittee believes that networking and instruction can be implemented very easily. The University of Alaska Anchorage Department of Instructional Television Service has the equipment and facilities to produce and edit the courses, seminars and workshops that are being planned by the Small Business Center, the Alaska Business Assistance Center, the Center for International Business and the Made in Alaska Program.

These tapes can then be distributed and aired on the public access channel on the

local cable television systems. Currently there are twenty-four cable systems in the state. Under this plan, interested persons will be able to view these instructional and informational programs in their homes. Additionally, Public Service Announcements over the RATNET system can be utilized to make areas of the state not served by cable television aware of what is available and who to contact for more information, etc.

In Anchorage, these programs can be viewed by those who do not currently have cable television. The Anchorage schools, with the exception of Bartlett, are cabled. Interested business persons can go to their neighborhood schools to view the various taped programs on the public access channel.

Another way for interested business persons to utilize these programs will be through the municipal library systems. Tapes could be checked out, just like a book, and viewed on a VCR.

The implementation of this plan will further the intent of CSHB 40 which was enacted to develop and implement a cost-effective policy for managing the state's information and information technology resources so that state government may better serve the people.

The Small Business Subcommittee believes the small business person will also benefit from the Alaska Neighborhood Business Initiative. This would be a valuable referral tool for small businesses and manufacturers.

Conclusions

If the state is going to work towards stabilization and expansion of our economy, then we should be doing everything possible to establish a climate conducive to the development and communication of ideas of small business.

Small business in Alaska is concerned with the proliferation of regulations and other expensive permitting processes on both the local and state level, all of which increase the costs of doing business.

There is a need for a regulatory clearing house to receive the complaints and constructive proposals of small business. The clearing house would work to reduce the costs of doing business.

The budget efforts for this business assistance system should involve all departments and agencies that are concerned with small business.

In addition to improving the business climate, the State needs to find new ways to improve the competitiveness of Alaska manufactured products.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1573 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1370

Recommendations

The Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the University of Alaska, the Division of Tourism, etc. to identify a few, should jointly budget and develop a comprehensive program to promote royalty-based product development investments that create permanent jobs at the least cost.

The Legislature should establish a broad-based economic index, written in law, which will enable the Legislature and the Governor to determine objectively the performance of the economy and its outlook and which will become the basis for formulating the state's fiscal policy.

This Alaska Economic Index should include indicators such as:

> Consumer spending, savings and investments, public and private sector employment, wage and salary rates, housing starts, retail and wholesale sales, value on contract construction, personal income, gross state products and state revenues.

The Legislature should also:

Support passage of CSHB 430 (Labor and Commerce) - Neighborhood Business Development Fund

Support passage of HB 431 - Appropriation: Neighborhood Business Development Fund.

Support passage of HB 219 - Appropriation: Alaska Center/International Business

Support passage of HB 352/SB322 - Worker's Compensation
Note: Small Business Subcommittee received more correspondence and comments from small businesses on this subject than on any other piece of legislation.

Support passage of SB 166 - Regulations that Affect Small Businesses and Municipalities.

Support passage of CSHB 310 (Labor and Commerce) - Relating to Public Works and Public Construction.

Support passage of CSHB 45 - Relating to Alaska Business Bidder Preference.

Butro

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY
Agenda items for Meeting of March 14, 1988

Pat Stewart info (Mobile Home Storage)

1. SB 484 - restructuring the debt of certain dairy farmers.

2. Willow Park Demolition Resolution.

3. SB 471 - establishing a program in the Alaska Industrial Development and Export Authority to guarantee business loans and to refinance debt.

4. Update on bridge-bank concepts. check w/ Tim Kelly

5. FDIC status report.

6. Flexibility resolution

Roden
Fuiks
Zharoff OK
Josephson
Jones
Arlin
Coghill
Halford

Unalaska

SENATE JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: March 7, 1988

RE: Committee Endorsement of Legislation

The Senate Joint Committee on Economic Recovery has reviewed the following legislation and recommends passage by the Fifteenth Alaska Legislature.

SCR32 - by Senator Paul Fischer - "Urging the state's financial institutions to adopt more flexible lending and collection policies."

Status: House Labor & Commerce Committee.

This legislation urges banks, the Alaska Building Authority, the Alaska Industrial Development and Export Authority and other financial institutions to adopt a flexible position when servicing loans by amending procedures to allow for collection moratoriums and flexible payment schedules to allow for realistic and practical loan workouts.

SB333 - by Senator Rick Halford - "An Act relating to wage, salary and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

Status: House Labor & Commerce Committee

This bill provides for quarterly reporting by a bank of the financial condition of that bank. It also assigns a high priority to wage, salary and benefit claims in cases of certain bank liquidations.

SB392 - by Senator Rick Halford - "An Act relating to delinquent loans of the Alaska Industrial Development Authority; and providing for an effective date."

Status: House Labor & Commerce Committee

This bill allows the Authority the flexibility of adopting regulations defining under what circumstances AIDEA will discontinue purchasing loans from a financial institution because of the institution's loan default rate. Statute currently causes AIDEA to discontinue purchasing loans from an institution with a default rate of 2% or more.

SENATE COMMMITTEE OF JOINT COMMITTEE ON ECONOMIC RECOVERY
March 16, 1988
5:00 P.M.

MEMBERS PRESENT

Senator Arliss Sturgulewski, Co-Chair
Senator Lloyd Jones, Co-Chair
Senator Jan Faiks
Senator Rick Halford
Senator Joe Josephson
Senator Jack Coghill
Senator Pat Rodey

MEMBERS ABSENT

Senator Dick Eliason
Senator Fred Zharoff

WITNESS REGISTER

Tony Gambiner, Chairman
The Hallwood Group
767 Third Avenue
New York, New York 10017
(212) 319-2360

Frank Cox, District Director
Small Business Administration
701 "C" Street
Anchorage, Alaska
(907) 271-4022

Nancy Gross, City Manager
City of Unalaska
P. O. Box 89
Unalaska, Alaska 99685

Gary Daily, Port Director
City of Unalaska
P. O. Box 89
Unalaska, Alaska 99685

Dennis Robinson
Ounalashka Corporation
Unalaska, Alaska 99685

ACTION NARRATIVE

Tape One, Side One
Number 002

Senator Sturgulewski, Senate Co-Chair, called the meeting to order at 5:10 p.m. Senator Tim Kelly was also in attendance.

Tony Gambiner, Hallwood Group, addressed the committee on the Hallwood Alaskan Real Estate Stabilization Trust (trust), or bridge bank, proposal. He said that Jim Cairns previously discussed the risk to Alaska's banking system

that would be caused if Alliance Bank would fail and the resulting decline of real estate values. They feel the state should take action to alleviate the problem. When they made the original proposal, they asked for an equity investment from the state of $15 million with allowance for further borrowings. They are now asking for an appropriation limited to $15 million, but it will only allow them to run the trust for one year. If, during that year, they are able to generate sufficient income from sales of the trust, without collapsing the local market, they will come back with a progress report. Then, if necessary, they will request the state to lend money to the trust.

They feel any action by the state should be conditional upon the FDIC agreeing to participate in the program. Otherwise, the FDIC might be expecting other opportunities for it to sell to third parties, which will be funded by some state agency. In responding to expressed concern that Hallwood, after its 18 month trust commitment, might put its shares in Alliance Bank back to the FDIC, Mr. Gambiner said Hallwood would be contractually obligated to run the trust for the ten year life of the trust. It is in their interest to run the trust because of their large investment in Alliance Bank. If they no longer have that investment, they would propose they pay a fee based on the negotiated pricing structure laid down between FDIC and the 27 beneficiary banks in the 27th Trust. They would then be compensated for the work they were doing, and would continue with their contractual obligation, unless it was felt they should be replaced.

Number 136

Senator Sturgulewski asked about their interest in Alaska Housing Finance Corporation (AHFC). Mr. Gambiner said they were not suggesting that the proposal be conditional upon AHFC joining in, since the state controls AHFC through its own authority. They have talked with Commissioner Tony Smith, Department of Commerce and Economic Development (DCED), and Mr. Gambiner thought the Commissioner was in favor of the project and he is to advise the Governor of his recommendation.

Number 158

Senator Josephson commented he had drafts of CSSB 408 () and CSSB 409 () for committee review. Mr. Gambiner had proposed amendments to the drafts as follows: CSSB 408 (), page 1, line 27, delete "corporations that have interests in" which would give them the power to take over failing banks rather than real estate portfolios.

They discussed whether the appropriation amount should be $15 million or $45 million in CSSB 409 () page 1, line 10.

Mr. Gambiner said the cost of the operation will depend on how much property is managed in the trust. If they assume the trust is limited to Alliance Bank, FDIC and AHFC's portfolios, they think the cost will be $15 million a year to run it. Until such time as the marketing efforts in the trust have produced an income stream that takes up the slack, they would look to the state to fund it. They intend to come back to the legislature after the first year, provide a status report, advise how much money will be needed for the following year, and make application to borrow that money in a manner similar to that laid down in the original proposal. The $45 million is their best worst guess of how much money they would need: $15 million equity investment and a drawdown facility of up to $30 million. Senator Josephson referred to page 1, lines 10-11, and said the source is not referenced because it will be a judgment call as to what it will be.

Number 226

Senator Josephson asked about reimbursement to the state. Mr. Gambiner said the $15 million would be invested in equity, the same way as any other participant (i.e., Alliance Bank or FDIC) will contribute property. That property will be valued at current market value and they will receive units or shares or partnership interest in the trust, which entitle them for distributions as these units are sold in the liquidations process. They are asking the state to provide liquidity in the form of cash and asking the beneficiary participants to put in their various properties. The state's money will be used to pay operating costs (management expenses) until such time as income is generated from marketing the assets. He explained the method by which the state would get reimbursed.

Number 275

Senator Sturgulewski commented that U.S. Senator Frank Murkowski informed her that they have requested the Federal Home Loan Bank Board in Seattle, Washington, to take an independent look at our situation and the report will be sent to his office on March 14, 1988.

Number 295

Frank Cox, Small Business Administration (SBA), came to the table. Senator Halford said the bill, SSSB 471, represents the re-write of the original bill with input from AIDEA and Mr. Cox. The bill establishes a program in AIDEA to guarantee business loans and to refinance debt. In response to a question from Senator Coghill, Senator Halford said the business assistance fund will be established with the existing funds in AIDEA.

Mr. Cox said that the legislature may be seeing a little paranoia on the part of AIDEA and they are being careful because they are afraid the banks will rip them off. He has been doing loans for 18 years and the SBA guarantees 90%.

Number 336

Senator Sturgulewski commented that it has been mentioned that this is a bank bailout approach and asked him to answer several questions pertaining the SBA loans. Mr. Cox said there would not be any advantage to a person, who qualifies for his program, to use AIDEA. SBA would guarantee 85%; and get an answer in five days whereas it takes the state 5-6 months to respond. Concerning SBA's delinquency rates, he stated the matter is difficult to address as FDIC has possession of approximately 35% of his portfolio. Before FDIC took some loans, the delinquency rate was 12% (60 plus days); his charge-off rate is 3.2% (loan losses on ten year continuum). AIDEA's 75-80% rule would not change.

Senator Halford said a question was raised about whether they should apply to new loans as well as refinanced. AIDEA was interested that they not apply to refinance. Mr. Cox favored the inclusion of the refinance, not to allow people to pull all the equity from the loans and run, but to help someone by restructuring their payments. Those are the loans, limited to 20 years, that help residents; new loans help those that stepped off the plane last year. SBA does refinance, but only to the benefit of the borrower and not to the bank. Many SBA loans are not real estate based; but working capital. It's much easier to collateralize real estate than working capital.

Number 407

Senator Jones asked whether the banks will take advantage of AIDEA. Mr. Cox responded that it is up to AIDEA to say "we're not interested in doing this deal." If they are credit-worthy, AIDEA should be helping them. Senator Halford explained why it is to the advantage of the bank to refinance good loans: they can take the AIDEA guarantee and sell the loan to someone else, which gives them the capital to operate and make loans.

In response to Senator Coghill's comment about the need to refinance soft assets (working capital, inventory), Mr. Cox said AIDEA could only make loans on hard assets in the past. Senator Halford outlined the method for which AIDEA expands its capital base.

Number 454

Senator Faiks made two points: (1) the bill expands the number of players that can go to outside markets to bring money into the state; and (2) recommended language inserted, if the committee agreed, to include consideration of what's been called soft assets. Would this expand AIDEA's statutory authority and create a major re-write of the bill. Senator Rodey said those actions would expand its authority. Mr. Cox added it could be addressed on a percentage level such as ability to withdraw 10% (or whatever) of equity to be used as working capital.

Senator Halford said the reason AIDEA doesn't allow loans on soft assets is they are dealing with the bond market; it doesn't make sense to go through the bonding process for a short-term working capital loan. Likewise, it doesn't make sense to go through the guarantee process for a loan that is based on short-term asset. He raised the question of what happens during foreclosure: AIDEA felt that during foreclosure, the principal should be paid first. The banks disagree with it and said, essentially, the attorneys' fees and cost of the foreclosure should be paid first, and then the principal. Mr. Cox said SBA gives the bank 90 days, and if they choose, SBA will buy it. At that point, SBA gives the bank the choice to liquidate; if not, SBA will do it. If the bank liquidates, SBA takes some responsibility for controlling the attorneys' fees and other cost. They have not had trouble in telling the bank that SBA will allow $10,000 in attorneys' fees and that's it. SBA's regulations address the process.

Number 494

Senator Josephson said the 90% figure has been criticized on the basis of it being a bank bailout and the state would be better to reduce the percentage. Mr. Cox said it depends on who is running the program and what type of credit judgments are being made. SBA is dropping its percentage from 90% to 85%.

Senator Coghill asked what percentage of SBA loans are for inventory and accounts receivables. Mr. Cox answered about 30% of loans are specifically for operating capital.

Senator Faiks asked, if possible, could Mr. Cox address the differences in their working relationship with banks than that of AIDEA. Mr. Cox said they assume the banks will act legally with them and normally everything is handled in the documentation.

Number 540

Senator Rodey addressed the inclusion of soft assets for purposes of AIDEA loans. He stated AIDEA was set up as a secondary market, not to deal directly with anyone, due to

the state's delinquency rate (about 40%). When you move into the area of relatively unsecured loans, it has to be carefully considered, as AIDEA was not set up for that purpose. Responding to a question from Senator Coghill, Senator Rodey said the AIDEA bond program does have a restriction on soft asset loans. Mr. Cox added there is equity there that can be recaptured for working capital.

Senator Sturgulewski asked if the SBA had a debt ceiling. Mr. Cox said there was a national limit, maybe $6.5 billion, that has only been reached twice. She asked if there was any flexibility for SBA to service the market rather than our creation of a loan program. Mr. Cox said the SBA is responding; part of the problem is that AIDEA has much of the collateral, which leaves little collateral for anyone to base a loan. Senator Rodey added that bond covenants are involved.

Number 580

In responding to a inquiry from Senator Sturgulewski about appropriating funds for capital reserves, Mr. Cox stated AIDEA has about $300 million, with profits of almost $20 million last year and $30 million the year before, maybe they should use that.

In discussing SBA's strict guidelines, Mr. Cox said their decline rate is about 5-6 times as high; it used to be less than 1%, and they have had months where they have declined up to 30%.

Senator Sturgulewski said they've heard charges the state program has been subject to political pressure and asked if that was a problem in SBA. Mr. Cox stated it is only a problem if the person that is running the program responds to it.

Number 600

Senator Josephson said, in a situation where the originating bank fails, does it create special problems. Mr. Cox answered that it does if FDIC takes the loans. They have several hundred loans now in the hands of FDIC and they know they are current; but the FDIC, as trustee for the debtor, has them in an account. Because they are in the secondary market, SBA will end up repurchasing the loans. In particular, if you send a payment on a loan, the FDIC puts it into a holding account and doesn't remit the payment to the purchaser in the secondary market. The secondary market wants to get payment on the guarantee. The FDIC doesn't care if they fail; they want money.

Senator Halford recommended the committee support the bill as part of its legislative package.

Tape One, Side Two
Number 652

The committee generally discussed the shifting of responsibilities from banks to AIDEA. Senator Rodey commented that banks are only servicing agencies; they get a fee from AIDEA. The bill does not shift the burden; it remains on AIDEA.

Senator Halford said the banks would probably like to shift the burden to AIDEA, if they could. The major benefit is drawing capital into the state. The bank may sell some of its good loans which they would not have been able to sell without the guarantee; then take the money from the sale and make more good loans. The banks are trying to bail out their bad loans with their good loans and good business. If we can expand their capacity on the positive side, we can help them carry their negative side.

The committee discussed Senator Coghill's concerns about inclusion of soft assets in the bill. Senator Faiks recommended that the bill be considered part of the package as is, since she has another bill which allows AIDEA to take up to 25% equity in refinancing loans.
That bill would be a better vehicle for this issue.

Senator Rodey moved and asked unanimous consent that the bill be considered as part of the package. Hearing no objections, it was so ordered.

Number 820

At the request of Senator Zharoff, the committee heard from Nancy Gross, City Manager; Gary Daily, Port Director; and Dennis Robinson, City Council Member and Ounalashka Corporation Board member, of Unalaska, Alaska, concerning a fisheries proposal.

Mr. Daily explained home porting for the American factory troller, the Alaskanization of this industry and what it means to the state and residents. Currently, there are 41 Alaska factory trollers, mostly from Seattle. A factory troller is a vessel approximately 200-300 plus feet in length, the retrofits and costs range from $17-35 million. To show the significance of the value in terms of jobs and income, the Port of Seattle recently appropriated $200 million to upgrade its maritime moorage facilities to ensure they retain the factory trollers there. The 41 factory trollers give 240 persons/per troller with jobs which equates to just over 9,800 jobs. In 3-4 years, they are going to double the amount of trollers, resulting in excess of 22,400 jobs.

He continued to provide a history of the bottomfish industry in the state, and explained the chart detailing the fisheries' resources. U.S. Customs and Immigration are located in Dutch Harbor. He then noted the values of state and international fisheries, specifically 1.2 million metric tons of bottomfish, per exvessel value, exceeds $2 billion; and the impact the industry has on jobs and support services. He felt the key to unlocking the Seattle monopoly was to provide a shore-based facility; they have $60 million worth of business in a 10,000 foot area in Dutch Harbor which involves relations with 14 nations.

Number 988

Senator Sturgulewski asked about the monetary request. Ms. Gross pointed out that fisheries of the Bering Sea, particularly the bottomfish, per every 5% of revenue from the industry, can attract $100 million into the state.

Senator Faiks asked how that money arrives in the state. Mr. Daily responded it includes shops, cold storage, processing, cargo, trans-shipment, jobs, fueling, etc. Cold storage in Japan is eight times as expensive than Alaska, and there are three requests for construction for facilities in Unalaska. He said fishing crews are hired out of Anchorage.

Senator Faiks commented if the state could capture 5% of the market, there would be a spin-off of $100 million in both capital and salary investments, but it would not be every year.

Number 072

Senator Josephson referred to the proposal and commented it did not include the specifics for project description #2, and asked what is necessary to make Anchorage the service center they discussed. Ms. Gross answered that that section of the proposal represents the research Anchorage needs to do to get marketing plans.

Senator Halford asked the total budget of Unalaska and how much is spent on debt service. Ms. Gross said the total general fund budget is about $4.0-4.5 million annually; they are maximized out on bonds which is one of their problems. They have been carrying, on the books, a population of 1,922 for several years, and this year, C&RA decided their population was 1,331. The Bond Bank will not talk to her; and she looked at an assessment district and was told that 35% of the land is not assessable because it is undeveloped land granted to the village corporation under the ANCSA.

In response to a question from Senator Halford about using revenue bonds for the dock, Ms. Gross responded the problem is the users have said when the city gets the facility, they will sign long-term leases for use; however, the city can't get the revenue bonds until they have the agreements.

Number 123

Senator Jones referred to the renewable resource aspect of fishing and asked how a sustained yield could be guaranteed. Ms. Gross said federal enforcement was necessary, such as the Coast Guard patrolling the area. However, the biological aspects of the waters make it so nutrient rich along the coast and shelf that the Japanese, who have fished the area for 20 years, have not impacted the yield.

Senator Sturgulewski compared the ports of Southeast (120-122 tourship stops/year) and this port which gets over five times that amount. She said the committee would not be able to take any action on the request.

Ms. Gross said there was a House Bill that addresses the request. In response to a question from Senator Halford, Ms. Gross commented their annual budget does not include the school budget; simply operating the electric, water, sewer, utility, port, airport and terminal, etc. that are general operations.

Number 163

The committee decided the next meeting would be a work session on bills and proposals already presented for discussion. There being no further business to come before the committee, Senator Sturgulewski adjourned the meeting at 6:31 p.m.

5-1863B
Cook
3/16/88
Revised

MAR 16 1988

Original sponsors: Kelly and Sturgulewski

IN THE SENATE

CS FOR SENATE BILL NO. 408 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose of the Alaska stabilization assistance program is to promote the stabilization of real property values in the state.

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to make loans or investments to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1998, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the _____.

(c) To encourage institutional lenders, state or federal agencies, and other institutions not to attempt to dispose of real property in the state until the real estate market becomes more stable, the authority may

(1) enter into contracts to provide for the management of real property in the state that has been or could be foreclosed upon or otherwise acquired through actions taken on defaulted loans;

(2) acquire interests in

(A) part-performing or nonperforming loans secured by real property in the state; or

(B) loans acquired by an institution or federal or state agency as a result of a bank failure in the state.

(d) Contracts entered into by the authority under (c) of this section may provide for the management of property only through June 30, 1998.

* Sec. 2. This Act is repealed July 1, 1998.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

STATE PROPERTY EXEMPTIONS IN BANKRUPTCY

	1962	1971	1972	1974	1976	1982	1986	FEDERAL EXEMPTION
LIMITED VALUE EXEMPTION								
Books Pictures Musical Instruments	300					1,500[2]	1,650[2]	4,000[8]
Wearing Apparel *								4,000[8]
Watches & Jewelry	200					500	550	500
Articles for Trade/Profession	1,800	2,500				1,400	1,540	750
Household Goods Furniture	1,200					1,500[2]	1,650[2]	4,000[8]
Pets						500	550	4,000[8]
Automobile	(Exempt under Trade/Profession)					1,500[3]	1,650[6]	1,200
Heirlooms						1,500[2]	1,650[2]	
Earnings (within 30 days)	350 (Head of Household) 200 (Single Man)							
Weekly Net Earnings Cash & Other Liquid Assets				25%/114[1]		175 700	193 770	25%/[10]
Weekly Disposable Income Increased Cash & Liquid Assets						275 1,100	303 1,210	Not Specified
HOMESTEAD EXEMPTION								
Debtor's Dwelling (Realty) Debtor's Dwelling (Mobile Home)	8,000		12,000 8,000		19,000 12,000	27,000[4]	29,700	7,500
PROPERTY EXEMPTION W/O LIMITATION								
Unmatured Life Insurance & Annunity Contracts						5,000[5]	5,500[7]	4,000[9]

TONY SMITH

Sen. Stvrgulewski

MEMORANDUM

State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various Economic Recovery Proposals

FROM: J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.

2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

   The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate $25 million if we are to do $100 million in guarantees for the program to have the impact desired. We recommend a $100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.

4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.

5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential $3 million item. Hence, a threshold question is identifying a source of funding.

   In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

   There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of $75-80,000, with an interest rate of 10-12%. Consider the following figures:

Loan Amount	Interest Rate	Payment
$ 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 nonjudicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

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, Lesislative Liaison, Office of the Governor
The Honorable Jan Faiks
The Honorable Max Gruenberg
The Honorable David Donley
Gregg Erickson, Office of Management & Budget,

JAS/sh5144M
3488c

5-1864B
Cook
3/16/88

MAR 16 1988

Original sponsors: Kelly and Sturgulewski

B A

Funding Information
General Fund $
Other Funds
$

IN THE SENATE

CS FOR SENATE BILL NO. 409 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska stabilization assistance fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $15,000,000 is appropriated from the _____ _____ to the Alaska stabilization assistance fund.

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the _____ on July 1, 1998.

* Sec. 3. This Act takes effect on the effective date of a version of an Act enacted by the Fifteenth Alaska State Legislature establishing the Alaska stabilization assistance fund.

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

2957 SHELDON JACKSON STREET
ANCHORAGE, ALASKA 99508

While in Juneau
P. O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3818

Senate

MEMORANDUM

March 21, 1988

* Revised March 28, 1988

TO: All Members
Senate Joint Committee on Economic Recovery

FROM: Senator Arliss Sturgulewski

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.

Introduced: 2/10/88
Referred: Finance

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 408

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska stabilization assistance program; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. ALASKA STABILIZATION ASSISTANCE PROGRAM. (a) The purpose of the Alaska stabilization assistance program is to promote the stabilization of real property values in the state.

(b) The Alaska stabilization assistance fund is established in the Alaska Industrial Development and Export Authority. The authority may use money appropriated to the fund to carry out the purposes of this section. An appropriation to the Alaska stabilization assistance fund lapses to the fund from which it was appropriated July 1, 1992, unless specified otherwise in the appropriation act. Other receipts shall be separately accounted for and deposited into the general fund. Each year the authority shall notify the legislature of the amount of these receipts and the legislature may appropriate that amount into the Railbelt energy fund established under AS 37.05.153.

(c) To encourage lenders not to attempt to dispose of real property in the state that has been foreclosed upon or otherwise acquired through actions taken on defaulted loans until the real estate market in the state becomes more stable, the authority may enter into contracts to provide for the management of the property. However, the authority may provide for the management of property only through June 30, 1992.

* Sec. 2. This Act is repealed July 1, 1992.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/10/88
Referred: Finance

5-1864A

Funding Information	
General Fund	$15,000,000
Other Funds	-0-
	$15,000,000

IN THE SENATE BY KELLY AND STURGULEWSKI

SENATE BILL NO. 409

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act making a special appropriation to the Alaska stabilization assistance fund; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. The sum of $15,000,000 is appropriated from the Railbelt energy fund (AS 37.05.153) to the Alaska stabilization assistance fund.

* Sec. 2. The appropriation made by sec. 1 of this Act lapses into the Railbelt energy fund (AS 37.05.153) on July 1, 1992.

* Sec. 3. This Act takes effect on the effective date of a version of an Act enacted by the Fifteenth Alaska State Legislature establishing the Alaska stabilization assistance fund.

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).

5-207(A)
Chenowet
3/14/88

IN THE SENATE

SENATE JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Urging a change under the Interna Revenue Code in the tax treatment of th transfer of a residence subject to a mortgage that is a recourse loan wher the indebtedness on the residence is discharged through foreclosure, repos- session, or surrender of the property.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS, under current provisions of the Internal Revenue Code and pertinent regulations defining "gross income," a voluntary foreclosure, repossession of real property, or surrender of property that serves as collateral for an indebtedness is treated as a disposition similar to the sale or exchange of real property; and

WHEREAS, if real property is transferred through foreclosure or repos- session to satisfy a debt secured by the property or the property is sur- rendered, the property owner may realize a gain or loss; and

WHEREAS in a foreclosure, repossession, or surrender, the difference between the mortgage debt discharged and the fair market value of the property given up is called "discharge of indebtedness" income; and

WHEREAS "discharge of indebtedness" income is taxable to the real property owner as ordinary income if the loan discharged is a "recourse loan," in which the owner is personally liable for repayment of the loan, if the fair market value of the property foreclosed, repossessed, or surrendered is less than the amount of the debt discharged, and if the lending institution forgives payment of the balance of the underlying debt;

and

WHEREAS many Alaska homeowners have mortgages that are recourse loans and

WHEREAS, having only a small equity in their residences and unable to make current monthly mortgage payments in a declining economy, a number of these homeowners have had their residences foreclosed on or repossessed; and

WHEREAS, as an alternative to foreclosure or repossession, other homeowners in similar circumstances have surrendered the mortgaged property to the lending institution; and

WHEREAS, in a substantial number of the loans of these homeowners, the fair market value of the property foreclosed on, repossessed, or surrendered is substantially less than the amount of the indebtedness discharged, giving rise to a "discharge of indebtedness" income; and

WHEREAS, even after these homeowners lose their residences through foreclosure, repossession, or surrender, the Internal Revenue Code and its regulations may apply to impose substantial liability for taxation on the homeowner's discharge of indebtedness income; and

WHEREAS the Alaska Legislature believes that the loss of a residence through foreclosure, repossession, or surrender due to the homeowner's financial problems in a time of economic uncertainty combined with incurrence of tax liability for that loss is inequitable and works a substantial hardship on these families;

BE IT RESOLVED by the Alaska State Legislature that the Congress is urged to amend the applicable Internal Revenue Code provisions to except from treatment as income the liability of taxpayers incurring "discharge of indebtedness" income tax liability under a recourse loan on foreclosed, repossessed, or surrendered residential property in these circumstances.

COPIES of this resolution shall be sent to Lawrence B. Gibbs,

Commissioner of the Internal Revenue Service; and to the Honorable Te
Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorabl
Don Young, U.S. Representative, members of the Alaska delegation i
Congress.

Introduced: 3/24/88
Referred: Labor & Commerce
and Finance

5-2015A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE JOINT RESOLUTION NO. 72

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the residential real estate market.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS some areas of the state are experiencing a severe economic crisis as evidenced by bankruptcies, foreclosures, business failures, and the loss of homes and property values; and

WHEREAS the state is experiencing a difficult economic period, especially in the residential real estate market, and many persons are finding it difficult to meet their financial obligations during these times; and

WHEREAS keeping people in their homes and facilitating the purchase and sale of homes serves an important public purpose and is financially beneficial to both the borrower and the lender; and

WHEREAS borrowers are anxious to continue to meet their financial obligations, but there is a significant number of individuals who are under severe risk of being unable to do so; and

WHEREAS many borrowers would be able to meet their financial obligations if various forms of debt restructuring were made possible; and

WHEREAS debt restructuring requires the cooperation of the various parties to each real estate loan, including the borrower, the loan originator, the Alaska Housing Finance Corporation or other loan packager, the secondary purchasers of the loans, and the various loan insurers; and

WHEREAS the state's economy would be greatly helped if the financial institutions of the state would adjust their lending and collection policies to the present needs and abilities of their customers by using more flexible approaches to stabilize and improve the economy of the state; and

WHEREAS present financing packages available to residential real estate borrowers do not provide adequate market liquidity or ability to buy, sell, or trade properties in today's economic circumstances in which debt balances on the properties are nearly equal to or greater than the values of the property; and

WHEREAS, in order for residents of the state to meet their financial obligations, the parties to residential loans in the state must be willing to negotiate more creative financing terms and conditions for the benefit of all concerned; and

WHEREAS to some extent state agencies and the financial institutions in the state have not yet developed a coherent policy that addresses the current economic crises; and

WHEREAS the likelihood of loss or default is lessened if a market is made more liquid, something that will benefit all participants in real estate loans; and

WHEREAS the ability to buy, sell, and trade properties in a market that has very high loan-to-value ratios can only be accomplished through innovation and cooperation of the various parties to a real estate loan; and

WHEREAS the Alaska Housing Finance Corporation is presently working with the legislature, lending institutions, federal governmental agencies, and private mortgage insurers to find creative ways of refinancing existing mortgages and managing recent acquisitions in the residential real estate market;

BE IT RESOLVED by the Alaska State Legislature that the various financial participants in the Alaska real estate market, including the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, the Alaska Permanent Fund Corporation, and the various loan

servicers, guarantors, and insurers are urged to cooperate in developing innovative ways to restructure debt and to buy, sell, and trade properties for their collective benefit; and be it

FURTHER RESOLVED that economic stabilization of the residential real estate market be accomplished with the joint cooperation of the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, and the Alaska Permanent Fund Corporation and other agencies of the state and of lending institutions in the state as well as the Federal Housing Administration, the U.S. Department of Housing and Urban Development, the Veterans Administration, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and private mortgage insurers; and be it

FURTHER RESOLVED that the legislature fully supports efforts on the part of the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, and the Alaska Permanent Fund Corporation to hold foreclosed-upon residential properties off the market in instances where such action makes long-term economic sense.

COPIES of this resolution shall be sent to the Honorable Steve Cowper, Governor; the Honorable J. Anthony Smith, commissioner of commerce and economic development; the Honorable David Hoffman, commissioner of community and regional affairs; the Honorable Hugh Malone, commissioner of revenue; Ron Lehr, executive director, Alaska Housing Finance Corporation; Dave Rose, executive director, Alaska Permanent Fund Corporation; the Federal Housing Administration; the U.S. Department of Housing and Urban Development; the Veterans Administration; the Federal National Mortgage Administration; the Government National Mortgage Association; the Federal Home Loan Mortgage Corporation; and to the Honorable Ted Stevens and the

Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99

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

Offered: 3/4/88
Referred: Judiciary and Finance

5-1644B

Original sponsors: Donley, Ellis, Boucher, et al.

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR HOUSE BILL NO. 432 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. PURPOSE AND AUTHORIZATION. (a) The legislature finds that a sizeable proportion of the residents of the state have mortgages that exceed both the present value of the property and the present ability of the mortgagors of the property to make the payments agreed to in the past. The purpose of this Act is to direct the Alaska Housing Finance Corporation to use creative solutions to the present crisis in the housing market and, at the same time, to permit the corporation to seek the disposal of surplus residences within the corporation's inventory.

(b) The Alaska Housing Finance Corporation may permit mortgagors who are experiencing difficulty in meeting their mortgage payments to return the residence and its mortgage to the Alaska Housing Finance Corporation and to enter into a new mortgage for different residential property subject to the control of the corporation at rates that are more within the ability of the mortgagors.

(c) The Alaska Housing Finance Corporation may also permit a mortgagor who is willing to accept the responsibility for a larger mortgage to offer an existing residence and its mortgage to the corporation and enter into a new mortgage for different residential property subject to the control of the corporation.

(d) The Alaska Housing Finance Corporation, the mortgage insurers,

and the mortgagor shall, in each case, work together to reduce the negative equity that may be present in individual cases.

(e) Subject to appropriations, the Alaska Housing Finance Corporation may use up to 1 percent of its total fund equity to achieve the purposes of this section.

(f) In this section, "residence" includes mobile homes.

* Sec. 2. This Act is repealed July 1, 1991.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

No. 1

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: Revenue
BRU: AHFC
Components:

196

EXPENDITURES/REVENUES: (Thousands of Dollars)

	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: 276-5599
Date: 03/03/88

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue
Date: 03/03/88

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FIN

5-2052X
Chenoweth
3/23/88
*3/09/88

* By the Rules Committee at the request of BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY (For the Subcommittee on Housing and Banking)

IN THE HOUSE

HOUSE BILL NO. 550

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that

(1) some residents of the state who have obtained mortgage loans from the Department of Community and Regional Affairs have mortgages with payment obligations that exceed their present ability to make the required payments;

(2) the Department of Community and Regional Affairs does not have statutory authority to reduce interest rates;

(3) the costs of foreclosure and resale, including legal expenses, publication costs, maintenance costs, repair and renovation costs, sales expenses, closing costs, and costs due to sale in a distressed market, may be very substantial;

(4) it may be in the department's and state's best direct financial interest to avoid foreclosure by modifying loan terms including rescheduling principal payments, reducing interest rates and payment amounts, and adjusting maturity dates to induce existing owners to remain in title to the property and maintain active management of the property.

* Sec. 2. AS 44.47 is amended by adding a new section to read:

Sec. 44.47.525. MODIFICATION OF LOANS. (a) Notwithstanding AS 44.47.410(a) and (b) and 44.47.520(b), on mortgages that it has financed under AS 44.47.360 - 44.47.560 the department may, by loan

modification, reschedule principal payments or reduce interest rates, or both, if the department finds that

(1) a loan modification would result in the likelihood that the loan would pay to maturity and induce the borrower to remain in active management and ownership of the property; and

(2) the loan modification would be

(A) in the best financial interest of the department and the state; and

(B) considered prudent by private lending standards taking into account the financial circumstances of the borrower and other costly alternatives such as foreclosure.

(b) Rescheduling of the borrower's repayment of principal under (a) of this section provides an interim payment adjustment and is not intended to affect the obligation of the borrower to repay the principal amount on the mortgage loan.

(c) The department may reduce the interest rate payable on a mortgage under (a) of this section only if the modification contains an interest rate reopener clause. The interest rate reopener clause must

(1) require that, if the interest rate is reduced, the borrower and the department shall renegotiate the rate of interest on the mortgage within five years of the date of an interest rate reduction approved by the department under this section;

(2) specify the date by which the borrower and the department are to renegotiate the rate of interest under (1) of this subsection;

(3) incorporate a call feature reserving to the department the right to demand repayment of the entire principal amount due if the borrower and the department are unable to conclude renegotiation

of the rate of interest under (1) of this subsection; the department may not use the call feature incorporated under this paragraph to demand repayment of the entire principal amount due before the date determined under (2) of this subsection.

(d) An interest rate reduction approved by the department under this section cancels the borrower's obligation to pay the amount due that is attributable to the difference between the original interest rate and the interest rate reduction for the period of the rate reduction.

(e) When an interest rate is renegotiated under (c) of this section, the renegotiated rate may not exceed the interest rate originally charged on the loan.

(f) The department shall adopt regulations prescribing the terms and conditions of and the procedures applicable to loan modifications made under this section.

* Sec. 3. This Act takes effect July 1, 1988.

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)

IN THE HOUSE

HOUSE BILL NO. 549

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 34.20 is amended by adding a new section to read:

Sec. 34.20.132. NOTICE OF OTHER REMEDIES. When a lender uses a note as evidence of an obligation secured by a deed of trust, the note must affirmatively advise the trustor and any other party bound by the note, in writing within the note, of the security, recourse, and other remedies, if any, available to the beneficiary. If it is intended to permit the beneficiary to bring suit to collect an amount owing on the obligation without foreclosing the deed of trust, this intent must be stated in writing in the note. A beneficiary may not use a remedy not specifically and clearly stated on a note executed after the effective date of this Act. If a note executed after the effective date of this Act fails to contain the notice required by this section, the debt secured by the deed of trust may be foreclosed only under AS 34.20.-070 - 34.20.135, a deficiency judgment may not be entered, and no other action may be taken nor judgment entered against the trustor, surety, or guarantor on the obligation secured by the note.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Frank

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX S
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.

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:mll
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
Chief of Research
Department of Revenue

SUBJECT: Commercial Real Estate Subsidy

FROM: Alfred G. Zangri
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 program[2]. State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

Both the direct and indirect costs will be imposed upon the State economy even if it is the lowest quality space that is taken off the market since this will keep rents higher than necessary and could well keep many start-up businesses from ever making it. Actual estimation of the net costs and benefits of higher rents for commercial space would require a difficult and, due to data availability problems, perhaps impossible, empirical study. It is likely, however, that since the proportion of businesses that rent space is greater than the proportion that own space, the losses of the losers from higher rents will more than offset any gains to the gainers.

Further if, as is likely, the income of commercial real estate investors is higher than the average income of the rest of the population of the state then the leakage to Federal income taxes will be greater than if the funds were used in alternative ways. It may also be more likely that commercial real estate owners will spend incremental income on out-of-state travel and other out-of-state goods and services. Additionally, to the extent that buildings are owned by out-of-state individuals or corporations, this leakage from the economy is increased.

It has been argued that the owners of other buildings will be unable to compete with buildings sold at distress sales. It is true that market conditions are causing building owners to accept reduced returns on their buildings as rents fall. On the other hand, if current owners believe that prices at any potential distress sale will be so low that they will be unable to compete, they have the option of purchasing the distress priced buildings themselves. This option will allow the owners of other buildings to minimize the reduction in their revenue.

In summary, the outcome of a State program to reduce excess capacity in commercial real estate will be to keep rents higher than they would have been in the absence of such a program which will, in turn, drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, implementation of this type of program will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment

period and delay the process of economic recovery. Banks and owners of commercial real estate will be the beneficiaries of this program while the costs will be borne by all the other citizens of the State.

FOOTNOTES

1. Memorandum to Mary Holloran, "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso, Table 1, Jan. 28, 1988.

2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.

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 <u>partly</u> fund the capitalization.

5. <u>Stabilize Supply Curve (keep increases in supply to a minimum) Five Years</u>

The board of directors of AIDA (Alaska Industrial Development Authority) should place a moratorium on the financing of construction of new commercial or industrial facilities.

This moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others. AIDA would continue to finance existing structures with changing ownership.

Obviously, the curtailment of new activity assists local government in that controls on new supply create value in existing supply and thus stabilize or raise assessed valuation used in the computation of ad valorem taxes.

Curtailment of new activity can have a chilling effect on economic development in communities where there is no excess capacity in commercial or industrial facilities or in communities where a special purpose facility is required. It is envisioned that a moratorium would remain in effect unless the local governmental unit which is intended to be the beneficiary of the moratorium formally requests its waiver by the action of its local city council or borough assembly.

6. Stabilize Supply Curve (keep increases in supply to a minimum) Five Years

This is similar to the proposal for AIDA except it applies to residential housing financed by AHFC, PERS, TRS, Permanent Fund and any other State line organization or agency.

Place by board, commissioner or trustee action, a moratorium on the financing of construction of new residential housing units to include single and multi-family residences, including condominiums and mobile homes. The moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others.

Existing housing stock which is changing ownership would continue to be financed by the respective agencies and organizations.

The curtailment of new supply will create value in existing supply and thus stabilize or raise assessed valuations used by local governments in the computation of ad valorem taxes.

This program, similar to its complimenting commercial and industrial program, contemplates that the moratorium can be lifted at the request of the local government governing body.

7. Stabilize Supply Curve (keep increase in supply to a minimum) Three Years

The State of Alaska is planning to construct an addition to its court complex in downtown Anchorage. This facility is important to the Court System and to the Municipality of Anchorage as it centralizes expanded court activity and anchors downtown economic activity against mid-town drift. Also, the project is important in that it does produce a substantial number of construction jobs.

Unfortunately, the creation of new office space supply at the same time that huge excess exists is self-defeating from a macroeconomic perspective. If this project is to be completed within the concept of stabilizing supply, it can be done in such a way that it meets immediate Court System needs on one hand and defers meeting other needs for a three-year period.

Here, the building would be constructed as planned. However, only essentially needed courtroom space would be finished. Other space -- office space available through existing supply -- would not be finished in the initial phase. A subsequent construction phase, perhaps three years after completion of phase I, would provide the needed office space.

Absent this kind of compromise which curtails the wrong kind of supply (offices) and permits the right kind of supply (courtrooms), the project should be deferred.

8. Stabilize Supply Curve (keep increases in supply to a minimum) Three Years

Local governments have a strong, vested interest in the stabilization of supply. To the degree that new supply can be curtailed, value to existing supply increases as does assessed valuation and the local tax base.

Expansion in many communities has required the rapid extension of utilities. In some cases this extension has been imprudent in that it has leap-frogged undeveloped areas to reach new residential or commercial subdivisions.

The expansion has been imprudent -- in an economic sense -- because the rate base of the new development does not always carry the operation, maintenance or debt service costs of the extension.

Local governments should be encouraged to place moratoriums on utility expansions, rezonings and replats to discourage the new construction of the types of developed real estate now in excess. Flat moratoriums in this area offer a better prospect than selective ones because of inherent fairness and equal treatment to all.

9. Move Demand Curve (increase demand)

To the degree that demand can be stimulated to reduce or eliminate excess capacity, such stimulation should be encouraged.

If major financial institutions such as pension funds, endowments, foundations, the Permanent Fund, etc. -- who are long-term buyers and holders of commercial and industrial property -- can be induced to take major, institutional-grade buildings off the market for a long period of time, such action could remove upwards of $50 million from the current real estate marketplace.

The absorption of this "high end" sector of the market has the impact of channeling investment capital of other (smaller) investors toward the distressed portfolio of loans.

The importation of investment capital through the formation of investment pools would increase the demand for ownership of Alaskan real estate and fundamentally move the ownership demand curve.

This proposal, however, would not move the demand curve for office space occupancy since investors only bring their money and not new tenants to the table. However, any ownership diversification outside of Alaska brings with it a degree of outreach, new contacts and beneficial exposure.

10. Move Demand Curve (increase demand)

Alaska has been the beneficiary of "settlement waves" in the past such as the gold rush, building of the railroad, construction of military bases, statehood, and pipeline construction.

Each new wave of Alaskans has contributed to the economy and stimulation of the next wave can create some of the demand needed to reduce excess capacity and stimulate economic activity across many business sectors.

Perhaps Alaska's best opportunity lies with the military. Restructuring of some domestic and overseas forces with Alaska as the beneficiary would have a dramatic impact.

Navy homeporting is on everyone's lips. But it can only occur in the context of a well-thought-out plan, positive naval interest and the actual execution of long-term leases and agreements which are clearly advantageous to Alaska and its people. It is strongly urged that Alaska not embark on a program which provides for construction of infrastructure in hopes of "luring" the navy. Secure the firm, documented commitment and then as part of the agreement, utilize State resources as necessary.

The Army, Air Force, and Coast Guard have been mainstays of our economy for many years. Recently, these institutions have taken a back seat to the glitter of black gold and its overwhelming economic power. It's time to return to a full appreciation of these military institutions and to actively pursue a greater presence in the state. As the balance of trade continues to falter, some consideration may have to be given to a restructure of some foreign-based units (Korea, Germany). Alaska should open initiative's to welcome shifts should they occur.

11. No Fundamental Change to Supply or Demand

The easiest measure -- but one with virtually no positive long-term impact -- is a capital projects appropriation.

Elements of the construction industry have been hit hard and it is apparent that we will not need new residential, commercial, industrial, office and strip mall construction for many years to come. This sector cannot and should not be propped up lest we either provide wasted subsidy or create false expectation. Jobs must be centered around preventative and actual maintenance of existing roads, ports, airports and governmental facilities rather than new construction which creates a need for increased operation and maintenance costs.

It is suggested that rather than expend a huge amount of funds on a placebo, some should be diverted toward activity which will fundamentally affect supply and demand, some of which is set forth in this paper.

12. A Caution

Both AIDA and AHFC have some unencumbered capital. This has been eyed -- covetously -- by those who feel that these "pots of money" are available for appropriation for "quick fix" programs or for funding additional programs or functions assigned to these two agencies. This capital should be viewed as reserves critically required by the agencies to support existing programs in this time of stress. Before consumption of these funds is seriously considered, inquiry should be made to respective agency boards of directors.

In Summary

* Raze uneconomic residential and commercial buildings
* Raze deteriorating low-income residential units
* Sell excess AHFC-owned mobile homes
* Create a work-out bank emphasizing stabilization
* Moratorium on new construction of residential and commercial properties, subject to local government waivers

* Construct the Anchorage Court complex addition in phases

* Moratoriums on local government utility expansions, rezonings and replats

* Encourage institutional purchases of quality commercial and industrial properties

* Seek agreement regarding Navy homeporting before initiating construction of infrastructure

* Regarding construction projects, emphasize preventative and actual maintenance rather than new construction

* Leave existing capital reserves in AHFC or AIDA

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

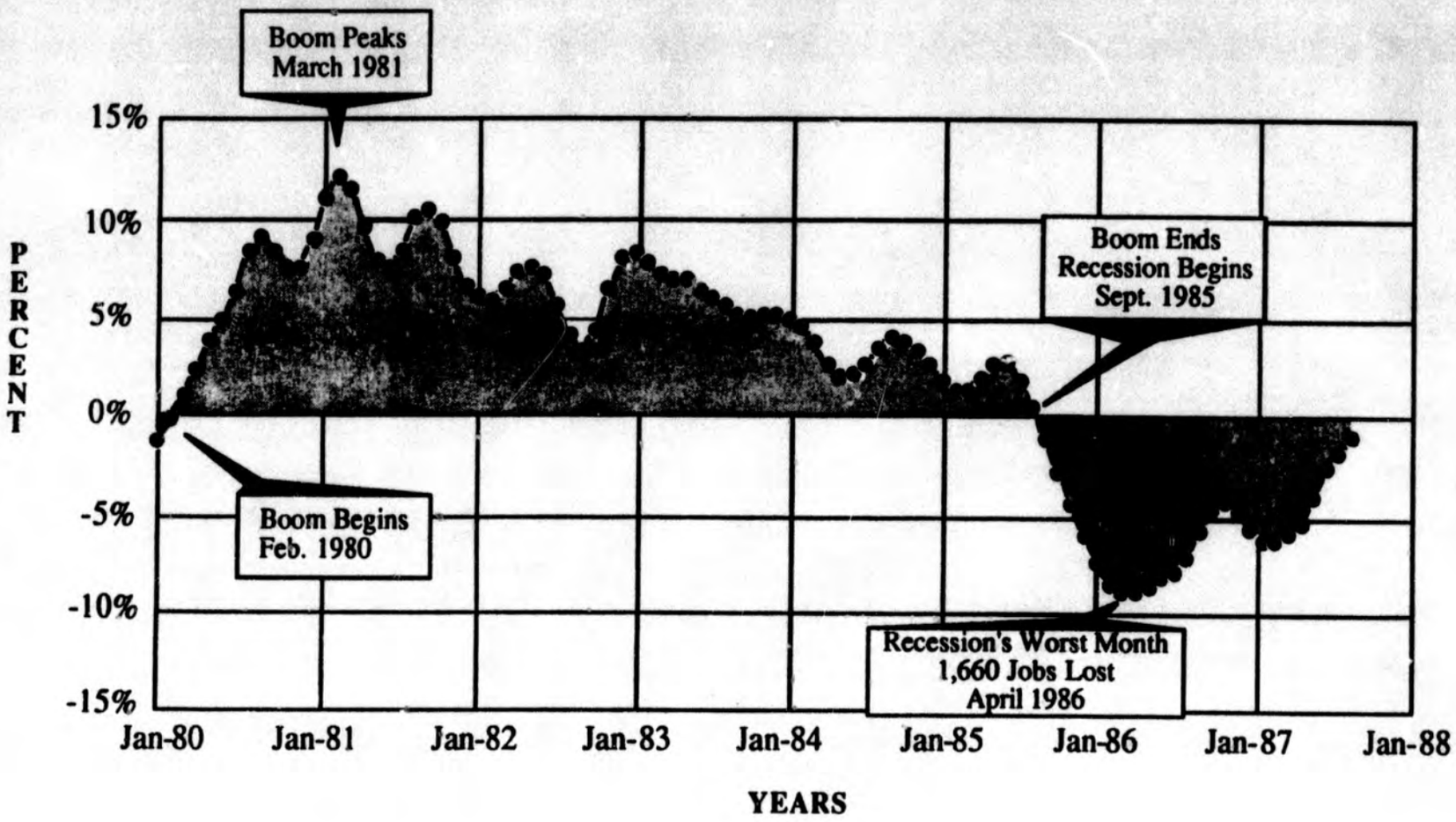
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. ***When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.*** Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott 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

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Division of Policy
2/8/88

jobs were being lost at an 8.5 percent annual rate. Thereafter things improved, with the data from late 1987 showing jobs being lost at a 1 percent annual rate.[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]

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[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 shakey technical assumption underlying the vulture/Phoenix fund idea -- that purchasing distressed properties will stabilize the market for holders of other properties. The Anchorage market has seen a "distinct flight to quality." She argues that the demand for mid- and high quality property is largely independent of the demand for the low quality properties that constitute virtually all the distressed assets. According to Yoshimura, removing those assets by demolition might make sense as an urban renewal strategy, but will have no effect on prices or demand for anything except the the very lowest quality properties, most of which are already in foreclosure. Professor Green expresses similar concerns.

Loss of Confidence

Despite economists belief that the direct economic effects of the real estate crash will be positive, the regional recession in Alaska is at least partly beyond the range of economic experience. It is a reason for caution.

An event this encompassing could conceivably have non-economic effects that could feed back into the economic system in unanticipated ways. Anchorage real estate broker Chris Stephens has suggested that most severe effect of the market crash could be the loss of entrepreneurial talent. Most economists scoff at this idea. "Heck," ISER's Lee Huskey remarks, "lower costs are going to make it *more* likely entrepreneurs will succeed."

Arlon Tussing, a Seattle economist and frequent visitor, thinks the odds are good that the loss of confidence won't last very long or extend very deep into the fabric of Alaska society. So far, the evidence seems to favor this view. Anchorage's municipal demographer Michael Breedlove estimates that 59 percent of the households lost in Anchorage since 1985 have been male headed, non-family households, a category that accounts for only 18 percent of total households. Moreover, 80 percent of the population loss has been in 20-30 age group, and two-thirds of the loss is accounted for by males. These numbers don't suggest a broad-based exodus.

But what about the attitudes and intentions of those who remain? Population movements tend to lag changes in the economy, so a collapse of confidence could have already happened, with the resulting wave of out-migration only now beginning. As far as attitudes are concerned, the answers given by Dittman's Railbelt respondents don't reflect any sense of crisis: 44 percent say the economy will get better over the next two years,

compared with 16 percent who see things getting worse.

What about the 18 percent of Dittman's respondents who reported they were "very likely" or "quite likely" to leave Alaska within two years? For some observers the number was "shocking." Gregg Williams, the state's chief demographer, doesn't see it that way. "Every year, in good times and bad, about 15 percent of the people in Alaska leave. The [poll] results are about what I'd have expected." According to Dr. Williams, the number of people coming to Alaska is much more variable than the number leaving, and much more sensitive to economic conditions. Unfortunately, surveys of people already in Alaska, whether the results are "shocking" or "expected," tell nothing about the intentions of those not yet here. The guessing among experts like Breedlove and Williams is that population isn't in for any collapse in Anchorage, and certainly not in the balance of the state.

Alaska's Policy Options

Many of the experts who are saying there is no economic justification for using public money to prop up the real estate market are also owners of homes and other real estate. A few of them suggest that there may be some *moral* justification for state government involvement. "After all," one asked rhetorically, "doesn't everyone agree that the state government was responsible for getting us into this?" But even those who see a moral basis for state intervention sense that whatever state government's guilt, indemnification of those who have taken losses would be beyond its means. And proposals to assist only a segment of the market, say the commercial real estate market, are hard to take seriously when so many others have also been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford.

Besides, excess capacity in investment goods and services (like construction) has dissipated, and it seems likely that the state will arrest the decline in public spending. If this happens, the recovery will occur regardless of what else the state does or does not do. That doesn't mean that prompt, informed government action would not save a lot of pain. Unfortunately, what the government should do, apart from not trying to corner the real estate market, is not nearly so clear. It would make sense to allow people to carry their negative equity along with them to a different house. Whether the public and private bureaucracies involved are able to handle these transactions remains to be seen. It doesn't make sense to have a moratorium on foreclosures. The rights of condominium associations may need to be strengthened. The policies and role of the state's lending agencies -- especially AHFC, need review. Millett Keller, an Anchorage business consultant, suggests that the real estate collapse provides Alaska communities with "opportunities to accomplish ... public sector projects at bargain rates," including acquisition of property for parks, greenbelts and rights-of-way for

future transportation facilities, assuming government can avoid carelessly mixing in subsidies and economic recovery. That may be an optimistic assumption, but Commerce and Economic Development Commissioner Tony Smith was surely on target when he testified that "we can't spend ourselves out of this one, we have to manage ourselves out of it."

Borrowed Time

With management -- and a little luck -- the real estate crash will do no lasting damage to Alaska's economy. Years hence Alaskans may look back at the recession and post-recession period as a time of renewal and opportunity. If so, it will probably be because Alaskans learned the lessons that this self-inflicted recession had to teach.

On this point, however, the returns are still to be counted. Alaska did cut its spending in FY 1985-88, but not enough to erase the fundamental imbalance that Drs. Goldsmith and Reaume first described ten years ago. In a speech early this year Goldsmith described the imbalance as a problem

> which always takes a back seat to concerns which are more immediate or pressing, but it is the most pervasive issue we will face in the next decade. *In the long run the economy is still living on borrowed time.* We continue to artificially stimulate the economy by selling off the assets of the state -- our petroleum wealth. How we adjust to a sustainable level of government will affect us all as surely as this recession. [emphasis added]

Unless Alaska controls its public spending, the state will be buying a ticket to a rerun of its present recession. Showtime will be within the decade, and probably sooner.

Another old imbalance also remains. Alaska has developed a mature economy, but parts of rural Alaska have increasingly been left behind. Disparities in income, employment, educational success, health, and a host of other measures all are all widening. Some economists say that this is the kind of problem that economics shouldn't have much say in solving, but all agree that the growing disparities are already a drag on economic development *throughout* Alaska, and that these disparities will become an even greater burden in the future. Economic solutions that might work seem unacceptable on other grounds, and solutions acceptable on other grounds clearly don't work economically. It is a tough issue that won't be ignored.

Alaska's economist emeritus George Rogers wrote in 1962 of how many Alaskans subscribe to the view that economic forecasting "should be a projection of present hopes, that prediction should bolster self assurance. Forecasting in this view is only valid if it agrees with a popularly held dream of the future and makes its realization appear likely."

Today, economists' believe that the real estate collapse will not produce dangerous consequences for the economy as a whole. This view runs counter not to a popular hope, but to a popular fear. A lesson from the recession and

real estate crash may be that hopes and fears, like dreams, are better servants when they are firmly founded on a hardheaded respect for history.

Reference Notes (Incomplete)

If not otherwise cited, quotations are from personal conversations with the author.

Taxable Anchorage real estate values are from Phil Webber, municipal assessor's office, Municipality of Anchorage. Data on the number of Anchorage AHFC mortgages are from AHFC. State spending data are Division of Policy figures.

Goldsmith's seasonally adjusted employment figures have not been published, but are available from him or the author. Goldsmiths 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. Goldsimth 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 spce 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



By Scott Hawkins

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 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. Long-time, 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 goverenments 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.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1574 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1371

KPMG 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

Governor Steve Cowper
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

During the past several weeks an Economic Recovery Task Force has been meeting to discuss the status of the Anchorage economy and proposed solutions. The attached listing of members of the Task Force indicates the breadth and depth of the community participation. The Task Force was initiated by the Anchorage Chamber of Commerce and the Task Force recommendations will be submitted to the Chamber of Commerce Board of Directors at its meeting on January 15, 1988. However, the Task Force wanted to submit to you its findings and recommendations at the earliest possible date, whether or not they are approved by the Chamber Board of Directors.

The findings of the Task Force were passed unanimously by the Task Force members. I must add that not every member agreed with every specific recommendation. However, there was no exception to the finding that the economy in Anchorage is depressed and there is no immediate indication there will be an economic rebound. While there is tremendous support for letting the market forces guide the economy, there is the strong belief that appropriate government intervention can assist without further aggrevating the functioning of the economy.

The Task Force members recommend you adopt the recommendations as your own, and the members pledge their support for you in implementing any of the recommended programs. We look forward to working with you as we navigate through these troubled waters.

Very truly yours,

Signed

Joseph E. Heintz

ECONOMIC RECOVERY TASK FORCE

The task force recommendations are based upon a general consensus that Anchorage is suffering from an economic recession and, while the economic decline may be slowing, there is no immediate turnaround in sight. In fact, the recession may result in the loss of another 10,000 to 15,000 people from Anchorage during 1988, further disrupting many of the basic sectors of the local economy.

The task force concluded that the economic recession is not limited to a specific interest group. For example, it isn't only the banks that are suffering from the economic decline. Virtually every homeowner in 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 circumstnaces. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

* Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's $1.5 billion in equity.

* The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.

* The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

Real Estate Market

The real estate market in Anchorage, both commercial and residential, is characterized by a significant imbalance of supply and demand. The excessive supply cannot be reasonably absorbed in the near or mid-term (say next five years) and will have the ongoing effect of depressing real estate prices. The impact is not limited to real estate speculators but is pervasive to most citizens in that most have major investments in real estate. So as personal and business income decline, the ability to continue to function is jeopardized by the debt service with the resulting effect in foreclosures, bankruptcies, etc.

We believe the imbalance in supply and demand can be partially adjusted by reducing the supply of real estate. Specifically, we would recommend the following:

* For residential property:

  ** Remove sub-standard housing from the market and destroy the properties. Convert other property to low income housing so there is no additional cost to the low income person.

  ** Ship mobile homes that have been vacated out of the state.

  ** Convert existing condo or similar units to University of Alaska student housing.

* For commercial property:

  ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

to an REIT which would acquire FDIC-owned property and other obsolete property at a nominal price simply for the purpose of holding the property off the market.

** Consider use of the Permanent Fund as a "Vulture Fund" to finance the property acquisition in conjunction with Heritage Land Bank.

AIDEA

AIDEA should be instructed to adopt restructuring policies that provide a cushion to commercial borrowers. For example, these procedures should include interest rate reductions when loss of jobs would occur if the loan defaulted. AIDEA should be allowed to take an equity participation in consideration for restructuring the terms and conditions which result in the survival of a business.

AIDEA should modify its requirements so that banks can participate even if their loan delinquency rate exceeds two percent.

AIDEA should expand its lending activities to provide for a new guaranteed loan program modelled after the federal SBA program. The essentials of the program should include:

* Bank administered with AIDEA guarantee.

* Loans would be available to finance existing AIDEA debt; other debts could not be refinanced.

* $1,000,000 limit on loan.

* Funds could be used for new construction if the project had an economic benefit analysis.

The revisions to the AIDEA programs should result in the survival of the viable small businesses, thereby maintaining statewide employment and minimizing the effects of the current recession.

Employment Incentives Fund

The State should identify a portion (say $50 million) of the construction fund budget to be used as a venture capital fund. The fund should be used somewhat along the following guidelines:

* An applicant could apply for capital funds up to

$10 million. Matching funds would be available on a dollar-for-dollar basis. In other words, an applicant could receive $1 of State funds to the extent the applicant put in $1 of private sector funds.

* The private sector project would need to create new jobs for the state of Alaska to qualify. These new jobs would need to be permanent positions as a result of the project and not as a result of any capital construction.

* The criteria for qualifying may be that for each $1 million of State participation, five new positions must be created.

* The criteria might also include that the project results in new dollars coming into the state of Alaska and the economy. In other words, it will result in exporting local products or services.

The State and local municipalities have no specific program incentives to entice business. While this would be a onetime subsidy program, it would create new jobs throughout the state and provide a sustaining boost to the economy.

Public Forum

Town hall meetings should be held wherein members of the public are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).

wp-1

February 11, 1988

Dear Senators Arliss [redacted] Jan FAIKS, Richard HALFORD,
and Tim KELLY,

I feel that your current rushed efforts to stop potential dumping of Anchorage and Alaska real estate properties are utterly foolish.

Please stop trying to buy them up to prevent "dumping". Please do not waste millions of dollars in a quasi-public agency that will never be able to liquidate its portfolio until the market has recovered.

Here is a better way to stabilize real estate markets:

A Tax to Promote Orderly Alaska
Real Estate Markets

To promote orderly transfer of real estate properties or portfolios of real estate properties [illegible] of real estate properties, [illegible] a market stabilization tax. For all [illegible] or financial portfolios of [illegible] at a price less than 80% of the [illegible] balance on that property or [illegible] State of Alaska [illegible] estate property (or portfolio of real [illegible] equal to 80% of the outstanding [illegible] on that real estate property [illegible] sales price of the real estate [illegible]

(Outstanding Loan Balance*80%) - Sales Price) = 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, Alasks'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.

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.

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 would 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

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

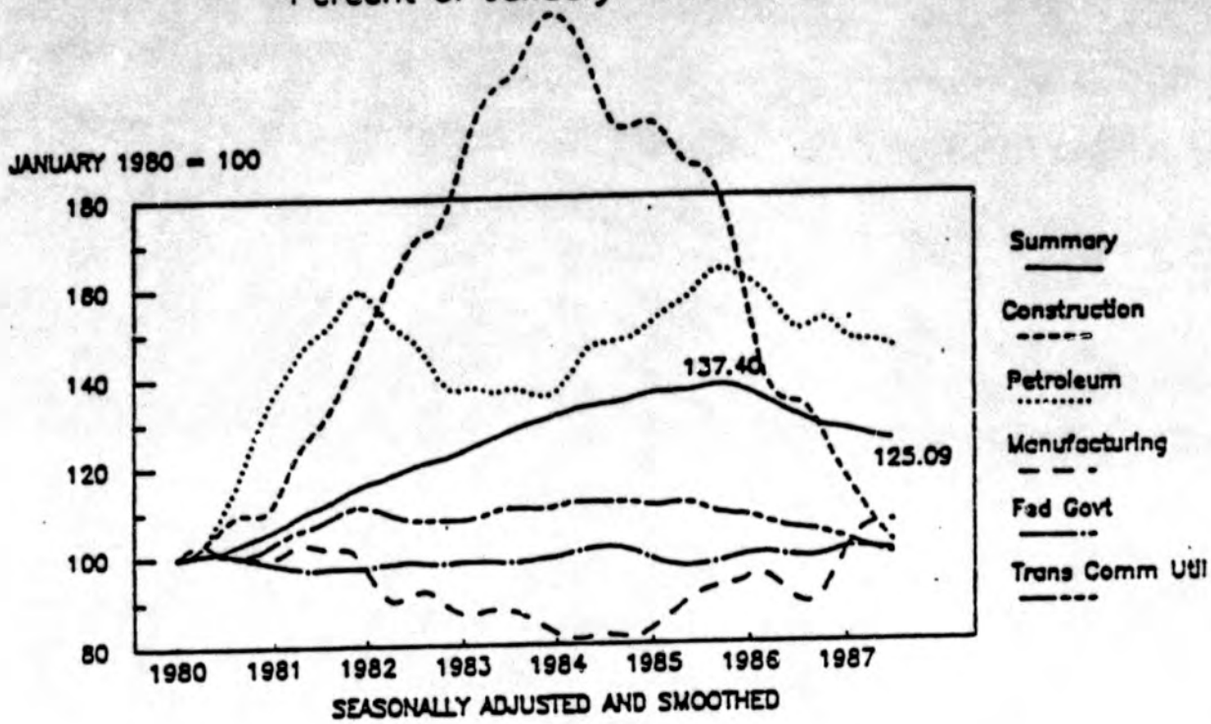


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

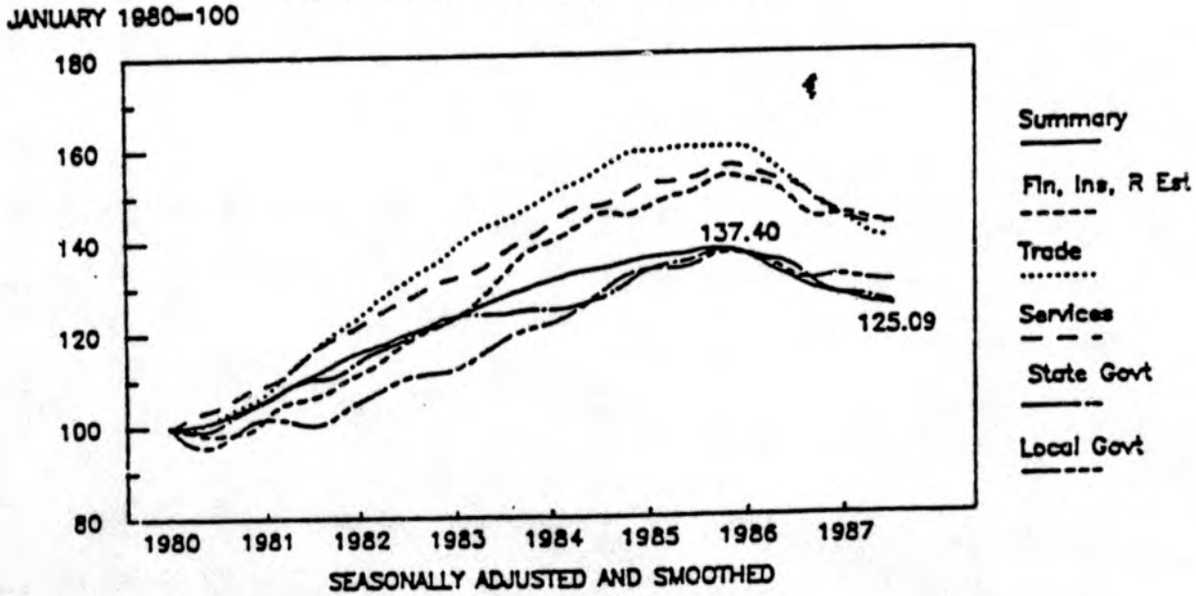


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

	Job Peak	Employment			
	Sept. 1985	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

[a]No significant loss from peak to date. These industries are experiencing a cyclical peak.

[b]Peak month--January 1984.

Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

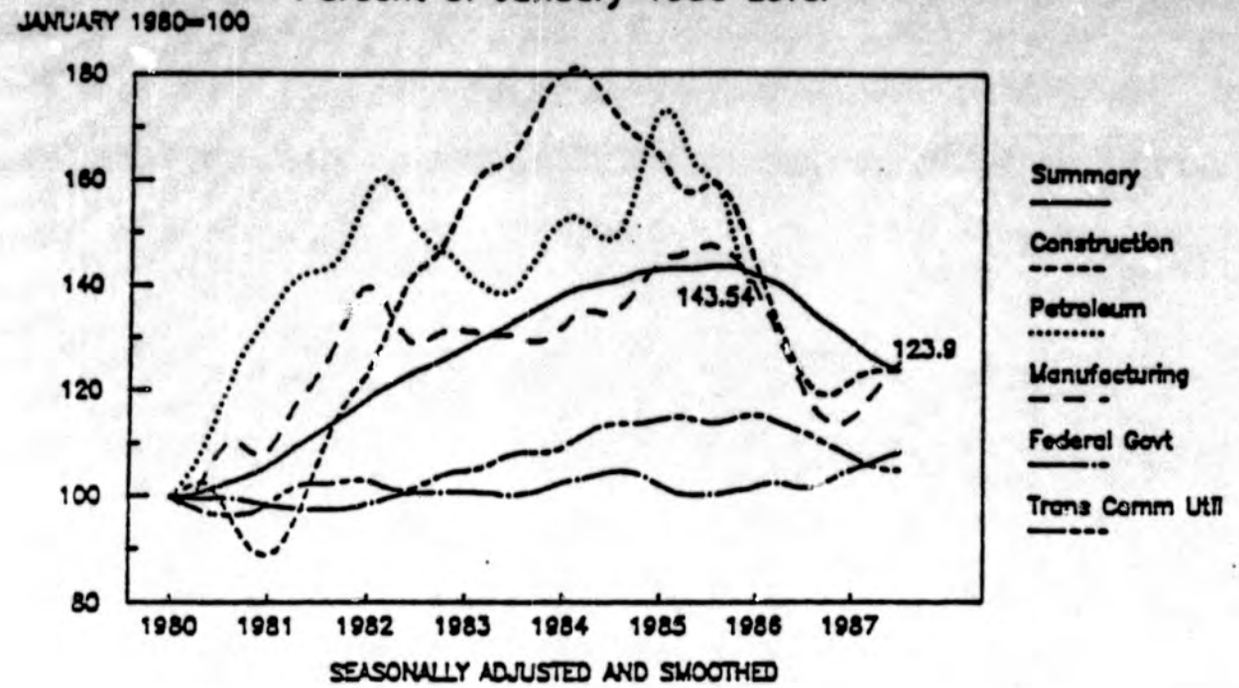


Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

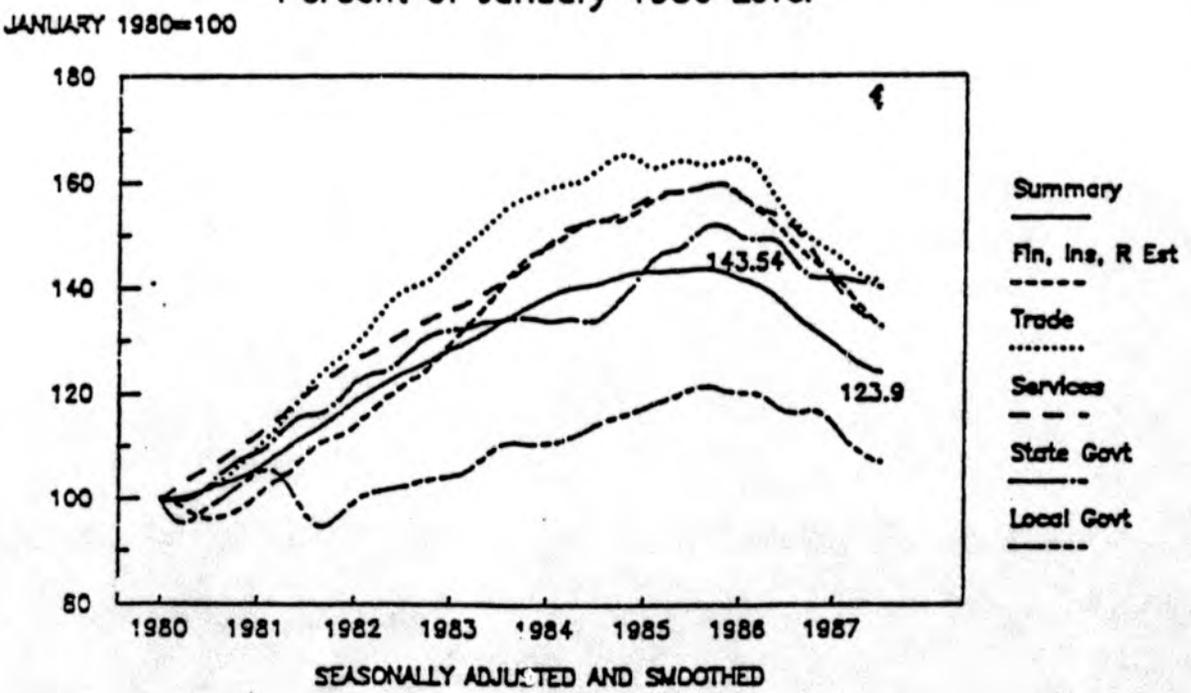


Figure 2.11

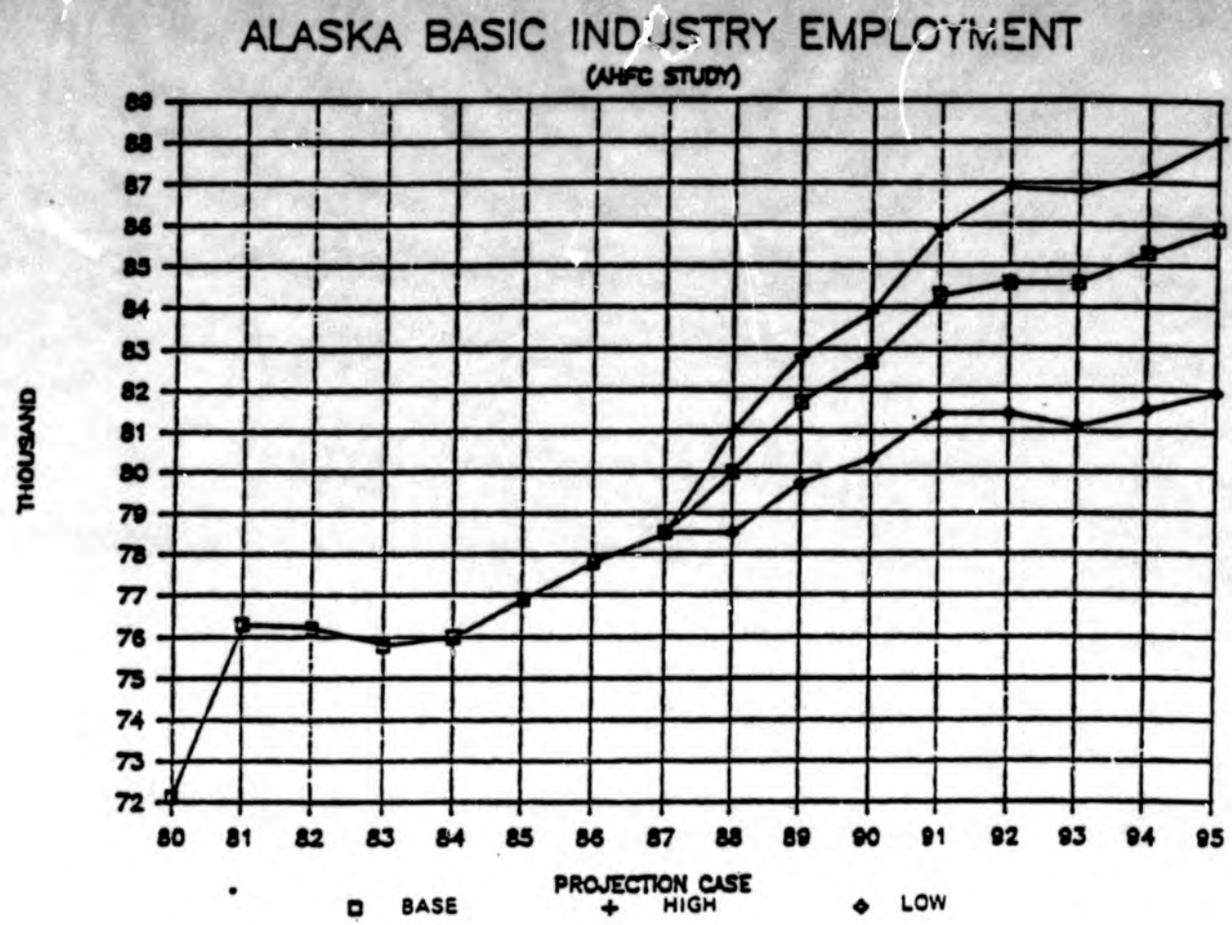


Figure 2.12

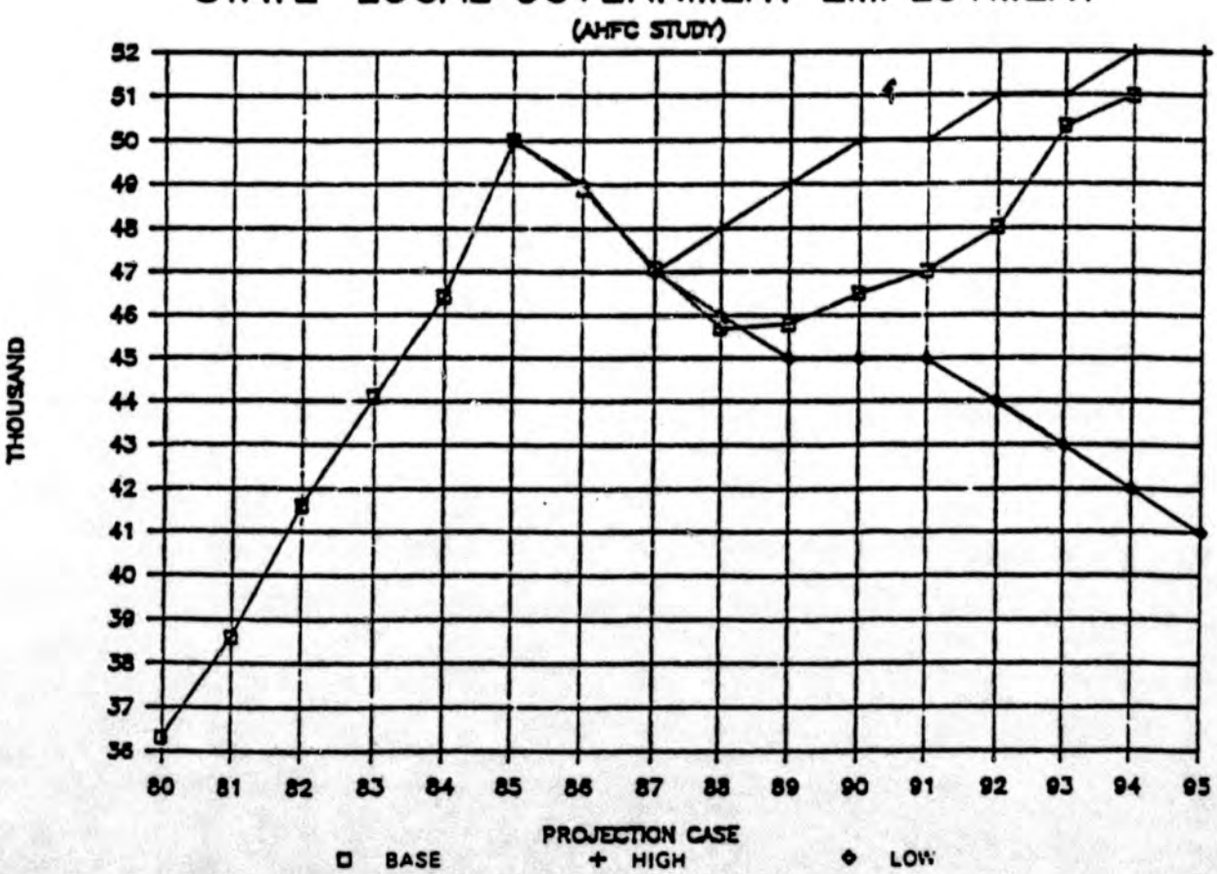


Figure 2.15

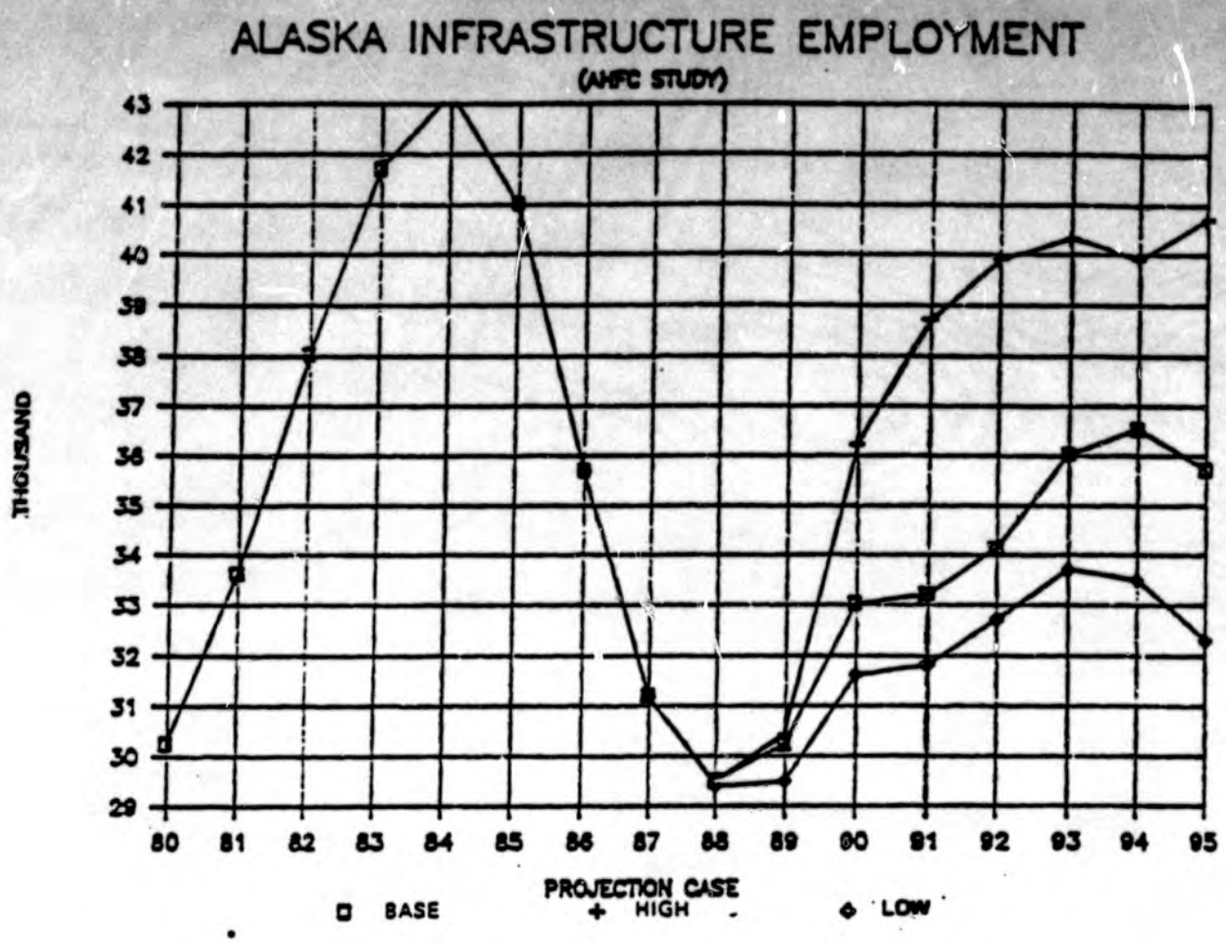
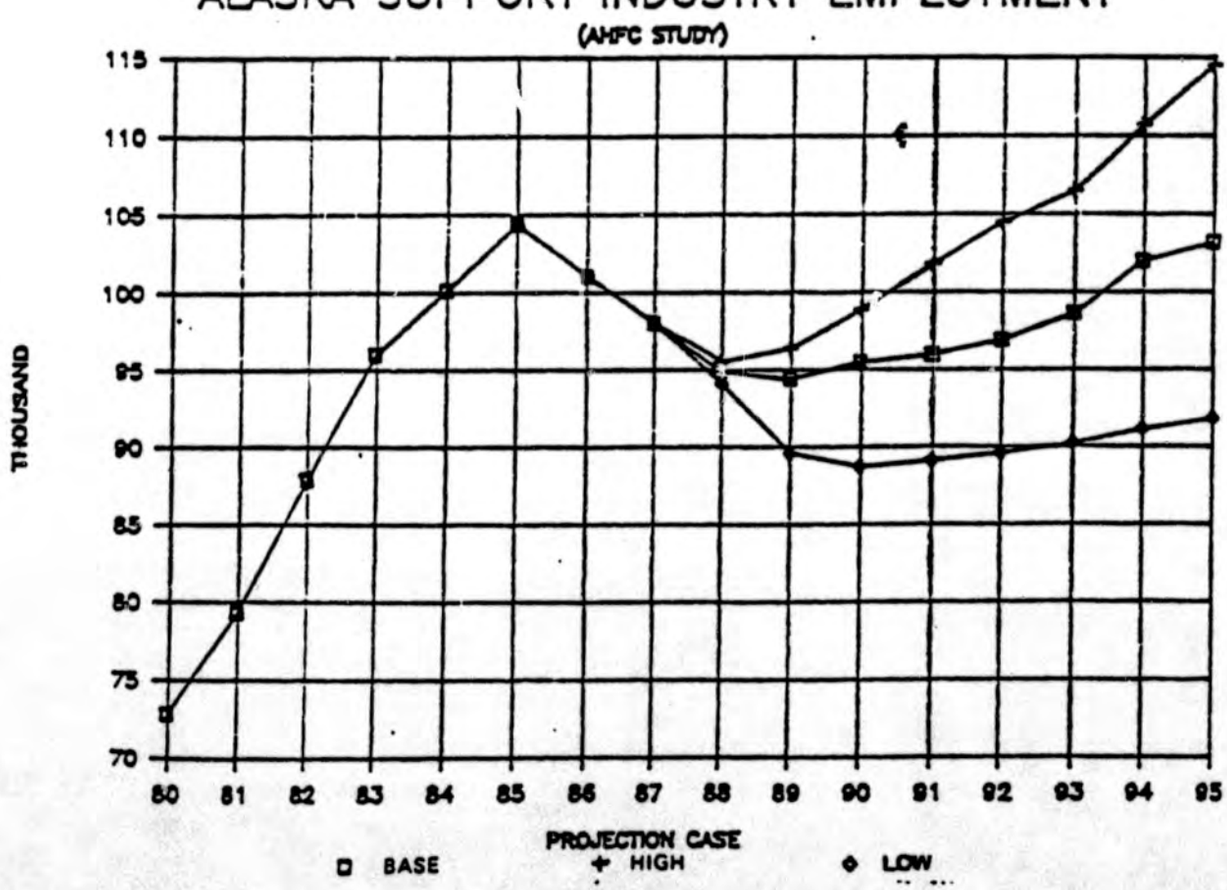


Figure 2.16



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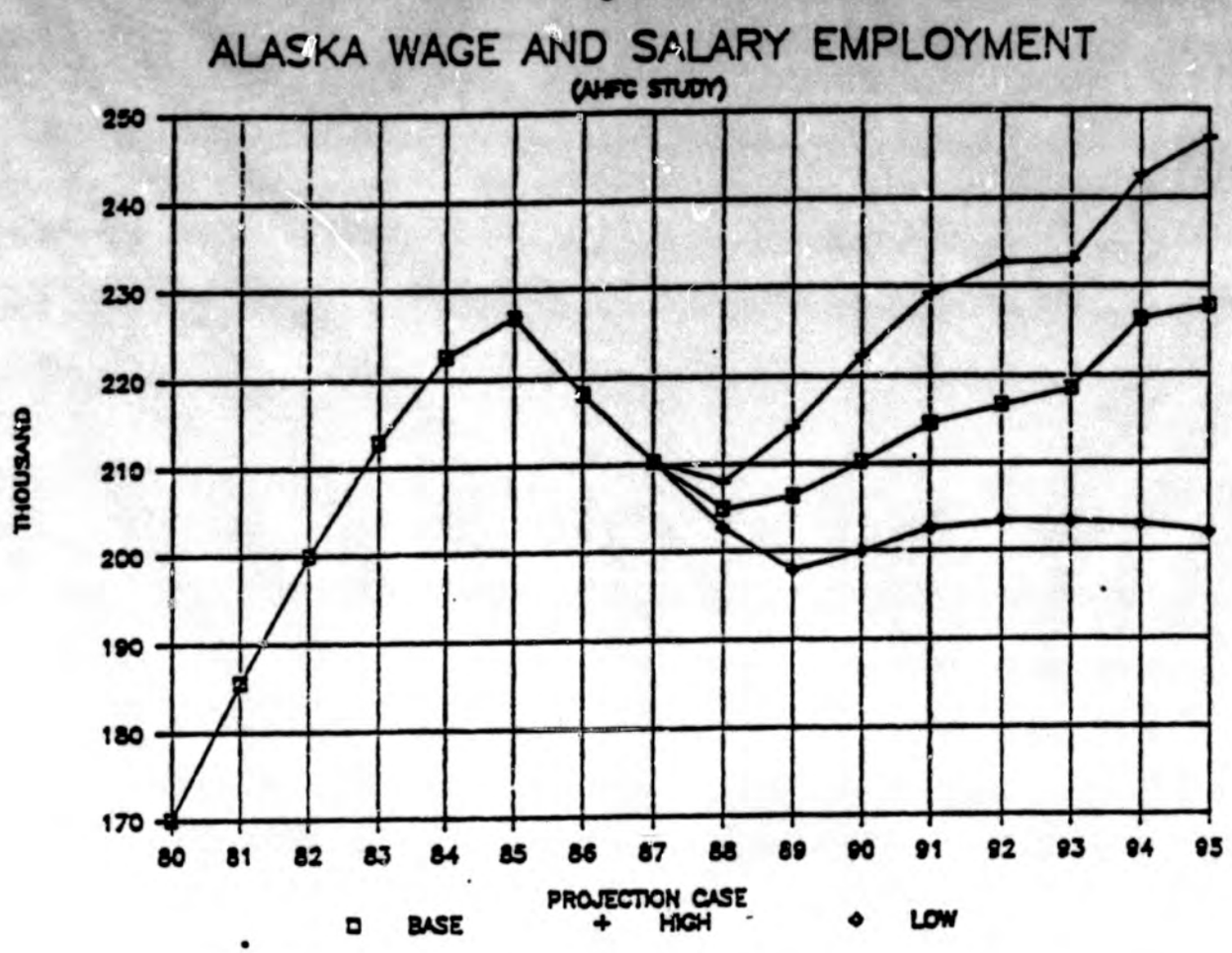

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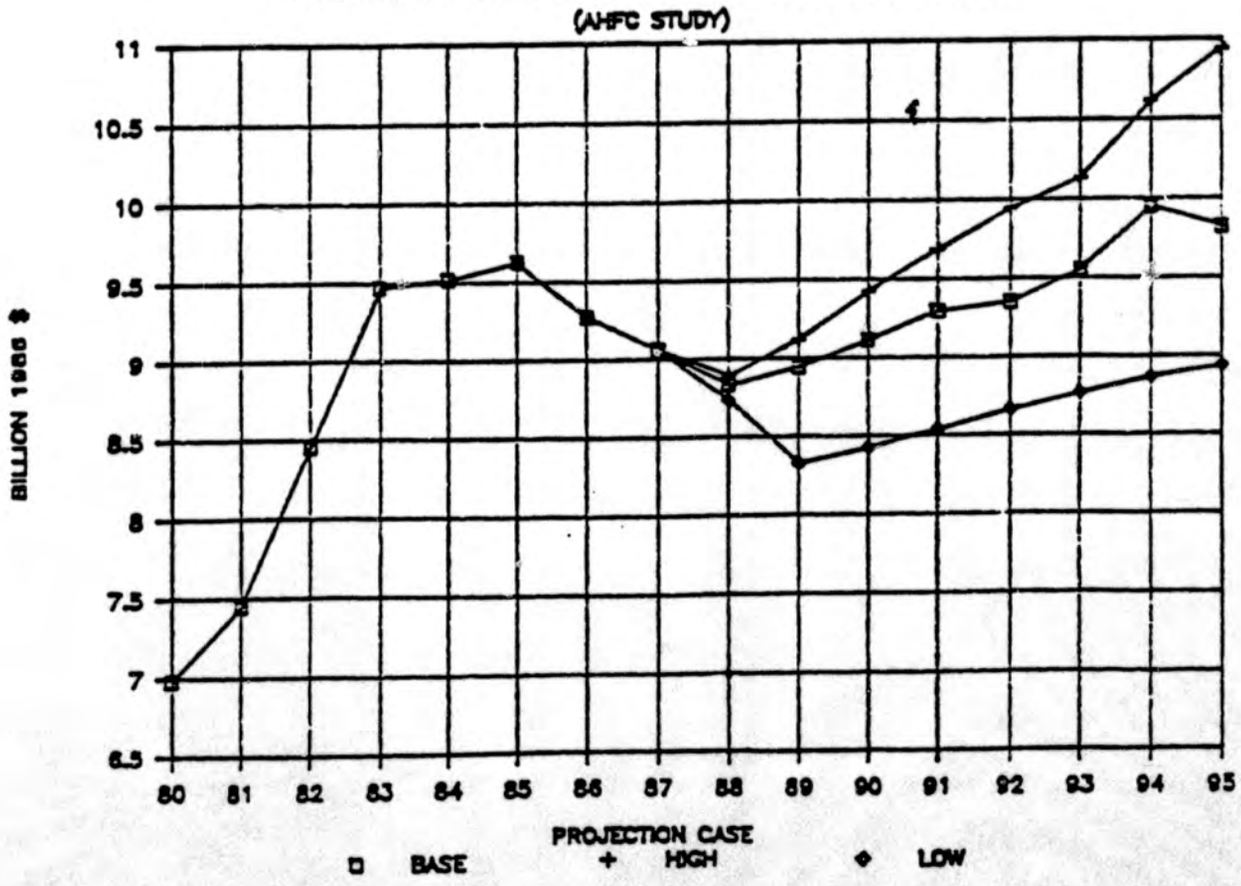
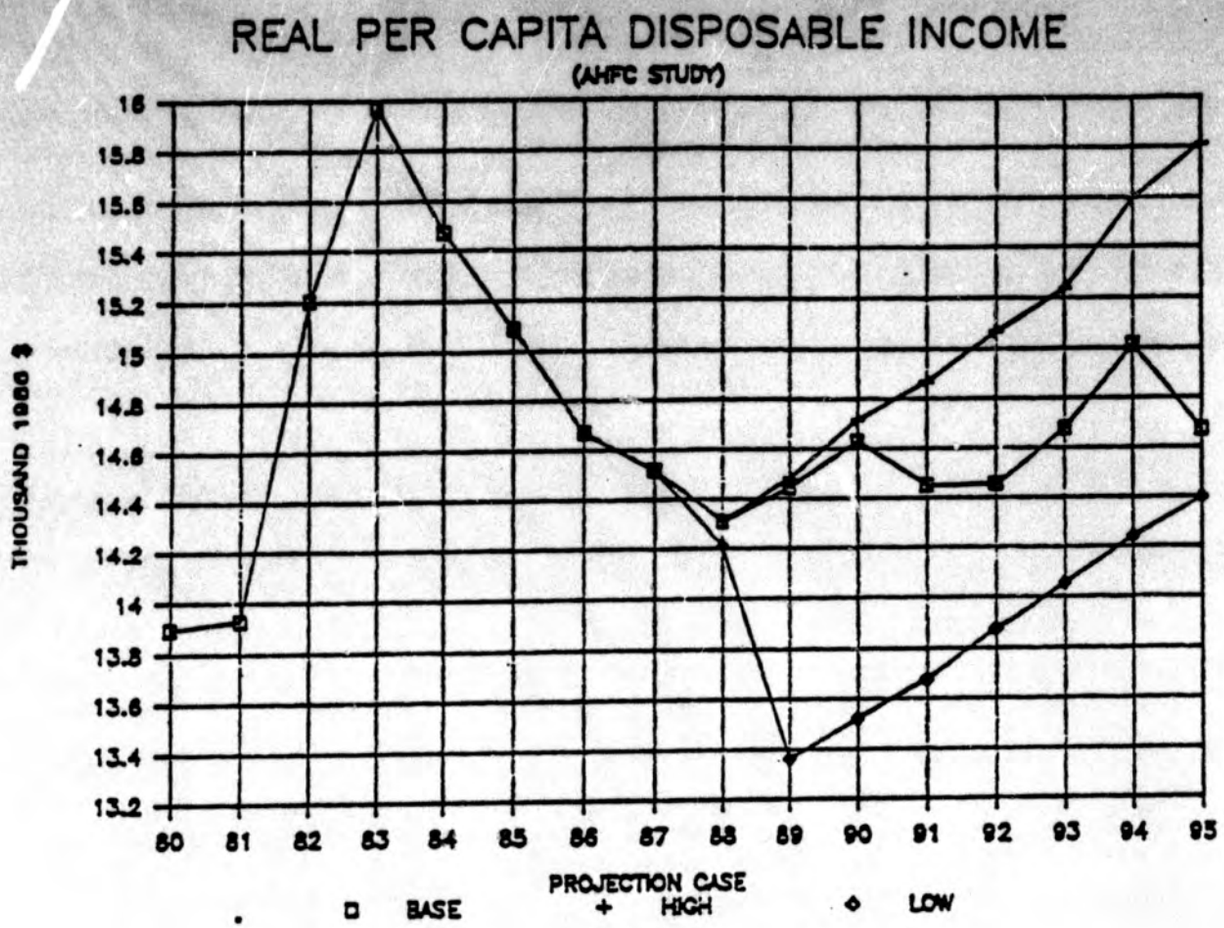


Figure 2.19


REAL PER CAPITA DISPOSABLE INCOME
(AHFC STUDY)
THOUSAND 1986 $
16
15.8
15.6
15.4
15.2
15
14.8
14.6
14.4
14.2
14
13.8
13.6
13.4
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PROJECTION CASE
BASE
HIGH
LOW

Figure 2.20

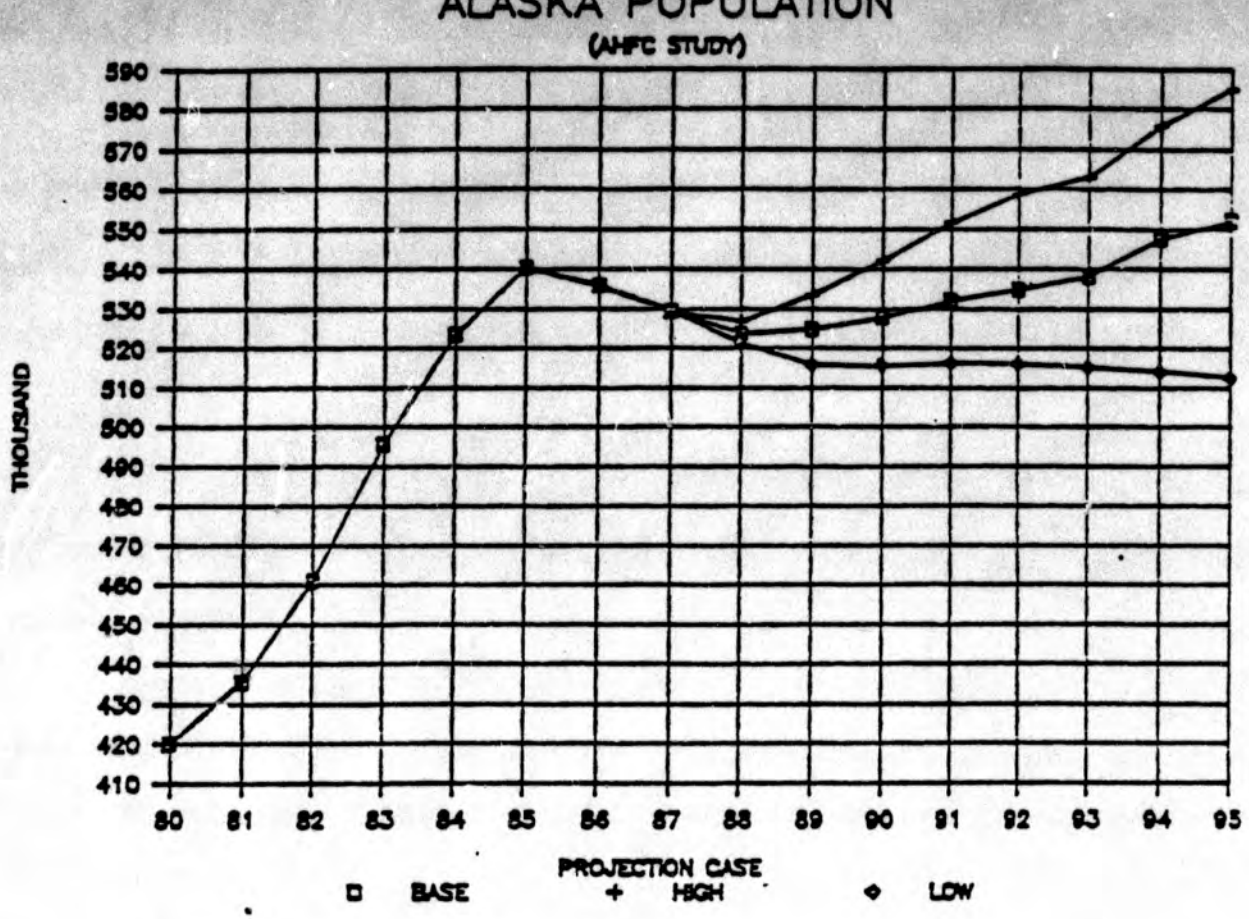


Figure 2.21

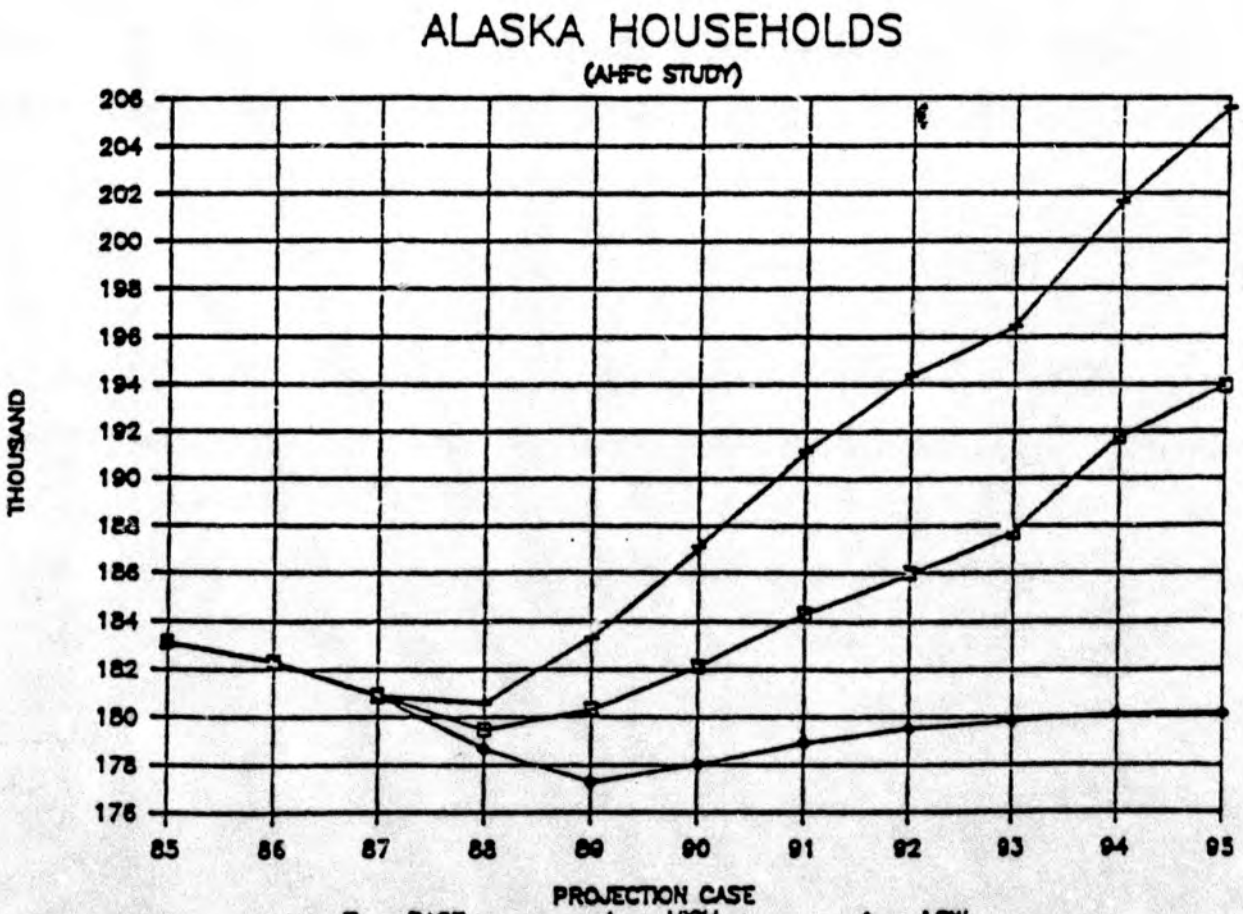


Figure 2.13

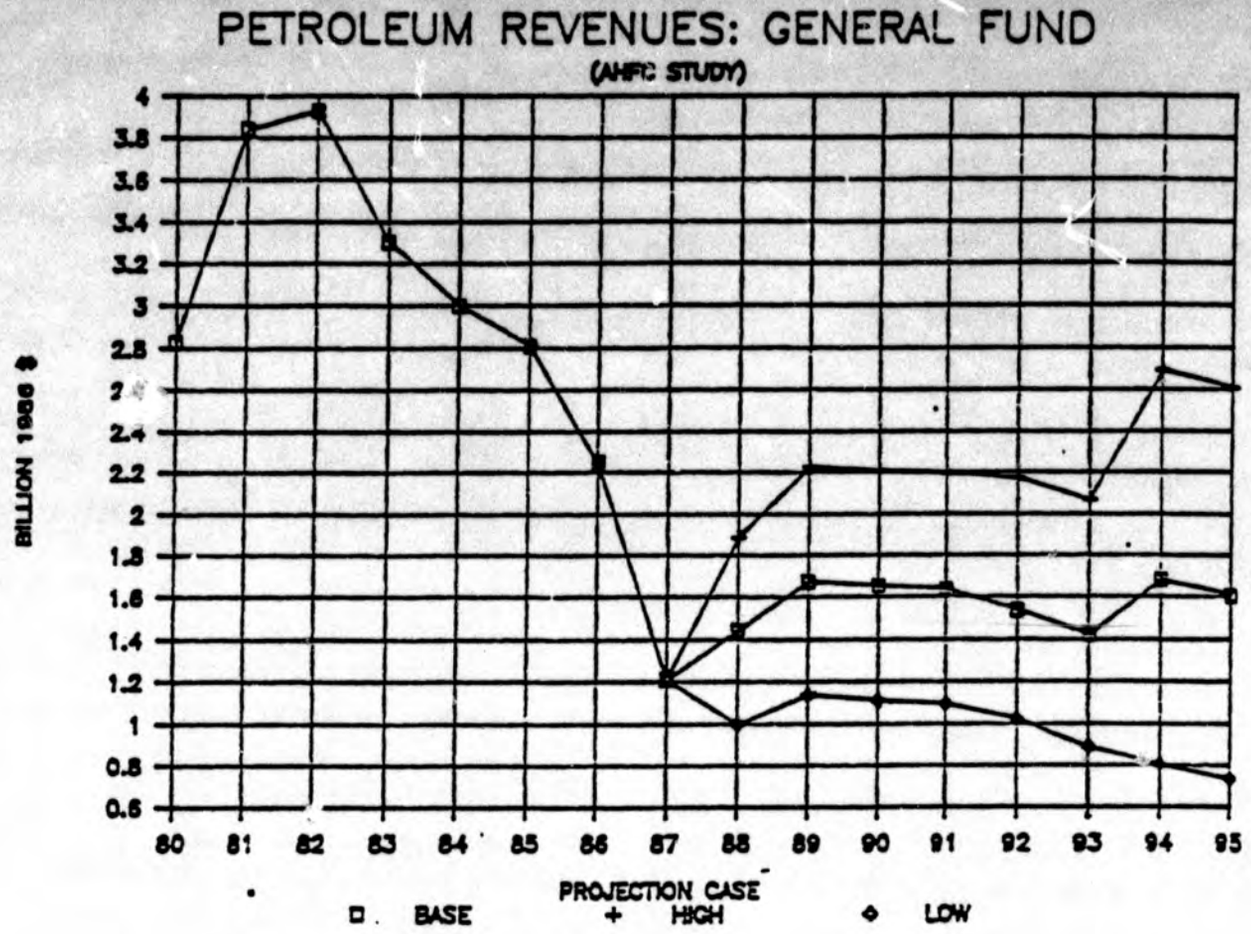
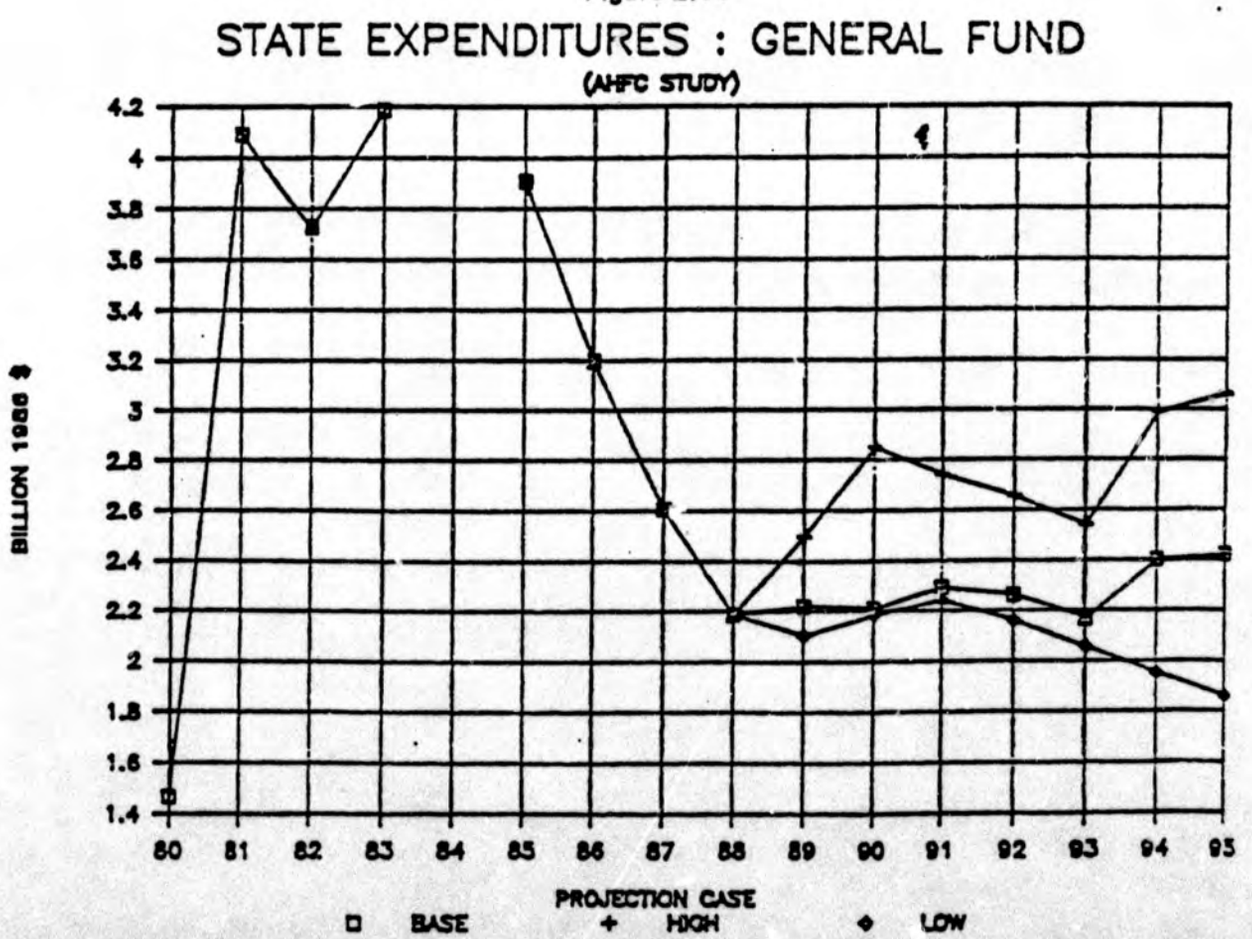


Figure 2.14



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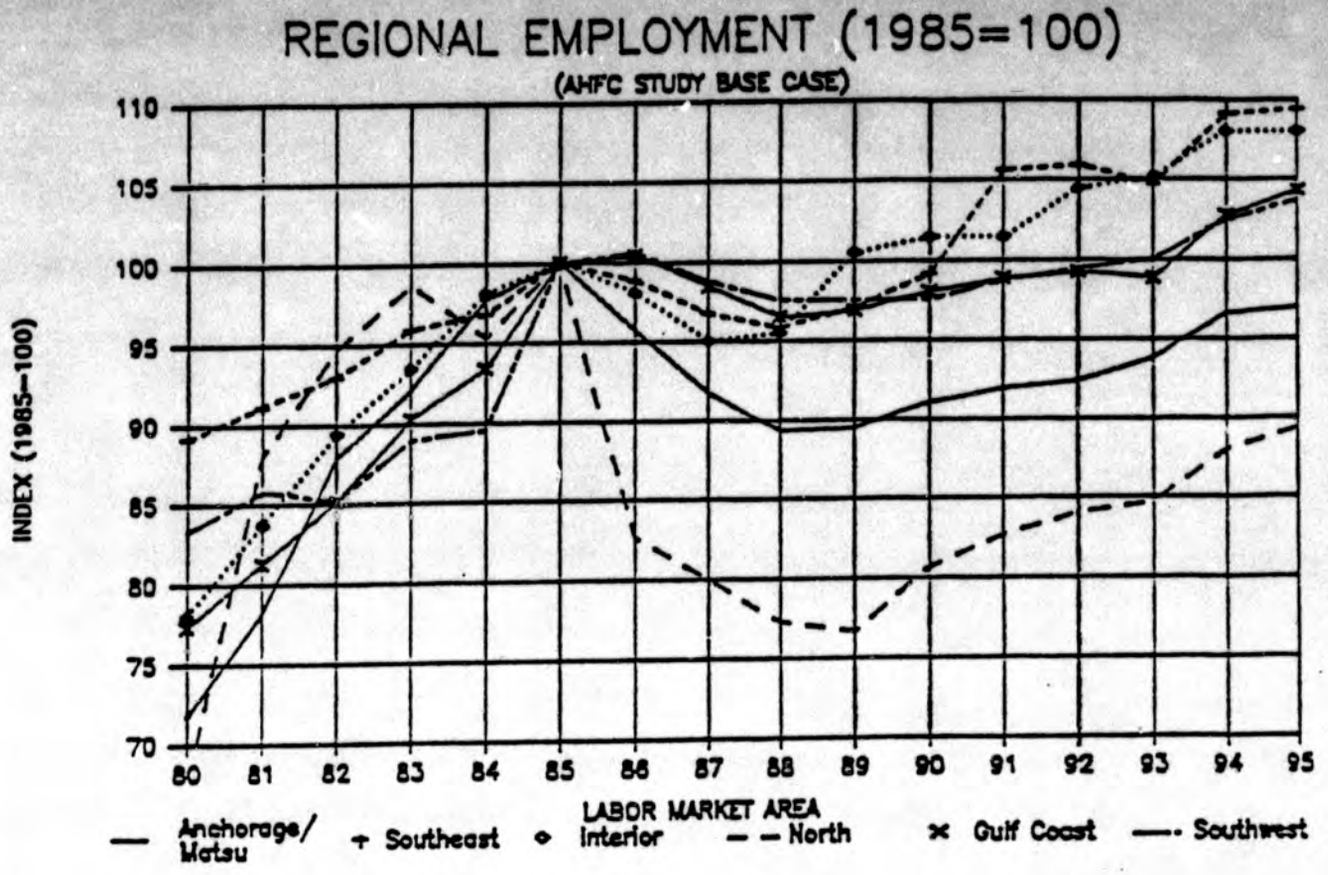

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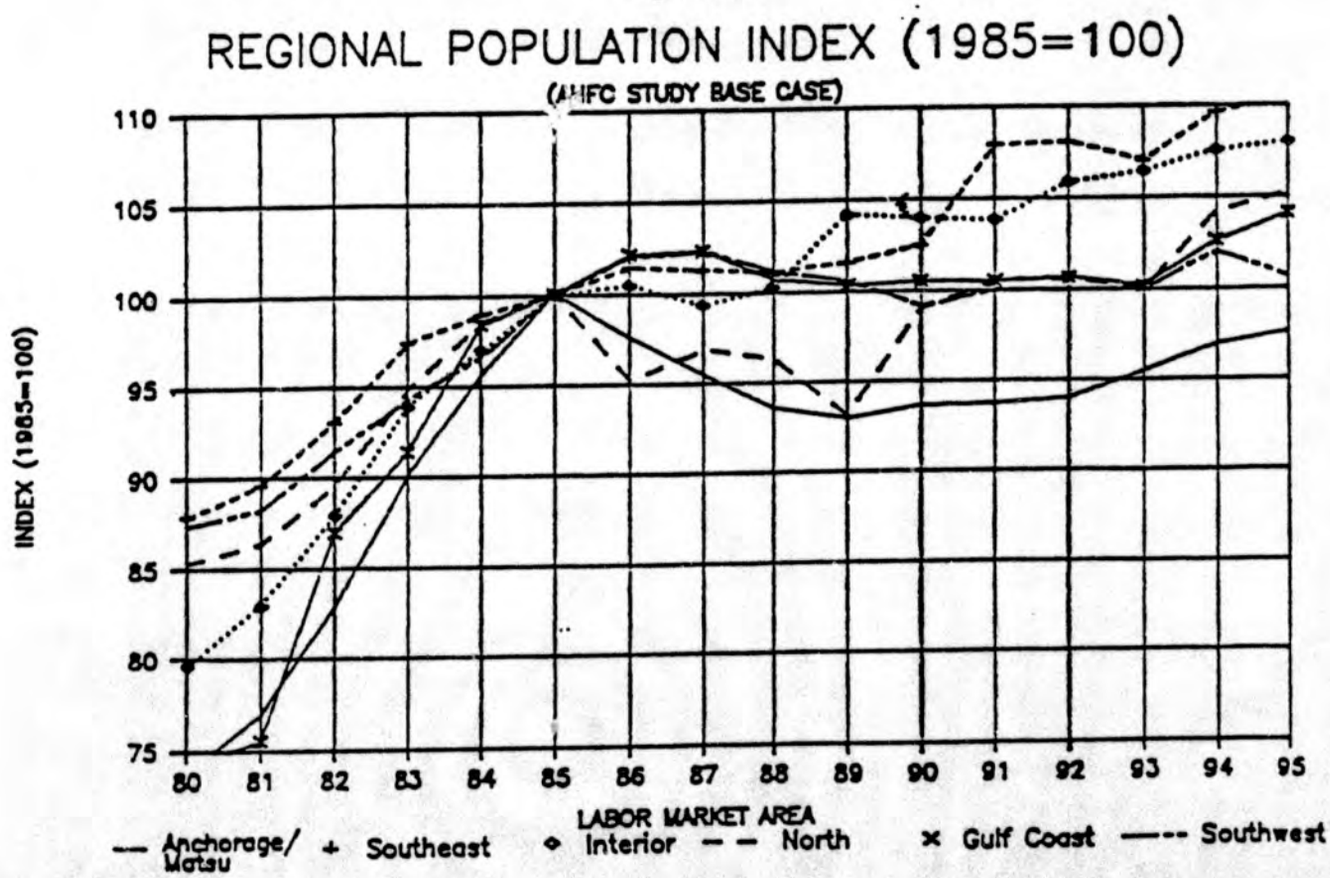

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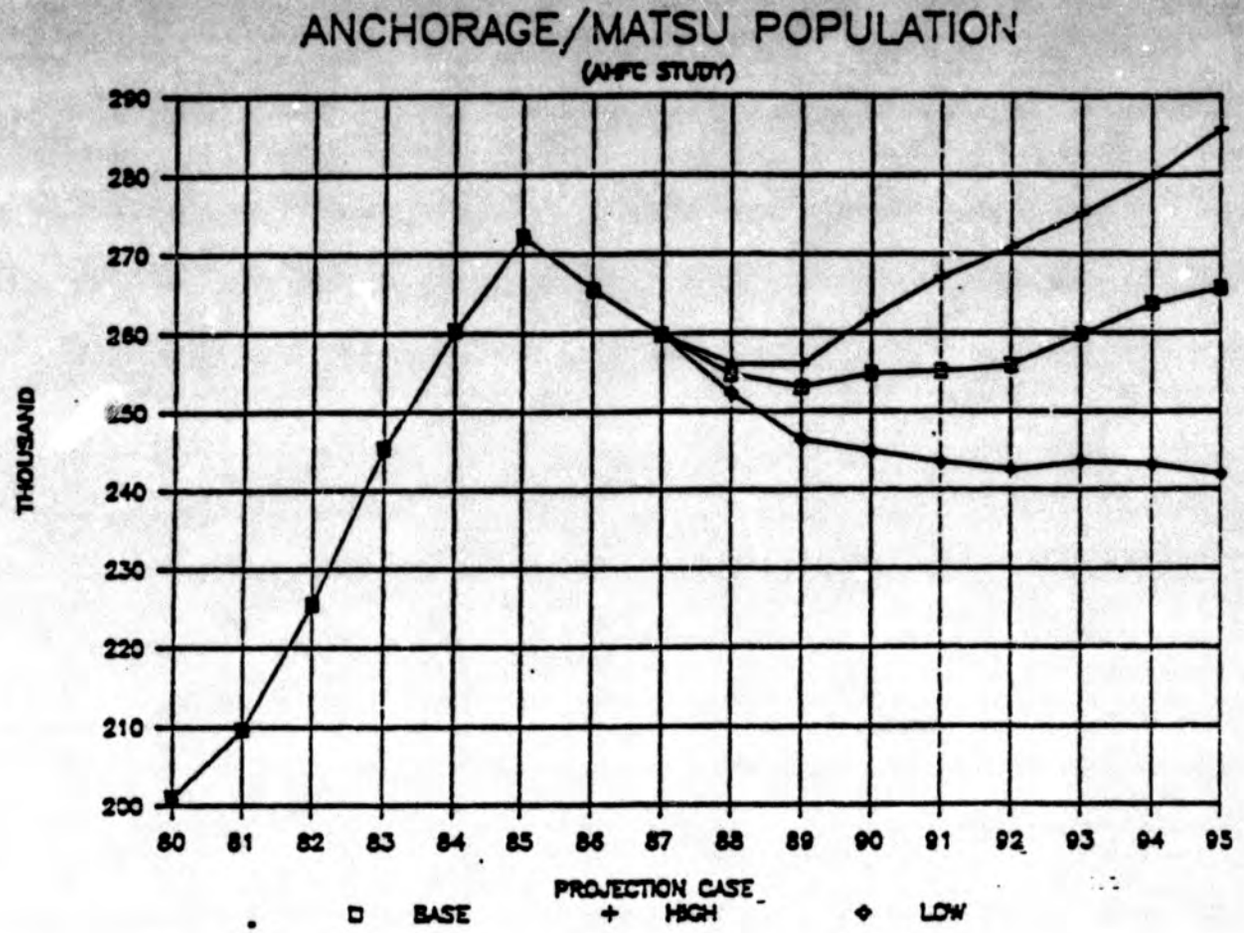

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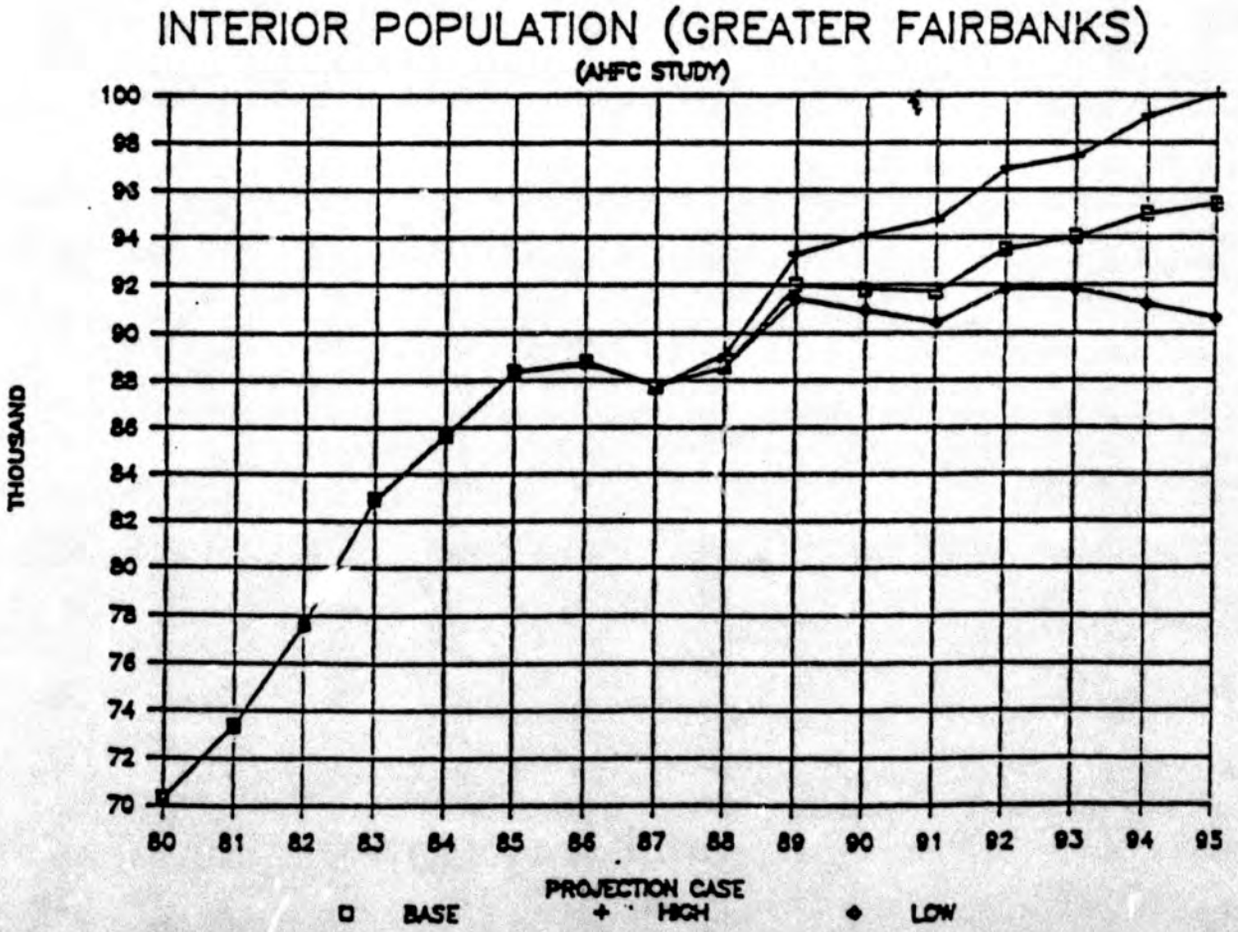


1987 AHFC STUDY
SUMMARY OF MAP MODEL ASSUMPTIONS: BASE [AHFC.B]

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, Revenue Sources (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, Revenue Sources (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].
B.2. Permanent Fund	
10. Permanent Fund Principal	Continuous accumulation from petroleum revenues [EXPF1]; 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].
B.3. Revenues	
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 development 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 development activity associated with Bering Sea and Arctic areas peaks at about 7,000 in 2005. Direct employment continues through the following decade at a level of about 3,000 (OCS.6NGT -12).
5. Oil Industry Headquarters	Oil company headquarters employment in Anchorage remains at about 3,900 through 2010 (OHQ.S86).
6. Healy Coal Mining	Export of approximately 1 million tons of coal annually adds 25 new workers to current base of 100 by 1986 (HCL.84X).
7. Beluga Chuitna Coal Production	Development of a 4.4 million ton/year mine for export beginning in 1989 provides employment of 524 (BCL.04T -4).
8. U.S. Borax	The U.S. Borax mine near Ketchikan is brought into production with operating employment of 685 beginning in 1993 and eventually increasing to 1,020 (BXM.F84-4).

9. Greens Creek Mine	Production from the Greens Creek Mine on Admiralty Island results in employment of 150 people from 1988 through 2003 (GCM.F84).
10. Red Dog Mine	The Red Dog Mine in the Western Brooks Range begins operation in 1991 with production employment of 393 rising to 428 (RED.F84-1).
11. Other Mining Activity	Mining employment not included in special projects increases from current level at 1 percent annually (OMN.S86).
12. Agriculture	Reduction in state support results in constant employment in agriculture (AGR.S86).
13. Logging and Sawmills	Logging for export by Native corporations expands employment to 3,100 by 1992 before declining at 1% annually due to productivity gains (FLL.S87).
14. Pulp Mills	Productivity gains result in employment declines at a rate of 1 percent per year after 1991 from the present level of 600 (FPU.S86).
15. Commercial Fish Harvesting--Nonbottomfish	Employment levels in traditional fisheries harvest remain constant at 7,500 through 2010 (TCF.S86).
16. Commercial Fish Processing--Nonbottomfish	Employment in processing traditional fisheries harvest remains at 7,000 (TFP.S87).
17. Commercial Fishing--Bottomfish	The total U.S. bottomfish catch expands at a constant rate to allowable catch in 2000, with Alaska resident harvesting employment rising to 1.033 thousand. Onshore processing capacity expands in the Aleutians and Kodiak census divisions to provide total resident employment of 1.471 thousand by 2000 (BCF.S86).
18. Federal Military Employment	Employment declines at 1 percent per year, consistent with the long-term trend since 1960 (GFM.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.

Bruss E S

Seattle Times Sunday 2/7/88

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

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.

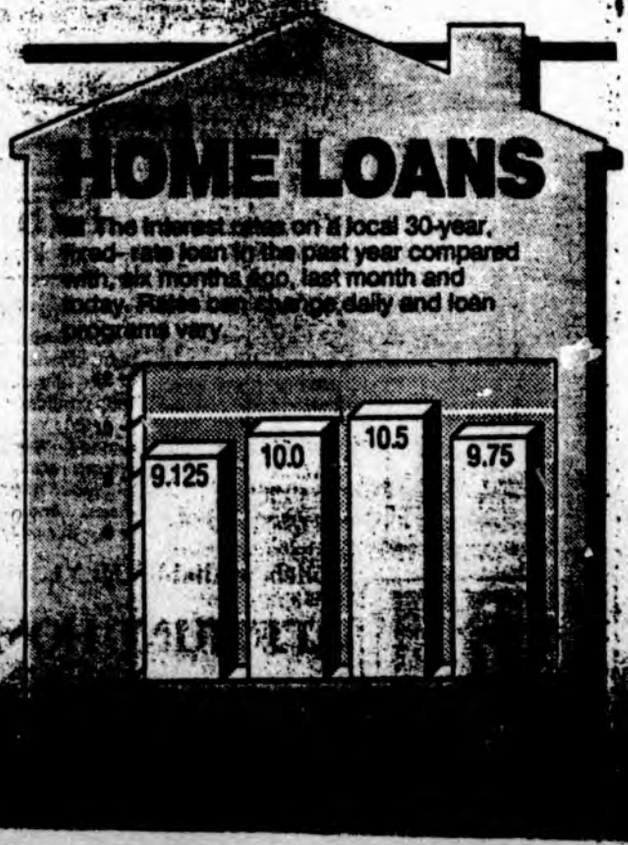
Florio, who is chairman of the House subcommittee on commerce, consumer protection and competitiveness, and Rep. Fernand St Germain, D-R.I., chairman of the House Banking Committee, have been investigating FADA for months.

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.



BOARD MEMBERS: REVIEW, THEN DISCUSS AT 15 JANUARY BOARD MEETING!

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 circumstnaces. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

* Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's $1.5 billion in equity.

RECEIVED

JAN 8 1988

ANCH. 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.

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 to 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,

S. Hawkins

Scott Hawkins
President

550 West 7th Avenue
Suite 850
Anchorage, AK 99501
Telephone (907) 258-3700

WOHLFORTH, FLINT & GRUENING

Rod

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 largly 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 ~~new~~ near term profit is the overall goal.

PURCHASE OF ASSETS

1. The assets will be purchased from the proceeds of a bond issue. Cash flow must be sufficient to service debt and operating expenses. Negotiated price must not require subsidy.

2. Terms of sale will depend on appraisal of portfolio.

3. Financing will require a) credit enhancement, or b) FDIC to take part cash, part subordinated debt or c) both.

4. Credit enhancement can take the form of a State "moral obligation".

$250,000 REQUEST

The purchase cannot proceed without a thorough assessment of the FDIC portfolio with banking, real estate and financial experts. The $250,000 will fund such an assessment. If the sale take place the $250,000 will be repaid from bond proceeds. If it does not it becomes a grant.



ANCHORAGE ECONOMIC

DEVELOPMENT CORPORATION

$250,000

Appropriation to Review FDIC Properties

- BUDGET -

$ 150,000	Accountants
65,000	Banking Consultants
25,000	Legal Fees
10,000	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* conomic conditions.

3. When an appraiser supplies a valuation based on typical terms, FDIC needs specifics as to what the appraiser feels are typical terms for the subject property. For example, x percent (%) down payment, x-year mortgage, with or without a balloon payment in x years and x percent (%) interest rate.

4. All appraisals are to be on an "as is" basis.

5. Estimates to complete essential repairs and to cure violations should be provided, and the appraiser should specify whether those expenses (with a breakdown) have already been considered in estimating the property's appraised value.

6. The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition.

7. All appraisals, *including updated appraisals,* must be in writing.

8. Generally, appraisals should be based on existing zoning; however, the appraiser may value the property based on both current zoning and any other zoning the appraiser feels is *likely* obtainable within a short period. The likelihood of the alternative zoning should be explained in the report for all cases in which the appraiser feels it is appropriate to supply both valuations.

9. When an appraiser is valuing distressed property solely on a land value basis that implies demolition or removal of improvements, the cost of demolition and/or removal should be netted against the land value with the estimated costs of removal so reflected.

10. The account officer is requested to supply the appraiser with a copy of the property's legal description, the survey, leases for income producing properties, etc.

11. The appraiser should provide the amount of annual property taxes and any past due taxes in the appraisal report.

12. The appraisal may be used for multiple purposes, such as bids at foreclosure sales, large protective advances, operating budgets, and sale of the property.

13. A copy of these instructions should be made a part of the appraisal report.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-88
File Name: 015Geogstrat.wk1

	Anchorage Girdwood	Nome Kotzebue Bethel Barrow Prudhoe Bay	Chugiak Peters Creek Eagle River	Fairbanks Delta Jct/Tok North Pole Eielson AFB	Homer Seward	Kenai Soldotna	Juneau Douglas	Palmer Wasilla Big Lake Willow Talkeetna	Valdez Glennallen Copper Center	Other Alaska/ Unknown **	Outside Alaska	TOTAL ##
Bank of the North												
Real Estate/Const	15,758,131 85	1,132,290 8	284,832 5	2,536,787 28		367,492 2	2,523,366 16	3,617,356 9		1,632,293 9	2,052,075 10	29,904,622 172
Other Real Estate	2,249,168 12	0 0	158,913 3	1,444,578 18		128,160 1	1,577,924 7	287,608 5		21,184 1		5,867,535 47
Commercial	17,616,406 83	1,450,707 14	96,041 3	10,489,694 149		56,917 2	1,705,584 25	706,862 11		2,091,524 18	2,357,472 21	36,571,206 326
Installments	193,188 27	33,128 11	18,518 2	256,889 45	740 1		64,052 8	2,401 1	2,059 1	16,884 4	56,899 15	644,758 115
Subtotal	35,816,892 207 49.07%	2,616,125 33 3.58%	558,303 13 0.76%	14,727,948 240 20.18%	740 1 0.00%	552,569 5 0.76%	5,870,926 56 8.04%	4,614,227 26 6.32%	2,059 1 0.00%	3,761,885 32 5.15%	4,466,447 46 6.12%	72,388,121 660
Judgements												
Charge-Offs ##	6,432,197 552	479,955 72	481,242 37	4,333,409 398	12,095 5	10,892 11	1,529,237 106	382,629 31	73,976 15	2,516,280 179	964,279 421	17,216,191 1,827
Subtotal	6,432,197 552 37.36%	479,955 72 2.79%	481,242 37 2.80%	4,333,409 398 25.17%	12,095 5 0.07%	10,892 11 0.06%	1,529,237 106 8.88%	382,629 31 2.22%	73,976 15 0.43%	2,516,280 179 14.62%	964,279 421 5.60%	17,216,191 1,827
ANB Total	42,249,090 759 46.84%	3,096,080 105 3.43%	1,039,545 50 1.15%	19,061,357 638 21.13%	12,835 6 0.01%	563,461 16 0.62%	7,400,163 162 8.20%	4,996,856 57 5.54%	76,035 16 0.08%	6,278,165 211 6.96%	5,430,726 467 6.02%	90,204,312 2,487
TOTAL (CHG-OFFS & JDGMENTS EXCLUDED)	144,537,681 504 67.93%	2,970,207 35 1.40%	5,754,000 33 2.70%	14,992,530 243 7.05%	2,673,824 25 1.26%	3,718,040 27 1.75%	6,762,409 60 3.18%	16,776,233 95 7.88%	68,921 4 0.03%	4,498,220 39 2.11%	10,022,290 78 4.71%	212,774,354 1,143
TOTAL INCLUDING CHG-OFFS & JDGMENTS	159,290,301 1,170 65.20%	3,450,162 107 1.41%	6,326,888 77 2.59%	19,325,939 641 7.91%	2,830,761 36 1.16%	4,218,067 49 1.73%	8,291,646 166 3.39%	17,850,582 151 7.31%	205,070 20 0.08%	11,032,371 257 4.52%	11,470,623 516 4.70%	244,292,410 3,190

** Unknown locations were found only for Bank of the North Chargeoffs
All others in this category are located within Alaska.

Figures on Bank of the North Chargeoffs for "Other Alaska" and "Outside Alaska" are approximate.

@@ Totals reflect gross loan balances; i.e., "Participations Sold" balances plus FDIC book value.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-98
File Name: 0156eogstrat.wk1

	Anchorage Girdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown ##		Outside Alaska		TOTAL ##	
First Interstate																								
Real Estate/Const	57,411,882	94	337,388	1	715,128	2			1,290,472	4	861,983	5			8,085,047	18			549,118	1	3,975,404	14	73,226,422	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	139,786,233	483
	77.78%		0.25%		3.72%		0.19%		1.91%		2.26%		0.64%		8.70%		0.05%		0.53%		3.97%			
Judgements	457,732	18			26,060	2			23,734	2	38,827	3			53,729	4	62,174	1			60,038	5	722,294	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	154,088,098	703
	75.96%		0.23%		3.43%		0.17%		1.83%		2.37%		0.58%		8.34%		0.08%		3.09%		3.92%			

Alaska State Legislature
House

Official Business

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 Mssrs. Chenault and Hone next Mcnday 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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FEATURE

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.

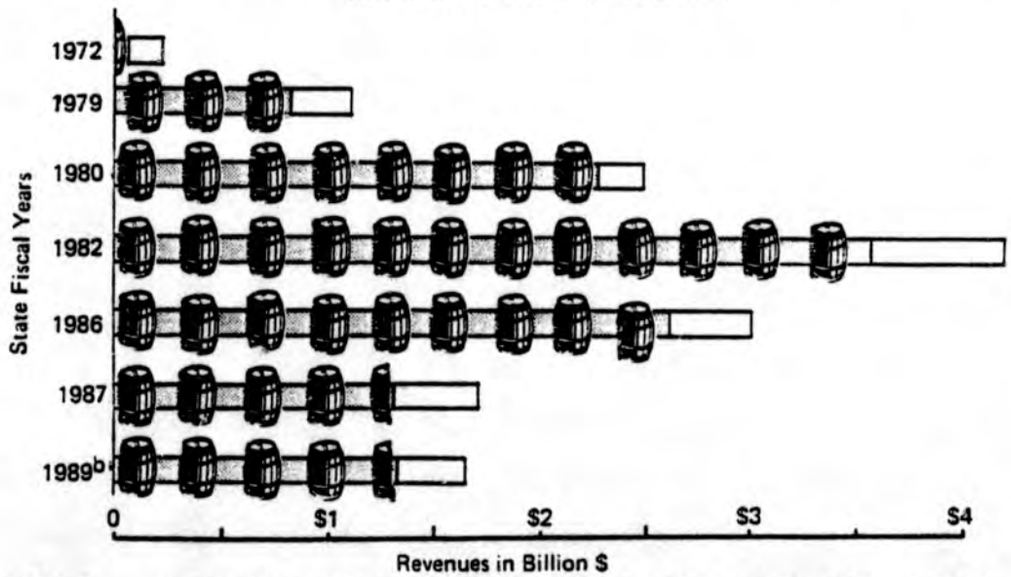
After 1982 oil prices started to fall, but it was in 1986 that prices briefly plummeted as low as $10 a barrel. State revenues in fiscal 1987 dropped to around $1.7 billion—a decline of more than 40 percent from the previous year, and nearly 60 percent less than 1982 revenues. As of late 1987, state 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

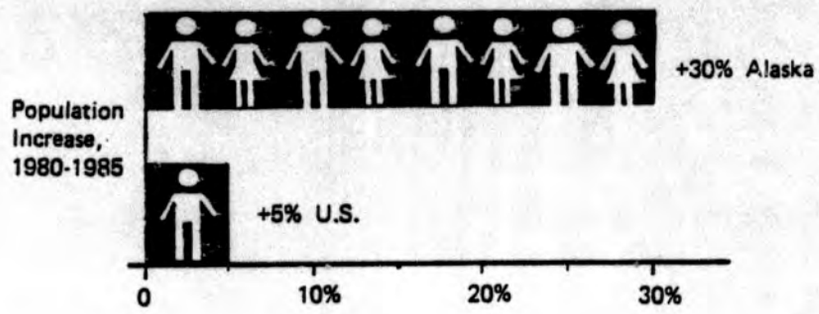


[a]Includes just unrestricted general fund revenues; excludes restricted revenues, which are mainly federal grants-in-aid. Graph represents actual revenues received with no adjustment for inflation.

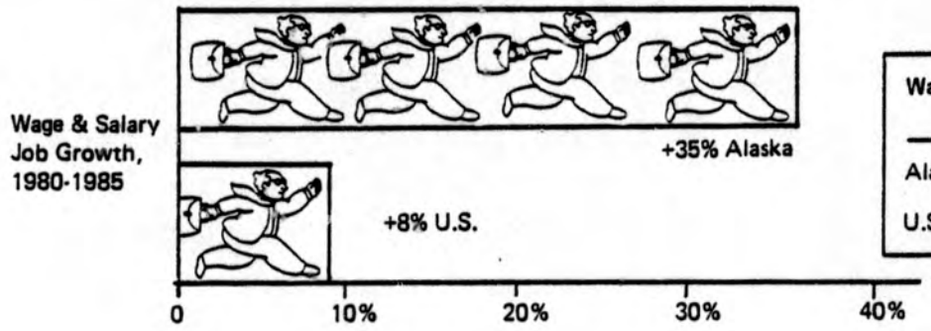
[b]Estimate as of June 1987.

Source: Alaska Department of Revenue, *Revenue Sources*, FY 1987-89, Quarterly Update, June 1987.

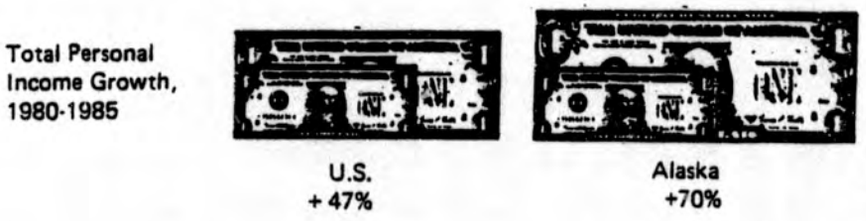
Figure 2. Growth in Population, Jobs, and Personal Income Alaska and the U.S., 1980-1985



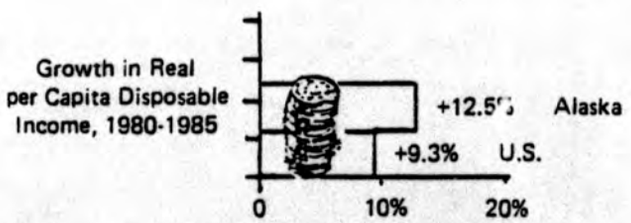
Population	1980	1985
Alaska	414 thousand	540 thousand
U.S.	228 million	239 million



Wage & Salary Jobs	1980	1985
Alaska	170 thousand	227 thousand
U.S.	90 million	97 million



Total Personal Income	1980	1985
Alaska	$ 5.6 billion	$ 9.5 billion
U.S.	$2,252 billion	$3,310 billion



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 Alaska[3] 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.

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.

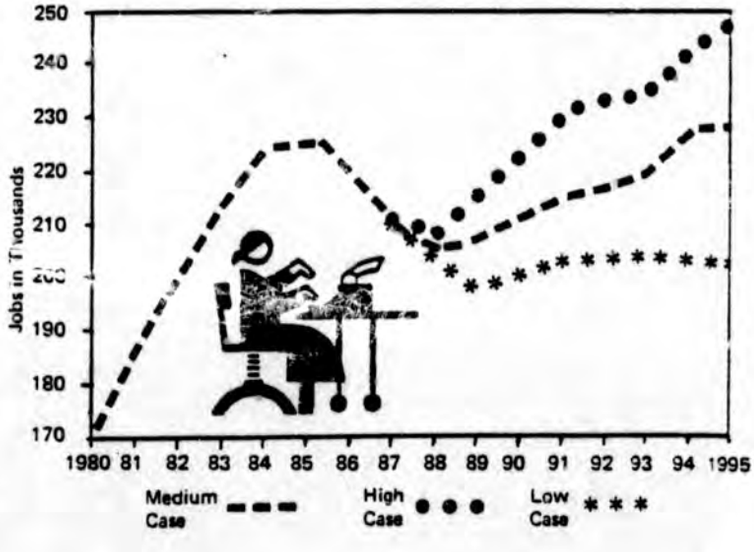
Job Loss

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



[2]For a detailed examination of where Alaska spent its oil billions, see "Where Have All the Billions Gone?" *Alaska Review of Socal and Economic Conditions*, February 1987, Vol. XXIV, No. 1.

[3]Inflation in Alaska as measured by the Anchorage Consumer Price Index, which is the only time series that measures price changes in Alaska.

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?

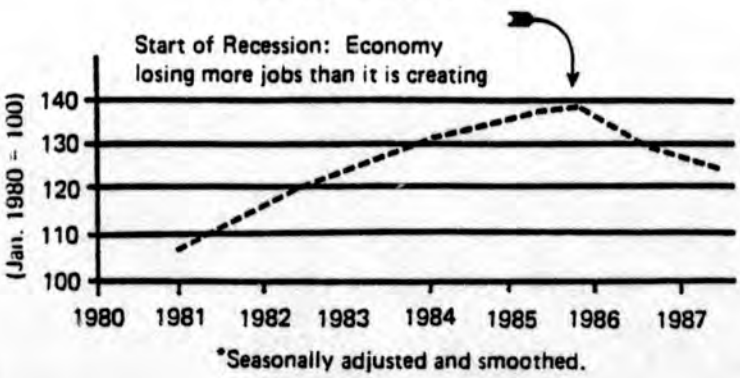
Figure 9 shows actual numbers of jobs by industry at the start of the cycle in January 1980; at the peak of the boom (individual industries peaked at somewhat different times); in July 1987; and in mid-1988, when our medium case projects that the economy will bottom out.

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]

[4]The 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.

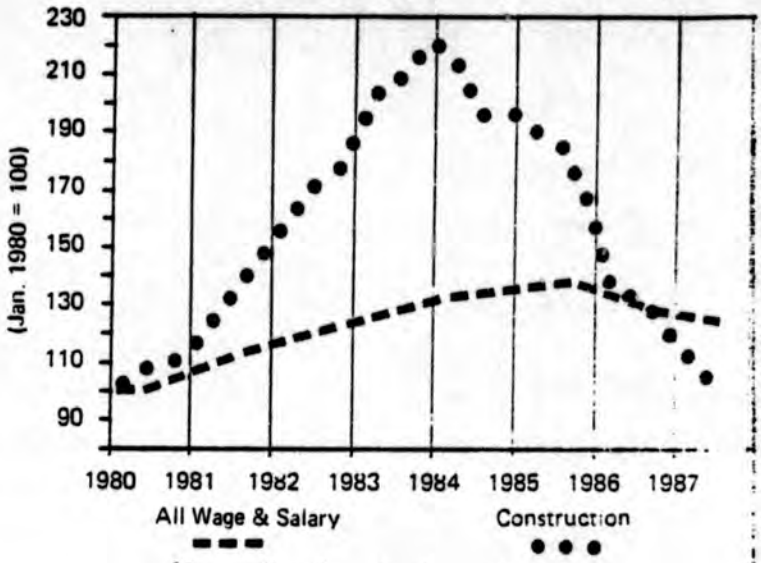
Figure 4. Alaska Employment Index*
All Wage and Salary Jobs



*Seasonally adjusted and smoothed.

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*



*Seasonally adjusted and smoothed.

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

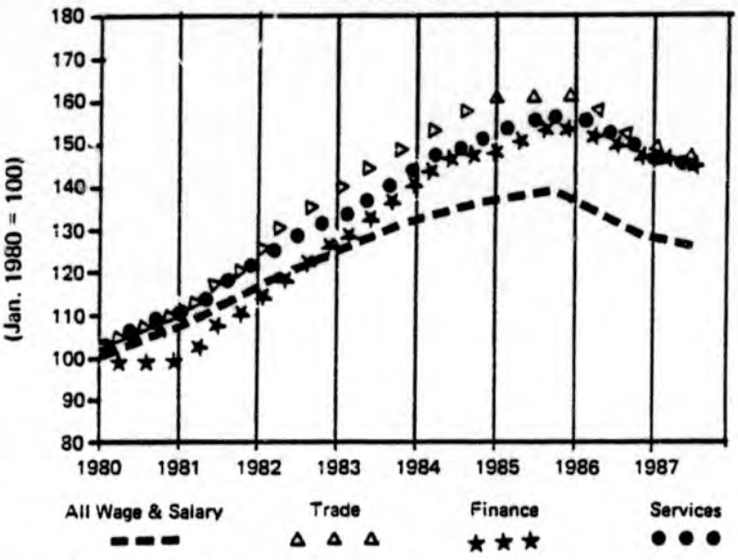
relatively low. By mid-1988, numbers of construction jobs in Alaska will be down about 65 percent from the peak 1984 level (Figure 9).

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, 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.

Figure 6. Alaska Trade, Finance, and Services Employment Index*



*Seasonally adjusted and smoothed.

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).

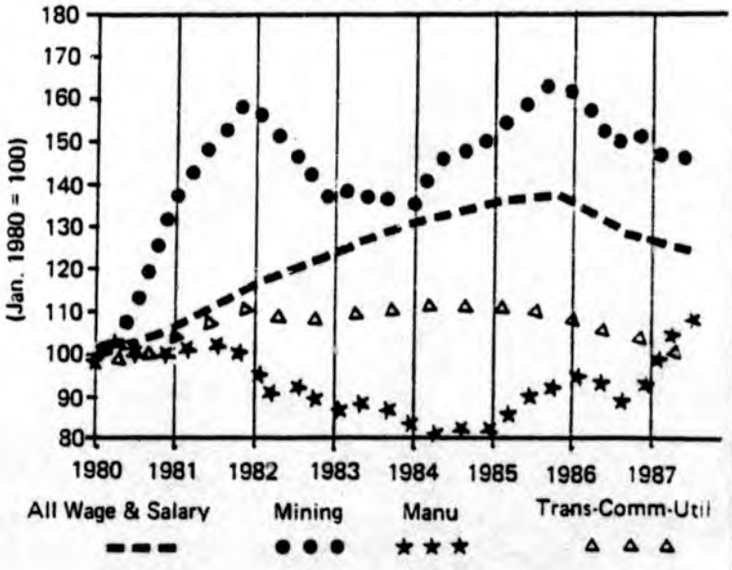
Mining, Manufacturing, and Transportation, Communications, and Utilities Jobs

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,

[5]Figures 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).

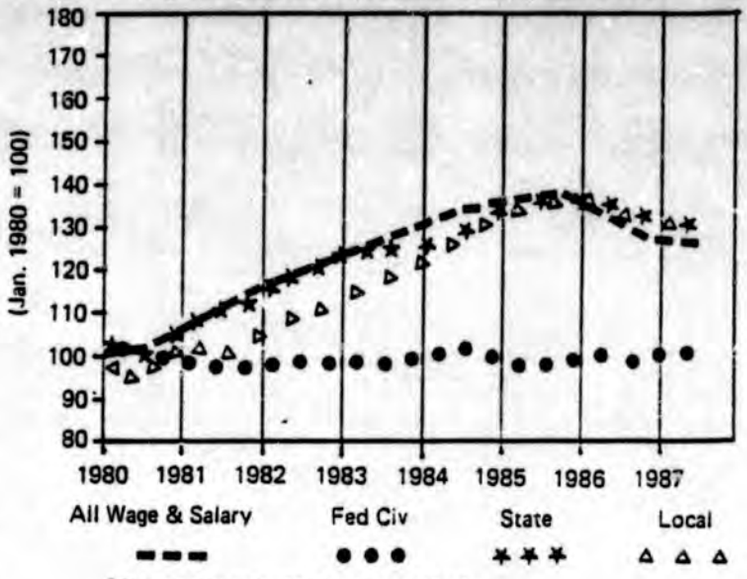
Alaska's manufacturing industries depend not on state government spending but on the size of the harvests and the demand for Alaska's fish and timber. In the early 1980s, when other parts of the economy were growing, overall employment in manufacturing actually dropped—and during the recession, when 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*



*Seasonally adjusted and smoothed.

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	Construction –64%	–20%
Trade & Services[c]	58,000	91,400 (Nov. 1985)	82,100	79,000	Trade & Services[c] –14%	+36%
State & Local Govt.	36,750	50,200 (Oct. 1985)	47,100	45,000	State & Local Govt. –11%	+22%
Transportation,[c] Communication, Utilities	17,000	19,000 (May 1985)	17,000	17,000	Trans., Comm., Util.[c] –11%	0%
Finance, Insurance, Real Estate	7,740	11,800 (Oct. 1985)	11,000	11,000	Fin., Ins., Real Est. –7%	+42%
Petroleum & Mining	6,000	9,800 (Sept. 1985)	8,700	9,000	Petroleum & Mining –9%	+50%
Federal Civilian	17,900	17,600[a] (Sept. 1985)	18,000	18,000	Federal Civilian +2%	+1%
Manufacturing[d]	13,800	12,800[a] (Sept. 1985)	14,700	14,000	Manufacturing[d] +10%	+1%

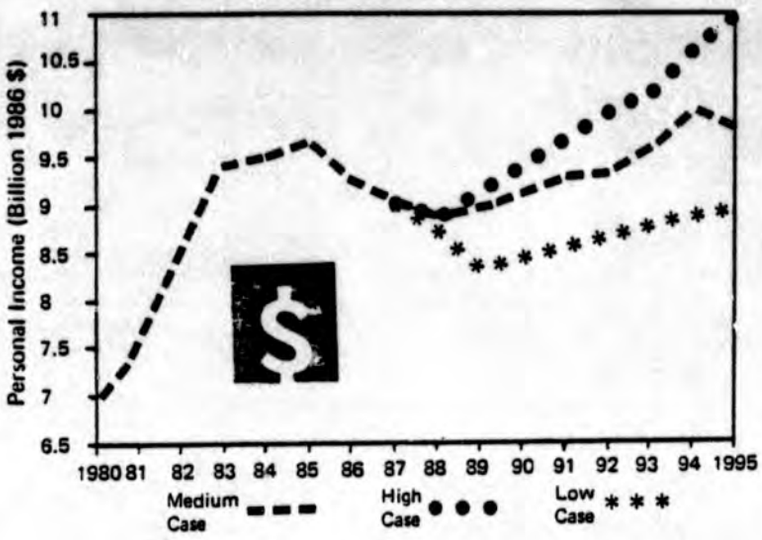
[a]Employment in various industries peaked at somewhat different times, but mostly in late 1985. Federal civilian and manufacturing employment did not peak in 1985.

[b]As projected under the medium case economic projections from ISER's report, *Alaska's Economy and Housing Market.*

[c]Tourism accounts for a portion of employment in these industries; tourism employment has not declined in recent years.

[d]This 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 nonresidents.

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.

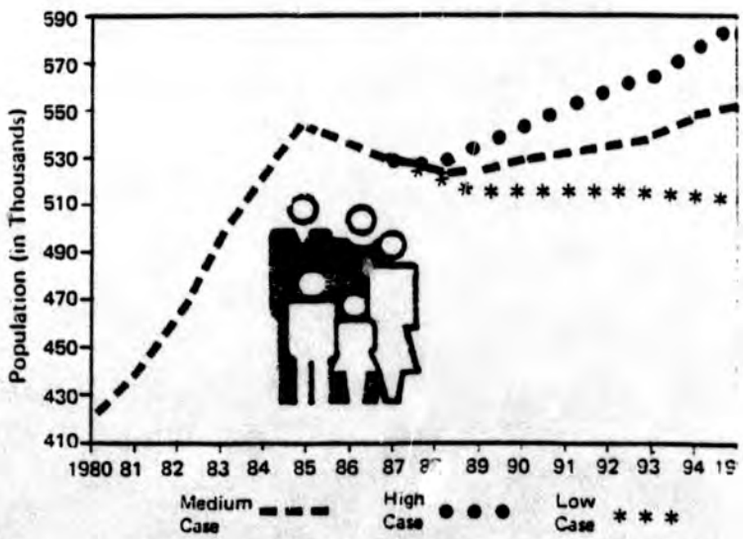
Regional Effects of Recession

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.

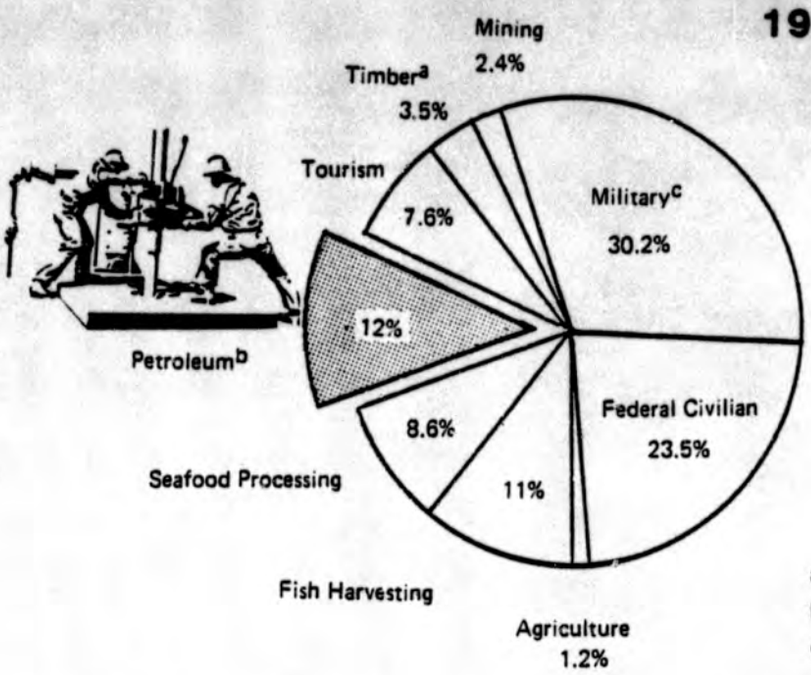
But if we look at *value added* by each of the basic industries—a much more comprehensive measure of the potential contribution of an industry to the economy—a different picture emerges. Value added consists primarily of the wages and salaries contributed by an industry, taxes paid (federal, state, and local), depreciation, and profits generated[6]—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

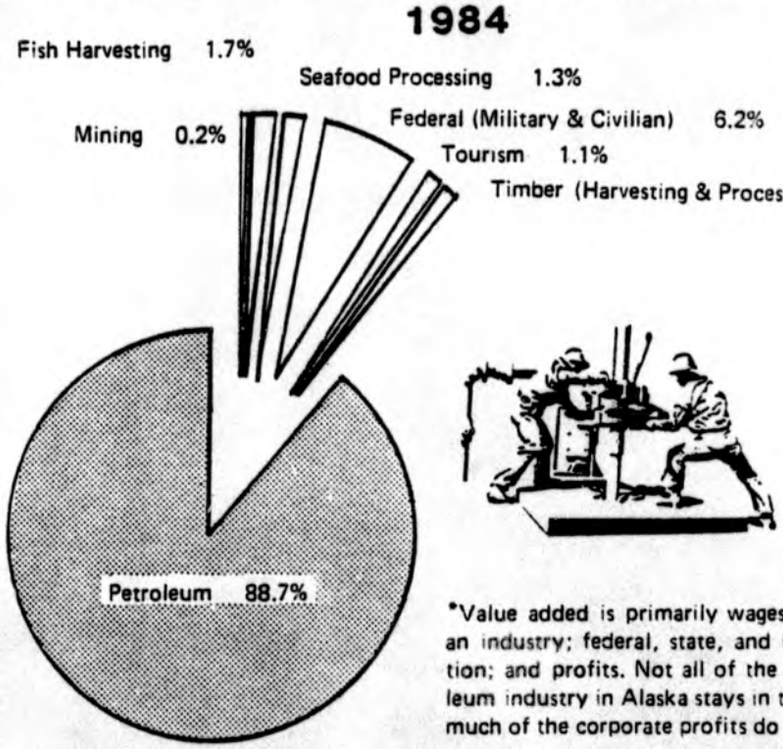
[6]Including royalties in the petroleum industry.

Figure 12. Alaska Basic Industry Employment 1986



[a]Includes havesting and processing.
[b]Includes production and processing.
[c]Active duty military personnel.

Figure 13. Value Added* of Alaska Basic Industries 1984



*Value added is primarily wages and salaries generated by an industry; federal, state, and local taxes paid; depreciation; and profits. Not all of the value added by the petroleum industry in Alaska stays in the state—federal taxes and much of the corporate profits do not remain in Alaska.

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.

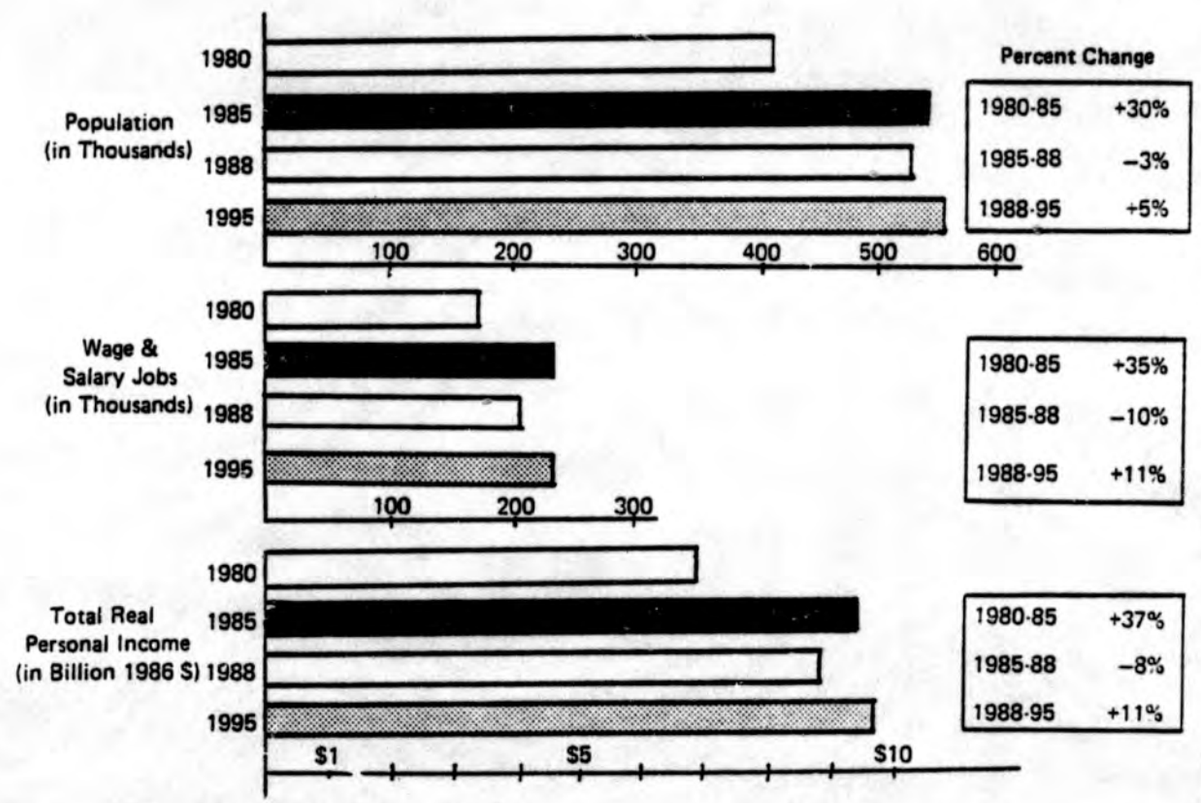
Alaska's population grew 30 percent between 1980 and 1985. Between 1985 and mid-1988 it will likely drop about 3 percent, and grow by 5 percent between 1988 and 1995.

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



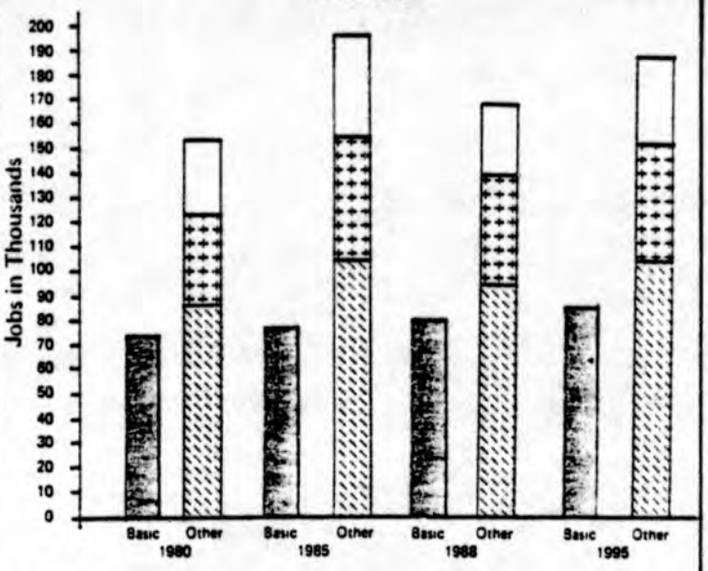
[a]As projected under medium-case economic projections prepared for *Alaska's Economy and Housing Market*, ISER report, October 1987.

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 construction—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.

Figure 15. Historical and Projected* Changes in Alaska Basic and Other Jobs, Selected Years, 1980-1995



Basic: Basic industries are those that drive the economy by producing goods or services for export. They are: petroleum, other mining, fishing, timber, tourism, and federal government. Here we also include those portions of the construction, manufacturing, and transportation industries that produce for export.

Support: Support industries provide a variety of services for local residents and businesses. These industries include wholesale and retail trade, finance insurance, real estate, and other service industries.

State & Local Govt. The combined numbers of state and local government in jobs in Alaska.

Infrastructure Infrastructure industries are defined as transportation, communications, utilities, and those portions of construction that provide just local services.

*As projected under medium-case economic projections prepared for *Alaska's Economy and Housing Market*, ISER report, October 1987.

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

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

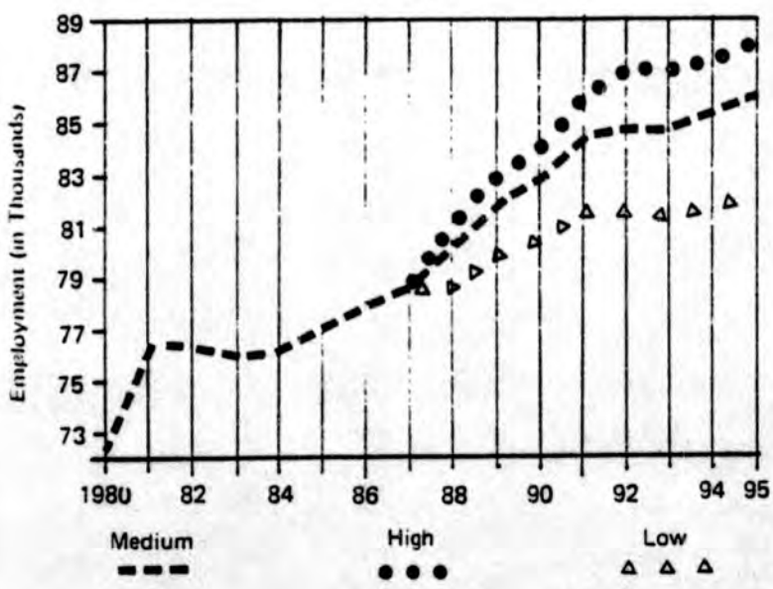
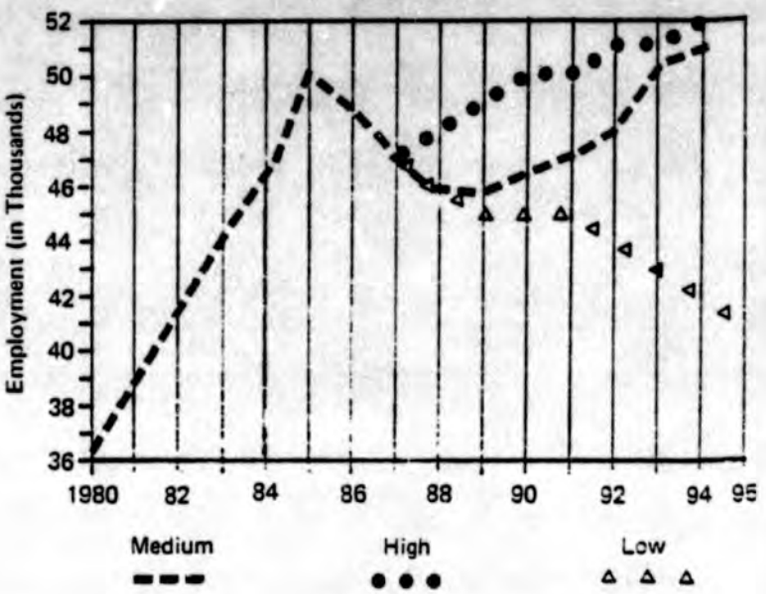


Figure 17. Alaska State and Local Government Employment, Historical and Projected Under Three Cases, 1980-1995



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 $18 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 by 1995, and support employment about 10 percent higher or lower (Figures 18 and 19).

Figure 18. Alaska Infrastructure Employment, Historical and Projected Under Three Cases, 1980-1995

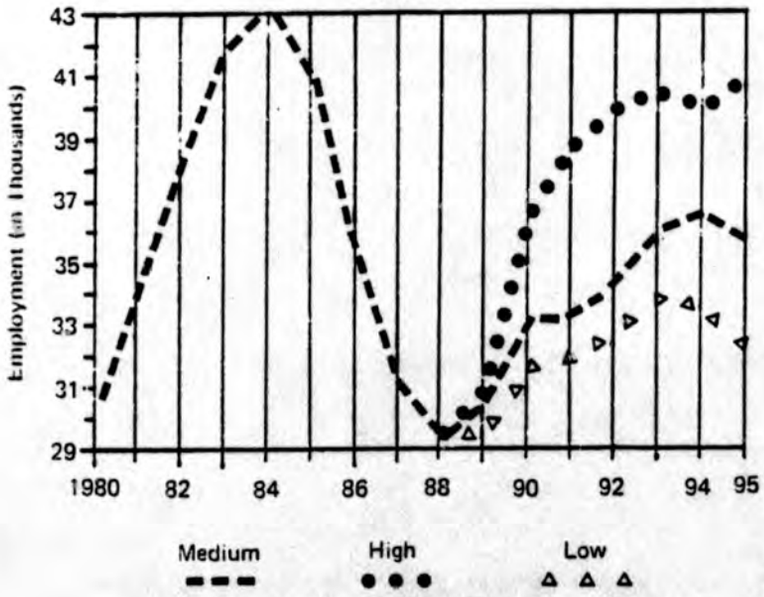
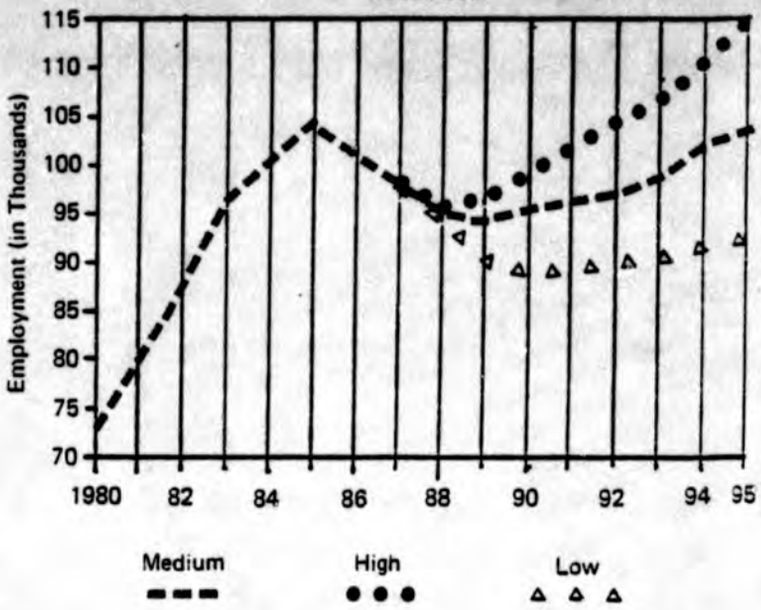


Figure 19. Alaska Support Industry Employment, Historical and Projected Under Three Cases, 1980-1995



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) governme.. 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 o.' 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 Cener 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
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E. Lee Gorsuch, Director
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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 Zamarello's strip malls at 1984 land values, and then boarding up or tearing down the buildings.

   g. An extra dividend.

   h. Legislation to authorize Bradley Lake to go forward without APUC's approval.

   i. Offer up to $100 million dollars for capital improvements to bring the Navy into Southcentral Alaska and also assist in making oil available at less than market prices to the Navy.

   j. Appropriate 1.5 million to get the Court Building started this Spring in downtown Anchorage.

   k. A guarantee loan fund wherein banks will hold 10% of a loan and with 90% guarantee from a State agency.

   l. Pay off local government bonds.

   m. A Job Corps Program.

2. A $100,000,000 Capital Improvement Program for Anchorage, the following projects, with a priority as shown:

   (See Attachment)

   Last item -- 16 million for miscellaneous capital improvements.

Directory of Projects and Proposals with Direct Economic Impact

January 27, 1988

State of Alaska
Office of the Governor
Division of Policy

This directory identifies proposed programs and activities in the FY 88 and FY 89 budget with direct positive economic impacts over the next 18 months. Although this compilation is focused on the operating budget, the reader will also find loan programs and capital projects with special economic impacts listed under certain agencies.

The Division of Policy has collated information provided by each submitting agency. The data that are summarized in this compilation have been reviewed by the submitting agencies to enhance the accuracy and consistency of the original information.

OFFICE OF INTERNATIONAL TRADE

3601 C Street
Anchorage, AK 99503-5935
561-5585

Trade Leads

The trade leads program puts interested commercial and trading parties into contact with each other, for purposes of doing business. For example, the 16 new jobs and the $500 thousand contract for Alaskan glacier ice and bottled water delivered to Japan by Wetco, Inc., in 1987 was directly attributable to State-generated trade leads efforts.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Foreign Investments

The purpose of the foreign investments program is to attract foreign investments to Alaska. For example, Idemitsu Kosan was initially approached by the Office of International Trade through the Tokyo trade office. This year, Idemitsu Kosan signed a joint venture agreement on the Wishbone Hill bituminous coal development project in the Mat-Su Valley. Once developed, this project will produce more than one million tons of coal per year, and, under the current royalty structure, should bring the State approximately $1 million of royalty annually. Also, it should provide the Alaska Railroad with approximately $9.5 million in freight hauling fees.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

International Marketing

This new effort, initiated in FY 89, will consist of an international trade digest published on a regular basis by the Office of International Trade. The digest will facilitate the placement of advertising in foreign publications, targeting on trade shows.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: FY 89

Foreign Trade Offices

Foreign trade offices are maintained in Tokyo and Seoul, and an honorary trade representative is contracted in Taiwan. Through these offices, Alaskan producers obtain up-to-date foreign market information, ideas for new products, and introductions to foreign buyers.

One example of the value of these offices is the Idemitsu Kosan/Wishbone Hill coal development project, which began with the discovery by the Tokyo office that Idemitsu Kosan, Japan's largest energy company, was switching from petroleum- to coal-fired generators.

Cost of Program: within existing budget; not broken out separately
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF ADMINISTRATION

P.O. Box C
Juneau, AK 99811-0200
465-2277

Risk Management/Assistance to Contractors

This program assists contractors in meeting State contracting requirements, and in that respect enhances the participation rate of in-state bidders and vendors.

Cost of Program: within existing budget; not broken out separately
Effects on Alaska Personal Income: increases in-state contract expenditures
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

New Procurement Code

The new procurement code provides greater efficiency and equity in procedures for meeting the State's procurement needs, and encourages greater participation by smaller vendors and suppliers.

Cost of Program: within existing budget not broken out separately
Number of Jobs Created: unknown; will favor Alaskan vendors
Effects on Alaska Personal Income: more contracts and expenditures retained in-state
Geographic Area of Impact: statewide
Commencement and Duration of Effects: 1/1/88 and on

Vacancy-Based Recruitment Program

This program entails two separate but related efforts. One is an outreach effort to inform local residents about State position vacancies, using electronic communications among State offices, Job Service Centers, and Legislative Information Offices.

The second is a monthly information dissemination effort focusing on recruitment for jobs in rural areas. It comprises a 5-minute radio program aired on some 30 rural

stations, a series of 30-second public service announcements on tape and hard copy, and monthly recruitment highlights that are provided to about 35 rural newspapers and 25 Native organization publications.

Cost of Program: within existing budget; not broken out separately
Number of Jobs Created: fills existing State positions statewide, with rural emphasis
Geographic Area of Impact: statewide, with rural emphasis
Commencement and Duration of Economic Effects: ongoing

DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT

P.O. Box D
Juneau, AK 99811-0800
465-2500

Economic Development and Marketing Program

Existing and new staff will work to support regional economic and business development by providing information and technical assistance.

Cost of Program: $509.8 thousand (incremental)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: immediate and ongoing

Alaska Housing Market Council

The Council provides statewide information and referral hot-line services (not intervention) to persons experiencing difficulties meeting residential mortgage obligations. Created by administrative order in March 1987, the program has a $400.0 thousand budget funded equally through the Permanent Fund, the Alaska Housing Finance Authority, the Alaska State Building Authority, and AIDEA.

The program currently receives approximately 50-80 calls per day, and to date has successfully averted a number of residential home loan foreclosures.

Cost of Program: $400 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

"Made In Alaska" Program

This program identifies products made in Alaska, and encourages Alaskans to purchase such products.

Many Alaskan artisans and craftspeople say that their retailers insist on them being certified under this program as it is a major selling point in the sale of such products.

Cost of Program: $2 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 3/21/86 - 6/30/88

Small Business Development Centers

This program offers a range of management and manufacturing assistance to owners and managers of Alaska businesses. It is jointly sponsored by the U.S. Small Business Administration, the University of Alaska statewide system, and DCED's Office of Enterprise.

Cost of Program: $200 thousand GF, $200 thousand federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 10/1/86 - 9/30/87

Minority Business Development Program

This program is designed to enhance the business opportunities of minority Alaskans by increasing minority participation in all areas of State procurement and economic development. Services offered include training, promotion, information and referral, and other forms of assistance.

Cost of Program: $75 thousand GF, $75 thousand federal funding
Number of Jobs Created: 667 fulltime (indirect), based on $20,000.0 thousand in procurement contracts received by clients
Effects on Alaska Personal Income: $16 million (indirect) @ 80% of contracts
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 4/1/87 - 3/31/88

Market Access Program (Bonding)

The MAP program conducts research on insurance and bonding markets, and provides related information to Alaskan businesses that are having difficulty obtaining insurance and bonding coverage.

Cost of Program: within existing budget; part of market surveillance
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Bank Monitoring Program

This program monitors events and developments in Alaska's banking and financial sectors, and provides bank examining services. Through its efforts, three Alaska banks were reorganized instead of closed, and some $400-$500 million in assets were saved from potential liquidation in Anchorage.

Cost of Program: $424.8 thousand
Number of Jobs Created: prevented closure of 3 banks, with total of 434 employees
Effects on Alaska Personal Income: $18.6 million (compensation for 434 bank employees)
Geographic Area of Impact: statewide, mainly Anchorage
Commencement and Duration of Economic Effects: ongoing

Investments Work-Out Program

The Investments Work-Out program, operated by the Division of Investments, offers assistance to borrowers if they experience difficulty in meeting their debt obligations with the State. By modifying loan terms, the program prevents the borrower's loss of assets through foreclosure by the State.

Cost of Program: $191.6 thousand
Number of Jobs Created: none, but job loss is prevented
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: ongoing

Alaska-Hire In Seafood Industry Program

Through this program, the Alaska Seafood Marketing Institute coordinates a cooperative newspaper advertising campaign aimed at encouraging Alaskans to seek employment in the seafood industry by registering with the Job Service. Ads are funded by the Department of Labor and the Pacific Seafood Processors Association

The Department of Labor estimates that more than 9 thousand jobs in Alaska's seafood industry were filled in 1987 through the Job Service.

Cost of Program: $10 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 5/87 - 12/87

Alaska-Hire In Tourism Industry Program

Through this program, DCED is attempting to increase the number of Alaskans who are employed in the tourism and visitors industries. The program works in concert with the Alaska Visitors Association and local sponsors to coordinate and sponsor newspaper campaigns advertising the availability of tourism-related employment opportunities around the state.

Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: 5/87 - 12/87

ARDOR Program (CIP)

Funding from this federal program provides technical assistance to regional economic development groups.

Cost of Program: $300 thousand federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects: immediate

Bradley Lake Hydroelectric Project (CIP)

The Bradley Lake hydro project is a $300 million hydroelectric power generation facility located on the Kenai Peninsula. Its construction, scheduled to begin this summer, will offer over 150 jobs. Financing comes from the Railbelt Energy Fund and revenue bonds.

This program requires new legislation (HB 356).

Cost of Program: $7 million (Railbelt Energy Fund) this year
Number of Jobs Created: 348
Effects on Alaska Personal Income: $75 - $90 thousand
Geographic Area of Impact: Kenai Peninsula
Commencement and Duration of Economic Effects: 7/88 - 9/91

APA - Four Dam Pool

Existing APA funds will be used to complete hydroelectric projects at Swan Lake and Tyee Lake (southeast), Terror Lake (Kodiak) and Solomon Gulch (Kenai), creating approximately 107 short-term jobs. While many of these jobs require skills in electrical, mechanical and

civil design and construction, a number of unskilled laborers will also be employed.

Small-Scale Rural Energy Cost Reduction Program (CIP)

This program consists of special limited-scale capital projects aimed at lowering the cost of energy in Alaska's rural and remote areas.

Cost of Program: $3.57 million Power Development Revolving Loan Fund (PDRFL); $28 million loan and bond funds
Number of Jobs Created: 105 (PDRLF), 325 loan and bond funds
Geographic Area of Impact: statewide, rural
Commencement and Duration of Economic Effects: 18 - 24 months

AIDEA - Red Dog Mine & Port Project

The infrastructure for the Red Dog Mine project, located in the Northwest Arctic Borough north of Kotzebue, includes construction of a port facility near Kivalina and some 52 miles of road accessing the actual mine site. Financing for the project comes from AIDEA.

Cost of Program: $150 million (bonding)
Number of Jobs Created: 200 construction, 400 operations
Effects on Alaska Personal Income: est. $20 million
Geographic Area of Impact: Northwest Arctic Borough
Commencement and Duration of Economic Effects: long-term

AIDEA - New Debt Financing Program

AIDEA's new debt financing programs are aimed at providing short-term liquidity and relief through interest rate buy-downs, and at assisting Alaskan producers in obtaining export financing.

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
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 catagorized 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.

Commercial Loans	ANBN		FIB	
Secured by:	#	BV	#	BV
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

Real Estate Mortgage Loans	ANDN		FIB	
A. Real Estate Construction Types	#	BV	#	BV
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	9	5.1mm
Totals	64	18.4mm	54	28.3mm

B. Covered Transaction-Types				
Condos	7	400m		N/A
Zero Lot Lines	7	600m		
SFR	7	700m		
Vacant	3	160m		
Commercial	1	375m		
Mobile Homes	1	68m		
Hotel/Motel	1	680m		
Other	1	210m		
Totals	28	3,193m	0	* 0

* FTB did not segregate covered transactions.

	ANBN		FIB	
C. Amortized/Term-Type	#	BV	#	BV
SFR	60	5.0mm	167	13.3mm
Convential 2-4 Units	10	1.2mm	30	5.1mm
FHA	3	100,000	--	
VA	2	160,000	--	--
Commercial	20	2.9mm	148	34.4mm
Vacant Lots	2	50,000	9	4.8mm
Other	13	500,000	12	5.6mm
Totals	110	8.8mm	366	63.2mm
GRAND TOTALS	804	84.8mm	969	167.8mm

The breakdown above includes the original inventory retained by the FDIC and all putbacks to 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 $6.0mm, 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 $900,000.00, from both banks. These were not included in the schedules above. The schedules above also exclude charged off loans, owned real estate, bank properties and other fixed assets.

Attached to this memorandum is a listing of OREO 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

TYPE	BANK NO: 2608 BANK: SNB	BANK NO: 5915 BANK: ANBN	BANK NO: 2766 BANK: FIAK	TOTAL
SFR (B.V.)	10 (1,165,132.35)	18 (1,315,087.06)	24 (1,649,920.07)	52 (4,130,139.48)
COMMERCIAL OFFICE (B.V.)	2 (427,000.00)	8 (830,351.51)	13 (1,827,890.50)	23 (3,085,242.01)
COMMERCIAL OTHER (B.V.)	1 (63,636.14)	3 (291,508.41)	13 (4,064,632.95)	17 (4,419,777.50)
DUPLEX (B.V.)	-0-	1 (64,800.00)	1 (704,444.06)	2 (769,244.06)
4-PLEX (B.V.)	1 (234,351.50)	6 (723,632.65)	10 (1,181,821.94)	17 (2,139,806.09)
6-PLEX (B.V.)	2 (493,969.22)	-0-	2 (9,165.75)	4 (503,134.97)
APTS MULTI-FAMILY (B.V.)	-0-	-0-	4 (3,476,099.19)	4 (3,476,099.19)
CONDOS (B.V.)	2 (145,816.99)	20 (843,272.62)	120 (3,781,043.59)	142 (4,770,133.20)
1-4 SFR LOTS (B.V.)	33 (1,359,016.32)	61 (1.502,188.33)	247 (3,178,157.89)	341 (6,039,362.54)
COMMERCIAL LOTS (B.V.)	5 (455,344.00)	1 (103,153.57)	3 (2,300,881.65)	9 (2,859,379.22)
TRAILORS MOBILE HOMES (B.V.)	-0-	1 (35,700.00)	1 (36,000.36)	2 (71,700.36)
TOTAL: (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

	BANK NUMBER: 5915 BANK: ALASKA NATIONAL BANK	BANK NUMBER: 2766 BANK: FIRST INTERSTATE BANK	TOTAL
COMMERCIAL	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				
			Employees (Estimated)*					Employees (Estimated)*		
Types of Business	# of Assets	Book Value	1-24	25-100	100+	# of Assets	Book Value	1-24	25-100	100+
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.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1575 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1372

COMMERCIAL LOANS

Types of Business	ANBN # of Assets	ANBN Book Value	ANBN Employees (Estimated)* 1-24	ANBN 25-100	ANBN 100+	FIB # of Assets	FIB Book Value	FIB Employees (Estimated)* 1-24	FIB 25-100	FIB 100+
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,

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, benef iary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination. the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet. income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. **With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.**

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls. Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. **Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.**

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement. Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360

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 alleviated, at least to a degree, both of these concerns.

On to more important matters and the purpose of the gathering, the economy.

It appears the group was not overly impressed with my rather inarticulate mutterings on supply and demand. The majority of proposals distributed do not address these fundamentals and accordingly will not solve the problem. The proposals all are premised on the assumption of buying time and hopefully things will get better. This analysis ignores the possibility that a structural change has occurred within Alaska and that slow to moderate growth will might be the future, not the double digit growth that we've all grown accustom to.

What is occurring now is percisely free enterprise at its worst. It is eliminating the marginal producer in a very efficient matter. Once equilibrium is reached, the survivors will grow and prosper and those who made miscues or poor investment decisions will be finished. The lesson for the real estate speculator is simple, leverage is two sided.

The problem then is to alter the above relationship, hopefully in a form that recognizes some across the board public benefit, as it appears public funds are to be used. The Chairman has requested that we focus on the supply side and accordingly it appears to the author that to rationally gain access to the "public trough", a program that at least attempts to spread equally the gain and the pain be developed.

Demolish Alternative

I. Any financial institution, political subdivision, credit union, FDIC, may take property from their "OREO" account, sell it to the "Demolish Corp" for its current land value who is then mandated to destroy the improvements upon the land.

   A. Improvements must have existed upon the property prior to January 1, 1986.

   B. Improvements must be commensurate in size and character to the real property in question.

   C. Property must be vacant at time of purchase.

II. The "Demolish Corp" is prohibited by statute from selling any real property until _____, which time all proceeds are deposited in the _____ (General Fund?).

Analysis

1. Not feasible, no one will sell for merely land value.

   A. Perhaps not. Current OREO requires taxes, insurance and maintenance. If the structure is obsolete and the institution has already written off a portion. A sale for land value would stop the bleeding and allow immediate cash into the bank. Most likely the least desirable, must

2. By requiring tenant removal prior to purchase, demand would be created by eliminating supply.

3. Who wins/Who loses??

   A. Tends to prop up property values if enough properties tendered. All property owners would benefit by the reduction in supply of like properties. (Includes commercial and residential).

   B. Removes property from the tax roles but increases values of the remaining property.

   C. Allows institutions to liquidate, receive cash and go on.

   D. Penalizes speculation

III. Moratorium on lending for new construction

A moratorium would be placed on AHFC, AIDEA, ASBA, Permanent Fund, etc. on providing funds for permanent financing for any new construction ~~subject to an override by the local governing body~~ within which the project is located. No

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 [illegible] a resolution
[illegible]
[illegible]
[illegible]

APPENDIX "A"

Analysis of Balance Sheet
6/30/87

INVESTMENTS

Restricted	$ 55,284,432
Unrestricted	$223,044,730

The restricted category is comprised of funds that are specifically pledged or obligated for various bond issues. Included in this category are the Capital Reserve funds, Bond Sale funds, Loan Collections, Escrowed Bond Sale, remittances, etc. These funds are held by the various bond trustees.

The unrestricted category are general funds of the Authority that are not specifically pledged to any particular bond issue but which in addition to the loans comprise the bulk of the general assets of the Authority. The majority of these funds are invested in U.S. obligations or agencies or instrumentality of the U.S. in maturities of one year or less.

LOANS

Total	$329,070,910
Less allowance	10,173,101
NET	$318,897,809

95% of total $ in real estate
50% in Arvada

Composition of loans

Appropriated & Purchased	549	$ 75,353,222
Federally Guaranteed	63	11,278,600
Bond Sale	396	242,439,088
	1,008	$329,070,910

Bond Sale Delinquency as of 10/31/87

# loans	Principal	30 Days	60 Days	90 Days +
377	$229,997,223	(14) 3.05% $7.0 million	(5) 1.24% $2.9 million	(69) 22.5% $51.9 million

Total Delinquent

88 26.8% $61.8 million

OREO as of 6/30/87 — 11/30/87

$8,797,589 — $10 m

does not get a current appraisal / does not have to but the banks must get an appraisal

Liabilities as of 6/30/87

Bonds Payable	$252,720,225
Average Annual Debt Service	$33.0 million/per year

Income Statement Notes
6/30/86

	87	86	85
Total Revenues	$ 48,359,225	$ 54,959,810	$ 51,812,352
Total Expense	34,882,482	26,084,609	22,060,125
Total Earnings	13,476,743	28,875,201	29,752,227
R.E. End of Period	$157,625,213	$144,148,470	$115,273,269

22 Bond issues out. G.O. full faith & credit of authority

Vast majority are non-callable until 1994-97 not allowed to be refundable 10 yrs

10-22 can be called with a pre-pay only.

SPECIFIC SUGGESTIONS

* Change AIDA's 2% statute
* AIDA work outs should parallel banks
* Do not fund new building projects into areas of oversupply
* 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.

R.W.H.
12/87

1/3 condos
3700 owned properties
by AHFC

home owners assist program

AHFC - 90 Bond issues.
52,000 loans
4 Billion in outstanding debt
1½ Billion net worth in mortgage loans

AIDA - ~~22 issues.~~
-1000 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 accomodations and passage at a reduced price (approximately 25% reduced), and Elderhostel provides staffing to accompany groups of 50, as well as publicity and administrative costs. Eight trips are planned for FY 88.

Cost of Program: $35 thousand (est. revenue: $130 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: ongoing

Promotion of Columbia Glacier

The M/V Bartlett and the M/V Columbia begin their summer schedules visiting the Columbia Glacier in May. The first few trips normally sail with less than full capacity loads. Radio spots in the Anchorage and Fairbanks areas have been successful in boosting ridership.

Cost of Program: $5 thousand (est. revenue: $10 thousand)
Geographic Area of Impact: Anchorage area
Commencement and Duration of Economic Effects: Spring 1988 - early FY 89

Promotion of Prince William Sound

The Marine Highway System is participating with Whittier, Cordova and Valdez in efforts to promote travel, especially by ferry, to the area. At this point, efforts have been limited to meeting with the members to discuss Marine Highway schedules and tariffs, Alaska Railroad operations, and various promotion strategies.

Cost of Program: $3 thousand (est. revenue: $1 thousand)
Geographic Area of Impact: Prince William Sound
Commencement and Duration of Economic Effects: Starting 1/88

Travel Agents Luncheon Promotion

This is a cooperative effort with Alaska Airlines, the Port of Seattle and private enterprise. Eight luncheons for travel agents will be hosted by the Alaska Marine Highway onboard the Seattle operating ferry at Pier 48. Roughly 60 agents for each luncheon will be transported by Alaska Airlines to the vessel, where they will receive lunch, a tour of the vessel, information about the Marine Highway and how to make reservations, etc.

Cost of Program: $18 thousand (est. revenue: $30 thousand)
Commencement and Duration of Economic Effects: Ongoing

Travel Agents Familiarization Program

Ten familiarization trips are planned for roughly 25 agents per trip. These trips are a cooperative effort between the

Alaska Marine Highway, Alaska Airlines, the private sector and the Port of Seattle. The Marine Highway provides accomodations (one-way) during winter months when cabins have a low occupancy rate. A Marine Highway representative accompanies the group for a portion of the voyage and provides in-depth information about the system.

Cost of Program: $20 thousand (est. revenue: $50 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: Starting 1/88

Travel Shows

The Marine Highway System will be sending a representative to attend three travel shows during FY 88. This will provide an opportunity to furnish information, schedules, tariffs, etc., to potential customers at a very nominal cost, as the representative will be attending in conjunction with the Division of Tourism, which will furnish the space.

Cost of Program: $5 thousand (est. revenue: $20 thousand)
Geographic Area of Impact: mainly Southeast Alaska
Commencement and Duration of Economic Effects: shows in FY 88 will produce travellers in FY 88 and FY 89

UNIVERSITY OF ALASKA

3890 University Lake Drive
Anchorage, AK 99508
786-4620

Alaska Center for International Business

The Anchorage-based Alaska Center for International Business was created during the 1987 legislative session. Its purpose is to conduct research on market information and market strategies relating to trade by businesses in the state with foreign nations, and to encourage an understanding of culture, language, political and economic systems, social and legal systems, and other aspects of foreign countries, particularly in Asia.

Cost of Program: $2.5 million GF in FY 88
Geographic Area of Impact: mainly Anchorage
Commencement and Duration of Economic Effects: FY 88 and on

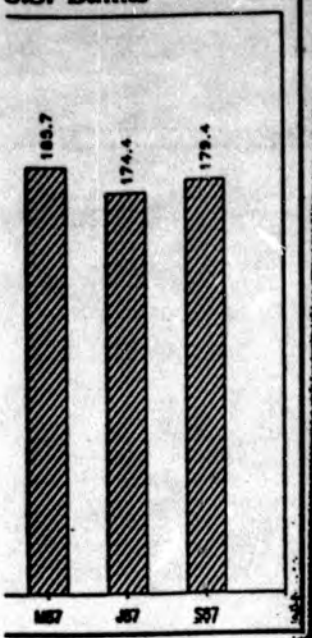
Sheshunoff

Bank Quarterly



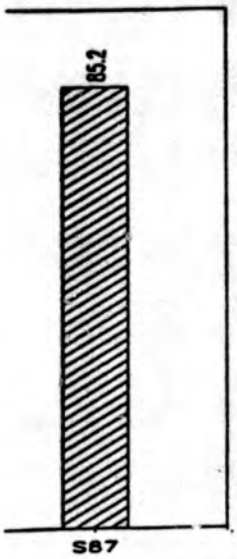
September 1987 Ratings

CAPITAL
U.S. Banks



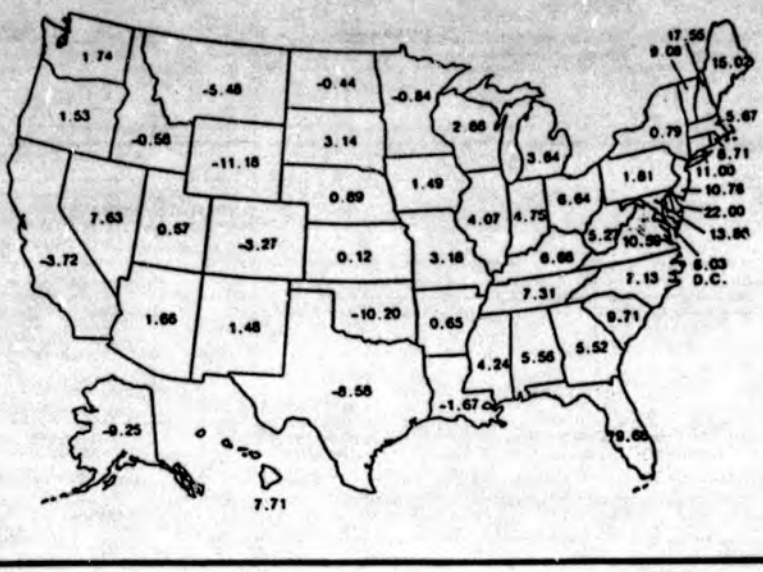
ion or 3% in the third quarter.

ERGERS*



233
Crocker Bank by Wells Fargo.

TOTAL LOAN GROWTH
December 31, 1986 to September 30, 1987



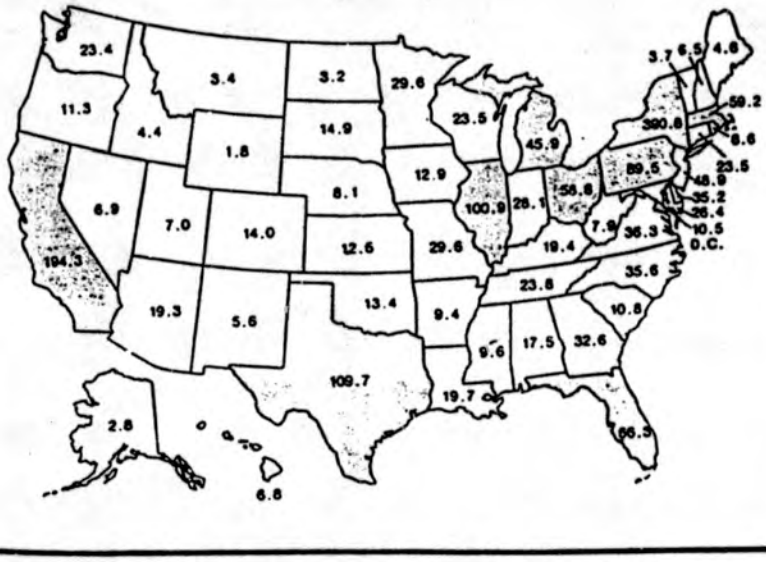
Fastest Loan Growth (Percent)

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)

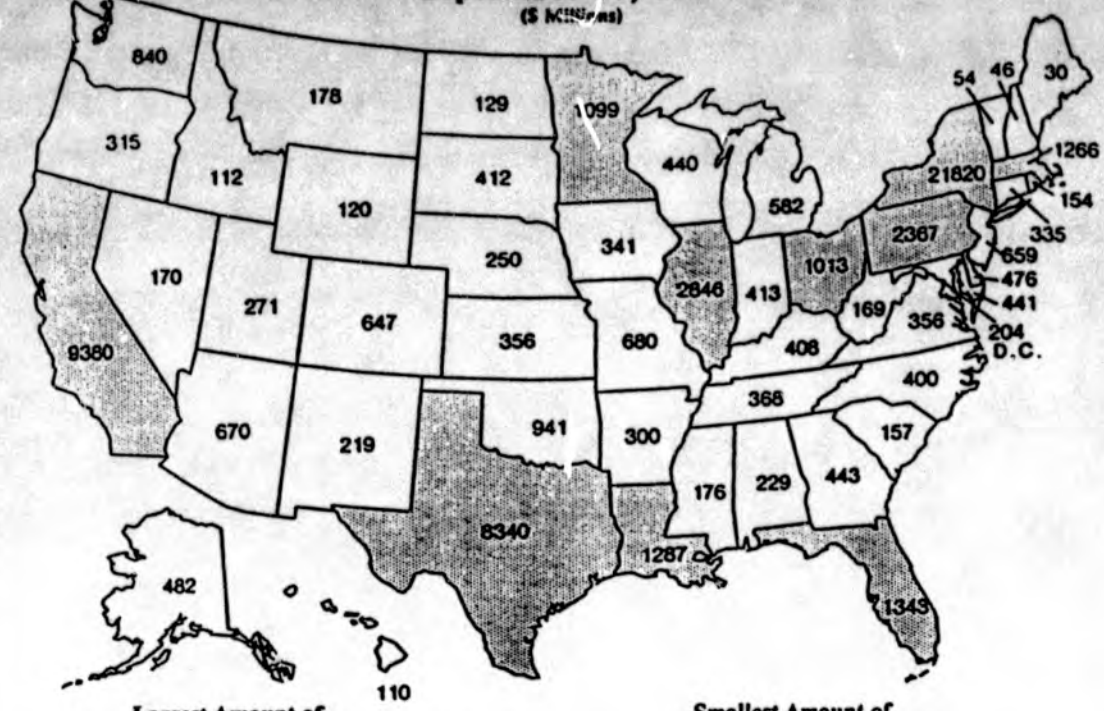


Largest Loan States ($ Billions)

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

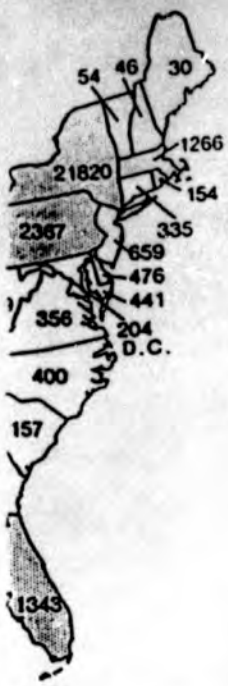
Smallest Amount of Nonperforming Loans	
Maine	30
New Hampshire	46
Vermont	54
Hawaii	110
Idaho	112
Wyoming	120
North Dakota	129
Rhode Island	154
South Carolina	157
West Virginia	169

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

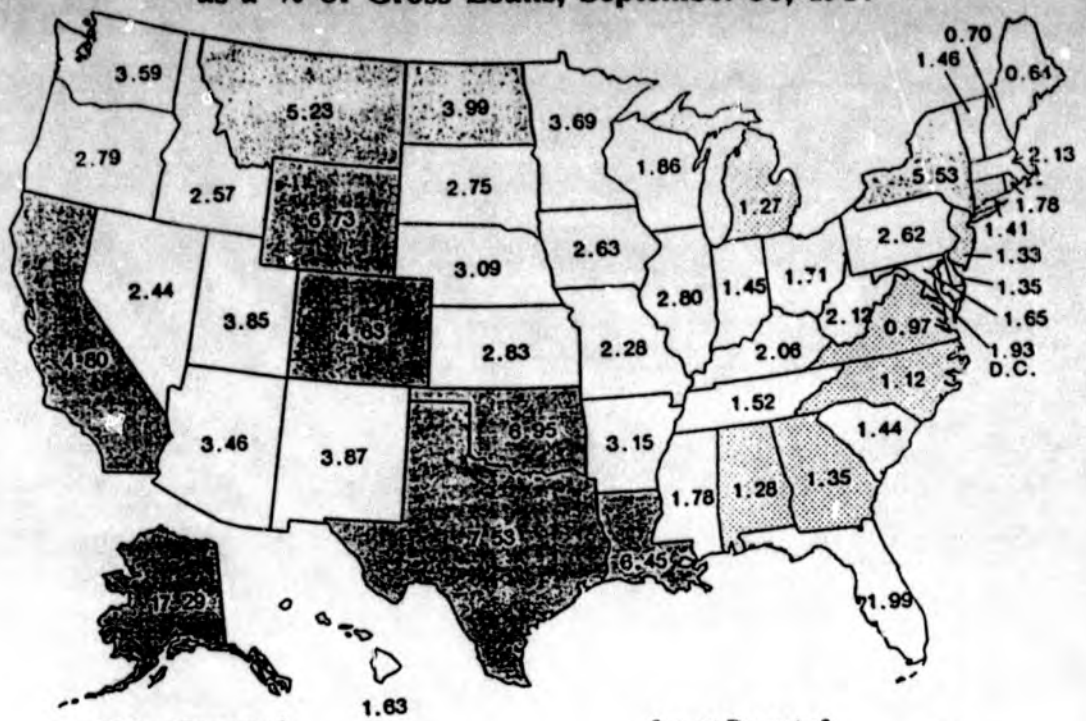
	Sept. 1987	Dec. 1986	$ Change	% Change
Oklahoma	941	1090	-149	-13.7
Iowa	341	440	-99	-22.5
South Dakota	412	480	-68	-14.2
Wyoming	120	166	-46	-27.7
Colorado	647	686	-39	-5.7
Montana	178	208	-30	-14.4
Nebraska	250	277	-27	-9.7
Wisconsin	440	466	-26	-5.6
Kansas	356	379	-23	-6.1
North Dakota	129	144	-15	-10.4



of
oans

30
46
54
110
112
120
129
154
157
169

NONPERFORMING LOANS
as a % of Gross Loans, September 30, 1987



Highest Percent of Nonperforming Loans		Lowest Percent of Nonperforming Loans	
Alaska	17.29	Maine	0.64
Texas	7.53	New Hampshire	0.70
Oklahoma	6.95	Virginia	0.97
Wyoming	6.73	North Carolina	1.12
Louisiana	6.45	Michigan	1.27
New York	5.53	Alabama	1.28
Montana	5.23	New Jersey	1.33
California	4.80	Delaware	1.35
Colorado	4.63	Georgia	1.35
North Dakota	3.99	Connecticut	1.41

Largest Increase in Nonperforming Loans

	Sept. 1987	Dec. 1986	Change
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

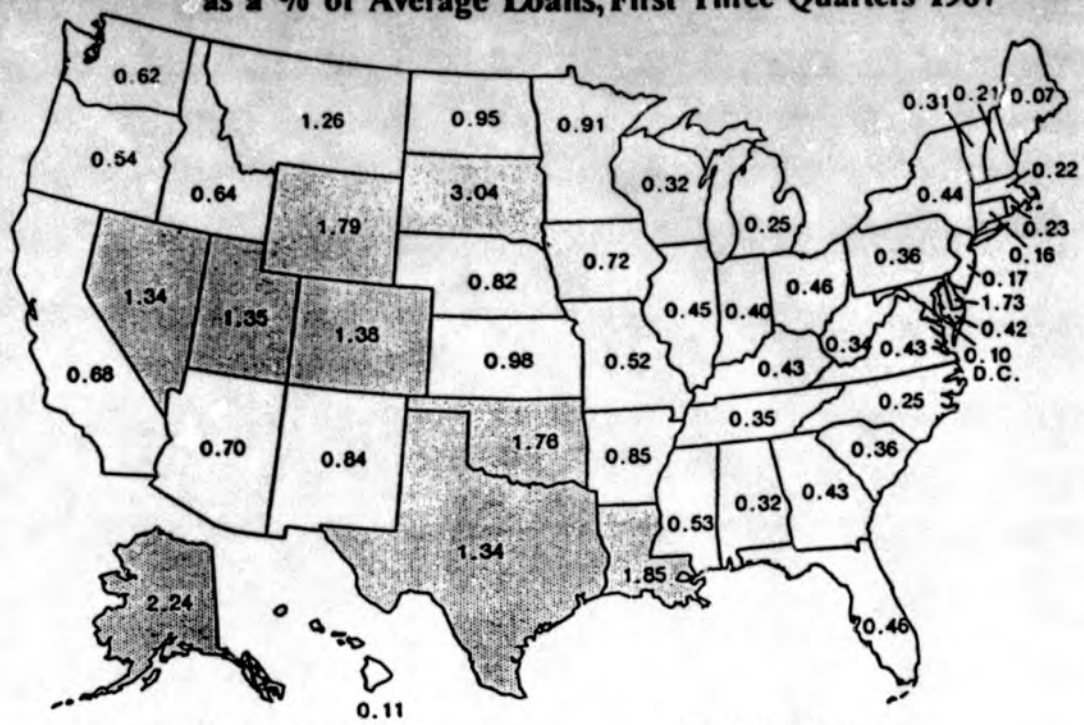
	Sept. 1987	Dec. 1986	Change
Wyoming	6.73	8.25	-1.52
Iowa	2.63	3.44	-0.81
South Dakota	2.75	3.31	-0.56
Montana	5.23	5.77	-0.54
North Dakota	3.99	4.44	-0.45
Nebraska	3.09	3.45	-0.36
Oklahoma	6.95	7.23	-0.28
Hawaii	1.63	1.88	-0.25
Vermont	1.46	1.66	-0.20
Kansas	2.83	3.02	-0.19

est Dollar Decrease in onperforming Loans

ept. 987	Dec. 1986	$ Change	% Change
941	1090	-149	-13.7
341	440	-99	-22.5
412	480	-68	-14.2
120	166	-46	-27.7
647	686	-39	-5.7
178	208	-30	-14.4
250	277	-27	-9.7
440	466	-26	-5.6
356	379	-23	-6.1
129	144	-15	-10.4

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

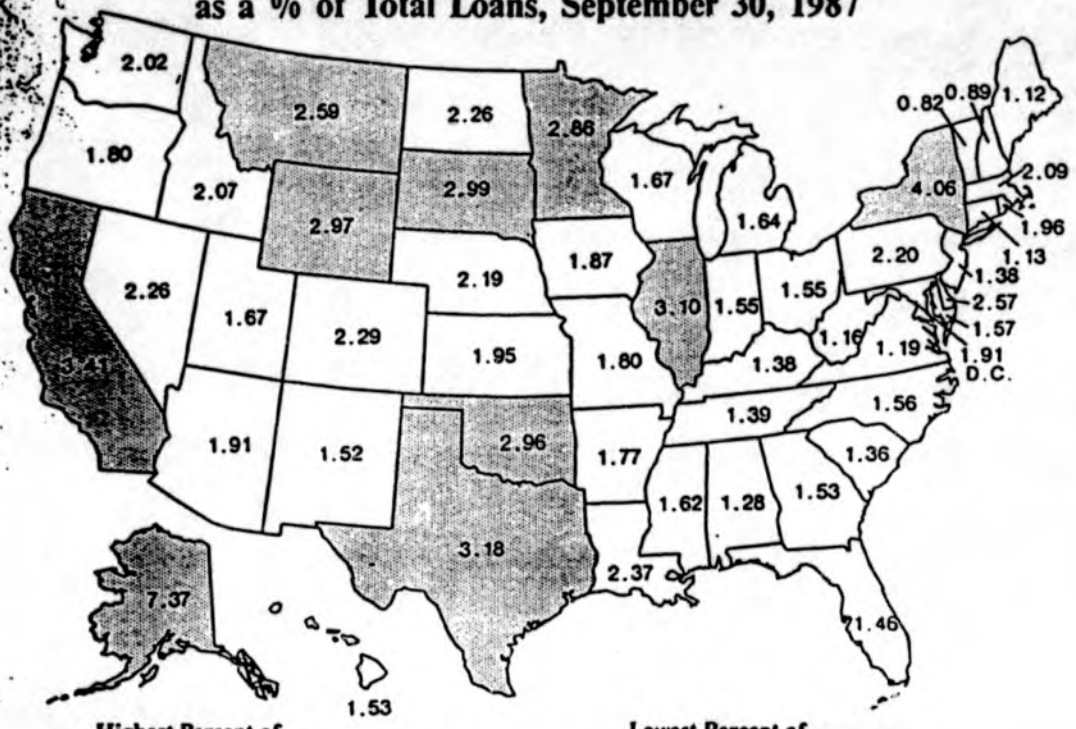
	Sept. 1987	Sept. 1986	Change
Alaska	2.24	0.92	1.32
Utah	1.35	0.84	0.51
Louisiana	1.85	1.34	0.51
Nevada	1.34	0.97	0.37
Delaware	1.73	1.36	0.37
Arizona	0.70	0.52	0.18
Vermont	0.31	0.19	0.12
New Hampshire	0.21	0.11	0.10
Virginia	0.43	0.33	0.10
Texas	1.34	1.25	0.09

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



West	Deposits $(000)	Number of Failed Banks
California	231,300	7
Colorado	118,500	9
Wyoming	105,000	2
Utah	52,200	3
Montana	35,900	1
Alaska	0	0
Arizona	0	0
Hawaii	0	0
Idaho	0	0
Nevada	0	0
Oregon	0	0
Washington	0	0
Total	542,900	24

Southeast	Deposits $(000)	Number of Failed Banks
Florida	249,000	3
Alabama	23,400	2
Mississippi	13,700	1
D.C.	0	0
Delaware	0	0
Georgia	0	0
Kentucky	0	0
Maryland	0	0
North Carolina	0	0
South Carolina	0	0
Tennessee	0	0
Virginia	0	0
Total	286,100	6

Northeast	Deposits $(000)	Number of Failed Banks
New York	170,000	1
Massachusetts	47,200	1
Connecticut	0	0
Maine	0	0
New Hampshire	0	0
New Jersey	0	0
Pennsylvania	0	0
Rhode Island	0	0
Vermont	0	0
Total	217,200	2

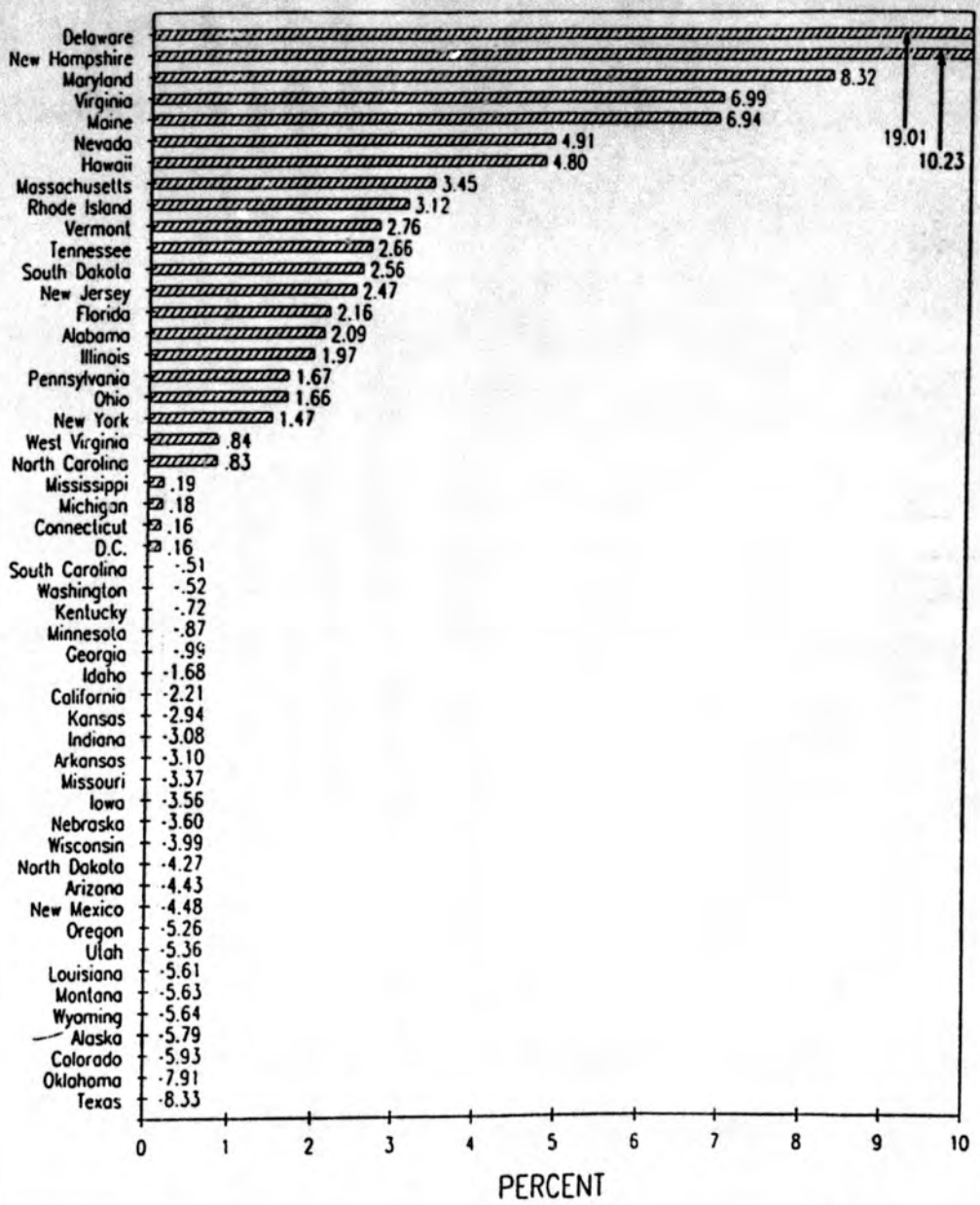
North Central	Deposits $(000)	Number of Failed Banks
Kansas	162,200	6
Minnesota	97,700	8
Iowa	75,900	5
Missouri	51,000	4
South Dakota	19,700	1
North Dakota	11,600	1
Nebraska	0	0
Total	418,100	25

Southwest	Deposits $(000)	Number of Failed Banks
Texas	1,198,700	39
Oklahoma	726,400	27
Louisiana	154,700	7
Arkansas	0	0
New Mexico	0	0
Total	2,079,800	73

Midwest	Deposits $(000)	Number of Failed Banks
Indiana	75,800	3
Illinois	31,600	2
Ohio	7,300	1
Michigan	0	0
West Virginia	0	0
Wisconsin	0	0
Total	114,700	6

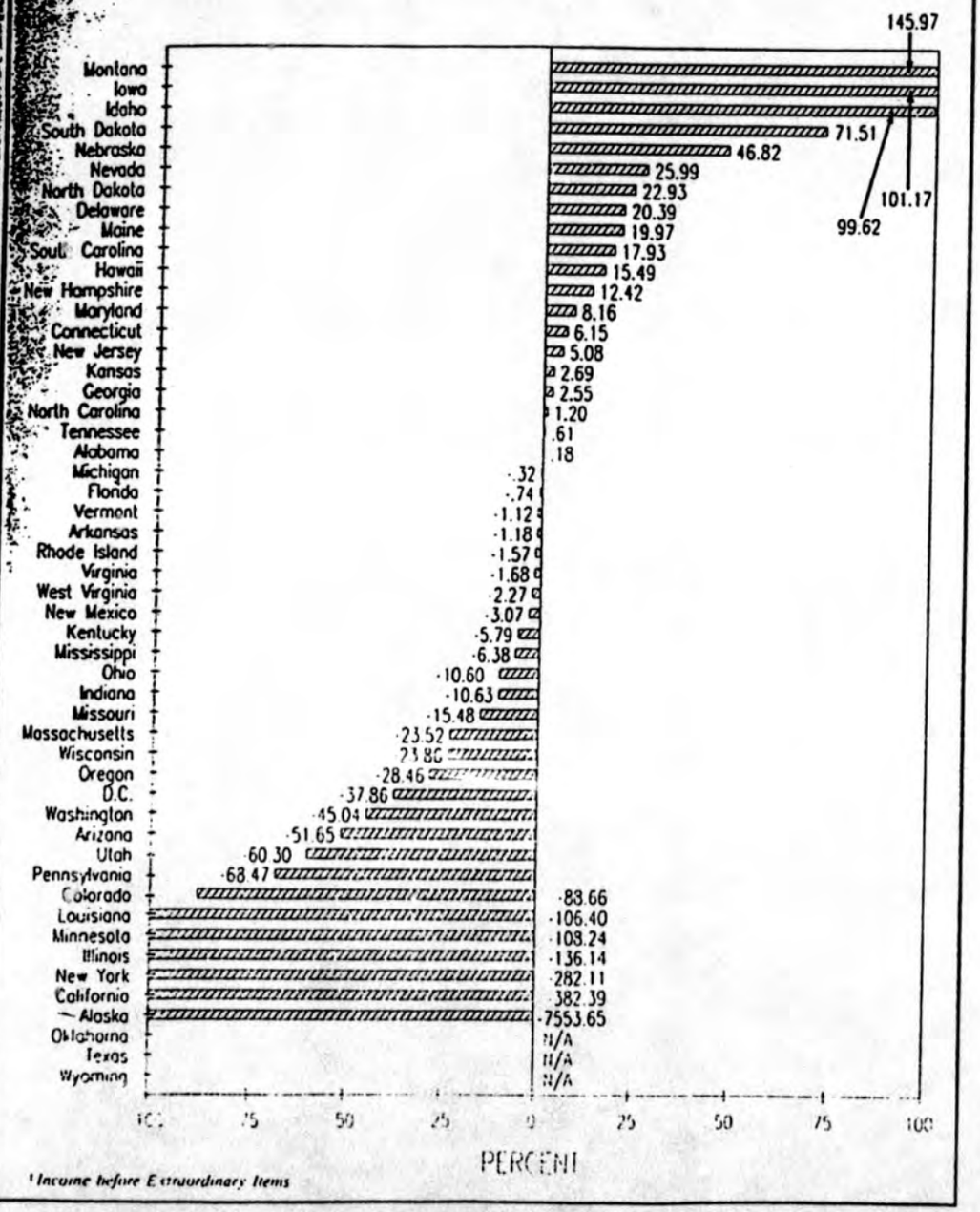
* Does not include assistance transactions

BANK ASSET GROWTH
DECEMBER 31, 1986 to SEPTEMBER 30, 1987



State and Regional Trends

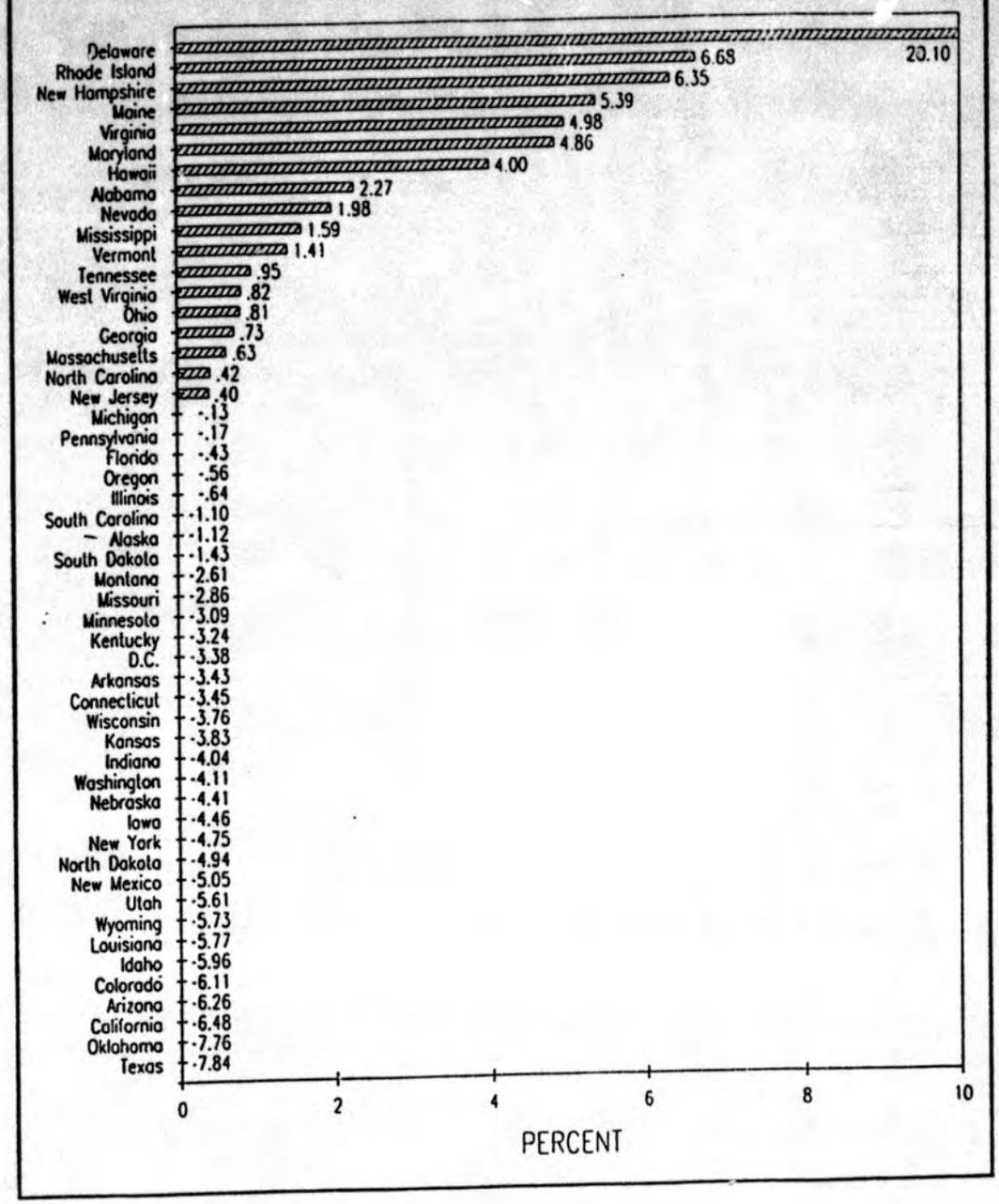
BANK NET INCOME GROWTH
First Three Quarters 1987 vs. First Three Quarters 1986



[1] Income before Extraordinary Items

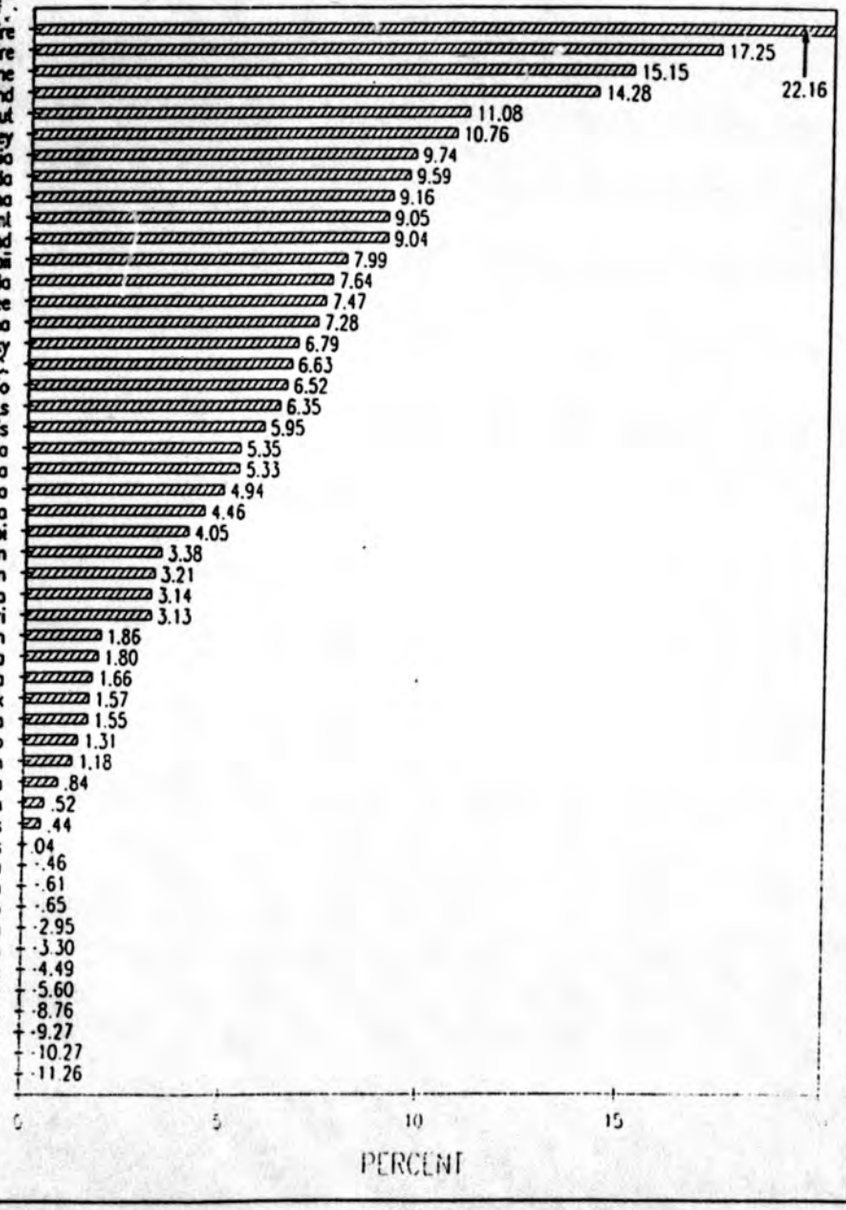
State and Regional Trends

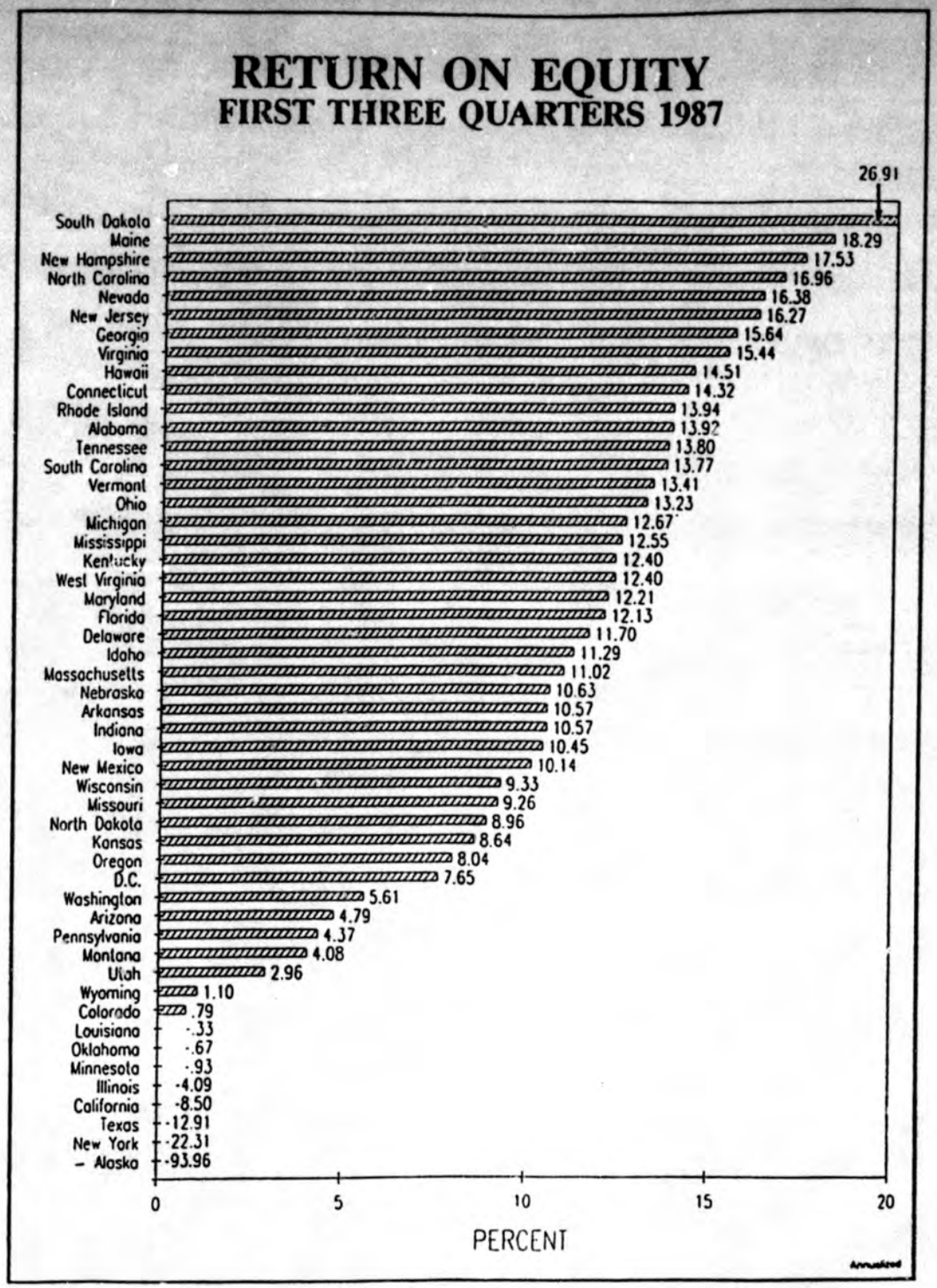
BANK DOMESTIC DEPOSIT GROWTH
DECEMBER 31, 1986 to SEPTEMBER 30, 1987



BANK DOMESTIC LOAN GROWTH

DECEMBER 31, 1986 to SEPTEMBER 30, 1987




RETURN ON EQUITY
FIRST THREE QUARTERS 1987
26.91
South Dakota
Maine 18.29
New Hampshire 17.53
North Carolina 16.96
Nevada 16.38
New Jersey 16.27
Georgia 15.64
Virginia 15.44
Hawaii 14.51
Connecticut 14.32
Rhode Island 13.94
Alabama 13.92
Tennessee 13.80
South Carolina 13.77
Vermont 13.41
Ohio 13.23
Michigan 12.67
Mississippi 12.55
Kentucky 12.40
West Virginia 12.40
Maryland 12.21
Florida 12.13
Delaware 11.70
Idaho 11.29
Massachusetts 11.02
Nebraska 10.63
Arkansas 10.57
Indiana 10.57
Iowa 10.45
New Mexico 10.14
Wisconsin 9.33
Missouri 9.26
North Dakota 8.96
Kansas 8.64
Oregon 8.04
D.C. 7.65
Washington 5.61
Arizona 4.79
Pennsylvania 4.37
Montana 4.08
Utah 2.96
Wyoming 1.10
Colorado .79
Louisiana -.33
Oklahoma -.67
Minnesota -.93
Illinois -4.09
California -8.50
Texas -12.91
New York -22.31
– Alaska -93.96
0
5
10
15
20
PERCENT
Annualized

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 excercised 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 forebearance plans.

2. Investors should be required to allow delinquent borrowers an opportunity to apply for a modification, refinance, or forebearance 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 forebearance 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.

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 Division of Agriculture

RECEIVED DEC 09 1987 Agriculture-ARLF

TO: Mark Weaver
Director
Division of Agriculture

DATE: December 7, 1987

FILE NO: 661-87-0376

TELEPHONE NO: 276-3550

THRU:

SUBJECT: ARLF Board Guidelines

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.

LA (Rev 6/85)

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. Dicks v. Raisin Proration 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. 24 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 appropriate $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.

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 10½ percent; the department advertises that the rate is 10½ 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 correspondingly 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 nonlapsing 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

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
wkb3/047

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);

-- 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.

JBC:bb
wkb3/047

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1576 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1373

PUBLIC OPINION MESSAGE

DEAR: SENATOR STURGULEWSKI

NAME: ADELINE MONGEAU
TITLE:
ADDRESS: 3404 ARCTIC BLVD.
CITY: ANCHORAGE, ALASKA ZIP: 99503
PHONE: 562-2232
BILL NO:
SUBJECT: BAIL OUT
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

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FRANK	FURNACE	FAIKS
GOLL	GRUENBERG	FANNING
GRUSSENDORF	HANLEY	FISCHER
HERRMANN	HOFFMAN	HALFORD
HUDSON	KOPONEN	HENSLEY
LARSON	MARTIN	JONES
MENARD	MILLER	JOSEPHSON
NAVARRE	PEARCE	KELLY
PETTYJOHN	PHILLIPS	KERTTULA
POURCHOT	RIEGER	RODEY
SHULTZ	SPRINGER	SZYMANSKI
SUND	SWACKHAMMER	UEHLING
TAYLOR	ULMER	ZHAROFF
WALLIS	ZAWACKI	

Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

FRED H. BURROW
President

:khc1/30

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W. Benson Boulevard • P.O. 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, out all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on ar amortizing basis at a variable rate of interest floating not less tha: one point above Alliance Bank minimum lending rate as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360

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
AHFC	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.

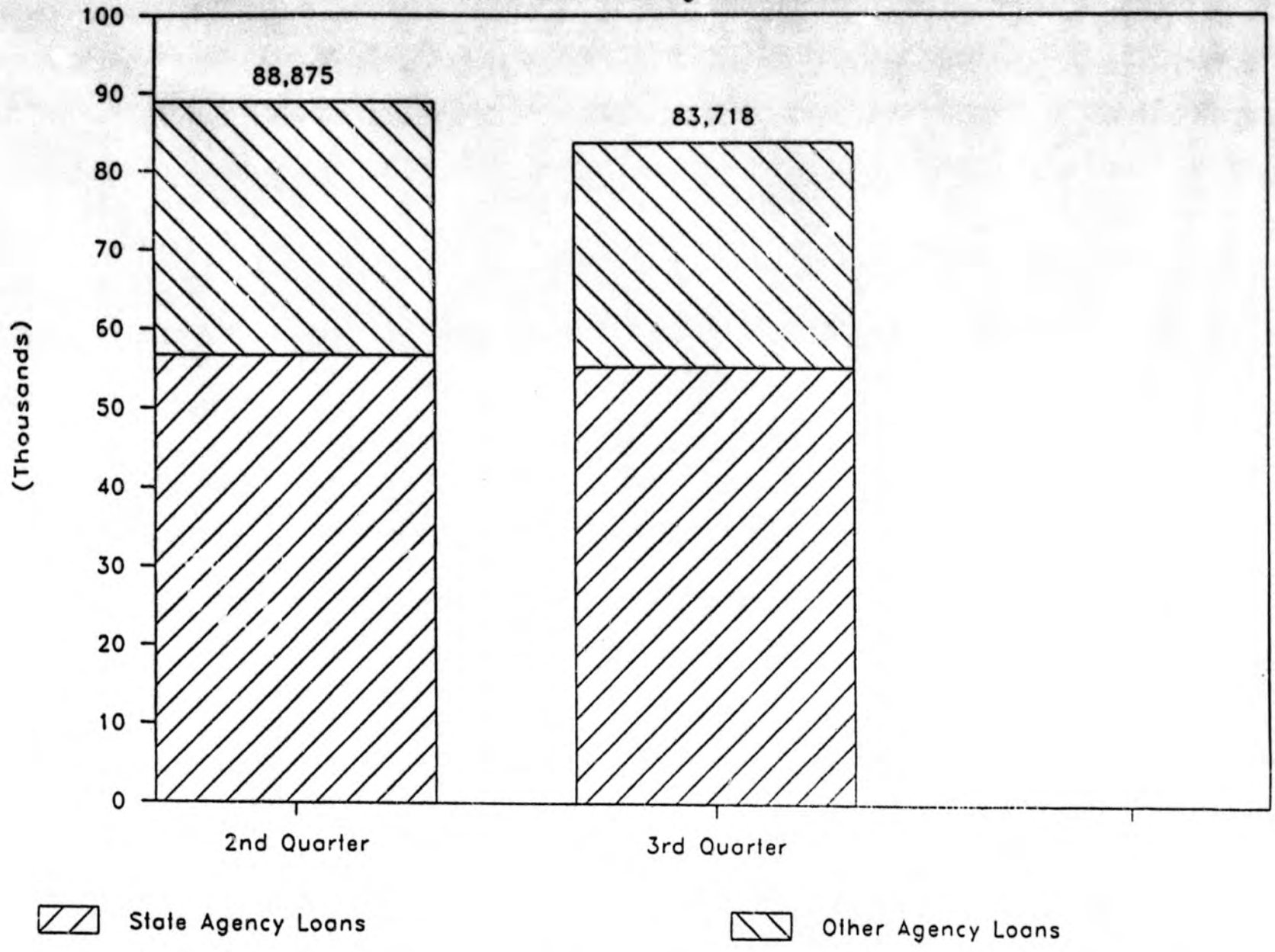
[n] - Farmers' Home Administration estimate of market value.

[o] - MGIC is a mortgage insurance company, they do not hold loans; however, they do aquire property.

[p] - MGIC estimate of market value is based on 66% of the acquisition value; $7,469,341.

Number of Loans Outstanding:

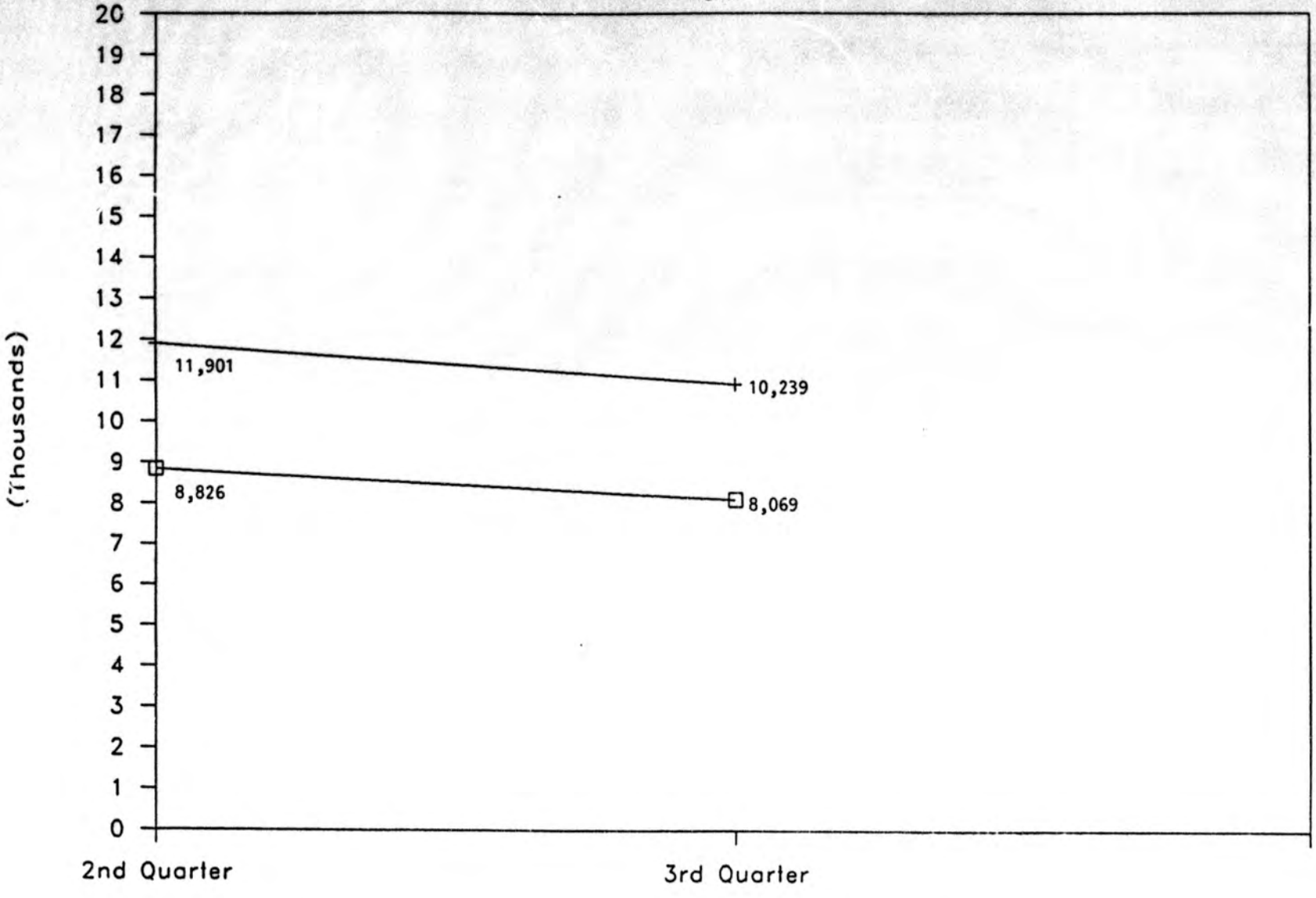
State and Other Agencies in 1987



Prepared by: Alaska Housing Market Council, 624 W. International Airport Rd., Anchorage, AK 99518, 563-3325
2/10/88

Loans in Deliquency or Default:

State and Other Agencies in 1987



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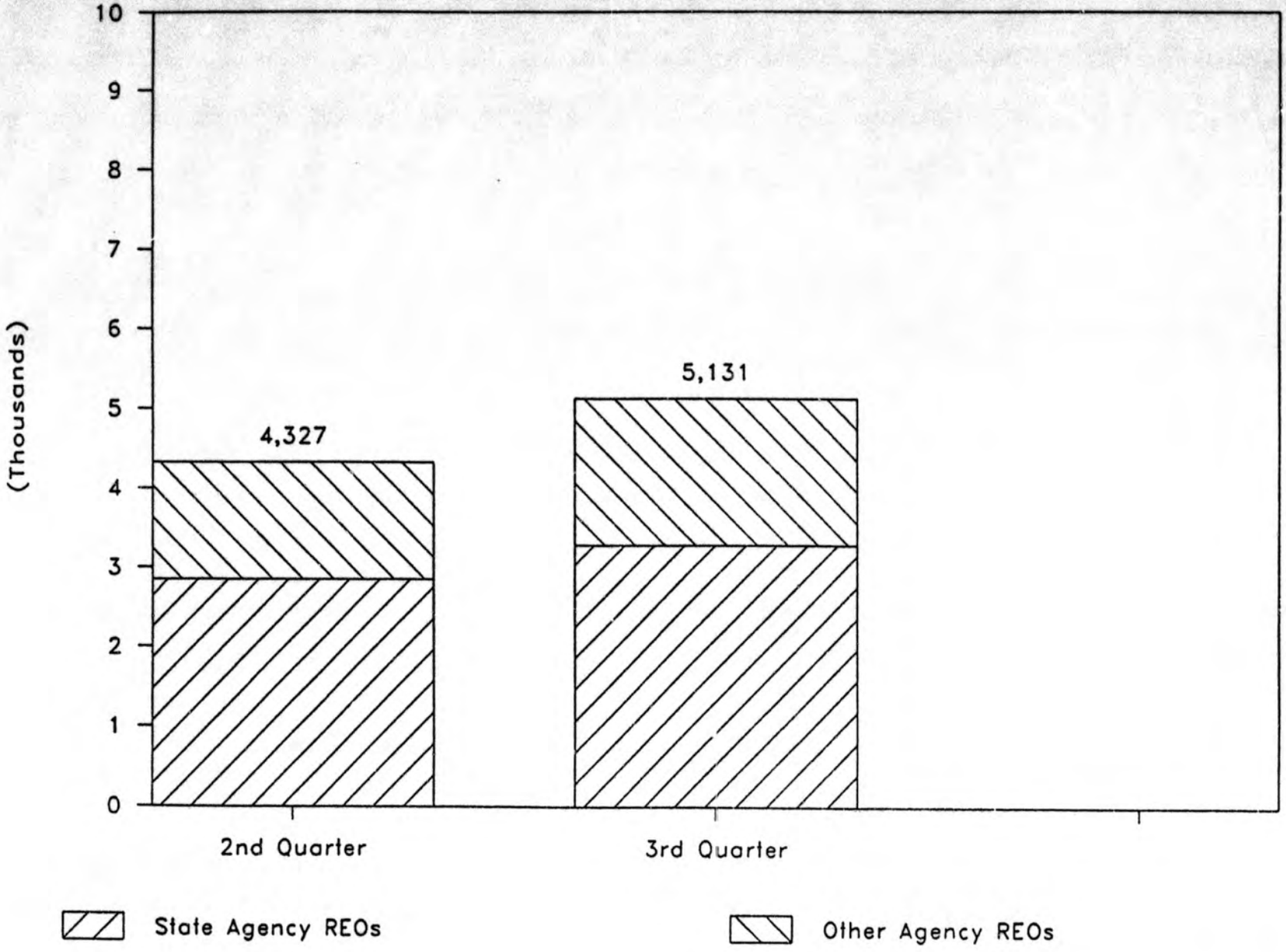
Number of Real Estate Owned (REO):*

State and Other Agencies in 1987



* Does not include REOs held by private lending institutions.

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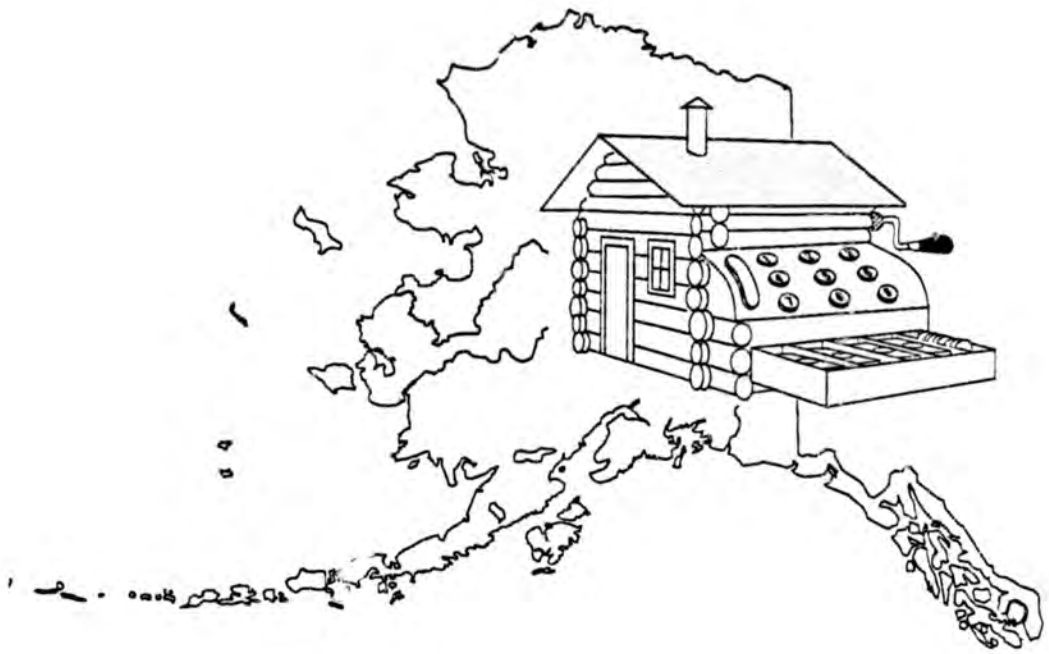
2/10/88

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

DEPARTMENT OF COMMUNITY AND REGIONAL AFFAIRS

ASSISTING ALASKAN COMMUNITIES

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 appliction 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.

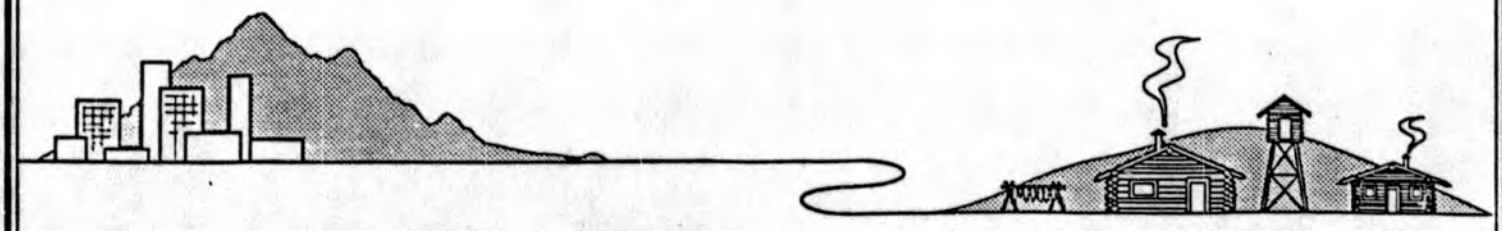
COMMUNITY DEVELOPMENT GRANTS

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



RURAL ECONOMIC DEVELOPMENT INITIATIVE

APPLICATION HANDBOOK

TABLE OF CONTENTS

APPLICATION SCHEDULE 1
INTRODUCTION, BACKGROUND, PREVIOUS USE AND FEDERAL OBJECTIVES. . 2

I. GENERAL INFORMATION
- A. REDI FUNDING CATEGORIES 3
  - 1. Economic Development 4
  - 2. Community Development 4
  - 3. Technical Assistance 5
  - 4. Emergent Needs 5
- B. APPLICATION DEADLINES 5
- C. SINGLE PURPOSE PROJECTS 6
- D. RECAPTURED FUNDS 6
- E. PAST RECIPIENTS 6
- F. GRANT/LOAN AMOUNT 6
- G. PROJECT ADMINISTRATION 7
- H. COMMUNITY ASSESSMENT 7
- I. CITIZEN PARTICIPATION PLAN. 9
- J. RIGHT TO RENEGOTIATE 9
- K. LEVERAGE 10
- L. LOW AND MODERATE INCOME PERSONS 10

II. ELIGIBLE APPLICANTS 11

III. ELIGIBLE AND INELIGIBLE ACTIVITIES 12
- A. ELIGIBLE ACTIVITIES 12
- B. INELIGIBLE ACTIVITIES 12

IV. PROGRAM INFORMATION 14
- A. AGREEMENTS 14
- B. LENGTH OF PROJECT 14
- C. PROGRAM INCOME 14
- D. SANCTIONS 15
- E. RECORDKEEPING AND REPORTING 15
- F. ACCESS TO RECORDS 16
- G. MONITORING. 16
- H. RECAPTURED FUNDS 17
- I. AUDITS 17
- J. APPEALS 17
- K. AMENDMENTS 18
- L. WAIVER 18
- M. ENVIRONMENTAL REVIEW 18
- N. PROGRAM SCHEDULE AND BUDGET 18

TABLE OF CONTENTS

V. APPLICATION INFORMATION - GENERAL 19
A. PREAPPLICATIONS 19
B. FINAL APPLICATIONS 21

VI. APPLICATION CRITERIA 26
A. GENERAL SELECTIONS CRITERIA 26
B. RANKING SYSTEMS 26
C. PROJECT CATEGORY SELECTION 27
D. POINTS ASSIGNED 27
E. APPLICATION CONTENT 27

VII. FINAL APPLICATION REVIEW PROCESS 28
A. EVALUATION 28
B. RATING 28
C. SELECTION 28

VIII. COMMUNITY DEVELOPMENT RANKING SYSTEM 29

IX. TECHNICAL ASSISTANCE RANKING SYSTEM 30

X. EMERGENT NEED 30

XI. ECONOMIC DEVELOPMENT PROGRAM AND RANKING SYSTEM 31
A. INTRODUCTION 31
B. ELIGIBLE APPLICANTS 31
C. NECESSARY OR APPROPRIATE 32
D. ELIGIBLE ACTIVITIES 32
E. FUNDING 33
F. RANKING CRITERIA AND SPECIAL REQUIREMENTS 34
G. FEDERAL AND STATE REGULATIONS 51
H. DAVIS-BACON REQUIREMENTS 51

XII. DEFINITIONS 53

XIII. APPENDICES (A-G)

A. COOPERATIVE AGREEMENTS
B. ENVIRONMENTAL REVEIW RECORD & STATEMENT OF ASSURANCE
C. SAMPLE RESOLUTIONS FOR SUBMISSION OF FINAL APPLICATION
D. STATE AUDIT REGULATIONS
E. LOW AND MODERATE INCOME CHART FOR COMMUNITIES
F. DCRA REGIONAL OFFICE LOCATIONS AND CONTACT INFORMATION
G. CITIZEN PARTICIPATION PLAN ASSURANCE

PREAPPLICATION

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

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."

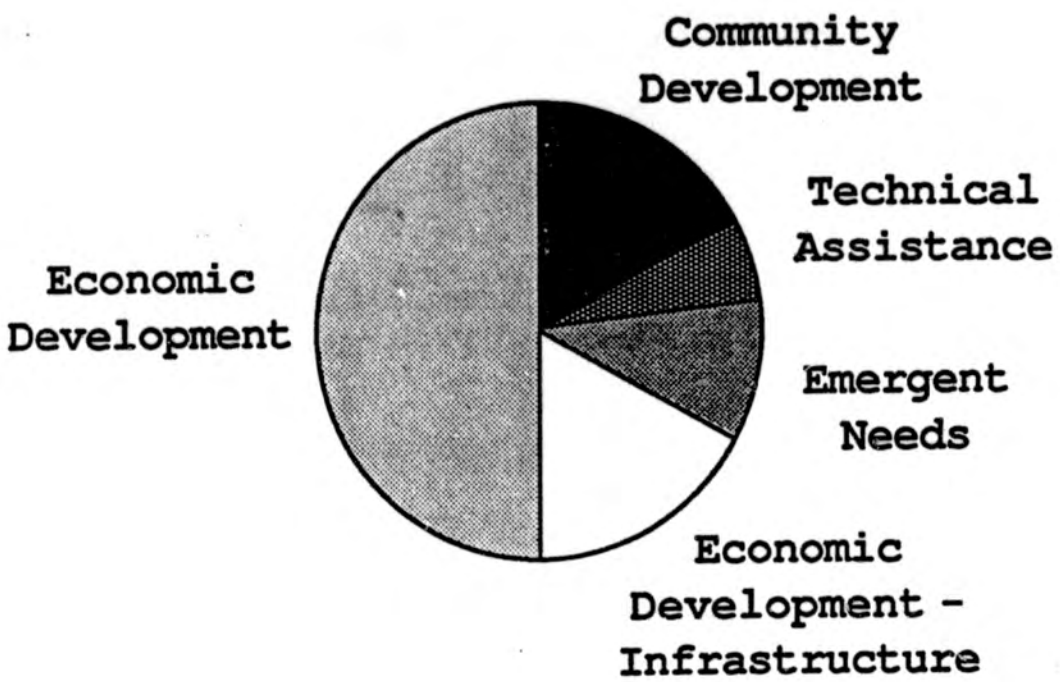
The State of Alaska gives the highest priority to REDI Grant activities which will principally benefit low- and moderate-income families.

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 consider 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, Concinued

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: <u>For Preapplications</u>, 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 approporiate 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.)	30 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.	25
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 Developement 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.	25 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 <u>for-profit</u> 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 an 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 form 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.

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(1) Name of applicant or organization

(2) Name of for-profit entity

(3) Type of business for-profit entity is engaged in, or proposes to enter into

(4) Date of agreement

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

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1577 SCOMM 59. JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1374

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 projects 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___.[7]

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

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.

(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

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;

(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)

INCORPORATED PLACES	Average Median Income Per Household
[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
Diomede	3,281
Eagle	6,154
Eek	11,250
Ekwok	9,792
Elim	9,583
Emmonak	6,375

INCORPORATED PLACES	Average Median Income Per Household
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 PLACES	Average 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 PLACES	Average 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 — B&C Complex, Room 210
Bethel, AK 99559

DILLINGHAM
Bobby Andrew — 842-2245
P.O. Box 10041 — New Choggiung Bldg.
Dillingham AK 99576

FAIRBANKS
Jo Cooper — 465-1505
DCRA
1001 Noble St. Suite 430
Fairbanks, AK 99701

JUNEAU
Brenda Knapp — 465-4890
DCRA, RDD — 190 E. 3rd St. Room 109
P.O. Box BC
Juneau, AK 99811

KODIAK
Tom Peterson — 486-5736
710 Mill Bay Road
Kodiak, AK 99615

KOTZEBUE
Sophie Ferguson — 442-3675
P.O. Box 350 — Drift Inn, 2nd floor
Kotzebue, AK 99752

NOME
Bobby Walsh — 443-2274
P.O. Box 41 — Old Federal Bldg.
Nome, AK 99762 — 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 Inititiative

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.

Rev 2/1/88

Mail completed preapplication forms to nearest Regional Office (see Appendix F)

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 Nathanial C. Nash

WASHINGTON, Feb 21 -- Federal regulators are employing novel ways to sell billions of dollars in troubled banking assets, including the sale of so-called dirty banks.

The Government has decided that if it can sell the entire operation of a failed bank--not just the healthy "clean" loans and other assets but also the delinquent loans and foreclosed properties--it can save the time, resources and headaches needed to liquidate the bad assets. In almost every sale, the Government actually pays investors to take these sick institutions off its hands.

"We prefer to call these whole-bank transactions," said L. William Seidman, chairman of the Federal Deposit Insurance Corporation, which insures deposits at the nation's commercial and savings banks.

A Savior for F.D.I.C.

No matter what the terminology, Mr. Seidman said, the savings from selling 19 failed banks last year, plus other innovative methods of disposing of bad assets, kept the F.D.I.C. from recording the first operating loss in its history.

The quick disposal of troubled assets is a departure for an agency that once tended to hold on to them in hopes that their value would increase in better times. Though many bankers applaud the new approach, some are concerned that the F.D.I.C. may be "dumping" these assets on the market. Some bankers worry that if the F.D.I.C. liquidates its loans at fire-sale prices, it will depress the value of troubled loans in other banks' portfolios. But F.D.I.C. officials reject the dumping charge and say that their policy is to sell the loans only at current market value.

As bank failures have soared from 10 in 1980 to almost 200 last year, the F.D.I.C. whose primary function is that of an insurance fund and regulator of small banks, has developed a gigantic new business--liquidating bad loans and selling foreclosed real estate and other assets inherited from the failed banks.

In a typical bank failure, the F.D.I.C. takes over the bank, removes management and eliminates stockholders equity. Once in control, it removes all the bad loans, which generally

caused the failure, and sells the remaining "clean bank" with its healthy loans and deposits, to the highest bidder.

The agency then must begin to liquidate the bad loans and other assets, one by one. This means trying to foreclose on properties, collect from bankrupt businesses and resposses automobiles. Not only does the process require thousands of Federal employees, it generates hundreds of lawsuits.

In the end, the agency often collects only 30 to 35 cents on the dollar.

Troubled Assets Soar

So high has the bank failure rate been that the F.D.I.C.'s assets under liquidation soared from $2.2 billion in 1982 to more than $11 billion last year, making the agency one of the largest liquidators in the country.

Such levels have pushed the Government to develop other techniques for selling large amounts of bad assets. Besides beginning the sale of "dirty" banks, Mr. Seidman instituted a bulk sale program, in which an investor can buy millions of dollars of loans at a time.

This was perhaps best illustrated in a sale this month by the F.D.I.C of the entire portfolio of its office in St. Joseph, Mo. From 21 bank failures in the state, the F.D.I.C. had amassed a portfolio of more than 2,500 loans and other assets with a book value of $70 million. The buyer, Diversified Financial Planners, Inc. of Fort Wayne, Ind., agreed to pay $21.1 million.

The F.D.I.C. is also looking for buyers for the entire portfolio of its Omaha office, which has 4,700 assets with a book value of $128 million.

On a much grander scale, the agency also announced this month that it was preparing the bulk sale of some $1.8 billion in bad loans and assets it inherited from its 1984 rescue of the Continental Illinois National Bank and Trust Company. The F.D.I.C. said it was breaking the portfolios into six loan groups--energy, international, maritime, real estate, commercial and personal--and would sell each separately. It would also entertain bids for the entire portfolio.

Something Instead of Nothing

While in one sense the sale of bulk-loan packages is meant to reduce the agency's liquidation operations, Mr. Seidman and bank experts noted that there was a much larger reason.

Because bad loans under liquidation often sit for years in court battles and other delays, the F.D.I.C. earns nothing from them. In fact, they represent a cash drain.

By receiving even a small amount of cash from the bulk-loan sale, the agency can put the money into Government securities to begin earning interest, Mr. Seidman said.

"If you've got cash, you're in business," said Mr. Seidman, a former accountant. "I keep telling my people that one of the criteria in deciding any transaction for this fund is whether it brings in cash."

Indeed, Mr. Seidman estimated that if the agency had not embarked on a bulk sales and dirty bank program, the assets under liquidation would have soared and the agency's current cash reserve of $16 billion, which is the base of its financial strength, could have shrunk to around $10 billion.

The Need for Cash

"There is always the concern that if you suck up too much cash, it reduces your ability to handle bank failures," said William M. Isaac, former chairman of the F.D.I.C. and now head of the Secura Group, a financial consulting firm. "You also run the risk of a public confidence crisis issue if your cash levels get too low."

Bankers also welcome the program because it allows troubled borrowers to continue their relationship with a bank instead of the Government. "When the F.D.I.C. picks up a bad loan, it has to liquidate it," an official of the American Bankers Association said. "It cannot extend additional credit. Borrowers have no way to refinance their loan. They may lose a long-term depository relationship."

In other words, at the time of the borrower's greatest stress, along comes the Government with a mandate to liquidate, the official said.

Though the F.D.I.C. cannot fund a buyer for every dirty bank it has already found some satisfied customers.

Philip Sandquist, a Montana banker, decided to buy a dirty bank last year--the Deer Lodge Bank and Trust Company in Deer Lodge, Mont.

The $16.5 million bank had become insolvent, in good part, regulators said, because of poor management. Under the deal he struck with the F.D.I.C. Mr. Sandquist put up a little more than $1 million and the F.D.I.C. injected almost $2 million.

"But most of those assets--almost $14 million--were really good paying assets," Mr. Sandquist said. Four days after he took over the bank, he said it was earning a profit. "After eight months, we had earned $133,000," he said.

Mr. Sandquist noted that in the typical clean-bank transaction, in which the banker receives only the insured deposits but few if any loans offsetting those deposits, "it takes a long time to find borrowers and other places to put those funds to start earning money on them," he said.

With an F.D.I.C. dirty bank, "you can buy assets for 50 to 75 cents on the dollar and most of them are already earning money," he said, referring to the interest payments on the loans.

Steven A. Seilig, associate director in the F.D.I.C.'s liquidation division added that disposing of assets as soon as possible had become the new goal in an agency that once might have wanted to hold on to foreclosed real estate or loans, hoping that the market would soon turn around and the government would make a premium on the assets.

"While I might think that a piece of property is going to go up in value, it ain't necessarily so," he said. "Look at where oil and gas prices were in 1954 and where they are today. If I have $100 tied up in these loans, I am not earning any money, I have holding costs and I run the risk that their value will go down even more . If I sell them and put $100 in the bank, I know exactly how much I am earning on it."

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 GUS
Land Management

According to recent press accounts, the Federal Deposit Insurance Corporation (FDIC) assumed almost $245 million in loan's 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 the 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.

RBG

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

	Pre-plan	Post-plan
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

02/05/88 05:46 ELIAS & MATZ 007

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

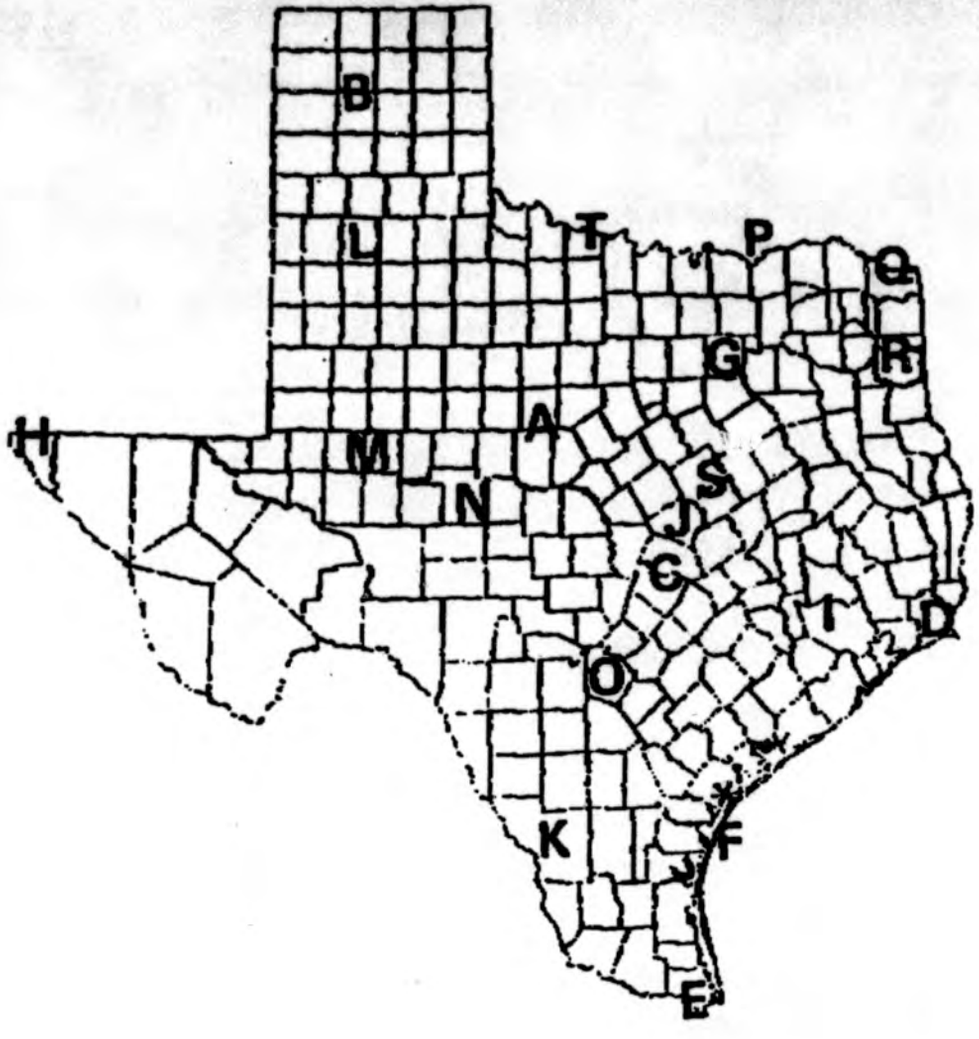
02/05/88 05:47 ELIAS & MATZ 009

SIZE OF THRIFTS

	PRE-PLAN	POST-PLAN
0 - $100 MILLION	45%	53%
$100 - $500 MILION	39%	29%
$500 MILLION - $1 BILLION	8%	6%
OVER $1 BILLION	8%	12%

02/05/88 05:48 ELIAS & PHIZ 010

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/	1, 2, 3
	FORT WORTH	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

02/05/88 05:48 ELIAS & MATZ 011

TEXAS MAJOR METRO AREAS
IN PROPOSED REGIONS

REGION	ANCHOR AREA	GEOGRAPHIC DESCRIPTION
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)

02/05/88 05:49 ELIAS & HILL

Non-viable thrifts should be *"packaged"* with creative FSLIC financial and regulatory assistance to create marketable entities.

02/05/88 05:49 ELIAS & MATZ 013

CONCLUSION

- Consolidation Works
- FSLIC Can Afford
- Thrift Benefit Nationwide

02/05/88 05:50 ELIAS & PHIZ 014

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 _____.

ADDENDUM

PRE-SCREENING REQUIREMENTS

The following information must be submitted in order to ascertain the identity and legal form of a potential acquiror 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:

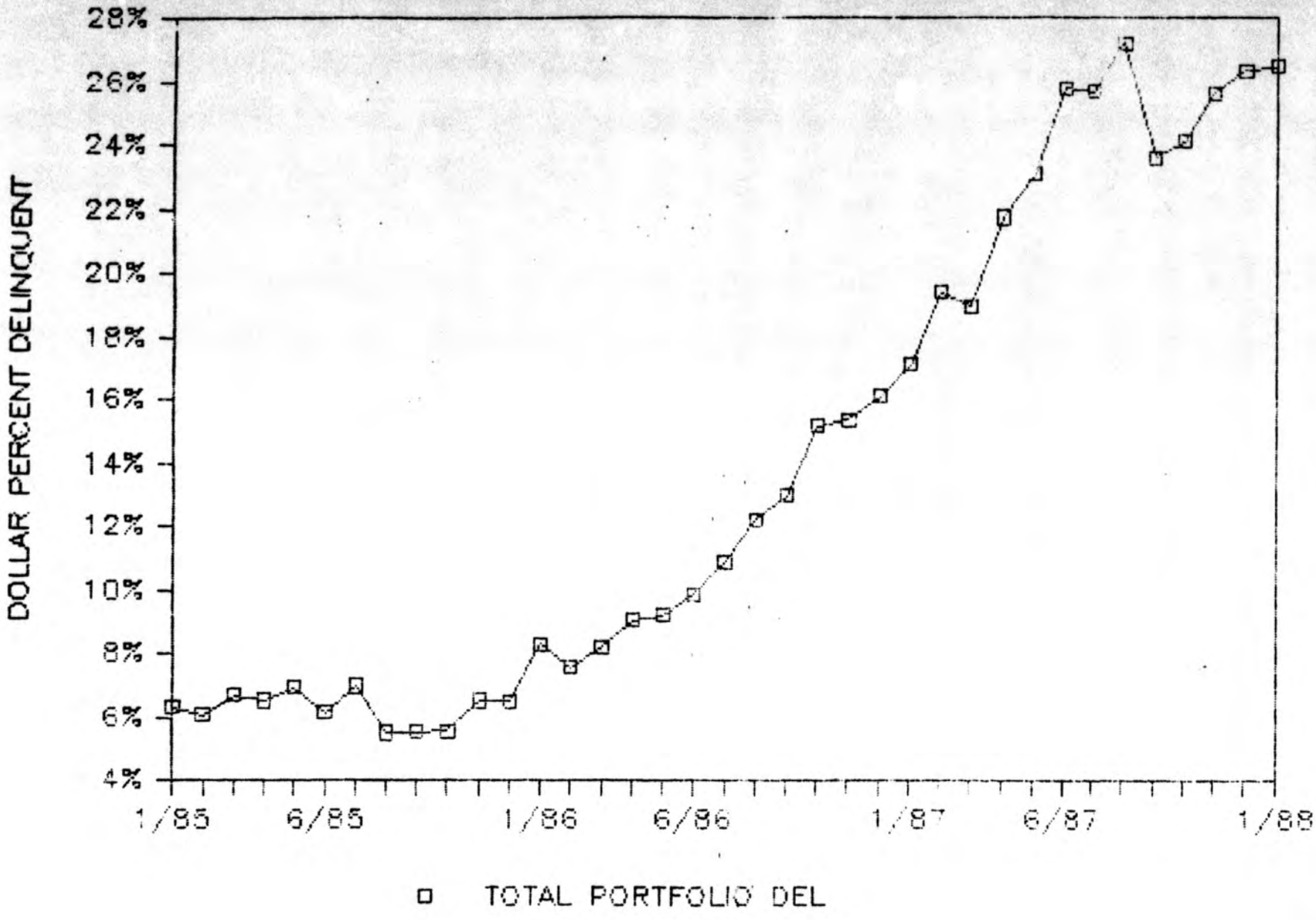
Mr. Thomas L. Batties
Marketing Director
Mergers and Acquisitions Division
1700 G Street, N.W.
Washington, D.C. 20552
(202) 254-2593

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

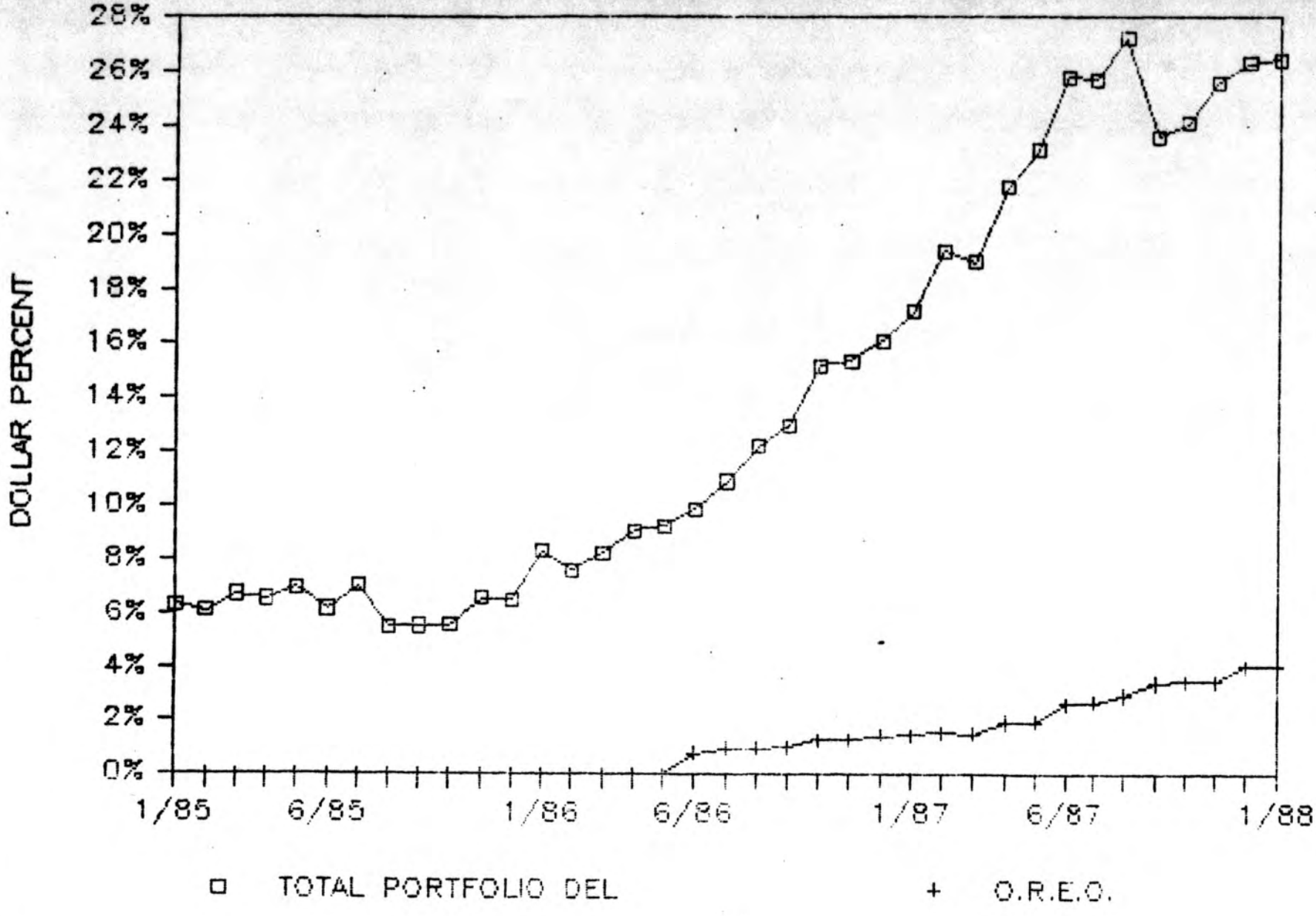
Income Statement Highlights

	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

Location	# Loans	Percent	$(000's Omitted)	Percent
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	63	13	43,830	15
TOTALS	499		299,020	

0289V
022488a

Delinquent Bond Sale Loans by AREA
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	2	1.74	891,683.93
	69	100%	$51,157,003.15

0288V
022488a

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	1	.43	219,110.67
TOTAL	69	100%	$51,157,003.15

0288V1
022488a

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
9 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 DOC 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

USBU 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 $101,00(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 wrhse 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 Twnst 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)		

Legal	Type of Property	Foreclosure Date	Appraised Value	Amt in OREO Account	Listing	Activity
L12A,B14A, East Add Anchorage Twnst	13,500 s.f. retail/wrhs at East 6th & Juneau	10/30/87	$576,000 (1987 est)	$432,000 (132,368.20 to loan loss reserve 12/08/87		
Tract "B", Bowers S/D, Kachamak View Add. Homer	8686 s.f. shopping mall/office building in Homer	11/13/87	$506,000 (1987 est)	$455,400 ($71,271.63 to loan loss reserve 12/09/87		
Lot 49-A,B2,Wasilla Airport Heights S/D Wasilla	24,096 s.f. retail/wrhs bldg in Wasilla	12/24/87 (Deed-in-lieu)	$630,000 (1987 est)	$630,000 ($145,465.25 to loan loss reserve 12/31/87)		
			Total #28	Total in OREO $12,350,789.97		
				Total to Loan Loss Reserve $ 2,574,817.72		

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, FIDC 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 Anchorage, it was obvious there was a need for a new property management company.

FORTUNE MANAGEMENT already has accumulated an inventory of several hundred properties which it manages and makes available for lease. The new company's services include residential leasing, property management and computerized income and expense statements and rent reports for property owners. The corporation was funded by HOME SAVINGS BANK. It is headquartered in the second floor of the CHUGACH ALASKA NATIVE BUILDING, 3000 A Street, Anchorage, Alaska and is open seven days a week. For competitive leasing and property management rates, call 562-5868.

- Residential Leasing
- Property Management
- Computerized Accounting and Rent Reports
- Open 7 days

562-5868

FORTUNE MANAGEMENT

From: Connie Yoshimura

FORTUNE PROPERTIES
3000 "A" Street, Suite 101
Anchorage, AK 99502



Senator Arliss Sturgulewski
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.

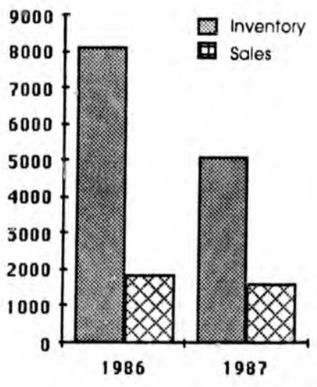
New building permits for houses didn't even reach the 200 mark for 1987 and, although it is anticipated that there will be between 200-225 building permits issued in 1988, most of that won't come until the third quarter. That's because banks aren't interested in lending for more house building when they 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.

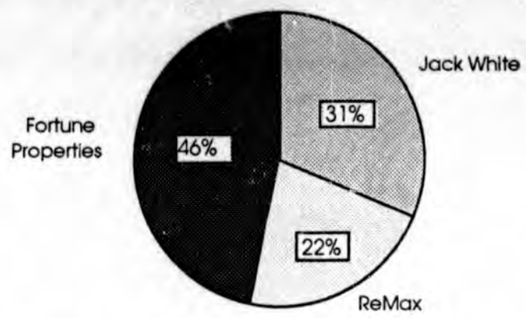
The foreclosed inventory held by institutional sellers is therefore not going to fulfill the buying needs of the public. This will become apparent as buyers in the spring try to find quality housing to purchase.

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 outadvertised 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 Garroutte	*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*

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Is an Authorized
AHFC Broker
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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 "fundamentalist 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:

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Auke Bay, Alaska
99821-0348

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Residence (907) 789-2943

- 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:

Entity	Corporation Unit	Corporation Subsidiary	Joint Venture	Investment Bank	Commercial Bank
Control	Most				Least
Economies of Scale	Least				Greatest
Financial Risk - Spreading	Least				Greatest
Capital Requirements	Low				High
Complexity and Cost of Implementation	Least				Most
Degree of Government Regulation	Least				Greatest

Peter McDowell
June 1987

Sealaska eyes FDIC properties

By Richard 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 the properties until the market improves.

The FDIC holds more than 600 properties worth an estimated $28 million from the failures of the Alaska National Bank of the North and First Interstate Bank.

It also owns another 3,000 troubled commercial and consumer loans valued at about $320 million.

Commerce and Economic Development Commissioner Tony Smith began the process several weeks ago by talking with several native corporations and "major investors."

Smith said he is seeking to prevent an outside investor from picking up the properties from the FDIC for a fraction of their value, then dumping them on the market; forcing other property values down.

Smith said he could "facilitate" the formation of a Real Estate Investment Trust by making the initial contacts, but said a private entity would have to lead the group.

"It's time for someone to get this thing focussed," said Sealaska's Howe, "so we're picking up the ball."

Howe said the corporation is putting up about $30,000 to explore the idea.

McDowell is meeting with other potential investors to measure interest in the concept.

"It's bigger than Sealaska, there has to be a lot of other players, too," Howe said.

McDowell also touched base with the FDIC to get an accurate accounting of the properties in its hands.

FDIC official Herbert Chin said it will take the agency another couple of weeks to inventory and value the property it holds.

Chin said the FDIC is interested in selling the assets and would "look at any offer that comes in to us."

Howe said McDowell will add experienced real estate professionals, including an appraiser to his study team.

Howe said he expects the results of McDowell's study in about six weeks.

"If it's possible to structure a REIT on an economically sound basis, we would have some fairly significant dollars to invest," said Howe.

But Howe said the native corporation doesn't plan to lead the group once it's formed.

"We aspire to be an investor, not necessarily the manager," said Howe.

Sealaska is familiar with the state's real estate and banking industries. It was a major owner of United Bank Alaska before its consolidation with Alaska Mutual Bank into to form Alliance Bank.

See Properties, page D-8

Properties: 'We're picking up the ball'

Continued from page D-6

"If Sealaska is successful in its efforts, it could pre-empt a Senate proposal to form a "bridge bank."

Sen. Tim Kelly, R-Anchorage, is drafting a measure that would set up a corporation to buy and hold commercial real estate until the market improves.

As initially proposed by permanent fund Corporation Executive 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 Sealaska 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 Johne Binkley, Co-Chairman, Senate Finance Committee

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ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1578 SCOMM 59 JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1375

CURRICULUM VITAE

Ryan C. Amacher

December 1987

Home Address: Tarnwood Farm
Route 5
Seneca, S.C. 29678

Home Phone: (803) 882-4075

Office Address: College of Commerce and Industry
Clemson University
Clemson, S.C. 29634-1301

Office Phone: (803) 656-3177

Date of Birth: November 9, 1945; Medford, Wisconsin.

Marital Status: Married; Susan Smith Amacher (1967).

Citizenship: U.S.A.

Education:

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 Pontisicia 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 Superieure 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).

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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
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

5-1874A a
Bannister

AMENDMENT

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

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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.

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:

1. To an alternate
§ 414(p) of the Unitec

2. To amounts con
bankruptcy; or

3. To the assets o
The interest of any a
any creditor of the al

C. Any person the
this state and who do
may claim as a pers
including security de
residence, not exceedi
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Amended by Laws 1976,
12, 1986; Laws 1987, C

[1] Section 33–1101 et s

For effective date a
1976, Ch. 170, see not

Reviser's Notes.

1983 Note. Pursuant
41–1304.02, in paragrap
stituted for "month's" a
fest clerical error.

1987 Note. Pursu
§ 41–1304.02, subsectio
relettered as subsection
graph 8, subdivisions (a)
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Cross References

Garnishment, monies
accounts, withholding fr
§ 12–1578.

§ 33–1130. Tools ar
profession

The following tools
business or professio

1. The tools, equi
primarily used in, an
profession of the debt
value of two thousan
do not include a mo
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).

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[1] 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 Legislature

Senate Advisory Council

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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 SFH
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

	Vacancy Rate	# Units Vacant	Total # Units
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 Resolutory 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

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 Anchorages housing market situation.

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Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,

FRED H. BURROW
President

:khc1/30

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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 acc rdance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an individed interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with tne proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Turst.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for eash asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Reg rding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennslyvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Isntitutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360

SECOND DRAFT

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

Submitted to the Assembly
by Mayor Tom Fink, January 19, 1988

MUNICIPALITY OF ANCHORAGE

ECONOMIC RECOVERY PROGRAM

I. Anchorage's Current Economic Condition

II. Objectives of the Economic Recovery Program

III. Description of the Economic Recovery Program

IV. Economic Recovery Program Elements

V. Proposed Capital Projects

I. ANCHORAGE'S CURRENT ECONOMIC CONDITION

Anchorage has been hit hard by the Alaska recession. The statistics are dramatic, but give only a glimpse of the suffering and despair felt by so many residents. Nearly 15,000 jobs (and the associated incomes) have been lost in Anchorage since January 1986. The rate of job loss is higher in Anchorage than in the state as a whole.

Population declines coupled with falling incomes have reduced the demand for goods, services and housing. These impacts continue to ripple throughout the economy resulting in personal and business financial distress. Personal bankruptcies are occurring at an average monthly rate which is 2.6 times that experienced in 1985; business bankruptcies are 75% above the average 1985 level.

The real estate market has been jolted. The total value of taxable property in the Municipality of Anchorage has declined by a third -- over $5 billion dollars -- since January 1, 1986. Alaska Housing Finance Corporation, the largest mortgage lender in the state, has a delinquency rate in excess of 15%; and has foreclosed on nearly 3600 properties in 1987, compared with 630 in 1985. Survey data indicate that as many as 40% of local residential mortgage holders may now owe more on their properties than the value of these homes in the current market. These "under water" loans represent the loss (at least on paper) of the major savings of many families. If individuals need to sell now, the effect is devastating. Even for those who have no immediate requirement to sell, the loss in wealth has a dampening effect on family expenditures and financial confidence.

The story is repeated in the commercial real estate market. Vacancy rates are unusually high. The imbalance between existing supply (a fixed amount) and falling demand, has resulted in numerous foreclosures on commercial property. Businesses still viable today may be pulled under by the inability to indefinitely "feed" related investments in commercial real estate. Several financial institutions have closed their doors; other are taking substantial losses.

As the tax base and other sources of government revenue shrink, local government loses its ability to provide goods and services. The Municipality of Anchorage is currently facing cutbacks in excess of $14 million. Projections of 1989 revenues indicate even more severe drops. These cuts translate into hundreds of jobs. Local government program reductions and employee layoffs exacerbate the economic decline, feeding the downward spiral.

The length of this recession in uncertain. Although employment is still falling, the 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
HIGH PRIORITY - 1988 CONSTRUCTION		
GROUP I - ASSEMBLY PRIORITIES		
Lake Otis Parkway, III (Tudor to Dowling)	$ 2,500.0	Electrical undergrounding, sewer/water, bike path & landscaping
Klatt Road (Timberline to Southport)	$ 3,400.0	Paving, curb & gutter, sidewalks, bike path, lighting & landscaping
Spenard Road, II (International to Turnagain)	$11,400.0	ROW acquisition $4.2M Roadway construction $7.2M
Hiland Road	$ 500.0	Road improvement and slope stabilization - needs design
Santa Maria Drive	$ 850.0	Upgrade gravel road - design is being negotiated
Hiland Bridge Pedestrian Walkway	$ 450.0	State DOT project. Widen pathway from 8' to 12' on future bridge. Under design for 1988 construction.
36th Avenue (Arctic to Spenard)	$ 4,800.0	ROW acquisition funded; roadway and landscaping construction
East 6th Ave. (Muldoon-Cherry)	$ 2,000.0	Road Construction - needs design
Lake Otis Parkway, IV (66th to Abbott)	$15,800.0	ROW acquisition $2.1M; roadway and landscaping construction $13.7M
Arctic Blvd. (Raspberry to Dimond)	$ 3,500.0	Utility relocations and construction $3.5M
Huffman Rd. (New Seward to Bragaw)	$ 3,500.0	Bid package ready by July, State DOT project
Baranoff	$ 1,620.0	Upgrade gravel road - design is being negotiated
Klondike	$ 270.0	Upgrade gravel road - design is being negotiated
Eagle River Roads	$ 900.0	Strip paving. Design negotiation underway
Lake Otis (O'Malley-Huffman) signalization at Huffman	$ 3,100.0	ROW acquisition $.3M; design $.4M; and construction $2.4M. Potential private development under reimbursement plan.
ARDSA Rehab Projects	$ 4,000.0	Implementation of 5-yr. road improvement plan - needs design

Name of Project	1988 ($000)	Notes
GROUP I - ASSEMBLY PRIORITIES (continued)		
Hillside Drainage Plan Phase I Study	$ 300.0	Complete assessment of drainage problems on Hillside identifying specific capital projects
W. Northern Lights Blvd. I (Forest Park to Wisconsin)	($ 1,400.0)	Landscaping complete; request transfer of residual funds to Spenard Road II
Subtotal	$57,490.0	
GROUP II - OTHER PRIORITIES		
Windemere Phase I Reconstruction	$ 697.0	Paving, curbs, drainage. Design complete, construction contract awarded
Central Business District Rehabilitation	$ 600.0	Sidewalk, curbs, drainage (design complete)
Downtown Sidewalk, Lighting and Landscape Improvements	$ 1,000.0	Upgrade and improve curbs, sidewalk, signals and lighting in areas of 5th and 6th between C and G. Design in progress.
Post Road	$ 448.0	Paving overlay (design 95% complete)
Ocean Dock	$ 170.0	Paving overlay (design 95% complete)
Lakeview Terrace	$ 1,720.0	Subdivision reconstruction, roads and drainage. Under design for summer construction.
Emerald Hills	$ 1,357.0	Subdivision reconstruction roads and drainage. Under design for summer construction.
Heather Meadows Phase III	$ 724.0	Subdivision reconstruction roads and drainage (design 50% complete)
Municipal Building Energy Projects	$ 180.0	Conversion to gas heat, mechanical modifications, setbacks on fans and heating systems, lighting reductions. Will save an estimate of $140,000 in future annual O&M costs.
Town Square Park	$ 400.0	Construct Phase I including site preparation and underground utility work. Design under contract for 1988 construction
Maritime Receiving Area	$ 2,000.0	Installation of a fish handling and small freight dock at Ship Creek for tenders and barge

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
ADEC Sewer and Water Match	$ 500.0	Provide required local matching funds for the ADEC Construction Grant Program for improvement district, transmission mains, distribution centers, etc.
Water/Wastewater Repair and Rehabilitation	$ 1,200.0	Replace antiquated woodstave water and sewer lines and outdated clay sewer pipe in downtown and Government Hill
Golden View Water Extension	$ 750.0	Construct 24" oversized water line and pump station in the Golden View area - being designed
Girdwood Wastewater Treatment Facility	$ 2,700.0	Upgrade of Girdwood treatment facility Phase I, outfall from treatment facility to creek $1M - in design
Hiland Drive Project	$ 2,770.0	Construct sewer pump station, force main and interceptor serving the Hiland Drive area (Eagle River ski resort, prison and residential). Design will be completed by summer construction.
Port/Landfill Development Project	$ 4,800.0	Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement.
Merrill Field Runway Construction Grant (matching grant)	$ 147.0	FAA Federal grant to upgrade the Merrill Field north/south runway $2.3M. Grant is being processed, design to be completed in May, construction August 1, completion mid-November.
Merrill Field Passenger Terminal	$ 4,000.0	Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.
Public Works - Deferred Municipal Building Maintenance		
Historical Fine Arts Museum	$ 250.0	Repair/replace damaged wall coverings in art galleries.
Tudor Road Building	$ 150.0	Heating system replacement (design complete)
Woodland Park School	$ 78.4	Heating system repairs - 3-4 weeks designs

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Municipal Buildings Roof Repairs	$ 39.7	Roof maintenance and repair on 9 buildings
Paint Municipal Buildings	$ 110.0	Small painting projects on 14 building interiors and exteriors
Fleet Service Building	$ 125.0	Fire sprinkler system - 4-5 weeks design required
Transit Storage Building	$ 57.5	Repair doors and floor
Hill Building	$ 12.0	Upgrade air conditioner in 5th floor computer room
Gateway Park (International Airport Road)	$ 125.0	Replace underground sprinkler system for landscaping - 2 weeks design required
West Chester Lagoon Park	$ 35.0	Replace underground sprinkler system for landscaping - 2 weeks design required
Libraries and Maintenance Shop	$ 37.0	Construct and repair interior walls and carpet
Asbestos Abatement	$ 1,300.3	- Fire stations $173,300 (design complete) - Old City Hall $250,500 (designs - 3-4 weeks required) - Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center $326,400 (design - 2-3 weeks required) - Public Health Facility $363,600 (design 2-3 weeks required) - Other municipal buildings $186,500 (design - 2-3 weeks required)
Parks and Recreation - Meet additional criteria of life/safety improvements		
Delong Lake Park	$ 50.0	Replace public use dock
Nunaka Valley Park	$ 25.0	Replace broken playground equipment
Jewel Lake Park	$ 130.0	Playground and equipment repair, dock replacement
Goose Lake Park	$ 80.0	Parking lot redesign and traffic barriers
Kincaid Park	$ 50.0	Replace public use dock
Sand Lake Park	$ 50.0	Replace public use dock

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
University Lake	$ 70.0	Bike trail bridge replacement
Valley Street	$ 85.0	Lake shore steep bank improvements
Taku Lake	$ 225.0	Lake shore steep bank improvements and dock construction
Chester Creek Trail System	$ 1,625.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Campbell Creek Trail System	$ 875.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Parks and Recreation Improvements		
Willow Housing Park	$ 45.0	Park repair and rehabilitation
Browns Pt. Park	$ 40.0	Park repair and rehabilitation
Delaney Park	$ 260.0	Top soil and reseed
Duldida Park	$ 85.0	Park repair and rehabilitation
Kanchee Park	$ 85.0	Park repair and rehabilitation
Fairview Park	$ 10.0	Barrier posts and rehabilitation
Ruth Arcand Park	$ 35.0	Entry road improvements
So. Russian Jack Springs Park	$ 35.0	Picnic area entrance rehabilitation
Davenport Fields	$ 80.0	Parking improvements
Lyn Ary Park	$ 30.0	Repair and rehabilitation
Campbell Park	$ 65.0	Shoreline and park repair and rehabilitation
"C" Street Community Garden	$ 20.0	Soil and parking improvements
Cope Street Park	$ 35.0	Repair and rehabilitation
Wilson St. Park	$ 35.0	Repair and rehabilitation
Pena Field	$ 45.0	Parking and playfield improvements
Davis Park	$ 220.0	Basketball court construction and playfield rehabilitation
Pop Carr Park	$ 180.0	Tennis court, walkway and park rehabilitation

Name of Project	1988 ($000)	Notes
GROUP II - OTHER PRIORITIES (Continued)		
Storck Park	$ 200.0	Playfield, playground and park improvements
Fence, Barricades and Backstop	$ 100.0	Repair and/or replacement of existing park fencing, barricade and backstops
Sand and Soil Cleaning and Replacement	$ 100.0	Replacement and improvements to swimming beaches and sand lots
Parking Repair	$ 200.0	Upgrading of existing parking areas and drainage repairs
Eagle Glenn Park	$ 5.0	New park improvements
Spirit Park S. Fork	$ 5.0	New park improvements
Town Square	$ 15.0	Park improvements
Schroeder Park	$ 35.0	Planning and construction document preparation
Eagle River Tennis Court	$ 160.0	Construction
Chief Alex Park	$ 15.0	Park improvements
Mirror Lake	$ 55.0	Drainage and parking improvements
Girdwood	$ 120.0	Pathway completion
Girdwood Water	$ 5,700.0	Rehabilitate Girdwood water systems donated to Municipality. O&M costs will be offset by user revenues
Performing Arts Center add backs which are revenue generating	$ 400.0 300.0 500.0 300.0	Large Rehearsal Hall Small Rehearsal Hall Orchestra Pit Lifts Concession Equipment
Subtotal	$41,262.9	
HIGH PRIORITY - 1988 CONSTRUCTION TOTAL	$98,752.9	
HIGH PRIORITY-1989 CONSTRUCTION		
Edwards (DeBarr to Ptarmigan School)	$ 500.0	Road Construction - needs design
Sullins/Chugach Park Road	$ 390.0	Upgrade gravel road - design is being negotiated

Name of Project	1988 ($000)	Notes
HIGH PRIORITY-1989 CONSTRUCTION (continued)		
Spenard Road, III (Turnagain to McRae)	$ 7,100.0	Roadway and landscaping construction $7.1M
Dimond Blvd. (New Seward to 88th)	$ 4,700.0	Design $.6M; ROW acquisition $4.1M; roadway and landscaping construction
West Northern Lights, II (Wisconsin to Aero)	$ 5,600.0	Design $.5M; roadway and landscaping construction $5.1M
Hillside Drainage Plan Phase I Implementation	$ 5,000.0	Implementation of drainage improvements - needs design
Birch Road, Huffman to DeArmoun	$ 1,700.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Buffalo Street	$ 2,200.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Elmore Street	$ 2,300.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Bragaw Street	$ 2,500.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Arctic (Raspberry to Dimond)	$ 5,700.0	Road construction
Windemere Phase II	$ 700.0	Subdivision reconstruction roads and drainage
Town Square Phase II	$ 500.0	Construct Phase II - final development
HIGH PRIORITY-1989 CONSTRUCTION	$ 38,890.0	
TOTAL 1988/1989 CONSTRUCTION	$137,642.9	

88cib/n/g4

MEMORANDUM State of Alaska

#15

TO: House of Representatives
Senate

DATE: January 14, 1988

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 06.05.055

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

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08-H14LH

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

TABLE OF CONTENTS

	Page
Banking Section Receipts and Disbursements	1
Banking, Securities and Corporations Receipts and Disbursements	2
Condition of Financial Institutions	3
Annual Report of Department - Comparative Statement of Alaska Banks - Graphis of Assets, Earnings and Loans	4 - 6
Directory of State-Chartered Financial Institutions	7 - 13

FINANCIAL INSTITUTIONS (BANKING)

Receipts and Disbursements

RECEIPTS

	FY 86	FY 87
Program Receipts *	$112,709	$110,546

DISBURSEMENTS

Salaries and Benefits	$390,036	$425,565
Operational Expenses	51,509	85,981
TOTAL	$441,545	$511,546
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

	FY 86	FY 87
Program Receipts	$ 112,709	$ 110,546
Other	2,933.305	3,009,857
TOTAL	$3,046,014	$3,120,403

DISBURSEMENTS

Salaries and Benefits	$1,137,981	$1,013,351
Operational Expenses	146,238	253,883
TOTAL	$1,284,219	$1,267,234
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
Willis F. Kirkpatrick, Director of Banking

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES AND CAPITAL ACCOUNTS OF ALASKA STATE BANKS
AS OF SEPTEMBER 30, 1987
(Dollar amount in thousands)

ASSETS	Denali State Bank	United Bank Alaska Southeastern	Alaska Continental Bank	B.M. Behrends Bank	Alaska Statebank	First Bank	United Bank Alaska	First Interstate Bank of Alaska	Alaska Pacific Bank	Alaska Mutual Bank	TOTAL STATE COMMERCIAL BANKS	Mt. McKinley Mutual Savings Bank	TOTAL STATE BANKS
Cash & Balances Due from Depository Institutions													
Non-Interest Bearing	2,056	2,361	3,871	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	13,348	15,584	98,033	74,638	73,194	61,715	30,552	381,150	37,106	418,256
Federal Funds Sold & Securities 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	38,025	36,246	73,968	51,171	163,137	198,435	268,361	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 Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer's Liability on 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
TOTAL ASSETS	26,854	51,255	57,621	67,604	133,392	164,533	314,279	367,655	381,121	561,844	2,126,158	81,306	2,207,464
LIABILITIES													
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	187	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
TOTAL DEPOSITS	21,858	48,188	55,157	63,437	115,543	147,497	368,279	358,945	317,502	557,330	2,053,736	72,366	2,126,102
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 & 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 & Obligations	141	0	437	0	72	0	8,672	3,563	1,039	6,917	20,841	279	21,120
Bank's Liability on 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
TOTAL LIABILITIES	22,126	48,456	55,969	63,701	121,872	151,587	400,692	364,875	356,478	671,373	2,257,129	73,134	2,330,263
Limited-Life Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0
EQUITY CAPITAL													
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 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 Transaction Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL EQUITY CAPITAL	4,728	2,799	1,652	3,903	11,520	12,946	-86,413	2,780	24,643	-109,529	-130,971	8,172	-122,799
TOTAL LIABILITIES, LTD-LIFE PREFERRED STOCK & EQUITY CAPITAL	26,854	51,255	57,621	67,604	133,392	164,533	314,279	367,655	381,121	561,844	2,126,158	81,306	2,207,464

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
Willis F. Kirkpatrick, Director of Banking

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES AND CAPITAL ACCOUNTS OF ALASKA NATIONAL BANKS
AS OF SEPTEMBER 30, 1987
(Dollar amount in thousands)

	Rainier Bank Alaska, N.A.	First National Bank of Fairbanks	Alaska National Bank of the North*	First National Bank of Anchorage	National Bank of Alaska	TOTAL NATIONAL COMMERCIAL BANKS	Federal Bank of Alaska, S.B.	TOTAL NATIONAL BANKS
ASSETS								
Cash & Balances Due from 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 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 Subsidiaries	0	0	0	0	0	0	1,692	1,692
Customer's Liability on 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
TOTAL ASSETS	143,629	214,257	203,163	810,148	1,244,679	2,615,876	383,362	2,999,238
LIABILITIES								
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
TOTAL DEPOSITS	126,821	169,071	200,256	536,181	933,653	1,965,982	212,036	2,178,018
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 & 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 & Obligations	547	0	0	0	0	547	0	547
Bank's Liability on 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
TOTAL LIABILITIES	131,377	193,136	209,017	671,191	1,091,510	2,296,231	372,731	2,668,962
Limited-Life Preferred Stock	0	0	0	0	0	0	0	0
EQUITY CAPITAL								
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 Reserves	-697	15,121	-19,136	108,957	47,169	151,414	10,631	162,045
Cumulative Foreign Currency Transaction Adjustments	0	0	0	0	0	0	0	0
TOTAL EQUITY CAPITAL	12,252	21,121	-5,854	138,957	153,169	319,645	10,631	330,276
TOTAL LIABILITIES, LTD-LIFE PREFERRED STOCK & EQUITY CAPITAL	143,629	214,257	203,163	810,148	1,244,679	2,615,876	383,362	2,999,238

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

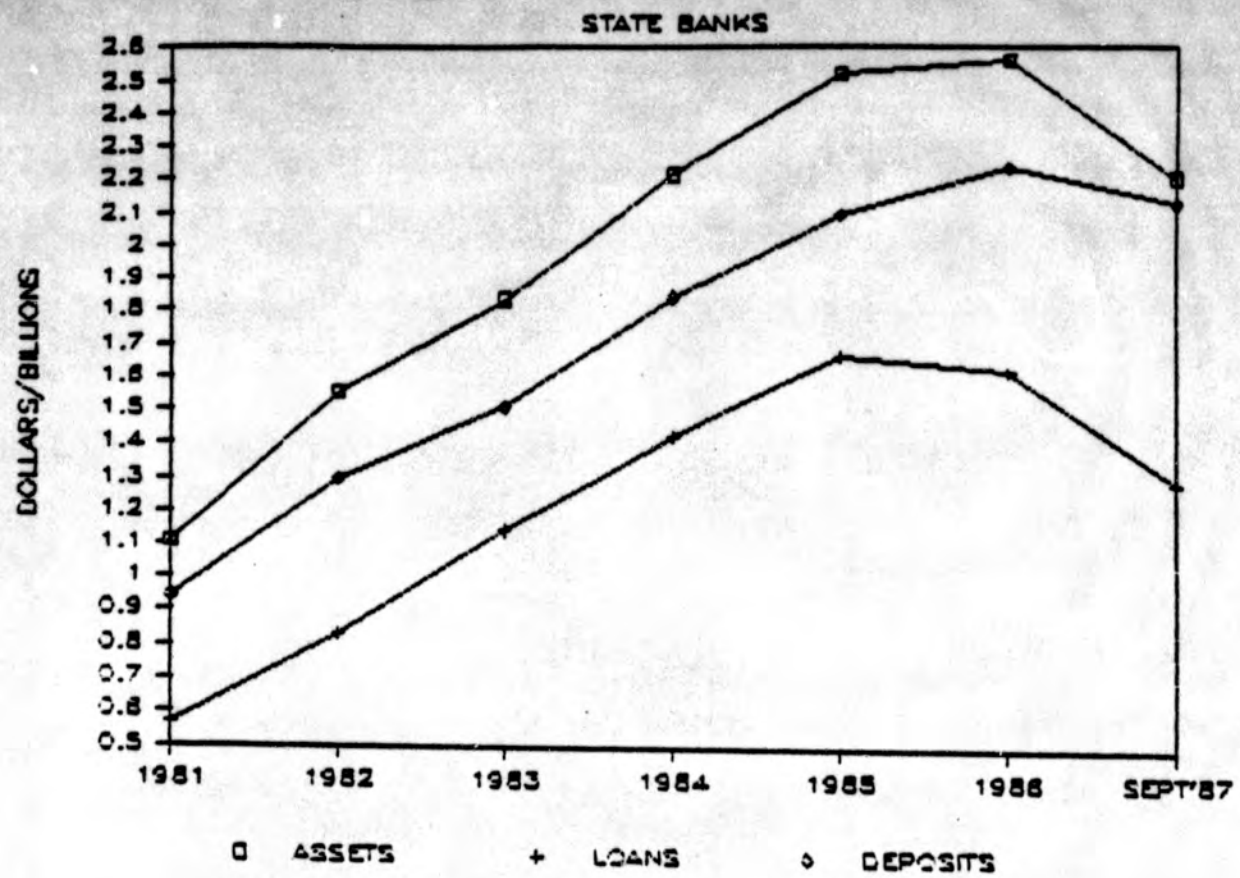
DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING, SECURITIES AND CORPORATIONS
J. Anthony Smith, Commissioner
Willis F. Kirkpatrick, Director of Banking

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)

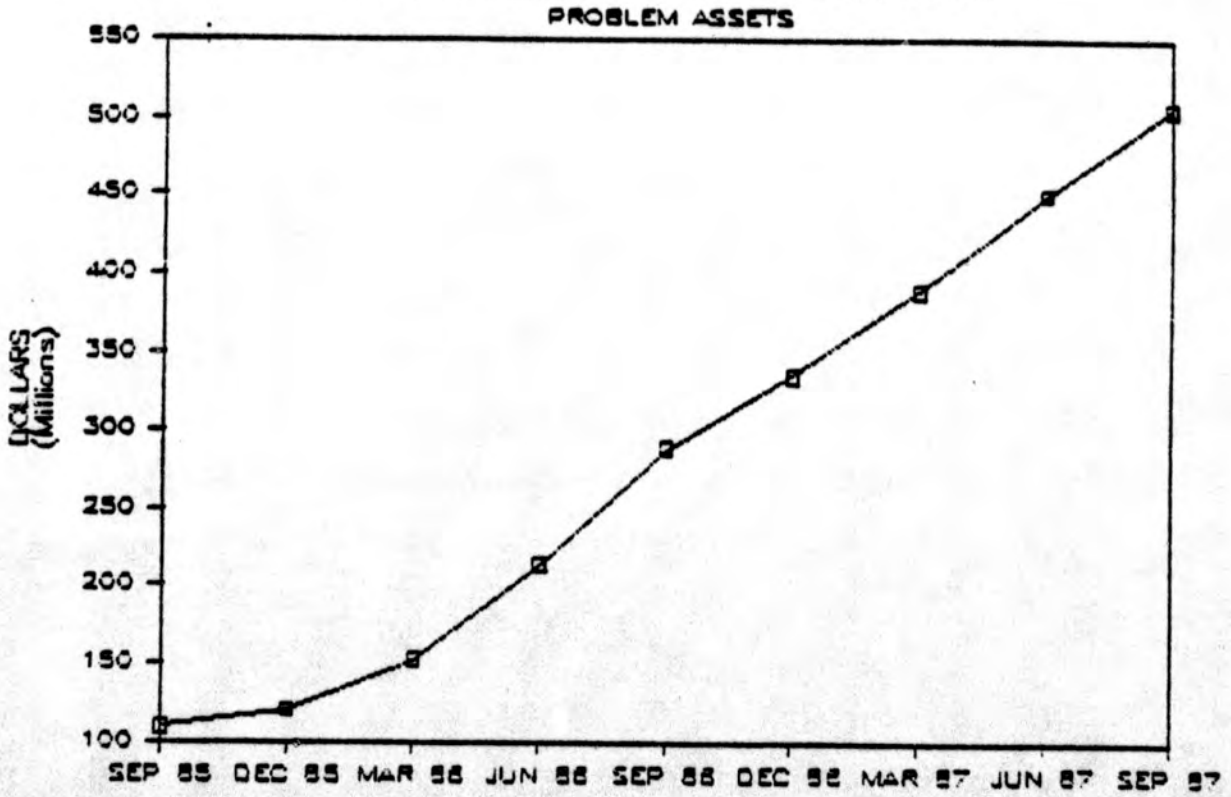
	STATE BANKS		NATIONAL BANKS		9-30-86 TOTAL	9-30-87 TOTAL	DOLLAR INCREASE	PERCENTAGE INCREASE
ASSETS	COMMERCIAL	SAVINGS	COMMERCIAL	SAVINGS	ALL BANKS	ALL BANKS	(DECREASE)	(DECREASE)
Cash & Balances Due from Depository Institutions								
Non-Interest Bearing	101,793	1,420	195,391	3,101	364,464	301,705	-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 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 Subsidiaries	0	0	0	1,692	2,085	1,692	-393	-18.85%
Customer's Liability on 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%
TOTAL ASSETS	2,126,158	81,306	2,615,876	383,362	5,617,033	5,206,702	-410,331	-7.31%
LIABILITIES								
Deposits of:								
Individ.-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%
Total DEPOSITS	2,053,736	72,366	1,965,982	212,036	4,410,105	4,304,120	-105,985	-2.40%
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 & 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 & Obligations	20,841	279	547	0	21,256	21,667	411	1.93%
Bank's Liability on 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%
TOTAL LIABILITIES	2,257,129	73,134	2,296,231	372,731	5,112,379	4,999,225	-113,154	-2.21%
Ltd.-Life Preferred Stock	0	0	0	0	0	0	0	0.00%
EQUITY CAPITAL								
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 Reserves	-118,403	5,486	151,414	10,631	255,102	49,128	-205,974	-80.74%
Cumulative Foriegn Currency Transaction Adjustments	0	0	0	0	0	0	0	0.00%
TOTAL EQUITY CAPITAL	-130,971	8,172	319,645	10,631	504,654	207,477	-297,177	-58.89%
TOTAL LIABILITIES, LTD.-LIFE PREF. STOCK & EQUITY CAPITAL	2,126,158	81,306	2,615,876	383,362	5,617,033	5,206,702	-410,331	-7.31%

Compiled quarterly by the Division of Banking, Securities and Corporations, State Office Building, P.O. Box D, Juneau, Alaska 99811.

ASSETS–LOANS–DEPOSITS

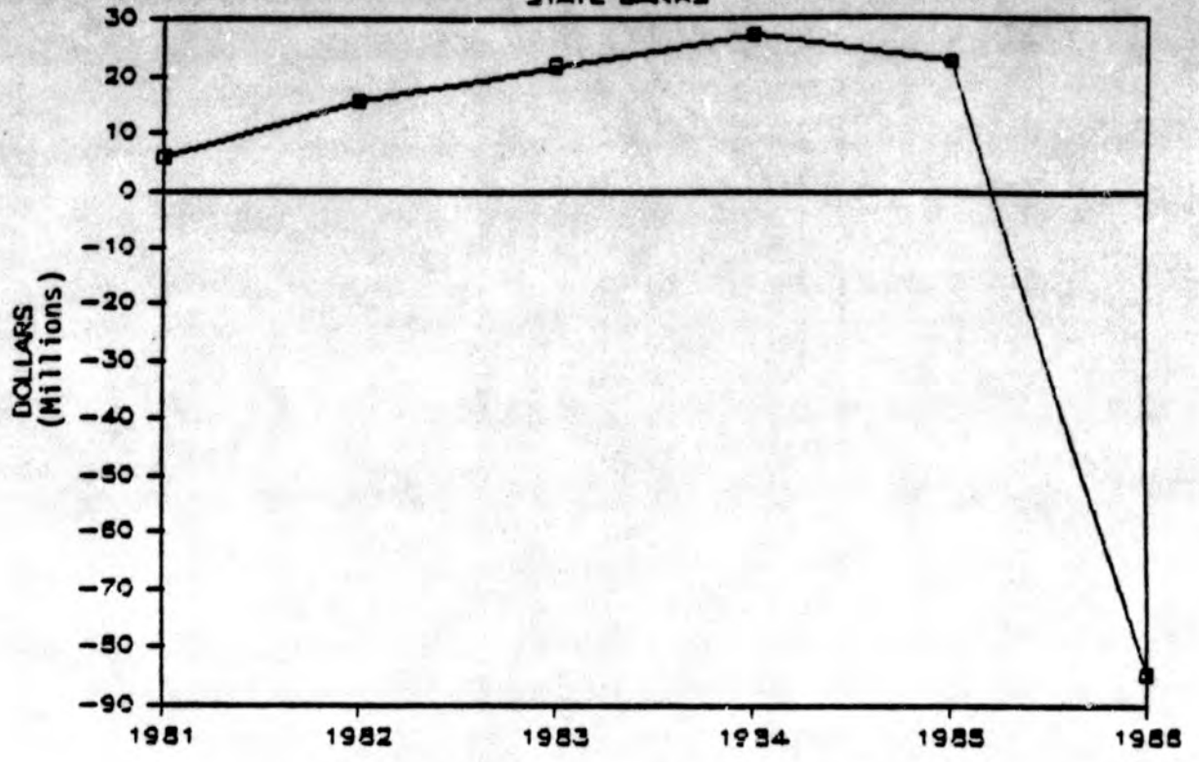


FINANCIAL INSTITUTIONS



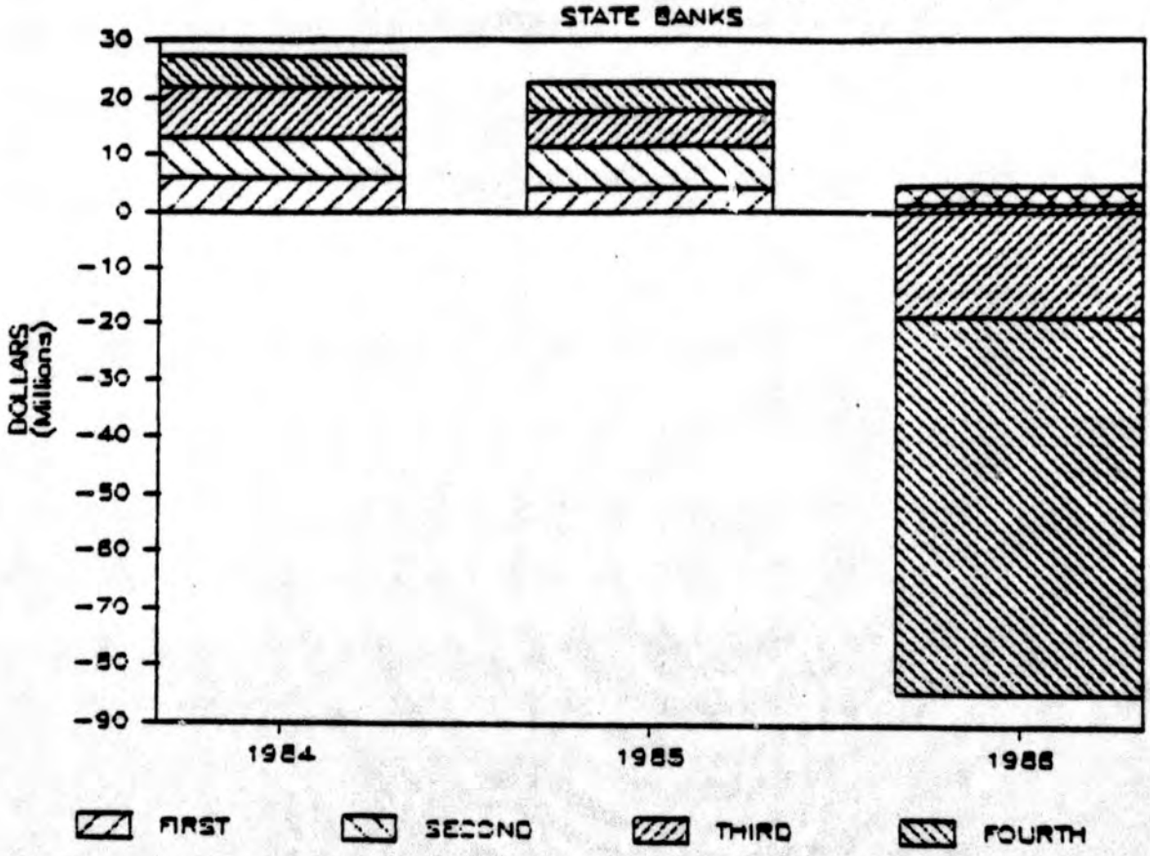
YEAR END EARNINGS

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
(Unisea Mall)
P.O. Box 77
Unalaska, Alaska 99685
Telephone: (907) 581-1300

THE B.M. BEHRENDS BANKS

Juneau

Main Office
(234 Seward Street)
P.O. Box 34479
Juneau, Alaska 99803-4479
Telephone: (907) 586-6800

Mendenhall Branch
(8400 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) 826-3254

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
Anhorage, 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

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

NORWEST FINANCIAL, INC.

Anchorage

Northway Business Park
713 Northway Drive
Anchorage, Alaska 99508
Telephone: (907) 272-6594

(300 W. 36th Avenue)
Plaza Mall
P.O. Box 9-2144
Anchorage, Alaska 99509
Telephone: (907) 561-1337

Fairbanks

(536 Fourth Avenue)
Parrish Building
P.O 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
P.O Box 726
Eugene, Oregon 97440
Telephone: (503) 688-1382

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) 563-3766
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 AIDEA TO ANN RINGSTAD

(S) JCER 2/24/88

1. SIERRETS - SB 471 -

JOSEPHSON KELLY

DOES BILL TRANSFER LIABILITY FROM BANK TO AIDEA?
(a) AIDEA PARTICIPATION PROVIDES ADDITIONAL LIQUIDITY.
(b) DOES CAUSE SHARING OF RISK.

2. WAGNON GENERAL
CASH DRAIN ON REAL ESTATE REPOSSED

* FDIC COLLECTION PROCEDURES ON ASSUMED PORTFOLIO FOR AIDEA SUBSIDIZED LOANS.

SB 471 -

F-SEAL IS O+Q

(H) JCER 2/25/88

WAGNON - ASSURED NO DUMPING
- SUPPORTS -
HB 402 RAISES LN LIMITS { SUPPORTS LIMIT INCREASES, } CHGS RATES { CHGS DEFAULT 90 }

- CRA HOUSING ASST DIV LNS DON'T ALLOW WORKOUTS.

~~COLLINBERG~~ ~~HULLIN~~ HULIN - FIRST FED BANK - FAULTY APPRAISALS BECAUSE TAX LAWS LESSEN INVESTMENT GAIN.
- SUPPORTS ASHA STAFF 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 SUBSTAND HOUSING IN HOUCH.
- OPPOSES PULLING SUPPLY OFF MARKET.
- SUPPORTS NATURAL SHAKE-DOWN
- OPPOSES AEDC ACCEPTING FDIC APPRAISALS
- FINANCIAL TROUBLE ← 2 BILLION POTENTIAL 2,5
- SUPPORTS REDUCED INTEREST RATES FOR STATE LOANS INCLUDING HAD - WORKOUTS
- COMPLETELY DISCOUNTS DUMPING
- WANTS STATE TO PROVIDE OPPORTUNITIES - TAX CREDITS, WORK CREDITS, AVAILABILITY, JOB CREATION, HOME PORTING, SKI RESORT, OLYMPICS
- BELIEVES NORTH SLOPE DEVELOPMENT WILL CONTINUE WHATEVER ROYALTY, TAX POLICIES ARE IN PLACE.
- DOESN'T SUPPORT AHFC CONCEPT UNLESS MATCHES INDUSTRY CRITERIA. SHOULD REQUIRE EQUITY INTEREST. DOESN'T SUPPORT SUBSIDIZED INTEREST.

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2 MEETINGS NEXT WK.

FDIC, HOLLYWOOD, COX (REVISED BILL)

1. FDIC + COX
2. DECISIONS

FUTURE HOLLYWOOD

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 Tom Fink, want legislators to use state money to reverse the estimated $8 billion drop in real estate values during the past two years. Fink suggested that the Alaska Permanent Fund buy foreclosed property and keep it off the market until conditions improve. Others want more small-scale help. Some witnesses suggested that legislators in some way help the little guy, particularly condominium owners, cope with declining property value.

But the big bailouts drew the strongest criticism from the witnesses. Rose, the permanent fund's executive director, suggested instead that the banks and the Federal Deposit Insurance Corporation form their own corporation to manage foreclosed property and schedule it for sale. That way the private sector, not the state, would be attempting to influence real estate values by regulating supply.

The state, at the most, should help the banks form their own corporation by giving it some operating funds, Rose said.

Yoshimura, a commercial real state 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

M E M O R A N D U M

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 Johne Binkley

Senate Finance Committee
P.O. Box V • Juneau, Alaska 99811 • (907) 465-4985

Finance Committee
Co-Chairman

MEMORANDUM

February 12, 1988

TO: Senator Arliss Sturgulewski

FROM: Senator Johne 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 TLB
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

AMENDMENT

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

LAW LIBRARY EDITOR

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.

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:

1. To an alternate
§ 414(p) of the Unitec

2. To amounts cor
bankruptcy; or

3. To the assets o
The interest of any a
any creditor of the al

C. Any person the
this state and who do
may claim as a per
including security de
residence, not exceed
rent.

Amended by Laws 1976,
12, 1986; Laws 1987, C

[1] Section 33–1101 et s

For effective date a
1976, Ch. 170, see no

Reviser's Notes.

1983 Note. Pursuan
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1987 Note. Pursu
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Cross References

Garnishment, monies
accounts, withholding fr
§ 12–1578.

§ 33–1130. Tools a
profession

The following tool
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1. The tools, equi
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value of two thousan
do not include a m
household purposes s

2. Farm machiner
not in excess of an a
debtor whose primar

3. All arms, unif

Added by Laws 1976, (

For effective date
1976, Ch. 170, see no

Law Review Comment

Arizona's new exemp
J. No. 3, p. 32 (1983).

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[1] 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 WLH

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 artifically 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 Coo

Roadway reaches Point MacKenzi

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.

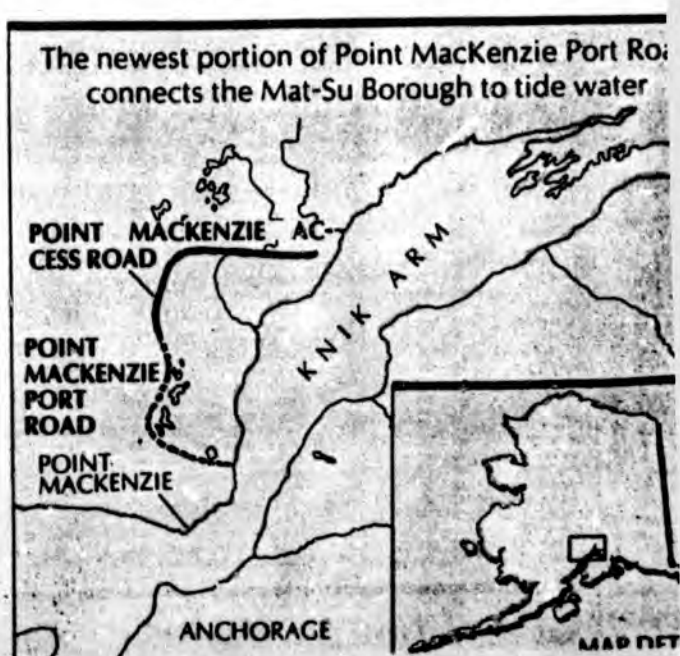
Two months ago, Cole, the public works director for the Matanuska-Susitna Borough, told the Mat-Su assembly he could build the road cheaper and quicker than private contractors. He staked his job on it, and the assembly took him at his word.

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.



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 roa

Road: Borough may push through tc

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.

Introduced: 4/8/87
Referred: Labor & Commerce

5-X032A

IN THE SENATE BY HENSLEY, FAIKS AND BINKLEY

SENATE BILL NO. 244

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to prevailing rate of wages in regions of the state; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 36.05.010 is amended to read:

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 determination of prevailing rate of wages issued by the Department of Labor before the end of the pay period <u>for the region in which the work is done</u>.

* Sec. 2. AS 36.05.010 is amended by adding a new subsection to read:

(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:

(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);

(E) 170 (Sitka Borough);

(F) 180 (Skagway-Yakutat-Angoon Census Area); and

(G) 220 (Wrangell-Petersburg Census Area);

(2) Southcentral region, consisting of census areas

(A) 020 (Anchorage Borough);

(B) 090 (Kenai Peninsula Borough);

(C) 130 (Matanuska-Susitna Borough); and

(D) 200 (Valdez-Cordova Census Area);

(3) Southwestern region, consisting of census areas

(A) 010 (Aleutian Islands Census Area);

(B) 040 (Bristol Bay Borough);

(C) 050 (Dillingham Census Area); and

(D) 120 (Kodiak Island Borough);

(4) Yukon region, consisting of census areas

(A) 030 (Bethel Census Area);

(B) 210 (Wade Hampton Census Area); and

(C) 230 (Yukon-Koyukuk Census Area);

(5) Central region, consisting of census areas

(A) 060 (Fairbanks North Star Borough); and

(B) 190 (Southeast Fairbanks Census Area);

(6) Northern region, consisting of census areas

(A) 110 (Kobuk Census Area);

(B) 140 (Nome Census Area); and

(C) 150 (North Slope Borough).

* 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 morator um 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.

TROUBLED DEBT RESTRUCTURING EXAMPLE # 1

NAME: A B C Farms.....DATE.....May 31, 1987

LOAN #	PRINCIPLE	INTEREST	PENALTY	EXPENSE	TOTAL
S-100	$200,000.00	$ 40,000.00	$ 20,000.00		$300,000.00
C-200	$220,000.00	$100,000.00	$ 16,000.00		$336,000.00
C-300	$ 10,000.00	$ 1,200.00	$ 500.00		$ 21,700.00
F-400	$500,000.00	$ 35,000.00	$ 1,200.00		$537,200.00
					0.00
TOTAL	$940,000.00	$216,200.00	$38,700.00	$0.00	$1,194,900.00

TOTAL DUE ASSET $ [illegible]

LESS ASSETS TRANSFERRED
LAND $0.00
IMPROVEMENTS $0.00

TOTAL LESS ASSET TRANSFER $0.00 $1,194,900.00
LOAN BALANCE
AFTER RESTRUCTURE $1,194,900.00

TIER I DEBT $ 59,745.00
TIER II DEBT $[illegible]

ANNUAL LEASE
PAYMENT $0.00

PROJECTED ANNUAL
DEBT SERVICE $ 59,745.00
PROJECTED INTEREST $ [illegible]

TOTAL PROJECTED ANNUAL
DEBT SERVICE ON
RESTRUCTURED LOAN $ [illegible]

TROUBLED DEBT RESTRUCTURING EXAMPLE # 2

NAME: A B C Farms.....DATE.....May 31, 1987

LOAN #	PRINCIPLE	INTEREST	PENALTY	EXPENSE	TOTAL
[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
					0.00
TOTAL	[illegible]	[illegible]	[illegible]	$0.00	$1,194,900.00

[illegible]

TROUBLED DEBT RESTRUCTURING EXAMPLE # 3

NAME: A B C Farms.....DATE.....May 31, 1987

LOAN #	PRINCIPLE	INTEREST	PENALTY	EXPENSE	TOTAL
[illegible]	[illegible]	$ 30,000.00	$20,000.00		$300,000.00
[illegible]	[illegible]	$100,000.00	$16,000.00		$336,000.00
[illegible]	[illegible]	$ 1,200.00	$ 500.00		$ 21,700.00
[illegible]	[illegible]	$ 35,000.00	$ 2,200.00		$537,200.00
					0.00
TOTAL	[illegible]	$ [illegible]	$ 38,700.00	$0.00	$1,194,900.00

[illegible] $1,194,900.00

[illegible] ASSETS TRANSFERRED
[illegible] $ 300,000.00
[illegible] $ 200,000.00

[illegible] $ 500,000.00 $694,900.00
[illegible] BALANCE AFTER
[illegible] $ 940,000.00

[illegible] $ 47,000.00
[illegible] $ 893,000.00

[illegible] $ 2,549.00

[illegible] $ 49,549.00
[illegible] $ 3,760.00

[illegible] ANNUAL
[illegible] OF
[illegible] LOAN $ 53,309.00

ARLF BOARD GUIDELINES FOR RESTRUCTURING
JUNE 25, 1987

MAR 9 1988

Because of a high incidence of ARLF delinquency, and because options of foreclosure and bankruptcy will in many instances lead to substantial loss of loan fund revenue, loss of loan fund collateral, and disruption of viable farm operations in Alaska, the Director of the Division of Agriculture and the Board of the ARLF are jointly adopting the following guidelines for restructuring of troubled debt.

It is the goal of the Division and of the Board to protect ARLF held collateral and ARLF revenues, and at the same time to encourage [illegible] farmers to continue operating where their operations are fine [illegible] can be made economically efficient. This plan is expected to [illegible] the loan fund by permitting payback of outstanding debt under [illegible] It is also expected to transfer the risk of financial failure, [illegible] the producer. It utilizes principles adopted [illegible] standards for troubled debt restructuring [illegible] for the US Treasury and by FSTC in their [illegible] It is also consistent with [illegible] Alaska statutes dealing with [illegible]

The major points of this plan are [illegible]

1. The ARLF Board and the [illegible] restructuring. [illegible]

2. [illegible] positive [illegible] service, [illegible]

3. Debt [illegible] [illegible] borrower.

4. [illegible] debt after [illegible] interest and penalty [illegible]

5. [illegible] restructuring.

6. Two tier levels of debt will be [illegible] existing debt to ARLF. The [illegible] other terms of restructuring, [illegible] assets, lease and repayment will be [illegible] terms only if it finds that [illegible] remain consistent with Financial Accounting Standard [illegible]

   a. Tier I will be 5% of the Total ARLF Debt, [illegible] and be repaid on an annual basis, [illegible] with periodic payments compatible with the cash flow of the borrower.

   b. Tier II will be the remaining 95% of the Total ARLF Debt, and will not accrue interest. However, upon any breach of conditions of restructuring by the borrower, interest on the entire remaining balance will begin accruing at the statutory interest rate on judgements in the State of Alaska.

7. At the end of the first year and annually thereafter and upon receipt of all the required payments for the prior year, 5% of the original debt will be shifted from Tier II to Tier I and begin accruing interest; the balance remaining in Tier II will not accrue interest. This will result in total repayment over a 20 year term.

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 ARLF 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 [illegible] both ARLF and AAAC, may be included in tiers 1 and 2 or be placed [illegible] at the time of restructuring. If placed in moratorium, they [illegible] and will remain in moratorium only as long as the [illegible] use.

11. All other loans will be taken off payment [illegible]

12. The restructured loan will have annual [illegible]

13. Borrowers who [illegible] November 1, 1987 and [illegible]

14. Borrowers who [illegible] restructuring [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

SHORETT & RIELY
REAL ESTATE APPRAISERS & CONSULTANTS
310 K STREET, SUITE 501, ANCHORAGE, ALASKA 99501-2046

ANCHORAGE (907) 276-1851
SEATTLE (206) 441-4900
SAN JOSE (408) 294-6733

FEB 19, 88
MAR 07 1988

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:

	Fourth Quarter 1986 Vacancy Rate	Fourth Quarter 1987 Vacancy Rate	% Change
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/lh

ANCHORAGE APARTMENT VACANCY SURVEY

FOURTH QUARTER 1987

Price Range	Total # Surveyed	% Vacant Eff 1 Bed	% Vacant 2 BED	% Vacant 3 BED	Total # Vacant	Total % Vacant
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

Schools get funds for much-needed repairs

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 Williwaw 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.

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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 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.

> *"I need their cooperation ... we can't do it all by ourselves."*
> — AHFC director Ron Lehr

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
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Applications also will be a
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than $600 to be withheld u
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Applicants who provide
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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."

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

Business

BANKS: Some lobbyists go to bat in Jun

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/Erik 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 mistake 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

eau to tryto 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 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 benefitting 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."

[redacted]

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?"

[redacted]

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.

[redacted] 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.

[redacted]

Taken From IRS Publication #544

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 nder, its FMV was $6,000 and Frank's adjusted asis in it was $8,000. Frank realized a capital ss of $2,000 ($8,000 basis minus $6,000 amount alized) and ordinary income from discharge of debtedness of $1,500 ($7,500 mortgage debt scharged minus $6,000 FMV of property transrred to satisfy the debt).

come or loss on abandonment. If the owner is rsonally liable for a debt secured by property at has been abandoned, and the debt is canelled, the owner may realize ordinary income om discharge of indebtedness to the extent of e unpaid debt. However, the income may not be cognized in certain cases, such as a debt cancellation intended as a gift, an insolvent debtor, or ankruptcy. See Publication 908.

Loss from abandonment of business or vestment property is deductible as an ordinary ss up to the amount of the property's adjusted asis when abandoned. However, if the property later foreclosed on or repossessed, there may e gain or loss, figured as discussed earlier under *ain or loss on foreclosure or repossession.* The bandonment loss is taken in the tax year in which he loss is sustained. The owner, however, may ot deduct any loss on his or her personal resience or other property held for personal use, nless the loss is from personal casualty or theft.

eporting income or loss. The owner of proper- transferred through foreclosure or repossession satisfy a debt reports gain or loss on the ransfer in the same way as for a gain or loss on ales or exchanges generally. See Part V, *Reporting Gains and Losses.* If the owner who ransfers 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 usiness or investment property may have an ordiary loss up to the amount of the property's adusted basis when abandoned. This loss is eported on Form 4797, Part II, line 10.

Form 1099–A. If a lender (including a governmental unit) has acquired an interest in property hat was security for a loan, or knows that such roperty has been abandoned, the lender must rovide 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 he 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 similar property are not treated as capital assets if you created them by personal efforts, 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

Sen. Stevens

MEMORANDUM

State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various Economic Recovery Proposals

FROM: J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.

2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

   The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate $25 million if we are to do $100 million in guarantees for the program to have the impact desired. We recommend a $100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.

4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.

5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential $3 million item. Hence, a threshold question is identifying a source of funding.

   In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

   There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of $75-80,000, with an interest rate of 10-12%. Consider the following figures:

Loan Amount	Interest Rate	Payment
$ 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 nonjudicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

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, Lesislative 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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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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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)

Alliance Bank

March 19, 1988

Mr. Gumbiner has asked us to transmit the enclosed updated "PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST" to you in an effort to keep you informed.

Should you have questions or comments, they could be directed to him through my office.

Sincerely,

Fred H. Burrow
President

Enclosure

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W. Benson Boulevard • P.O. 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 or otherwise 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.

The Hallwood Group Incorporated
767 Third Avenue
New York, NY 10017
Tel: 212-319-2360

Alaska State Legislature

Senate

A

Official Business

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

Joe P. Josephson

cc: Hon. Jan Faiks
Hon. Arliss Sturgelewski
Hon. Lloyd Jones
Hon. Max Gruenberg

MISCELLANEOUS INFORMATION

FILE 3

State of Alaska

House Majority Leader

COMMITTEES

HOUSE HEALTH, EDUCATION
AND SOCIAL SERVICES
HOUSE JUDICIARY
HOUSE RULES

Representative Max F. Gruenberg, Jr.
District 11
Spenard, Upper Midtown Anchorage

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3718
465-4968/4986

914 CLAY COURT
ANCHORAGE, ALASKA 99503
(907) 276-6844

September 30, 1988

MEMORANDUM

To: Representatives Boucher, Miller, Ulmer, Adams, Brown and Donley

From: Caroline Lombard C. Lombard

Re: Herc Committee

Enclosed are materials that were handed out at Thursday's meeting -- two letters we have received regarding HCR 52 and correspondence from Donn Hopkins, who testified at the meeting.

cc: Rep. Ben Grussendorf
Sen. Arliss Sturgulewski
Sen. Lloyd Jones
Rep. Alyce Hanley

STEVE COWPER, GOVERNOR

DEPARTMENT OF EDUCATION

EDUCATIONAL FINANCE AND SUPPORT SERVICES

GOLDBELT PLACE
801 WEST 10TH STREET
P.O. BOX F
JUNEAU, ALASKA 99811-0500

September 8, 1988

The Honorable Max F. Gruenberg, Jr.
3111 C Street, Suite 440
Anchorage, Alaska 99503

Dear Representative Gruenberg:

Thank you for the opportunity of reacting to HCR 52. I have reviewed the bill and the suggested alternative. I feel that having such information available on a quarterly basis would be extremely beneficial to all involved in making decisions relating to the economy.

Reports generated by the University of Alaska's Institute of Social and Economic Research are always well done. I have no suggestions or recommendations at this time.

Sincerely,

Jerald L. Mikesell

Jerald L. Mikesell
Director

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF ADMINISTRATION

P.O. BOX C
JUNEAU, ALASKA 99811-0204
PHONE: (907) 465-2240

DIVISION OF FINANCE

September 23, 1988

The Honorable Max F. Gruenberg, Jr.
Representative
3111 C Street, Suite 420
Anchorage, AK 99503

Dear Representative Gruenberg:

Thank you for the opportunity to respond to your proposed resolution and bill which would provide for a report on the State's economy. While the Division of Finance would be involved only to extent that we may be requested to provide data, I do have a couple of contacts and suggestions.

First, the University of Alaska is in the process of coordinating a project to identify sources of financial and social data from various sources around the state. I would suggest that you contact Dr. Thomas A. Gaylord, Director of the Office of Institutional Research, University of Alaska, Eighth Floor, Gruening Building, Fairbanks, Alaska. Also, I have been informed that Lee Gorusch of the Institute of Social and Economic Research in Anchorage may be of some assistance.

With regard to your specific proposal, I would like to make an observation from my past experiences. The Division of Finance is able to provide summary information on State expenditures and employees. However, there is a limit to our ability to summarize this data and it has been my experience that other agency data bases have similar constraints. For example, the University of Alaska recently requested that we provide a summary of State expenditures by the location making the purchase. We were unable to do this. The State's accounting system is able to summarize where the purchase is being made, in other words where the vendor is, but we are unable to determine the location making the purchase. To the extent that research information is requested at a detailed level, the cost of extracting and maintaining this financial information becomes increasingly expensive. Therefore, I would suggest, as your resolution and bill appears to do, that financial reports and financial information be maintained at the highest level possible.

Again, thank you for the opportunity to respond to your proposed legislation. If I may be of any further assistance, please contact me.

Sincerely,

Keith Busch

Keith Busch, CPA
Director

KB/gyr
14/3D1/091588-09
cc: Commissioner John M. Andrews
Department of Administration

Jack Fargnoli
Office of the Governor

Donn Hopkins
Foks

PROPOSED ALASKA DEVELOPMENT FUND

The Alaska Permanent Fund offers an unique opportunity for financing the rapid growth of the Alaska economy. Instead, it is being used by borrowers outside of Alaska to finance economic growth in other states. And the so-called "dividends" which are paid to Alaska residents have no greater impact on the Alaska economy than do welfare checks. What a waste!

Waste of another Alaska resource is even more critical: waste of the human resources. Alaskans are not using their abilities to the fullest. Many are leaving the state.

Combine these resources, money and brainpower, in a creative way and all of Alaska's resources will be put to highly efficient use. Here is one way to do that:

1. Give each Alaskan the option of (a) continuing to receive his "dividend" or (b) participating in ownership and management of the (proposed) Alaska Development Fund. If he selects option "b" a Development Account will be established for him

in the Alaska Development Fund.

2. Each year his "dividend" will be deposited in his Development Account. The amount deposited will be augmented by an equal share of all royalties, severance taxes and other income received by the State during the preceding year from sale of non-renewable resources that are not otherwise distributed according to law. Ordinarily, the only other distribution would be to the Permanent Fund.

3. Every owner of a Development Account may nominate an existing or new Alaska business for inclusion on a roster of businesses approved to receive a loan from the Alaska Development Fund. Procedures similar to those followed by the U.S. Small Business Administration will be used to determine which of those businesses nominated will be placed on that roster.

4. Every owner of a Development Account may then loan all or part of the balance in his account to a business on the roster of approved busi-

needs. The loan must be used only for purchase of real estate, capital equipment, and raw materials.

5. The rate of interest on the loan will be the same as that charged by the Small Business Administration or such higher rate as may be necessary to attract the desired total loan amount.

6. All of the net income from the amount loaned from a Development Account is paid to the owner of the account. Payments on the principal are returned to the account. Pro-rated portions of the income (interest) needed to compensate the Fund due to inflation and loan defaults and for costs of Account administration are charged to each account.

7. Balances remaining in Development accounts will be managed in the same way as the Permanent Fund.

8. Account owners may own and/or work for the businesses to which they loan money from their account.

4. Funds in Development accounts of persons who die or leave the State are treated as income to the Fund. Interest on outstanding loans from such accounts accure to the estate of the deceased or to the departed person.

Advantages of this use of non-renewable resource income are:

1. The current value of the resource is preserved, forever, for use by future generations of Alaskans.

2. The people who live, work, and invest in Alaska receive interest income derived from successful investments.

3. The people who need loans to pay for capital investments have a ready source of finance.

4. Many people will consider a variety of business and investment opportunities, maximizing use of available manpower.

5. Borrowing businesses and loan amounts can be almost any size.

Larger businesses will have to convince more account owners to invest.

6. Many, relatively efficient, worker-owned and -managed businesses will be established.

Disadvantages of this use of non-renewable resource income are:

1. Under the "ideal" situation, basic and special services will have to be paid for by taxes and user fees. This requirement could also be considered an advantage, because (a) assessment of government costs will be more fair and (b) there will be more careful oversight of government if Alaskans have to pay, directly, for government services.

2. There may be more risk of capital funds than if they were managed, solely, by professional money managers, as is now the case. However, careful oversight of the Alaska Development Fund managers, especially of those who place nominated businesses on the roster, should keep the losses to an acceptable minimum. And

Alaskans would not be subject to as much
loss of the National economy should
collapse. He would still have, in the
State, all of the buildings and other
capital goods purchased by the Alaska
businesses to which the loans were
made.

ECONOMIC POLICY ACT OF 1988

(Draft by Donn Hopkins, 1-15-88)

WHEREAS Alaskans are suffering because of economic conditions outside the state; and

WHEREAS Alaskans bear the costs of transporting natural resources out of the state, and goods and services into the state; and

WHEREAS Alaskans have available for use in the state all of the natural, financial, and human resources necessary to create a potentially self-sufficient economy, not dependent upon outside economic conditions and not subject to such transportation costs; and

WHEREAS continuing policies of the legislature are for the state to foster the economy of Alaska through purposeful development of the state's abundant natural resources, and to undertake activities that serve as a catalyst to responsible economic development (AS 44.99.100.); and

WHEREAS the Department of Commerce and Economic Development has all duties and powers necessary and proper in relation to economic development and planning for the state (AS 44.33.020 (20));

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

1. Economic policy plan is the aggregate of all policies in the state constitution, laws, and regulations, both expressed and implied, which materially affect the state economy.

2. The Department of Commerce and Economic Development shall

(a) describe in from 500 to 1,000 words the current Alaska economic policy plan,

(b) design alternative economic policy plans which would improve the Alaska economy, some of which could produce a near-self-sufficient economy,

(c) project the effects of each plan on the human, financial, and natural resources which now are or which in the future will be available for use in the state,

(d) estimate the probable economic, social, and environmental costs and benefits of each policy plan, and

(e) present its findings, together with any comments the governor may care to make on them, to the legislature three hundred sixty days from the effective date of this Act.

3. The legislature intends, in calling for and funding this economic planning, that

(a) the planning involve concerned citizens, businesses, and governments,

(b) to the extent practicable, staff work be done by current state employees,

(c) only, resource information which has already been published or assembled be used, and

(d) analyses be done using an existing national or regional economic model best suited to the task.

4. This Act may be referred to as the Economic Policy Act of 1988.

SUGGESTED SCHEDULE OF WORK FOR

PROPOSED ECONOMIC POLICY ACT OF 1988

(by Donn Hopkins 1-15-88)

WITHIN 30 DAYS

1. Select leader and current State employees for project.

2. Complete staffing.

3. Select contractors, if required.

WITHIN 60 DAYS

4. Form consultive committees.

5. Select economic model.

6. Assemble and index available data.

7. Adopt detailed schedule for completion of work.

WITHIN 90 DAYS

8. Adopt Alaska economic regions for analyses. The six regional planning units used in Alaska Regional Profiles may be most appropriate.

9. Adopt time periods for projections. A minimum of four are suggested: short-term (2 years), mid-term (6 years), long-term (18 years), and ultimate development (time dependent on policies).

As used here, ultimate development is, either, a steady-state economy, or, a climax economy. The fourth time period ends for an economic policy plan when the steady-state or

the climax is reached. It could be reached in less than 18 years.

Projections should be made of the number of years steady-state economies would endure. Economic declines which begin after 18 years could, also, be analyzed. All projections should extend no longer that 50 years because projections of conditions at that time are highly speculative.

10. Select economic, social and environmental characteristics to be used in the projections and estimates.

11. Adopt a tentative format for the project reports, including headings for text and names for tables, graphs, and maps.

WITHIN 120 DAYS

12. Select several ultimate-development economies to be studied. Include one derived from the current Alaska economic policy plan. Include one that is the smallest near-self-sufficient economy which can compete, successfully, in Alaska with Outside suppliers. Include a near-self-sufficient economy which gives Alaskans their highest economic standard of living of any near-self-sufficient economy. If different, include one that gives Alaskans their highest economic standard of living. Include, initially, such other ultimate-development economies as can reasonably address major concerns of the consultive committees.

13. Design for analysis a range of economic policy plans which could produce the above described self-sufficient

economies and other economies which offer substantial potential benefits to Alaskans. The initial analyses will suggest alternatives.

WITHIN 150 DAYS

14. Identify the types, and project the amounts, of human, financial, and natural resources that would be required, under each policy plan, to create (and maintain for steady-state economies) each of the ultimate-development economies, by economic region, during each time period.

15. Estimate productivity per worker and per capital invested for each of these economies, regions, and times.

16. Estimate economic and total standards of living for each such condition.

17. Using the initial results of the analysis, redesign the policy plans to increase their efficiency and range, and repeat steps 14 through 16 until further redesign would appear to offer no significant benefits.

WITHIN 180 DAYS

18. Prepare a preliminary report on the results of the investigation to date.

WITHIN 210 DAYS

19. Publish the preliminary report, and circulate it to the consultive committees and to the news media.

..ain responses to the contents of the report from ..ttees and the general public.

WITHIN 240 DAYS

21. Using the comments received, select for final analysis seven policy plans, redesigned as necessary to address the responses. The policy plans should include the current policy plan, three near-self-sufficient policy plans, and three other economic policy plans which best represent the range of other policies considered practicable by the staff and the respondents.

22. Repeat the analyses done under steps 14 through 17, above.

WITHIN 270 DAYS

23. Prepare a final report on the investigation.

24. Submit a draft of the final report to the Governor for review and comment.

WITHIN 300 DAYS

25. Make the report "camera ready".

26. Incorporate the Governor's comments.

WITHIN 360 DAYS

27. Publish the report and transmit it to the Legislature.

Alaska State Chamber of Commerce
Commission on Strategic Planning
For the 1990's

Harold Heinze, Co-Chairman
ARCO Alaska, Inc.

Peter McDowell, Co-Chairman

J. Brattain J. Brecht G. Easley D. Gottstein R. Huhndorf D. Langworthy A. Parrish W. Soboleff M. Thompson J. Usibelli R. Wien R. Williams M. Willis

REPORT TO

ALASKA'S ECONOMIC LEADERS

JUNE 1987

This Report was reproduced for the Alaska State Chamber of Commerce Convention and Trade Show, October 7-10, 1987, by the School of Business and Public Administration, University of Alaska Southeast, 1108 F Street, Juneau, Alaska 99801

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Technical support for this report was provided by Mary Ann Higgins, Marketing Planning & Management Consultants, Anchorage.

The conclusions in this report are those of the Alaska State Chamber of Commerce Commission on Strategic Planning for the 1990's.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
The Commissioners	1
The Mission	2
Purpose of a Strategy	3
The Methodology	3
THE FRAMEWORK: An Economic Model for the Alaskan Economy	4
Some Definitions	5
Why Exports?	6
PRIMARY/BASIC EXPORT SECTORS	7
SECONDARY SERVICE/SUPPORT SECTORS	10
Transportation and Construction	11
World Markets/International Trade	11
State and Local Government	13
STRATEGIES FOR DEVELOPMENT	13
Continued Support for Existing Basic Sectors	15
High Technology/Software Development	15
Attracting More National Defense Installations	19
Expansion of Alaskan Participation in Americanization of Commercial Fisheries	23
The Insurance Industry	26
The Investment Industry	27
ACTION ITEMS/IMPLEMENTATION	28
Economic Leadership Checklist	29
BIBLIOGRAPHY	30

INTRODUCTION

The Commissioners

The sixteen Commissioners included:

- Harold Heinze, Co-Chairman, ARCO Alaska, Anchorage
- Peter McDowell, Co-Chairman, Juneau
- Janna Brattain, Merrill Lynch, Pierce, Fenner & Smith, Inc., Anchorage
- Julius Brecht, Wohlforth, Flint & Gruening, Anchorage
- George Easley, Alaska Aggregate Corporation, Anchorage
- David Gottstein, J. B. Gottstein, Anchorage
- Roy Huhndorf, Cook Inlet Region, Inc., Anchorage
- Don Langworthy, IBM, Anchorage
- Al Parrish, Westmark Hotels, Anchorage
- Dr. Walter Soboleff, Sealaska Corporation, Tenakee Springs
- Morris Thompson, Doyon, Ltd., Fairbanks
- Joe Usibelli, Usibelli Coal Mine Co., Healy
- Richard Wien, Florcraft, Inc., Fairbanks
- Gary Wilken (alternate), Wilken-Alaska, Inc., Fairbanks
- Bob Williams, Chevron USA Inc., Kenai
- Mary Willis, Humana Hospital, Anchorage

The Commissioners were also joined by seven observers, including:

- Robert Atwood, Anchorage Times, Anchorage
- Al Fleetwood, Enserch Alaska Services, Inc., Anchorage
- Mark Hazelwood, ARCO Alaska, Anchorage
- Francis Hurley, Archdiocese of Anchorage
- George Krusz, Alaska State Chamber of Commerce, Juneau
- Byron Mallott, Sealaska Corporation, Juneau
- Sally Smith, Alaska State Chamber of Commerce, Anchorage

The Mission

In November 1985, the Commission adopted the following Mission Statement:

"The charge to the Commission is to build a statewide coalition of thoughtful Alaskan economic leaders to identify and consider the implications and opportunities of the major social, political, and economic issues facing Alaska into the 1990's.

The Commission will develop and communicate a framework and unified strategies for the Alaskan political economy that draw strength from our abilities and highlight our common concerns.

Recognizing that:

- We have accumulated a permanent fund of intellectual capital more than adequate to the task at hand.

- Diversity of economic forms, cultures, and governance institutions is necessary so capitalism may thrive.

- It is important to draw upon all elements of the Alaskan private sector in identifying and achieving common goals.

- Alaskans traditionally reject monolithic solutions in favor of maximum self-determination.

- There is a social responsibility dimension to the economy that must be considered."

Purpose of a Strategy

Alaska needs an economic framework and strategies to:

* **Keep abreast of changing economic conditions**
* **Account for conditions unique to the state**
* **Set priorities among the numerous State and local government actions that are important to economic performance**
* **Identify and curb actions harmful to economic progress**
* **Coordinate related actions that have economic impact.**

A strategy does not imply the development of detailed plans nor a presumption to direct the activities of the private sector. To the contrary, a strategy is important for assuring the development of a market-driven and competitive economy.

The Methodology

In the summer of 1985, Alaska State Chamber of Commerce Chairman Al Fleetwood established the Commission on Strategic Planning for the 1990's. Now, two years later, after numerous meetings, teleconferences, letters and memoranda, and review of volumes of material, the Commission has prepared its findings and action recommendations.

The charge of the Commission is to build a STATEWIDE coalition of thoughtful -- and thought-provoking -- Alaskan economic leaders. The goal of the coalition is to study the implications and opportunities of the major socio-political and economic forces which are affecting the Alaskan economy today and will be facing the Alaskan economy into the 1990's.

Toward that end, the Commission's co-chairmen, Harold Heinze and Peter McDowell, recruited representatives of major industries with diverse philosophical perspectives from various geographic regions throughout Alaska.

Each member of the Commission explained his or her industry and the factors for success in that industry. Members also prepared work products which included issue papers and factors for success background papers on the basic and secondary economic sectors affecting the Alaskan economy and the strategies for development which the Commission identified.

Because the Commission recognized that business people simply do not have the time to go through a long, traditional strategic planning exercise, they decided the end-product should be reduced to its essence ... a simple idea or framework that everyone could understand. They decided that it would not be useful to create a 'big plan' for business or the State of Alaska. The goal became the creation of a framework -- simple, adaptable to various regions, situations and specific local conditions. This framework they christened the "Export Model of the Alaskan Economy."

THE FRAMEWORK: An Economic Model for the Alaskan Economy

When the State Chamber started the Commission on Strategic Planning in 1985, they felt that what would be of most use on a statewide basis was to provide a framework to businesses (and governments) for strategic planning. This framework had to come from the "free enterprise, business perspective." The

result was the "Export Model of the Alaskan Economy."

The Commission reached consensus on its major conclusion: that an 'export model' is the approach which best facilitates evaluation of the Alaskan economy. Business sectors which primarily bring cash IN to the state (as opposed to sending cash outside the state or churning it within the state) would be part of the Export Model.

If a business understands its position in its local market relative to the Model, it will more easily be able to identify strategic decisions that will be required to remain competitive and profitable. Thus, the Model can become a stimulus for economic development.

Some Definitions

What we are talking about in economic terms is an "economic base analysis." An economic base analysis identifies the key economic activities of a community/region/state/nation. It divides the local economy into two segments:

(1) Firms and individuals serving export markets;
(2) Firms and individuals serving markets internal to the local economy.

The goods and services which the community sells outside its boundaries are considered exports. Exports include ALL sales made outside the community, not just trade with foreign nations. The remaining goods and services serve the local market. Local would be defined as the geographic region being studied.

In this division of markets, there is a cause and effect relationship. Export markets are considered to be the prime mover of the local economy. If employment serving this market rises or falls, employment serving the local market is presumed to move in the same direction. Thus, if a basic industry must lay off workers, the local retail merchant will feel the impact as the laid-off workers have less to spend ... or leave that local economy. Because of the prime mover role, export sector economic activity is considered as "basic." Employment which serves the local market is considered adaptive and is called "secondary."

Basic economic activity drives secondary economic activity usually in the same relative proportions over time. A change in basic activity will eventually produce a proportionate change in secondary activity.

Why Exports?

Exports help the Alaskan economy to grow. Exporters with big payrolls make it grow proportionately faster than exporters with smaller payrolls ... because large "basic sector" projects tend to cause more activity in the secondary (service) sectors of the economy -- as described earlier.

Jobs not tied directly to exports are important, of course. The more goods and services available in-state, the lower the leakage of purchasing power from the economy. This growth in

such "support" sector jobs is, however, severely constrained by growth in the export sector ... the lower the exports ... the lower the level of support required.

In the recent past, Alaska had a large export surplus mainly because of Prudhoe Bay ... now that has changed. The wellhead value of the oil industry contribution to net exports has fallen by two-thirds from 1985 ($12 billion) to 1986 ($4 billion).

Export/basic sector projects have a "multiplier" effect. They create more jobs in total than those related to the basic industry project. A job at a new defense installation, for example, will set off a chain of transactions that results in one or two other jobs being created in trade, services, or other support industries.

Alaska needs all the export projects it can get. Size of the enterprise is not so much the issue, but rather its viability. This will require better analysis ... to see where in the Alaskan economy a particular venture fits. Thus, the Commission suggests the Export Model as the initial framework to analyze the economics of projects, communities, regions and the state as a whole.

PRIMARY/BASIC EXPORT SECTORS

The basic export sectors playing the prime mover role in Alaska's economy are oil and gas, fishing, timber, minerals, coal, travel/tourism, national defense, federal civilian services, and the permanent fund dividend.

The following table depicts the Export Model summarizing the Alaskan economy in 1986. The Commission estimated the gross values of "exports" from the state for the basic sectors.

The gross value of oil and gas declined from $12 Billion in 1985 to $4 Billion in 1986. Oil is almost two-thirds the value of total exports ... even after the drastic drop in the price of oil from 1985 to 1986. Looking at the change in that one number for oil and gas, however, makes clear what has been happening in the Alaskan economy.

The value of fish caught by resident fishermen in Alaskan waters in 1986 is estimated to be $300 million. Research indicates that an additional $600 million goes to fishermen from other states.

The dollars generated from timber are estimated to be about $200 million, primarily from round log, pulp, cant and heavy timber exports to East Asian markets.

The minerals number of $100 million may be slightly high as placer miners were severely affected by environmental regulations in 1986.

Coal, at $25 million primarily represents coal exports to Korea.

The travel/tourism figure, estimated at over $500 million for 1986 (excluding transportation to and from Alaska), is interesting because of potential growth -- and that it represents only three months of activity.

"EXPORT MODEL"
Of The Alaskan Economy
1986

		Millions
Oil And Gas		$4,000
Fishing		300
Timber		200
Minerals		100
Coal		25
Travel/Tourism		500
Defense	1,600	
Other Federal	1,300	
	2,900	
Less Federal Taxes	2,000	900
Permanent Fund Dividend		300
Total Estimated Value		$6,325

Defense and the federal civilian sectors have definite growth potential due to Alaska's unique geopolitical situation, its remoteness, other natural features, and abundant public domain. Defense spending in Alaska is about $1.6 billion. Other federal spending is about $1.3 billion, for a total of approximately $2.9 billion. Federal taxes paid by Alaskans were estimated to be about $2 billion, leaving a residual of $900 million contributed by the federal government to the state.

All dollar values are "wellhead," "ex-vessel" or "point-of-production" numbers. Travel/tourism, the permanent fund dividend, and federal government expenditures, while not true exports in the technical sense of the word, were considered such because of their capacities to bring wealth into the state. The 1986 Permanent Fund Dividend, estimated at $300 million, was initially excluded. The decision was made to add the Permanent Fund Dividend into the model as the dividends do represent net dollars flowing INTO the state (although not directly from a basic economic industry).

SECONDARY SERVICE/SUPPORT SECTORS

The Commission identified transportation, world markets/international trade, private retail and wholesale trade and services, state government services, transportation and construction services, and local government services as the essential secondary sectors active in the Alaskan economy. These industries are often the "facilitators" or "conditions precedent" which make the importation of wealth possible. Transportation is

a good case in point. While transportation does not directly generate wealth, it does facilitate the importation of wealth and does have the effect of increasing wealth.

Transportation and Construction

After careful analysis and discussion, the Commission agreed that the transportation and construction industries per se are not importers of wealth to Alaska. Rather, they provide services to the other segments of the Alaskan economy. Under this premise, economic activity related to transportation and construction is an "effect" caused by other wealth generating activities or opportunities and not a "cause" in itself.

World Markets/International Trade

The effects of the globalization of the U.S. economy are felt with varying degrees of intensity in different states and regions. For example, states that depended on resource industries such as timber in Washington and Oregon, and copper in Montana and Arizona, found their economic mainstays drastically diminished or lost to foreign producers in the 1970's. These economies are just now beginning to turn around.

Farm states have been badly hurt by lagging exports, due in part to unfavorable exchange rates -- some of which may be improving. Most recently, since the beginning of 1986, the drop in oil prices has severely affected Texas, Oklahoma, Louisiana, and other oil-producing states.

What does this mean for Alaska? World markets are volatile and subject to rapid change. The natural resource (basic) sectors which fuel our economic engine are primarily dependent on the unpredictability of the world economy and world politics. This means that awareness of these interdependencies is key to economic success in Alaska.

There is economic opportunity in changing international markets. For example, the travel/tourism industry has identified over 600,000 tourists in Japan and 400,000 tourists in Germany who would be interested in coming to Alaska in the next five years. The challenge now is how to reach those markets.

Similarly, the Alaskan commercial fishing, mining, and timber industries can benefit from knowledge of their foreign markets' changing demands. New business concepts need to encompass worldwide market strategies for the 1980's and 1990's. Some of these might include:

* Finding approaches for gaining access to rapidly growing markets -- whether in computer software, hardware, telecommunications, or commercial fishing.

* Adjusting expectations to realistically lower levels of expected return in high-potential growth markets, in order to establish market share, compete and maintain long-term capital/cash flows.

* Targeting key country markets in several geographic regions (including the U.S., Europe, Japan, and the rest of Asia) for market entry, growth and cash flow, as well as to control the share and cash flow of key competitors.

* Creating new business tools to deal with currency fluctuation, exchange risks, and countertrade.

* Developing joint venture, trade or direct investment opportunities in foreign business climates.

State and Local Government

In some regions and communities State and local government services are considered part of the basic/primary economic sectors. They actually may be a "basic" sector in a community such as Seward -- which has a large proportion of its "export" dollars attributable to State government. However, for the purposes of developing a framework from which to view the STATEWIDE Alaskan economy, the Commission felt they are clearly secondary economic sectors -- in that they do not provide the basic "fuel" for the economic engine. For example, 85 percent of the revenues of the State of Alaska were generated by the oil and gas industry during the early 1980's. If economic activity did not occur in the oil and gas sector, there would be considerably less State government services.

STRATEGIES FOR DEVELOPMENT

As explained in the earlier description of how the 'Export Model' works, just as a basic sector industry creates jobs ... declines in such industries result in job loss. By mid-1986, lower oil prices were projected to require cuts in State government expenditures, which included reducing state employment. These cuts in the secondary government economic sector, in turn, result in losses in other secondary industries.

It is critical that Alaska's economic leaders act now to reverse this trend of job losses. No single major economic event is on the immediate horizon to rescue the state in the near term.

What will be required is economic leadership, prioritization and analysis of opportunities, and most importantly, the courage to act now to safeguard the economic future of Alaska. Toward that end, the Commission has developed several "Strategies for Development" for immediate action.

Perhaps the most important work of the Commission was the identification of these "Strategies for Development." The Commission felt it essential to focus on new directions for economic growth and diversification ... as well as to provide continued support for the existing basic economic sectors currently being pursued -- such as tourism and the natural resource industries. (The current basic sectors are important -- but the Commission was also interested in a new focus on areas of economic potential which may have been overlooked).

Six strategies were identified. In addition to the overall strategy of continued support for all the existing basic sectors, the "Strategies for Development" also include three development alternatives which aim at expanding the export sectors of the Alaska economy -- as defined by the Model. The export sector priorities identified are high technology and software development, increasing the national defense presence in Alaska, and the expansion of Alaskan participation in the growth and Americanization of the commercial fisheries off the coast of Alaska. The other two strategies for development identified are

primarily import substitution alternatives. Their objective is to reduce the leakage of insurance premium and financial investment servicing dollars outside of the state of Alaska.

Continued Support for Existing Basic Sectors

Alaska has a resource-based economy. The Commission recommends continued support of the other basic sectors identified as strengths in the Export Model: coal, minerals, oil and gas, timber, and travel/tourism.

By suggesting additional strategies, the Commission does not imply that resources in terms of finance or personnel should be removed from existing economic developments which are cost-effective and producing positive results. On the contrary, the Commission supports continuation of programs such as the one developed for the travel/tourism industry. The State needs to put its economic investment dollars in viable programs which have the highest potential success rate as well as highest potential return on the investment. The Commission supports and encourages development initiatives at the local and regional level in Alaska, especially those like the pursuit of the 1994 Winter Olympics.

High Technology/Software Development

A 1983 survey by the Congressional Office of Technology Assessment found 150 programs in 22 states designed to promote

technology as a major sector of the state's economy. By 1985, 40 states reported initiatives in this area. These initiatives cover a wide range of activities from investing in applied research and development to providing financing for new product development and management assistance to fledgling entrepreneurs.

What is "High Technology?" One definition is "adding more mind power than muscle power to a product." The Commission developed a partial list of types of industries which could fit this category. These include:

Arctic Science

Bio-Technology

Electronic Design and Assembly

Renewable Energy

Software Development

Telecommunications

From this list, the Commission selected software development as one industry which has high potential as a viable development initiative for Alaska.

Current characteristics of the software industry make it an attractive economic development target. The market is being driven by rapidly changing electronic capabilities -- existing now and in the research stages. Other positive software industry features include inverse price/performance ratios, an expanding number of users, expanding number of networks, massive parallel systems, and break-throughs in artificial intelligence and robotics.

Most importantly, the compound growth rate (CGR) for

software sales estimated through 1995 is 18.5 percent, second only to telecommunications. The actual 1985 total industry revenues for systems and application software worldwide was $13.6 billion. This market is expected to grow to $43.6 billion by 1991, with an estimated CGR of 21 percent. If Alaskans were to capture even one-half of one percent of this market, the gross revenues would be over $200 million.

The following are other market characteristics:

* 15,000 vendors in 1985
* 15 companies produced over $100 million in revenues
* Lotus posted $226,000,000 in 1985 revenue [a firm not even in existence in 1980]
* Protected intellectual property
* High margin products
* Low start-up costs
* Key factor for success: creative ideas, not "next to market access"

Other states are aggressively pursuing this strategy for development:

NORTH CAROLINA has established five technology centers, distributed throughout the state. They started early, offer a certain lifestyle, favorable tax laws, and a work ethic attitude. In addition, they formed a partnership between higher education, government, and the private sector to push the program.

MASSACHUSETTS AND NEW YORK offer special credits for research and development, real property tax reduction, and small business advisory assistance through the state college systems. They also provide financing for software start-ups through their

"Business Development Corporations," and loans from state pension funds.

ILLINOIS provides inexpensive office space, grants and seed money, and has established the Illinois Venture Fund and Illinois Technology Centers.

HAWAII started their technology development program about three years ago. The plan was to break ground in 1986 for three "high-technology" parks. Also, a high-tech center was planned for the University of Hawaii -- promoting 10 high-tech disciplines. Other assets include lifestyle and geography.

Strategy for Success

HOW CAN ALASKA COMPETE? First, Alaska can offer incentives for software start-ups to locate in Alaska. These would include real property (possibly free state or municipal land ... for a certain lease period), loans, and/or credits. The credits would be to encourage investment and research and development -- aiming at attracting companies committed to Alaska for the long-run. Tax incentives could include eliminating the "unitary" tax.

The most common structure for administering a state technology development program is a joint public/private body that includes representatives of the university and private business communities as well as the government. The organizations can be established as independent public agencies, private non-profit corporations, or may act in an advisory capacity to existing state agencies.

Two types of structures could provide the impetus for development of the software industry in Alaska. The first, "Software Development Technology Center(s)," housed at the University of Alaska, would be a vehicle for conducting research, and to create a reservoir of basic technological knowledge and human expertise needed for future entrepreneurial vitality. Such centers can be designed to attract new businesses, to encourage the creation of new firms through the spin-off of new products, or to help solve the technological problems of existing businesses.

The second, an "Alaskan Software Development Corporation" could be set up to develop incentives, draft required legislation, procure funds, and administer the program.

Attracting More National Defense Installations

The objective of this strategy for development would be to expand the military presence in Alaska by establishing a formal mechanism for promoting new Department of Defense (DOD) installations in Alaska.

The Air Force, Army, Navy, Marines, Air National Guard, Army National Guard, Reserves, U. S. Coast Guard, and the Corps of Engineers have a significant impact on the state of Alaska. As indicated earlier, their total contribution to export dollars was estimated to be $1.6 billion in 1986.

Manned installations of DOD and the U. S. Coast Guard are established at more than 30 locations throughout the State. There are very large bases with several thousand people and

numerous outposts with fewer than 100. In addition, there are a large number of installations, such as radio relay sites, which are not staffed on a regular basis. Due to limited living accommodations at many remote and isolated locations, assigned personnel are often not accompanied by their families. In locations where community housing is available, members of the military are accompanied by their families.

As of September 1985, the military labor force and employment totaled approximately 30,000. This number translated to a total services population of over 80,000 -- about 16 percent of the State total -- including retirees, inactive duty personnel, and dependents.

The existing military installations are shown on the following map.

Strategy for Success

HOW CAN ALASKA COMPETE FOR DOD DOLLARS? Alaska has a strong military tradition and unique geopolitical defense position -- considering its proximity to the Soviet Union and that the Soviet fleet is the largest in the world.

The State needs to, first, identify defense projects which are compatible with Alaska's needs and which meet needs of the DOD. Examples might include (1) security/privacy needs -- easily supplied by Alaskan communities' remote locations, (2) transportation infrastructure, and (3) electric power, which would also meet Alaskan goals and objectives.

PRIMARY MILITARY INSTALLATIONS IN ALASKA



Secondly, the State needs to present a written proposal explaining how Alaska can meet DOD requirements for "XYZ project." This approach fits with the Pentagon mode of operation of responding to -- not generating -- proposals. Alaska needs to be SOLD as a "site." To facilitate new projects the State could offer incentives to DOD in the form of land (free, or on a long-term lease), or providing matching funds (at a minimum) for road and/or power line improvements.

What kinds of projects are suggested? Several current projects provide a preview. For example, the 6th Light Infantry Division is adding 3,700 jobs and $500 million to the economy. The Backscatter over-the-horizon radar project will add $450 million and 500 jobs. Dew Line upgrades are worth an additional $100 million. The Acoustic Measuring Range near Ketchikan will add 40 jobs and $20 million.

Potential projects could include underwater communication, "cold" storage dispersal, getting on the "Port of Call" list -- which can bring in up ~~to~~ $1 million/day for every day in port, and/or having Kodiak, Dutch Harbor, or Barrow become designated as an "Arctic Port" for the Pacific Navy.

Alaska needs to build on its strengths. A key geopolitical location, a strong military tradition, and an available pool of recently retired high-ranking military personnel make this initiative workable. The State needs an ambassador/lobbyist to the DOD who has a strong service record, preferably a staff-ranked officer, who stayed in Alaska out of a liking for the state.

There are various ways that this could work. One suggested by the Commission is to appoint an ambassador to the Department of Defense. An "Ambassador" and staff could be stationed in the Pentagon -- assessing DOD needs and developing proposals, which would be presented to the Governor. The Commission felt it important that an ambassador have the clear backing of the Governor ... and report to Juneau through the Office of the Governor.

Expansion of Alaskan Participation in the Americanization of Commercial Fisheries

According to the State of Alaska and the North Pacific Fisheries Management Council, fish caught in Alaskan waters in 1986 were valued at approximately $890 million. Experts now predict that the Bering Sea bottomfishery alone may yield $500 million in domestic revenues for 1987. The opportunity is there.

The table on the following page details the value of Alaskan commercial fisheries (in millions of dollars) to resident and nonresident fishermen from 1976 through 1986.

If Alaskans were able to capture a larger portion of the harvest and of the value-added processing, the Alaskan economy could increase its basic sector substantially.

The Commission defined the objectives for expansion of Alaskan participation in the growth and Americanization of the fisheries off the Alaskan coast as two-fold:

(1) Optimize the harvest in Coastal Zone waters
(2) Obtain greater in-state share of fishery resources.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1580 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1377

The Value of Alaska's Commercial Fisheries to Resident and Non-resident Fishermen
($ millions)

Species	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Salmon	119.7	176.4	241.2	346.8	254.1	397.3	309.7	320.2	343.1	389.0	404.0
Shellfish	97.3	153.2	230.6	239.0	265.3	196.9	211.7	146.6	102.1	106.3	186.4
Halibut	20.5	17.6	23.4	32.9	13.5	19.3	24.9	35.3	24.9	40.3	63.2
Herring	2.5	2.7	7.2	32.7	12.2	18.6	20.2	28.9	19.8	38.0	38.5
Groundfish	1.1	1.6	3.3	6.3	8.9	24.0	40.9	78.0*	107.2*	137.5*	197.9*
All Commercial Fisheries	241.1	351.5	505.7	657.7	554.0	656.1	607.4	609.0	597.1	711.1	890.0

1985 and 1986 data preliminary estimates.

* 1983, 1984, 1985, and 1986 groundfish include J.V.[1] and D.A.P.[2] landings, in and out of Alaska.

Source: Informational Pamphlet, Alaska Department of Fish and Game, February, 1987.

1 J.V. = Joint Venture
2 D. A.P. = Domestic Annual Processing

Strategy for Success

The Commission identified key factors for success in realizing these objectives: knowledge, focused insight (such as that resident in Washington state and Japan), vessel support and fish processing facilities, adequate Alaskan ports and processors to serve industry needs, and a degree of regulatory stability.

Specific areas for action which the Commission suggests are as follows:

(1) Develop knowledge and insight with detailed study of Alaska's present position and future potential including:

- --Direct dollar benefit by region (in-state and out) of vessel harvest value, wholesale value and market value for each type of fishery.
- --Indirect dollar benefit by region (in-state and out) of fishing fleet support, processing and product storage facilities.

(2) Develop the in-state fleet through favorable regulation.

- --Harvest quotas that encourage fresh market prices and local home ports.
- --Biologically based harvest management to lengthen seasons where possible.
- --Resolve salmon, crab, and white fish conflicts to unite the local fleet.
- --Rebuild the share of Alaskan Native and non-Native permit holders.
  - -Consider modifications to fishery permit system
  - -Consider state buy-back of some permits

(3) Develop in-state, onshore processing through improved competitiveness.

- --Identify factors for success that have resulted in processing growth outside Alaska.
- --Utilize fish tax investment credits as incentives.

--Prioritize projects that reduce energy and cold storage costs.

--Define the type and level of technical and research support needed.

(4) Develop adequate harbor and vessel service facilities.

--Use state lands to increase the capability of ports to fuel and supply vessels.

--Improve dry docks and haul-out rails for in-state vessel maintenance and repairs.

(5) Develop the Alaska Board of Fish as the agency to define the optimal fishery harvest levels and to define the State's role in mariculture, fish farming and ranching.

--Increase the biological expertise on the Board with appointments of fishery experts with no direct fishing interest.

The Insurance Industry

For 1986, the estimate of total insurance premiums paid by Alaskans was over $650 million. Of this, between $450 and $550 million came back to Alaska for claims and the remainder must be considered "leakage" to economies outside of Alaska.

The Commission identified this leakage as an opportunity for import substitution. Of the 1004 companies authorized to sell insurance in the state, 989 were "foreign" (not Alaska-based) and 15 were domestic. Although it may be difficult to capture all of the "leakage" due to the nature of the insurance industry, there appears to be some room for growth.

For example in 1985, the health care bill for the state was estimated to be about $1.3 billion. Although the data is sketchy and hard to obtain, at present it appears that Alaska spends about $500 million in State and federal tax dollars for

health care services. Another $800 million is paid for by insurance and private individuals. Information about the proportion of insurance premiums paid to out-of-state companies relative to the total claims paid to Alaskan health care providers is not available for recent years. A 1982 study, however, revealed a net excess of health insurance premiums over amounts paid of about $40 million, or twenty-one percent of the total premiums paid.

Strategy for Success

Economic leaders need to investigate the dimensions of this leakage of insurance premium dollars, estimated to be $100 - 200 million. Then, they must identify potentially viable strategies for keeping the insurance premium dollars in the state.

The Investment Industry

Like the insurance industry, the main challenge with the investment industry opportunity is that the portion of investment dollars being managed outside of Alaska is unknown. The estimate of dollars available for investment ranges from $25 to $40 billion. The largest pools of available dollars include:

- The Permanent Fund
- The Teachers Retirement System
- The Public Employees Retirement System
- Corporate pension funds
- Union pension funds
- Local government funds
- Investments in local banks, savings and loans, credit unions, insurance companies, and brokerage firms.

If Alaskan brokers and investment advisors were to collect one quarter of one percent for investing $25 billion (or $40 billion) -- the value to the Alaskan economy generated from the investment industry could be $60 million (or $100 million).

Strategy for Success

These objectives could be partly accomplished by "gentle nudging" on the part of institutional investors ... such as administrators of the Permanent Fund and pension funds. As a matter of policy, fund administrators could only do business with investment firms which kept active Alaskan offices capable of providing competitive service to their accounts. Also, the Legislature could enact statutory incentives regarding the investment of public funds.

ACTION ITEMS/IMPLEMENTATION

The next phase of the Strategic Planning Commission's work focuses on communication. This phase includes taking this report "public" in town meetings with business and government leaders throughout the State. These include:

-- local Chambers of Commerce statewide

-- service clubs and other forums.

The emphasis of these local presentations will be on how each local community can evaluate its own economy using the "Export Model" and the "Strategies for Development." Each community and region should create its own development initiatives and priorities.

Finally, since its mission is to involve key Alaskan economic thinkers and leaders in the planning process, the Commission offers the following "Economic Leadership Checklist."

Economic Leadership Checklist

The Commission urges Alaska's economic leaders to:

- Educate Alaska's people, especially the children, because they are the greatest resource;
- Recognize the importance of the Alaskan political economy to other facets of life in the state;
- Become educated about the nature of economic change in the world and its effect on Alaska;
- Insist on sound diagnosis as a foundation for economic strategy;
- Require that economic development programs be monitored and periodically evaluated to assure public accountability and necessary adjustments;
- Participate in shaping a vision of Alaska's economic future;
- Identify actions compatible with that vision and motivate people to undertake them; and,
- Join with the State Chamber of Commerce in a statewide partnership to provide the leadership for economic expansion and diversification.

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Alaska State Legislature
Senate

Official Business

Senate Joint Economic Recovery Committee

P.O. BOX V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Senate Joint Economic Recovery Committee members

FROM: Senator Lloyd Jones, Co-Chair

RE: Information

Here is some information regarding what Michigan and Washington have done to spur on economic recovery.

As you know, Michigan suffered through some tough years recently when the American auto industry foundered. Washington state has also had some tough times. I am sure Alaska can benefit from the work other states have done to improve their economy.

If any of the items in this packet interest you, we can discus them in committee.

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Alaska State Legislature

SENATE ADVISORY COUNCIL

Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907) 465-3114

MEMORANDUM

TO: Senator Jones

FROM: Senate Advisory Council Staff

DATE: February 16, 1988

RE: Informational Release: Request # 88-003231

Thank you for your recent request for assistance. Attached is the material you requested. This information will remain confidential unless we receive your approval for release.

Please check the appropriate box and return to Mail Stop 3100 or the above mailing address by March 1, 1988.

☐ I approve the release of this information.

☐ I approve the release of this information, but please remove my name.

☐ I do not approve the release of this information at this time.

If we can be of further service, please do not hesitate to contact us.

DATE _____ SENATOR _____

Alaska State Legislature

Senate Advisory Council

P.O. Box V
State Capitol
Juneau, Alaska 99811
Phone: (907) 465-3114

MEMORANDUM

TO: Senator Jones
Alaska State Legislature

FROM: Carol R. Vandor
Senate Advisory Council

DATE: February 16, 1988

RE: Economic Development Legislation in Washington and Michigan
IR# 88-003231

Attached is the information you requested regarding economic development/economic recovery legislation in Washington and Michigan. The Michigan Department of Commerce was not aware of any legislation that was enacted as a specific result of the failing auto industry. They did, however, feel that the Michigan Strategic Fund legislation might be of interest.

Any statutes you may wish to view that are amended by the attached material are available at the Legislative Library. The library is located on the 6th floor of the Court Plaza; their phone number is 465-3808. They can also provide you with copies of specific sections.

If we may be of further assistance, please let us know.

Attachments:

FEB 8 1988

SENATE BILL REPORT

SB 6220

BY Senators Anderson, Halsan, Deccio, Owen, Saling, Smitherman, Stratton, DeJarnatt, Warnke, Lee, Cantu, West, McMullen, Fleming, Williams, Conner, Hayner and Garrett

Changing provisions relating to business industrial development corporations.

Senate Committee on Economic Development & Labor

Senate Hearing Date(s): January 12, 1988; January 18, 1988

Majority Report: That Substitute Senate Bill No. 6220 be substituted therefor, and the substitute bill do pass and refer to Committee on Ways & Means.
Signed by Senators Lee, Chairman; Anderson, Vice Chairman; Cantu, Conner, Deccio, McMullen, Saling, Smitherman, Warnke, West, Williams.

Senate Staff: Jack Brummel (786-7428)
January 19, 1988

AS REPORTED BY COMMITTEE ON ECONOMIC DEVELOPMENT & LABOR, JANUARY 18, 1988

BACKGROUND:

The 1963 Industrial Development Corporation Act was intended to stimulate the Washington economy via equity investments and loans made by industrial development corporations. Only two such corporations have been formed, neither of which are currently operating. The need for an effective program to increase investment in Washington businesses is underscored by the state's low rate of new business incorporations and the difficulty Washington firms experience in obtaining capital if they do not meet current commercial bank or venture capital criteria.

SUMMARY:

The Industrial Development Corporation Act of 1963 is amended. The requirement that financial institutions be members and have voting control is eliminated. Business and industrial development corporations' (BIDCO) investments are to be in firms with a majority of their workforce in Washington state.

A certification requirement prior to approval of corporate documents is added. Such certification may be revoked if the

BIDCO fails to act in a safe sound manner or fails to comply with the intent of the Act to make capital available to moderate risk firms.

Fewer people are required to form a corporation and they are given greater flexibility in operation. The amount of capital necessary to start BIDCO is $1 million in equity and $1 million in lendable funds. Detailed reporting requirements on BIDCO performance are required. Reserve requirements for BIDCOs may be established by the Supervisor of Banking.

The Department of Trade and Economic Development provides technical assistance to BIDCOs in formation. BIDCOs may contract with the Department to deliver management assistance to firms but one-half of a corporation's investments must be in firms that enter into first-source agreements to hire first from a list of unemployed individuals.

Investors are given credit against state B&O, utility, or insurance premium taxes for their investment in a BIDCO. The tax credits available to investors start at 25 percent in fiscal year 1990 and decline by 5 percent per year to a 0 percent tax credit in 1995.

EFFECT OF PROPOSED SUBSTITUTE:

BIDCOs contracting with the Department of Trade and Economic Development will enter first-source hiring arrangements and one half of their firms will be in distressed areas.

Appropriation: none

Revenue: yes

Fiscal Note: requested January 5, 1988

at Committee - Testified: Senator Halsan; John Anderson, DTED; vid Dougherty, DTED; Collin Sprague, AWB; Bill Lotto, EDEW; Mary yan, Evergreen CDA; Wayne Schwart, 4th Corner Development; Gary Independent Business Association

CORRECTION

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TO ASSURE LEGIBILITY

02-576(2/77)

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TUTE SENATE BILL NO. 6220

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by Senators Anderson, Halsan,
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DeJarnatt, Warnke, Lee,
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			House Floor #	Washington
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	Date	Reintroduced by Resolution	Date	Date
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____ Filed by	Sub ( ) NR ( ) Ref ____		Sub ( ) NR ( ) Ref ____	Sub ( ) NR ( ) Ref ____
Committee and ordered printed	Do Not Pass ( ) ____	Minority Reported	Do Not Pass ( ) ____	Do Not Pass ( ) ____
____ On Motion Substituted		Majority Reported		
for Original, placed on calendar		Minority Reported		
Cal ____	Adv ____ Cal ____	Second Reading	Adv ____ Cal ____	Adv ____ Cal ____
A ____ H ____	S ____ A ____ H ____	Substituted//Amended//Held	A ____ H ____	A ____ H ____
Adv ____ Cal ____ H ____	Adv ____ Cal ____ H ____	Third Reading	Adv ____ Cal ____ H ____	Adv ____ Cal ____ H ____
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Notice ____ Rec ____	Notice ____ Rec ____	Reconsideration	Notice ____ Rec ____	Notice ____ Rec ____
P ____ F ____ /	P ____ F ____ /	Reconsideration Vote	P ____ F ____ /	P ____ F ____ /
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C ____	C ____	Conference - Asked/Granted	C ____	C ____
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AN ACT Relating to business and industrial development corporations; amending RCW 31.24.010, 31.24.020, 31.24.030, 31.24.040, 31.24.070, 31.24.080, 31.24.090, 31.24.120, 31.24.130, 31.24.140, and 31.24.150; reenacting and amending RCW 42.17.310; adding new sections to chapter 31.24 RCW; adding a new section to chapter 82.04 RCW; adding a new section to chapter 82.16 RCW; adding a new section to chapter 48.14 RCW; creating a new section; repealing RCW 31.24.050, 31.24.060, and 31.24.100; and prescribing penalties.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. Sec. 1. The legislature finds that the unavailability of capital to viable firms that do not meet current commercial bank or venture capital criteria for loans or equity investments can have a devastating impact on the state's economic development efforts. Without reasonable access to financing, talented and aggressive entrepreneurs are cut out of the economic system and the overall economy of the state suffers.

The process of job creation and economic development requires readily available capital for small and young companies that are the major source of innovations and new jobs. To ensure the availability of capital to entrepreneurs in Washington state, the legislature hereby eliminates unnecessary restrictions which have discouraged the formation of industrial development corporations under current law and aids incentives to encourage the formation of business and industrial development corporations.

Sec. 2. Section 1, chapter 162, Laws of 1963 and RCW 31.24.010 are each amended to read as follows:

((As--used--in--this--chapter,--the--following-words-and-phrases, unless-differently-defined-or-described,-shall-have-the-meanings--and

CORRECTION

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02-576(2/77)

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Sec. 2. Section 1, chapter 162, Laws of 1963 and RCW 31.24.010 are each amended to read as follows:

((As used in this chapter, the following words and phrases, unless differently defined or described, shall have the meanings and

~~references---as---follows))~~ Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter:

(1) Corporation means a Washington business and industrial development corporation created under this chapter.

(2) Financial institution means any banking corporation or trust company, national banking association, savings and loan association, insurance company or related corporation, partnership, foundation, or other institution engaged primarily in lending or investing funds.

~~((Member-means-any-financial--institution--authorized--to--do business--within--this-state-which-shall-undertake-to-lend-money-to-a corporation-created--under--this--chapter,--upon--its--call,--and--in accordance-with-the-provisions-of-this-chapter.~~

~~(4)~~)) Board of directors means the board of directors of the corporation created under this chapter.

~~((5)-Loan--limit--means--for--any--member,--the--maximum--amount permitted--to-be-outstanding-at-one-time-on-loans-made-by-such-member to-the-corporation,--as--determined--under--the--provisions--of--this chapter.~~))

(4) Business means an individual, proprietorship, joint venture, partnership, trust, business trust, syndicate, association, joint stock company, cooperative, corporation, or any other organization operating in this state, and paying more than fifty percent of its contributions or payments for the purposes of unemployment insurance to this state.

(5) Associate means, if used with respect to a corporation:

(a) A controlling person, director, officer, agent, or advisor of that corporation.

(b) A director, officer, or partner of a person referred to in (a) of this subsection.

(c) A person who controls, is controlled by, or is under common control with a person referred to in (a) of this subsection directly or indirectly through one or more intermediaries.

(d) Any close relative of any person referred to in (a) of this subsection.

this subsection is a director or officer.

(f) A person in which a person referred to in (a) through (d) of this subsection, or any combination of those persons acting in concert, owns or controls, directly or indirectly, a twenty percent or greater equity interest.

For the purposes of this subsection (5)(f), a person who is in a relationship referred to in this subsection within six months before or after a corporation provides financing assistance shall be considered to be in that relationship as of the date that corporation provides that financing assistance.

If a corporation, in order to protect its interests, designates a person to serve as a director of, officer of, or in any capacity in the management of a business to which that corporation provides financing assistance, that person shall not, on that account, be considered to have a relationship with that business. This exception does not apply if the person has, directly or indirectly, any other financial interest in the business or if the person, at any time before the corporation provides the financing assistance, served as a director of, officer of, or in any other capacity in the management of the business for a period of thirty days or more.

(6) Close relative means a parent, child, sibling, spouse, father-in-law, mother-in-law, son-in-law, brother-in-law, daughter-in-law, sister-in-law, grandparent, or grandchild.

(7) Supervisor means the state supervisor of banking.

Sec. 3. Section 2, chapter 162, Laws of 1963 as amended by section 1, chapter 16, Laws of 1974 ex. sess. and RCW 31.24.020 are each amended to read as follows:

((Fifteen)) Seven or more persons, a majority of whom shall be r sidents of this state, who may desire to create ((an)) a business and industrial development corporation under the provisions of this chapter, for the purpose of promoting, developing and advancing the prosperity and economic welfare of the state and, to that end, to exercise the powers and privileges hereinafter provided, may be incorporated by filing in the office of the secretary of state, as hereinafter provided, articles of incorporation. The articles of incorporation shall contain:

(1) The name of the corporation, which shall include the words "Business and Industrial Development Corporation of Washington."

(2) The location of the principal office of the corporation, but such corporation may have offices in such other places within the state as may be fixed by the board of directors.

(3) The purposes for which the corporation is founded, which shall be to ((promote, stimulate, develop and advance the business prosperity and economic welfare of Washington and its citizens; to encourage and assist through loans, investments or other business transactions in the location of new business and industry in this state and to rehabilitate and assist existing business and industry; to stimulate and assist in the expansion of all kinds of business activity which will tend to promote the business development and maintain the economic stability of this state; provide maximum opportunities for employment, encourage thrift, and improve the standard of living of citizens of this state; similarly, to cooperate and act in conjunction with other organizations, public or private, in the promotion and advancement of industrial, commercial, agricultural and recreational developments in this state; and to provide financing for the promotion, development, and conduct of all kinds of business activity in this state)) provide moderate risk financing and management assistance to businesses operating primarily in Washington state to increase job opportunities for Washington citizens and the prosperity of the state.

(4) The names and post office addresses of the members of the first board of directors, who, unless otherwise provided by the articles of incorporation or the bylaws, shall hold office for the first year of existence of the corporation or until their successors are elected and have qualified.

(5) Any provision which the incorporators may choose to insert for the regulation of the business and for the conduct of the affairs of the corporation and any provision creating, dividing, limiting and regulating the powers of the corporation, the directors, stockholders or any class of the stockholders, including, but not limited to a list of the officers, and provisions governing the issuance of stock

(6) The amount of authorized capital stock and the number of shares into which it is divided, the par value of each share and the amount of capital with which it will commence business and, if there is more than one class of stock, a description of the different classes; the names and post office addresses of the subscribers of stock and the number of shares subscribed by each. The aggregate of the subscription shall be the minimum amount of capital with which the corporation shall commence business which shall not be less than ((fifty--thousand)) one million dollars, except as otherwise provided in this chapter. The articles of incorporation may also contain any provision consistent with the laws of this state for the regulation of the affairs of the corporation.

(7) The articles of incorporation shall be in writing, subscribed by not less than five natural persons competent to contract and acknowledged by each of the subscribers before an officer authorized to take acknowledgments and filed in the office of the secretary of state for approval. A duplicate copy so subscribed and acknowledged may also be filed.

(8) The articles of incorporation shall recite that the corporation is organized under the provisions of this chapter.

The secretary of state shall not approve articles of incorporation for a corporation organized under this chapter until ((a-total-of-at-least-ten-national-banks,-state-banks,-savings-banks, industrial--savings--banks,--federal--savings--and-loan-associations, domestic-building--and--loan--associations,--or--insurance--companies authorized--to--do--business--within--this--state,-or-any-combination thereof,--have--agreed--in--writing--to--become---members---of---said corporation;--and--said--written--agreement--shall--be-filed-with-the secretary-of-state-with-the-articles-of-incorporation-and-the--filing of--same--shall--be--a--condition--precedent--to--the-approval-of-the articles-of-incorporation-by--the--secretary--of--state)) the state supervisor of banking has certified the corporation as eligible to operate as a business and industrial development corporation under this chapter.

A person transacting business in this state shall not use a name or title which indicates that the person is a business and industrial

development corporation including, but not limited to, use of the term "BIDCO," and a person shall not otherwise represent that the person is a business and industrial development corporation until the person has been certified as a business and industrial development corporation.

A corporation shall be certified by the supervisor of banking as eligible to operate under this chapter upon meeting the following conditions:

(a) The corporation has paid a three thousand dollar certification fee to the state supervisor of banking and such other fees or costs as the supervisor establishes by rule;

(b) The corporation has submitted a business plan which includes at least three years of detailed financial projections and other relevant information;

(c) The corporation has provided information about the character and competence of each director and officer of the corporation; and

(d) The supervisor finds that the corporation's officers and directors are capable of running the corporation competently, has a net worth and lendable funds sufficient to provide financing assistance, and that the directors and officers of the corporation have agreed to comply with the terms of this chapter and its intent to facilitate the availability of moderate risk financing to firms in Washington. In making the finding under this subsection, the supervisor of banking shall:

(i) Consult with the director of trade and economic development and the director of community development; and

(ii) Require a minimum net worth of one million dollars and an additional one million dollars in lendable funds or an enforceable pledge for one million dollars in lendable funds, unless the supervisor finds that special circumstances render lesser amounts of net worth or lendable funds adequate for the corporation to meet the intent of this chapter and operate according to its business plan.

Whenever the articles of incorporation shall have been filed in the office of the secretary of state and approved by ((him)) the secretary and all taxes, fees and charges, have been paid, as required by law, the subscribers, their successors and assigns shall

constitute a corporation, and said corporation shall then be authorized to commence business, and stock thereof to the extent herein or hereafter duly authorized may from time to time be issued.

Sec. 4. Section 3, chapter 162, Laws of 1963 as last amended by section 42, chapter 466, Laws of 1985 and RCW 31.24.030 are each amended to read as follows:

The business of a corporation shall be to provide financing and management assistance to businesses operating primarily in Washington state. In furtherance of its ((purposes)) business and in addition to the powers now or hereafter conferred on business corporations by the provisions of Title 23A RCW, ((the)) each corporation shall, subject to the restrictions and limitations herein contained, have the following powers:

(1) To elect, appoint and employ officers, agents and employees; to make contracts and incur liabilities for any of the purposes of the corporation((:---PROVIDED,--That-the-corporation-shall-not-incur any-secondary-liability-by-way-of--guaranty--or--endorsement--of--the obligations--of--any--person,-firm,-corporation,-joint-stock-company, association-or-trust,-or-in-any-other-manner)).

(2) To borrow money ((from-its-members--and--the--small--business administration-and-any-other-similar-federal-agency,)) for any of the purposes of the corporation; to issue therefor its bonds, debentures, notes or other evidence of indebtedness, whether secured or unsecured, and to secure the same by mortgage, pledge, deed of trust or other lien on its property, franchises, rights and privileges of every kind and nature or any part thereof or interest therein, without securing stockholder ((or--member)) approval((:--PROVIDED, That-no-loan-to-the-corporation-shall-be-secured-in-any-manner-unless all-outstanding-loans-to-the-corporation-shall-be-secured-equally-and ratably-in-proportion-to-the-unpaid-balance-of-such-loans-and-in--the same-manner)).

(3) To make loans to any person, firm, corporation, joint-stock company, association or trust, and to establish and regulate the terms and conditions with respect to any such loans and the charges for interest and service connected therewith((:--PROVIDED,--That--the corporation--shall--not-approve-any-application-for-a-loan-unless-and

until the person applying for said loan shall show that he has applied for the loan through ordinary banking channels and that the loan has been refused by at least one bank or other financial institution)).

(4) To purchase, receive, hold, lease, or otherwise acquire, and to sell, convey, transfer, lease or otherwise dispose of real and personal property, together with such rights and privileges as may be incidental and appurtenant thereto and the use thereof, ((including, but not restricted to, any)) if the real or personal property is for the corporation's use in operating its business, or if the real or personal property is acquired by the corporation from time to time in the satisfaction of debts or enforcement of obligations.

(5) ((To acquire the good will, business, rights, real and personal property, and other assets, or any part thereof, or interest therein, of any persons, firms, corporations, joint stock companies, associations or trusts, and to assume, undertake, or pay the obligations, debts and liabilities of any such person, firm, corporation, joint stock company, association or trust; to acquire improved or unimproved real estate for the purpose of constructing industrial plants or other business establishments thereon or for the purpose of disposing of such real estate to others for the construction of industrial plants or other business establishments; and to acquire, construct or reconstruct, alter, repair, maintain, operate, sell, convey, transfer, lease, or otherwise dispose of industrial plants or business establishments;)) To determine the form and the terms and conditions for financing assistance provided by the corporation to a business including, but not limited to forms such as loans; purchase of debt instruments; straight equity investments, such as purchase of common stock or preferred stock; debt with equity features such as warrants to purchase stock, convertible debentures, or receipt of a percent of net income or sales; royalty based financing; guaranteeing of debt; or leasing of property. A corporation may purchase securities of a business either directly or indirectly through an underwriter. A corporation may participate in the program of the small business administration

536, 15 U.S.C. Sec. 636(a), or any other government program for which the corporation is eligible and which has as its function the provision or facilitation of financing or management assistance to businesses. If a corporation participates in a program referred to in this section, the corporation shall comply with the requirements of that program. Financing assistance provided by a corporation to a business shall be for the business purposes of that business.

(6) ((To acquire, subscribe for, own, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of the stock, shares, bonds, debentures, notes or other securities and evidences of interest in, or indebtedness of, any person, firm, corporation, joint-stock company, association or trust, and while the owner or holder thereof to exercise all the rights, powers and privileges of ownership, including the right to vote thereon;)) To provide management assistance to a business which may encompass both management or technical advice and management or technical services. Management assistance provided by a corporation to a business shall be for the business purposes of that business.

(7) To mortgage, pledge, or otherwise encumber any property, right or things of value, acquired pursuant to the powers contained in subsection((s)) (4)((;)) or (5)((;or (6);)) of this section, as security for the payment of any part of the purchase price thereof.

(8) To cooperate with and avail itself of the facilities of the United States department of commerce, the department of trade and economic development, the department of community development, and any other similar state or federal governmental agencies; and to cooperate with and assist, and otherwise encourage organizations in the various communities of the state in the promotion, assistance and development of the business prosperity and economic welfare of such communities or of this state or of any part thereof.

(9) To make donations for charitable, educational, research, or similar purposes.

(10) To do all acts and things necessary or convenient to carry out the powers expressly granted in this chapter.

Sec. 5. Section 4, chapter 162, Laws of 1963 and RCW 31.24.040 are each amended to read as follows:

Notwithstanding any rule at common law or any provision of any general or special law or any provision in their respective charters, agreements of association, articles of organization or trust indentures:

((~~(1)~~)) Any person including all domestic corporations organized for the purpose of carrying on business within this state and further including without implied limitation public utility companies and insurance companies, and foreign corporations licensed to do business within this state, and all financial institutions as defined herein, and all trustees, are hereby authorized to acquire, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of any bonds, securities or other evidences of indebtedness created by, or the shares of the capital stock of, the corporation, and while owners of said stock to exercise all the rights, powers and privileges of ownership, including the right to vote thereon, all without the approval of any regulatory authority of the state except as otherwise provided in this chapter((~~:--PROVIDED, That a financial institution which does not become a member of the corporation shall not be permitted to acquire any shares of the capital stock of the corporation;~~

~~(2) All financial institutions are hereby authorized to become members of the corporation and to make loans to the corporation as provided herein; and~~

~~(3) Each financial institution which becomes a member of the corporation is hereby authorized to acquire, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of, any bonds, securities or other evidences of indebtedness created by, or the shares of the capital stock of, the corporation, and while owners of said stock, to exercise all the rights, powers and privileges of ownership, including the right to vote thereon, all without the approval of any regulatory authority of the state:--PROVIDED, That the amount of the capital stock of the corporation which may be acquired by any member pursuant to the authority granted herein shall not exceed ten percent of the loan limit of such member)).

The amount of capital stock of the corporation which any

the authority granted herein is in addition to the amount of capital stock in corporations which such ((member)) financial_institution may otherwise be authorized to acquire.

Sec. 6. Section 7, chapter 162, Laws of 1963 and RCW 31.24.070 are each amended to read as follows:

The stockholders ((and--the--members)) of the corporation shall have the following powers of the corporation:

(1) To determine the number of and elect directors as provided in RCW 31.24.090;

(2) To make, amend and repeal bylaws;

(3) To amend this charter as provided in RCW 31.24.080;

(4) To dissolve the corporation as provided in RCW 31.24.150;

(5) To do all things necessary or desirable to secure aid, assistance, loans and other financing from any financial institutions, and from any agency established under the small business investment act of 1958, public law 85-699, 85th congress, or other similar federal laws now or hereafter enacted.

(6) To exercise such other of the powers of the corporation consistent with this chapter as may be conferred on the stockholders ((and-the-members)) by the bylaws.

As to all matters requiring action by the stockholders ((and-the members)) of the corporation, said stockholders ((and-said--members)) shall vote separately thereon by classes, and, except as otherwise herein provided, such matters shall require the affirmative vote of a majority of the votes to which the stockholders present or represented at the meeting shall be entitled ((and-the-affirmative vote-of-a-majority-of-the-votes--to--which--the--members--present--or represented-at-the-meeting-shall-be-entitled)).

((Each)) Stockholders shall have one vote, in person or by proxy, for each share of capital stock held ((by-him,-and-each-member-shall have-one-vote,-in-person-or-by-proxy,-except-that-any-member-having-a loan--limit--of--more--than--one--thousand--dollars--shall--have--one additional--vote,--in--person--or--by--proxy,-for-each-additional-one thousand-dollars-which-such-member-is-authorized-to-have--outstanding on--loans--to--the--corporation--at--any-one-time-as-determined-under subsection-(3)-(b)-of-RCW-31.24.050)).

Sec. 7. Section 8, chapter 162, Laws of 1963 and RCW 31.24.080 are each amended to read as follows:

The articles of incorporation may be amended by the votes of the stockholders ((and--the--members--of---the---corporation)), voting separately by classes, and such amendments shall require approval by the affirmative vote of two-thirds of the votes to which the stockholders ((shall-be-entitled-and-two-thirds-of-the-votes-to-which the--members)) shall be entitled: PROVIDED, That no amendment of the articles of incorporation which is inconsistent with the general purposes expressed herein or which authorizes any additional class of capital stock to be issued, or which eliminates or curtails the right of the state supervisor of banking to examine the corporation or the obligation of the corporation to make reports as provided in RCW 31.24.120, shall be made((:--PROVIDED,-FURTHER,-That-no-amendment-of the-articles-of-incorporation-which-increases--the--obligation--of--a member--to--make-loans-to-the-corporation,-or-makes-any-change-in-the principal-amount,-interest-rate,-maturity-date,-or-in-the-security-or credit--position--of--an--outstanding--loan--of--a--member---to---the corporation,--or-affects-a-member's-right-to-withdraw-from-membersh p as-provided-herein,-or-affects-a-member's-voting-rights--as--provided herein,-shall-be-made-without-the-consent-of-each-membership-affected by-such-amendment)).

Within thirty days after any meeting at which an amendment of the articles of incorporation has been adopted, articles of amendment signed and sworn to by the president, treasurer, and a majority of the directors, setting forth such amendment and due adoption thereof, shall be submitted to the secretary of state, who shall examine them and if ((he)) <u>the secretary</u> finds that they conform to the requirements of this chapter, shall so certify and endorse his <u>or her</u> approval thereon. Thereupon, the articles of amendment shall be filed in the office of the secretary of state and no such amendment shall take effect until such articles of amendment shall have been filed as aforesaid.

Sec. 8. Section 9, chapter 162, Laws of 1963 as amended by section 3, chapter 16, Laws of 1974 ex. sess. and RCW 31.24.090 are

The business and affairs of the corporation shall be managed and conducted by a board of directors, a president, a vice president, a secretary, a treasurer, and such other officers and such agents as the corporation by its bylaws shall authorize. The board of directors shall consist of such number, not less than ((eleven)) seven nor more than twenty-one, as shall be determined in the first instance by the incorporators and thereafter annually by ((the members--and)) the stockholders of the corporation. The board of directors may exercise all the powers of the corporation except such as are conferred by law or by the bylaws of the corporation upon the stockholders ((or-members)) and shall choose and appoint all the agents and officers of the corporation and fill all vacancies except vacancies in the office of director which shall be filled as hereinafter provided. The board of directors shall be elected in the first instance by the incorporators and thereafter at the annual meeting, the day and month of which shall be established by the bylaws of the corporations, or, if no annual meeting shall be held in the year of incorporation, then within ninety days after the approval of the articles of incorporation at a special meeting as hereinafter provided. ((At-each-annual-meeting,-or-at-each-special-meeting--held as--provided--in--this--section,-the-members-of-the-corporation-shall elect-two-thirds-of-the-board-of-directors-and-the-stockholders-shall elect-the-remaining-directors.)) The directors shall hold office until the next annual meeting of the corporation or special meeting held in lieu of the annual meeting after the election and until their successors are elected and qualified unless sooner removed in accordance with the provisions of the bylaws. Any vacancy in the office of a director ((elected-by-the-members-shall-be-filled-by--the directors--elected-by-the-members,-and-any-vacancy-in-the-office-of-a director-elected--by--the--stockholders)) shall be filled by the directors ((elected-by-the-stockholders)).

Directors and officers shall not be responsible for losses unless the same shall have been occasioned by the wilful misconduct of such directors and officers.

NEW SECTION. Sec. 9. A new section is added to chapter 31.24 RCW to read as follows:

(1) A corporation shall transact its business in a safe and sound manner and shall maintain itself in a safe and sound condition. The supervisor of banking shall revoke the certification of a corporation if the supervisor finds that the corporation has failed to operate or maintain itself in a safe and sound manner or has failed to comply with the intent of this chapter, and the corporation may not transact business as a business and industrial development corporation until such time as the supervisor recertifies the corporation consistent with RCW 31.24.020(8). The secretary of state shall remove from the active files the incorporation records of a corporation with its certification revoked until such time as the supervisor of banking has recertified the corporation.

(2) In determining whether a corporation is transacting business in a safe and sound manner or has committed an unsafe or unsound act, the supervisor shall consider the risk of a provision of financing assistance to a business firm, within the context of the anticipated higher risks associated with the purposes of corporations organized under this chapter.

(3) Subsection (2) of this section does not limit the authority of the supervisor to:

(a) Determine that a corporation's financing assistance to a single business or group of affiliated firms is in violation of subsection (1) of this section if the amount of that financing assistance is unduly large in relation to the total assets or the total shareholder's equity of the corporation;

(b) Require that a corporation maintain a reserve in the amount of anticipated losses; and

(c) Require that a corporation have a written financing assistance policy, approved by its board of directors, including credit evaluation and other matters. The supervisor shall not require that a corporation adopt a financing assistance policy that contains standards which prevent the corporation from exercising flexibility in meeting the capital needs of the individual firms.

Sec. 10. Section 12, chapter 162, Laws of 1963 and RCW 31.24.120 are each amended to read as follows:

every eighteen months by the state supervisor of banking and shall make quarterly reports of its condition ((not less than annually)) to said state supervisor of banking and more frequently upon call of the state supervisor of banking, who in turn shall make copies of such reports available to the state insurance commissioner and the governor; and the corporation shall also furnish such other information as may from time to time be required by the state supervisor of banking and secretary of state. The corporation shall pay the actual cost of said examinations. The state supervisor of banking shall exercise the same power and authority over corporations organized under this chapter as is now exercised over banks and trust companies by the provisions of the Title 30 RCW, where the provisions of Title 30 RCW are not in conflict with this chapter.

The state supervisor of banking shall publish annually and provide to the senate and house commerce and labor committees and ways and means committees information on the impact of this chapter in promoting economic development in Washington. At the minimum, the information shall include aggregate statistics on each of the following:

(1) The number and locations of corporations operating under this chapter;

(2) The number of instances and dollar amount of financing and management assistance given by corporations operating under this chapter to:

(a) All individual businesses assisted;

(b) Types of businesses classified using the standard industrial classification manual;

(c) Minority and women-owned businesses; and

(d) Businesses located in distressed areas;

(3) The number of jobs created or retained by:

(a) All individual businesses assisted;

(b) Types of businesses classified using the standard industrial classification manual;

(c) Minority and women-owned businesses;

(d) Businesses located in distressed areas; and

(e) The wage rates paid to the employees hired or retained; and

(4) The percentage of each business's total contributions or payments for unemployment insurance made to the state of Washington.

Sec. 11. Section 13, chapter 162, Laws of 1963 and RCW 31.24.130 are each amended to read as follows:

The first meeting of the corporation shall be called by a notice signed by three or more of the incorporators, stating the time, place and purpose of the meeting, a copy of which notice shall be mailed, or delivered, to each incorporator at least five days before the day appointed for the meeting. Said first meeting may be held without such notice upon agreement in writing to that effect signed by all the incorporators. There shall be recorded in the minutes of the meeting a copy of said notice or of such unanimous agreement of the incorporators.

At such first meeting, the incorporators shall organize by the choice, by ballot, of a temporary clerk; by the adoption of bylaws, by the election by ballot of directors; and by action upon such other matters within the powers of the corporation as the incorporators may see fit. The temporary clerk shall be sworn and shall make and attest a record of the proceedings. ((Ten)) Five of the incorporators shall be a quorum for the transaction of business.

NEW SECTION. Sec. 12. A new section is added to chapter 31.24 RCW to read as follows:

(1) The director of trade and economic development is authorized to provide assistance and advice to persons forming corporations under this chapter.

(2) The director may contract with corporations organized under this chapter. Each contract shall specify that the money received under the contract shall be used to provide management assistance, which may include management and technical advice and services and other technical support, to businesses receiving financing from the contracting corporation. No more than five corporations may contract with the department under this section at any time. No corporation may receive more than a total of two hundred fifty thousand dollars under this section.

shall agree that at least one-half of the corporation's loans and investments will be to businesses operating in distressed areas as defined in RCW 82.60.020(3) and that the corporation's loans and investments will be to businesses that have agreed to enter first-source hiring agreements with the employment security department, local private industry councils, local labor unions, or other employment or placement agencies. These agreements shall require the businesses to interview prospective employees from a list of the unemployed supplied by the employment or placement agencies and hire any qualified candidates on the list before hiring any candidates not on the list. The first-source hiring agreements shall require the business to:

(a) Provide a job description for each position;

(b) Provide a description of the skills each position requires; and

(c) Provide a salary range for each position.

The first-source hiring agreements shall require the employment or placement agency to provide a list of candidates who have expressed interest in each available position and who meet the skill requirements of each position. No fees may be charged of the unemployed candidates on the list supplied by the employment or placement agency.

(4) The director of trade and economic development shall adopt rules to carry out this section.

Sec. 13. Section 14, chapter 162, Laws of 1963 and RCW 31.24.140 are each amended to read as follows:

Unless otherwise provided in the articles of incorporation, the period of duration of the corporation shall be perpetual, subject, however, to the right of the stockholders ((and--the--members)) to dissolve the corporation prior to the expiration of said period as provided in RCW 31.24.150.

Sec. 14. Section 15, chapter 162, Laws of 1963 as amended by section 52, chapter 3, Laws of 1983 and RCW 31.24.150 are each amended to read as follows:

The corporation may upon the affirmative vote of two-thirds of

the votes to which the stockholders shall be entitled ((and-two-thirds-of-the-votes-to-which-the-member-shall-be-entitled)) dissolve said corporation as provided by Title 23A RCW, insofar as Title 23A RCW is not in conflict with the provisions of this chapter. Upon any dissolution of the corporation, none of the corporation's assets shall be distributed to the stockholders until all sums due the ((members)) creditors of the corporation ((as--creditors--thereof)) have been paid in full.

NEW SECTION. Sec. 15. A new section is added to chapter 82.04 RCW to read as follows:

(1) A credit is allowed against the tax imposed under this chapter for each of the fiscal years beginning July 1, 1989, and ending June 30, 1994, for amounts invested in each such year in business and industrial development corporations organized under chapter 31.24 RCW. The amount of allowable credit in each such year shall be as follows:

FISCAL YEAR	AMOUNT INVESTED
1990	25%
1991	20%
1992	15%
1993	10%
1994	5%
1995	0%

(2) Applications for credit under this section shall be submitted as prescribed by the department by rule. No credit may be taken under this section until it has been approved by the department.

(3) Credits allowed under this section to any taxpayer shall not exceed the tax otherwise payable under this chapter by the taxpayer for that fiscal year. Any excess credit shall not be carried over to succeeding years.

(4) No credit may be allowed under this section for an investment for which credit has been allowed under section 16 or 17 of this act.

(5) Any taxpayer receiving a credit under this section who

within five years shall repay the credit in proportion to the withdrawal as provided in section 18 of this act.

NEW SECTION. Sec. 16. A new section is added to chapter 82.16 RCW to read as follows:

(1) A credit is allowed against the tax imposed under this chapter for each of the fiscal years beginning July 1, 1989, and ending June 30, 1994, for amounts invested in each such year in business and industrial development corporations organized under chapter 31.24 RCW. The amount of allowable credit in each such year shall be as follows:

FISCAL YEAR	AMOUNT INVESTED
1990	25%
1991	20%
1992	15%
1993	10%
1994	5%
1995	0%

(2) Applications for credit under this section shall be submitted as prescribed by the department by rule. No credit may be taken under this section until it has been approved by the department.

(3) Credits allowed under this section to any taxpayer shall not exceed the tax otherwise payable under this chapter by the taxpayer for that fiscal year. Any excess credit shall not be carried over to succeeding years.

(4) No credit may be allowed under this section for an investment for which credit has been allowed under section 15 or 17 of this act.

(5) Any taxpayer receiving a credit under this section who withdraws all or part of the investment on which the credit was based within five years shall repay the credit in proportion to the withdrawal as provided in section 18 of this act.

NEW SECTION. Sec. 17. A new section is aided to chapter 48.14 RCW to read as follows:

(1) A credit is allowed against the tax imposed under this chapter for each of the fiscal years beginning July 1, 1989, and

ending June 30, 1994, for amounts invested in each such year in business and industrial development corporations organized under chapter 31.24 RCW. The amount of allowable credit in each such year shall be as follows:

FISCAL YEAR	AMOUNT INVESTED
1990	25%
1991	20%
1992	15%
1993	10%
1994	5%
1995	0%

(2) Applications for credit under this section shall be submitted as prescribed by the department by rule. No credit may be taken under this section until it has been approved by the department.

(3) Credits allowed under this section to any taxpayer shall not exceed the tax otherwise payable under this chapter by the taxpayer for that fiscal year. Any excess credit shall not be carried over to succeeding years.

(4) No credit may be allowed under this section for an investment for which credit has been allowed under section 15 or 16 of this act.

(5) Any taxpayer receiving a credit under this section who withdraws all or part of the investment on which the credit was based within five years shall repay the credit in proportion to the withdrawal as provided in section 18 of this act.

NEW SECTION. Sec. 18. A new section is added to chapter 31.24 RCW to read as follows:

(1) Investors which take advantage of the tax credits allowed under sections 15, 16, and 17 of this act and which withdraw within the first five years of their investment any funds invested in a corporation governed by this chapter shall be obligated to return to the state treasury a portion of the tax credit granted which is equal in proportion to the amount the withdrawn funds represent relative to the total funds invested by the investor.

obligated to pay to the state treasurer an amount equal to any tax credits taken by investors in such corporation within three years preceding the loss of certification. Such payment shall be made within eighteen months of the loss of certification unless the corporation is recertified within that time. The obligation to pay the state treasurer created by this section shall be a lien on the assets and capital of a corporation losing its certification and shall have priority over any other liens or security interests.

NEW SECTION. Sec. 19. A new section is added to chapter 31.24 RCW to read as follows:

(1) A corporation shall not provide, directly or indirectly, financing assistance to:

(a) An associate of the corporation;

(b) Discharge, or to free other money for use in discharging, in whole or in part, an obligation to an associate of that corporation. This section does not apply to a transaction effected by an associate of a corporation in the normal course of that associate's business involving a line of credit or short-term financing assistance.

(c) A business to which an associate of that corporation provides financing assistance, either contemporaneously with, or within one year before or after, the providing of financing assistance by the corporation, if the terms on which the corporation provides financing assistance are less favorable to the corporation than the terms on which the associate provides financing assistance to the business. If the financing assistance provided by the associate of the corporation is of a different kind from the financing assistance provided by the corporation, the burden shall be on the corporation to prove that the terms on which the corporation provided financing assistance were at least as favorable to the corporation as the terms on which the associate provided financing assistance to the business.

This subsection (1)(c) does not apply to any of the following:

(i) If the associate is a controlling person of the corporation and is also the only shareholder of the corporation;

(ii) If the associate is a subsidiary of the corporation; or

(iii) A transaction effected by an associate of a corporation in the normal course of that associate's business involving a line of

credit or short-term financing assistance.

(2) For the purposes of this section and section 21 of this act:

(a) "Person" means an individual, proprietorship, joint venture, partnership, trust, business trust, syndicate, association, joint stock company, corporation, cooperative, government, agency of a government, or any other organization. If used with respect to acquiring control of or controlling a specified person, person includes a combination of two or more persons acting in concert;

(b) "Control" means, if used with respect to a specified person, the power to direct or cause the direction of, directly or indirectly through one or more intermediaries, the management and policies of that specified person, whether through the ownership of voting securities; by contract, other than a commercial contract for goods or nonmanagement services; or otherwise. A natural person shall not be considered to control a person solely on account of being a director, officer, or employee of that person. A person who, directly or indirectly, owns of record or beneficially holds with power to vote, or holds proxies with discretionary authority to vote, twenty percent or more of the then outstanding voting securities issued by a corporation shall be rebuttably presumed to control that corporation; and

(c) "Controlling person" means, if used with respect to a specified person, a person who controls that specified person, directly or indirectly through one or more intermediaries.

NEW SECTION. Sec. 20. A new section is added to chapter 31.24 RCW to read as follows:

An associate of a corporation shall not receive, directly or indirectly, from a person to whom that corporation provides financing assistance, compensation in connection with the providing of that financing assistance or anything of value for procuring, influencing, or attempting to procure or influence the corporation's action with respect to the providing of the financing assistance. This section does not apply to the receipt of fees by an associate of a corporation for bona fide closing services performed by that associate if all of the following are true:

to whom the financing assistance is provided, is designated by the corporation to perform the services;

(2) The services are appropriate and necessary in the circumstances;

(3) The fees for the services are approved as reasonable by the corporation; and

(4) The fees for the services are collected by the corporation on behalf of the associate.

Sec. 21. Section 2, chapter 107, Laws of 1987 and section 1, chapter 337, Laws of 1987 and section 16, chapter 370, Laws of 1987 and section 1, chapter 404, Laws of 1987 and section 10, chapter 411, Laws of 1987 and RCW 42.17.310 are each reenacted and amended to read as follows:

(1) The following are exempt from public inspection and copying:

(a) Personal information in any files maintained for students in public schools, patients or clients of public institutions or public health agencies, welfare recipients, prisoners, probationers, or parolees.

(b) Personal information in files maintained for employees, appointees, or elected officials of any public agency to the extent that disclosure would violate their right to privacy.

(c) Information required of any taxpayer in connection with the assessment or collection of any tax if the disclosure of the information to other persons would (i) be prohibited to such persons by RCW 82.32.330 or (ii) violate the taxpayer's right to privacy or result in unfair competitive disadvantage to the taxpayer.

(d) Specific intelligence information and specific investigative records compiled by investigative, law enforcement, and penology agencies, and state agencies vested with the responsibility to discipline members of any profession, the nondisclosure of which is essential to effective law enforcement or for the protection of any person's right to privacy.

(e) Information revealing the identity of persons who file complaints with investigative, law enforcement, or penology agencies, other than the public disclosure commission, if disclosure would endanger any person's life, physical safety, or property: PROVIDED,

That if at the time the complaint is filed the complainant indicates a desire for disclosure or nondisclosure, such desire shall govern: PROVIDED, FURTHER, That all complaints filed with the public disclosure commission about any elected official or candidate for public office must be made in writing and signed by the complainant under oath.

(f) Test questions, scoring keys, and other examination data used to administer a license, employment, or academic examination.

(g) Except as provided by chapter 8.26 RCW, the contents of real estate appraisals, made for or by any agency relative to the acquisition or sale of property, until the project or prospective sale is abandoned or until such time as all of the property has been acquired or the property to which the sale appraisal relates is sold, but in no event shall disclosure be denied for more than three years after the appraisal.

(h) Valuable formulae, designs, drawings, and research data obtained by any agency within five years of the request for disclosure when disclosure would produce private gain and public loss.

(i) Preliminary drafts, notes, recommendations, and intra-agency memorandums in which opinions are expressed or policies formulated or recommended except that a specific record shall not be exempt when publicly cited by an agency in connection with any agency action.

(j) Records which are relevant to a controversy to which an agency is a party but which records would not be available to another party under the rules of pretrial discovery for causes pending in the superior courts.

(k) Records, maps, or other information identifying the location of archaeological sites in order to avoid the looting or depredation of such sites.

(l) Any library record, the primary purpose of which is to maintain control of library materials, or to gain access to information, which discloses or could be used to disclose the identity of a library user.

(m) Financial information supplied by or on behalf of a person,

proposal for (a) a ferry system construction or repair contract as required by RCW 47.60.680 through 47.60.750 or (b) highway construction or improvement as required by RCW 47.28.070.

(n) Railroad company contracts filed with the utilities and transportation commission under RCW 81.34.070, except that the summaries of the contracts are open to public inspection and copying as otherwise provided by this chapter.

(o) Financial and commercial information and records supplied by private persons pertaining to export services provided pursuant to chapter 53.31 RCW.

(p) Financial disclosures filed by private vocational schools under chapter 28C.10 RCW.

(q) Records filed with the utilities and transportation commission or attorney general under RCW 80.04.095 that a court has determined are confidential under RCW 80.04.095.

(r) Financial and commercial information and records supplied by businesses during application for loans or program services provided by chapters 43.31, 43.63A, and 43.168 RCW.

(s) Membership lists or lists of members or owners of interests of units in timeshare projects, subdivisions, camping resorts, condominiums, land developments, or common-interest communities affiliated with such projects, regulated by the department of licensing, in the files or possession of the department.

(t) Except as provided under section 2 of this 1987 act [1987 c 404 § 2], all applications for public employment, including the names of applicants, resumes, and other related materials submitted with respect to an applicant.

(u) The residential addresses and residential telephone numbers of employees or volunteers of a public agency which are held by the agency in personnel records, employment or volunteer rosters, or mailing lists of employees or volunteers.

(v) The residential addresses and residential telephone numbers of the customers of a public utility contained in the records or lists held by the public utility of which they are customers.

(w) Information obtained by the board of pharmacy as provided in RCW 69.45.090.

(x) Financial information, business plans, examination reports, and any information produced or obtained in evaluating or examining a business and industrial development corporation organized or seeking certification under chapter 31.24 RCW.

(2) Except for information described in subsection (1)(c)(i) of this section and confidential income data exempted from public inspection pursuant to RCW 84.40.020, the exemptions of this section are inapplicable to the extent that information, the disclosure of which would violate personal privacy or vital governmental interests, can be deleted from the specific records sought. No exemption may be construed to permit the nondisclosure of statistical information not descriptive of any readily identifiable person or persons.

(3) Inspection or copying of any specific records exempt under the provisions of this section may be permitted if the superior court in the county in which the record is maintained finds, after a hearing with notice thereof to every person in interest and the agency, that the exemption of such records is clearly unnecessary to protect any individual's right of privacy or any vital governmental function.

(4) Agency responses refusing, in whole or in part, inspection of any public record shall include a statement of the specific exemption authorizing the withholding of the record (or part) and a brief explanation of how the exemption applies to the record withheld.

NEW SECTION. Sec. 22. The following acts or parts of acts are each repealed:

(1) Section 5, chapter 162, Laws of 1963, section 1, chapter 90, Laws of 1973 1st ex. sess., section 2, chapter 16, Laws of 1974 ex. sess. and RCW 31.24.050;

(2) Section 6, chapter 162, Laws of 1963 and RCW 31.24.060; and

(3) Section 10, chapter 162, Laws of 1963 and RCW 31.24.100.

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

P.O. Box Y, State Capitol
Juneau, Alaska 99811-3100
Mail Stop 3100
(907) 465-3991

January 8, 1988

MEMORANDUM

TO: Representative Randy Phillips

ATTN: Janet Seitz

FROM: Karla Hart KH
Legislative Analyst

RE: **California Small Business Development Loan Guarantee Program**
Research Request 88.099

California's Small Business Development Loan Guarantee Program was created by the California Small Business Development Corporation Law, which established small business programs that provide needed financial and technical resources for small businesses and agricultural firms in California. The law also created the Small Business Development Board, designated the Office of Small Business, Department of Commerce, to implement the California Loan Guarantee Program, and allowed for the creation of private nonprofit small business development corporations (regional corporations) to administer the Loan Guarantee Program and to provide management and technical assistance to small business firms and entrepreneurs in California. Koki Tanaka, Office of Small Business, said that the Loan Guarantee Program is being revised and substantial changes will be made within the next six months. The following information reflects the program as it currently exists.

Program Organization

The **Small Business Development Board** was created to advise the executive director of the Office of Small Business on matters affecting small businesses in California.[1] The board conducts public hearings every other

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[1]The Board consists of 17 voting members--drawn from state government, the private sector, and the legislature--and one nonvoting member from each regional corporation.

month to review program activities under the Small Business Development Corporation Law and other business issues at the request of the governor and the California Department of Commerce. Among other duties, the board sets policy and develops regulations applicable to the activities of the regional development corporations.

The California Office of Small Business oversees the activities of the Loan Guarantee Program and contracts with the regional corporations which conduct the day to day operations throughout California. The executive director of the Office of Small Business serves as liaison between regional corporations and other state and federal agencies, lenders and the legislature.

Currently there are seven private nonprofit regional development corporations.[2] Each corporation is controlled by a board of directors and has a central staff whose responsibilities include all administrative requirements of the corporation, the provision of management and technical assistance to borrowers, and the preparation of financial statements on all applicants for loans through the program. Each corporation also has one or more loan committees, each of which is composed of five or more persons, a majority of whom are experienced in banking and lending operations carried out by the corporation.

State general funds for administrative support are granted to the regional corporations during their first four years of operation. After that time, general fund support ceases and regional corporations must rely on other funding sources (e.g., grants and contracts) and on interest income generated through investments and loan guarantees. The annual total administrative budget--including all salaries, benefits, legal costs, equipment purchases, and office costs--for each of the existing corporations generally ranges between $200,000 and $300,000.

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[2]The Office of Small Business said they are hoping to expand the number of corporations by five within the next year or two.

Regional Small Business Development Loan Guarantee Fund

Each regional corporation may establish a regional small business development loan guarantee fund, to be maintained as an account within the State Treasury. Statutes require the regional corporations to use all reasonable means to maintain and enlarge the small business development corporation loan guarantee funds.[3] The California legislature has provided annual state general fund appropriations to be used for loan guarantee funds--appropriated funds are allocated among the existing regional corporations by the Office of Small Business. Although continuously appropriated, all appropriated funds, and earnings from those funds, remain state funds.

The loan guarantee funds currently have a balance of $31 million statewide. Legislative appropriations to the funds are negotiated on an annual basis, although, no appropriation was made last year. However, in past years approximately $3.2 million per year has been appropriated to the Loan Guarantee Program, of which approximately $480,000 per year has been applied to regional corporation administrative costs and the remainder has been added to the loan guarantee funds.

General Guidelines for Loan Guarantees Provided by Regional Corporations

A small business or agriculture firm may apply for a loan guarantee at a regional corporation. To apply, the applicant must have first sought conventional financing and must have no prospect of obtaining appropriate financing without a guarantee. The applicant must also demonstrate that there is reasonable assurance that the loan will be repaid and that there is security for the loan. The loan proceeds must be used for a business operation located in California. In connection with any loan made, guaranteed or otherwise assisted by the state, management and technical assistance must be provided to the borrower by the central staff of a regional corporation.

The maximum loan guarantee is $350,000. The loan guarantee, in most cases, cannot exceed 90 percent; however, in some cases, a guarantee may be made at 100 percent for a small farm loan, line of credit or an interim loan of 90 days. The maximum term of guarantee is seven years and the interest rate is established by the lendor or creditor, usually bank prime rate plus one or two percentage points. The applicant may be required to pay a fee of up to one and one-half percent of the guarantee amount to the regional corporation, or the regional corporation may consider an equity interest in the business, not to exceed five percent, in lieu of fees.

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[3]Statutory provisions allow for certain investments of portions of the funds to increase earnings.

Default Rates

The Office of Small Business indicated that the default rate for guaranteed loans is 3.67 percent. However, not all of the money within the guaranteed loan funds is encumbered to guarantee loans at any one time. The five-year average default rate is 5.86 percent when calculated only against the encumbered funds.

* * *

I hope this information is helpful. If you desire additional information, please call.

1-5-87

U.S. DEPARTMENT OF COMMERCE
Economic Development Administration
701 "C" Street, Box 10
Anchorage, Alaska 99513

Frank -

Thank you for the "draft." I shall try to reply by the end of the week.

Am enclosing "Alabama" and "Florida."

Berry R.

Alabama Statutes

See especially p. 83ff.

CHAPTER 85.

REGIONAL PLANNING AND DEVELOPMENT.

Article 1.

Regional Planning Commissions Generally.

Sec.

11-85-1. Establishment of region and creation of regional planning commission.

11-85-2. Composition; qualifications, appointment, terms of office, compensation and removal of members; vacancies.

11-85-3. Organization, staff, procedure, etc.; appropriation and expenditure of funds.

11-85-4. Adoption, etc., of master plan for physical development of region by commission; contents and purpose of plan.

11-85-5. Certification of plan to governor and to municipalities, counties, etc., within region.

11-85-6. Adoption of plan by municipal planning commission; certification of proposed amendments to adopted plan to regional planning commission for approval, etc.

11-85-7. Proposed construction of streets, public buildings, utilities, etc., to be submitted for approval of commission after adoption of master plan; overruling of commission.

Article 2.

Regional Planning Commissions for Comprehensive Advisory Planning and Research.

11-85-20. Definitions.

11-85-21. Establishment of region for advisory planning and creation of regional planning commission.

11-85-22. Composition; qualifications, appointments, terms of office and compensation of members; vacancies.

11-85-23. Powers and duties.

11-85-24. Article not to impair right of eminent domain or rights under franchises, leases, etc., of utilities.

Article 3.

Comprehensive Advisory Planning and Research by Municipal, County, Regional, etc., Planning Commissions, etc.

Sec.

11-85-40. Powers of Alabama development office and local, regional and joint planning commissions as to comprehensive advisory planning and research; comprehensive advisory planning defined.

Article 4.

Regional Planning and Development Commissions.

11-85-50. Definitions.

11-85-51. Designation of state planning and development districts by governor generally; designation of single county state planning and development districts.

11-85-52. Formation of regional planning and development commissions.

11-85-53. Composition; selection, terms and replacement of representatives; financing; procedure for addition or withdrawal of governmental units, dissolution, etc.

11-85-54. Officers; appointment of advisory committees.

11-85-55. Receipt of state financial support.

11-85-56. Powers and duties generally.

11-85-57. Joint planning agreements, etc., with adjoining counties, municipalities, etc., authorized; changes of boundaries of regional planning and development districts to include adjacent counties.

11-85-58. Use of planning and development districts and regional planning and development districts for other purposes and programs.

11-85-59. Effect of population changes upon establishment and operation of state planning and development districts or regional planning and development commissions.

Article 5.

Confirmation of Operating Regional Planning and Development Commissions.

11-85-70. Existing regional planning and development commissions ratified and confirmed.

11-85-71. Procedure for additional governmental units to become members of regional planning and development commissions.

11-85-72. General powers, rights, obligations, etc., of regional planning and development commissions.

Sec.

11-85-73. Commissions authorized to enter into contracts with other agencies.

Cross references. — As to comprehensive land-use management in flood-prone areas in counties, see § 11-19-1 et seq. As to county regulation of subdivision, see § 11-24-1 et seq. As to municipal planning, zoning and subdivisions, see § 11-52-1 et seq. As to municipal planning commissions, see § 11-52-3 et seq.

Chapter provides for regional planning commissions designated to operate in a wider geographical area than county planning commissions. In re Opinion of Justices, 370 So. 2d 1373 (Ala. 1979).

ARTICLE 1.

REGIONAL PLANNING COMMISSIONS GENERALLY.

§ 11-85-1. Establishment of region and creation of regional planning commission.

The planning commission of any municipality or the county commission of any county or any 100 citizens by signed petition may apply to the governor for the establishment of a region for planning purposes and the appointment of a regional planning commission for such region. The governor shall hold at least one public hearing upon any such application or petition, the time and place of which he shall officially proclaim. If the governor finds that by reason of urban growth and development not corresponding to existing municipal boundary lines or by reason of other developments or trends in the growth and distribution of population, commerce and industry or by reason of topographic or other conditions two or more separate municipalities or the territory of one or more municipalities and neighboring nonmunicipal territory have overlapping and interrelated or common problems of such nature as not to be capable of intelligent, economical and adequate solution by means of the separate planning of each separate political unit and require for such solution a general plan of the physical development of the entire area of such municipalities or territories as a whole and that, consequently, it is to the public interest that a region be established for planning purposes, he shall grant the application and shall define the boundaries of such region and appoint a regional planning commission. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 809.)

§ 11-85-2. Composition; qualifications, appointment, terms of office, compensation and removal of members; vacancies.

The regional planning commission shall consist of nine persons. Members shall be appointed for six years; except, that the respective terms of seven of the members first appointed shall be one year, two years, two years, three years, four years, four years and five years; provided, that, if at the time of his appointment the appointee is a public officer or in the public service of the state or any of its political subdivisions and his incumbency as such public officer or servant expires previous to the term for which he is appointed on the

regional planning commission, then his term on the commission shall terminate with the expiration of his incumbency as such public officer or servant, unless it is extended by the governor, in which case such extension shall be for the remainder of the term for which he was originally appointed. The members shall serve without compensation but shall be paid their necessary expenses incurred in the performance of their duties. They may, after a public hearing, be removed by the governor for inefficiency, neglect of duty or malfeasance in office, and he shall file a written statement of his reasons therefor. Vacancies shall be filled by the governor for the unexpired term. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 809.)

§ 11-85-3. Organization, staff, procedure, etc.; appropriation and expenditure of funds.

(a) Except as otherwise provided in this article, the provisions of sections 11-52-4, 11-52-5 and 11-52-6 relative to organization, rules, staff, finances, procedure and miscellaneous powers and duties of municipal planning commissions shall, so far as applicable, apply to regional planning commissions.

(b) The amount which a regional planning commission may expend in any year shall be such as may be determined by said regional planning commission, subject to approval by the governor, who shall fix the proportion of such expenditure to be borne by the respective municipalities, counties and other taxing districts and political subdivisions within the region. The council or other governing body of each such municipality, the county commission of each such county and the appropriating body of each such taxing district or political subdivision within the region are hereby authorized to appropriate their respective shares of such expenditures. The sums so appropriated shall be paid into the treasury and shall be paid out on certificate of the regional planning commission. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 810.)

§ 11-85-4. Adoption, etc., of master plan for physical development of region by commission; contents and purpose of plan.

Any regional planning commission is hereby authorized and empowered to make, adopt, amend, extend and add to a master regional plan for the physical development of its region. Such plan shall be based on comprehensive studies of the present and future development of the region with due regard to its relation to neighboring regions and the state as a whole and to neighboring states.

Such plan, including maps, charts, diagrams and descriptive matter, shall show the commission's recommendations for the physical development of the region and may include, among other things, the general location, extent and character of streets, parks and other public ways, grounds and open spaces, public buildings and properties and public utilities (whether publicly or privately owned or operated) which affect the development of the region as a whole or which affect more than one political subdivision of the state within

the region, the general location of forests, agricultural and open development areas for purposes of conservation, food and water supply, sanitary and drainage facilities or the protection of future urban development and a zoning plan for the control of the height and area or bulk, location and use of buildings and premises and of the density of population.

Such master plan shall be made with the general purpose of guiding and accomplishing a coordinated, adjusted and harmonious development of the region and of public improvements and utilities which do not begin and terminate within the boundaries of any single municipality or which do not relate exclusively to the development of any single municipality and which will, in accordance with the present and future needs of the region and the state, best promote health, safety, morals, order, convenience, prosperity and general welfare, as well as efficiency and economy in the process of development. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 811.)

§ 11-85-5. Certification of plan to governor and to municipalities, counties, etc., within region.

The regional planning commission, after adopting the regional plan, shall certify a copy thereof to the governor, to the planning commission of each municipality within the region, to the council of each municipality not having a planning commission, to the county commission of each county wholly or partly included in the region and to other organized taxing districts or political subdivisions wholly or partly included in the region. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 812.)

§ 11-85-6. Adoption of plan by municipal planning commission; certification of proposed amendments to adopted plan to regional planning commission for approval, etc.

(a) Such plan may be adopted by the municipal planning commission of any municipality within the region to which it is certified by the regional planning commission. Such adoption shall be in accordance with the procedure specified in sections 11-52-8, 11-52-9, and 11-52-10 for the adoption of plans by municipal planning commissions. When thus adopted, it shall thereupon have the same force and effect within such municipality as plans made and adopted by municipal planning commissions and shall be deemed an original municipal plan or an amendment of or addition to the municipal plan.

(b) Before adopting any amendment of the municipal plan which would constitute a violation of or departure from the regional plan certified to the municipal planning commission by the regional planning commission, the municipal planning commission shall submit such proposed amendment to the regional planning commission, which latter commission shall certify to the municipal commission its approval, disapproval or other opinion concerning the proposed amendment. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 813.)

§ 11-85-7. Proposed construction of streets, public buildings, utilities, etc., to be submitted for approval of commission after adoption of master plan; overruling of commission.

After the adoption of the regional plan by the regional planning commission, no street, park or other public way, ground or open space, public building or other public structure and public utility, whether publicly or privately owned or operated, shall be constructed or authorized in nonmunicipal territory within the region until the location, character and extent thereof shall have been submitted to and approved by the regional planning commission of the region. This prohibition shall not be interpreted as requiring the approval by the regional planning commission of any subdivision falling within the subdivision jurisdiction of a municipal planning commission as defined in section 11-52-30, and duly approved by such municipal planning commission as provided in section 11-52-32. In case of disapproval by the regional planning commission, such disapproval may be overruled by the board, commission, body or officer in which or in whom the power to finally determine such location, character and extent is reposed by law by a vote, in the case of any such board, commission or body, of not less than two thirds of its membership. A statement of its or his reason for any such overruling shall be spread upon the minutes or records of the board, commission, body or officer. (Acts 1935, No. 534, p. 1126; Code 1940, T. 37, § 814.)

ARTICLE 2.

REGIONAL PLANNING COMMISSIONS FOR COMPREHENSIVE ADVISORY PLANNING AND RESEARCH.

§ 11-85-20. Definitions.

When used in this article, the following words and phrases shall have the following meanings, respectively, unless the context clearly indicates otherwise:

(1) GOVERNMENTAL UNIT. Counties and municipalities.

(2) GOVERNING BODY. The chief legislative body of a governmental unit.

(3) MUNICIPALITY. Such term shall include cities and towns.

(4) REGION. All the geographical area contained within the aggregate territorial limits of all governmental units participating in the establishment of a region for planning as provided in this article.

(5) ADVISORY PLANNING. Continuing and systematic studies of the land economics and land policies of a region in terms of social and economic betterment of said region, together with the submission of interim and final results of said systematic and continuous studies to the governing bodies of constituent governmental units for review, adoption, rejection or implementation thereof in whole or in part. Said term shall not be deemed, construed or held to include zoning or any other regulation of the use, disposition,

alienation, ownership, improvement or change of any land or any structures thereon within any given region, whether said regulation is sought to be accomplished by way of ordinance, resolution, rule, regulation or any other enactment or action of whatsoever kind.

(6) COMPREHENSIVE ADVISORY PLANNING. Comprehensive studies of the present and future development of the land economics and land policies of a region, with due regard to neighboring regions and the state as a whole. Said term may include, but is not limited to:

a. Preparation, as a guide for long-range development, of advisory general physical plans with respect to the pattern and intensity of land use and the provision of public facilities, including transportation facilities, together with long-range fiscal plans for such development;

b. Advisory coordination of all related advisory plans and planned activities at both the intragovernmental and intergovernmental levels; and

c. Preparation of suggested regulatory or administrative measures in support of the foregoing for submission to the governing bodies of constituent governmental units for review, adoption, rejection or implementation in whole or in part as said units may elect. (Acts 1963, No. 584, p. 1278, § 1.)

§ 11-85-21. Establishment of region for advisory planning and creation of regional planning commission.

The governing bodies of any two or more governmental units are hereby authorized and empowered to create and establish a region for advisory planning purposes and to constitute, create and establish a regional planning commission. Such joint creation and establishment of a region for planning purposes and of a regional planning commission shall be accomplished by ordinance or resolution separately adopted by the governing body of each governmental unit involved. Such ordinance or resolution shall be recorded in the minutes of the governing body of each such governmental unit. (Acts 1963, No. 584, p. 1278, § 2.)

§ 11-85-22. Composition; qualifications, appointments, terms of office and compensation of members; vacancies.

(a) The membership of any regional planning commission created and established under this article shall be composed of not less than three representatives of each governmental unit participating in the creation of such. In addition to said minimum representation of three, each governmental unit shall be entitled to appoint one other representative for each 50,000 people residing within the geographical and territorial limits and bounds of such governmental unit according to the most recent federal census; provided, that any commission in which any county having a population in excess of 600,000 participates shall be constituted as follows: Each governmental unit shall have only one representative, except that any city having a population

of more than 300,000 shall have 20 representatives, and each county having a population of more than 600,000 shall have 10 representatives; provided further, that any commission in which any county having a population between 300,000 and 500,000 according to the most recent federal census participates shall be constituted as follows: Voting representatives from each governmental unit in such number, not less than one for each unit, as shall be agreed upon between all the governmental units forming the region and participating in the regional planning commission on a basis of representation which will give relatively equal representation to each governmental unit according to percentage of its population and its financial contribution to the cost of the commission as related to the total population of the region and the total agreed operating cost of the commission, it being understood that the assessment of operating costs to the member governmental units will be based on the population and area of each such unit as related to the whole population of the region.

(b) Each governmental unit may designate to membership ex officio, and without vote its chief planning officer or chief engineer if it has either, but not both of said officials. The voting members of each such planning commission shall be appointed by the respective governing bodies of the respective governmental units participating. No member of any regional planning commission created under this article shall receive any compensation for his or her services rendered as a member of such regional planning commission, but each such member shall be entitled to receive reimbursement for his or her actual and necessary expenses incurred in the performance of his or her duties as a member of such regional planning commission. Voting members of each regional planning commission created under this article shall be appointed for terms of four years. The terms of ex officio members shall expire with their incumbency in the offices by virtue of which they shall have been designated to membership on such regional planning commission. Vacancies occurring on any such commission shall be filled by the governing body of the governmental unit previously represented by the latest prior occupant of a particular vacant place on such commission. (Acts 1963, No. 584, p. 1278, § 3; Acts 1969, No. 1190, p. 2226.)

§ 11-85-23. Powers and duties.

Any regional planning commission established and created under this article shall have the following powers and duties:

(1) To perform comprehensive advisory planning and research for the region for which such commission shall have been established and its urban areas or areas where rapid urbanization has occurred or is expected to occur, including those areas extending into adjoining states in instances and situations where such planning and related activities for such bi- or multi-state areas are now or hereafter may be authorized by compact or otherwise;

(2) To provide planning assistance, upon request duly evidenced by ordinance or resolution, to

a. Any city, other municipality or county;

b. Any group of adjacent communities, incorporated or unincorporated, having common or related urban planning or development problems; or,

c. Any other regional planning agency;

(3) To apply for and accept and utilize grants and assistance from the federal government or from any other public or private source which now or hereafter legally may make such grants or afford such other assistance;

(4) To contract with the federal government or with private or public sources which now or hereafter legally may contract as to such planning to receive advances or progress payments; and

(5) To adopt its own rules of procedure and order of business. (Acts 1963, No. 584, p. 1278, § 4.)

§ 11-85-24. Article not to impair right of eminent domain or rights under franchises, leases, etc., of utilities.

Nothing contained in this article shall be construed to impair the right of eminent domain conferred on utilities, both public or private, or their right to exercise authority conferred by statutes, franchises, certificates of convenience and necessity, licenses or easements. (Acts 1963, No. 584, p. 1278, § 5.)

ARTICLE 3.

COMPREHENSIVE ADVISORY PLANNING AND RESEARCH BY MUNICIPAL, COUNTY, REGIONAL, ETC., PLANNING COMMISSIONS, ETC.

§ 11-85-40. Powers of Alabama development office and local, regional and joint planning commissions as to comprehensive advisory planning and research; comprehensive advisory planning defined.

(a) To facilitate the solution of urban and regional planning problems and to provide for comprehensive advisory planning, including transportation planning, for the state and its cities, counties, urban areas and regions, the Alabama development office, the various regional planning commissions presently authorized to be created, the various county planning commissions presently authorized to be created, the various joint planning commissions presently authorized to be created, municipalities and the various municipal planning commissions presently authorized to be created are each and all hereby empowered and authorized, within the respective geographical areas as to which planning power has heretofore been delegated to such respective office, commissions or other agencies to perform comprehensive advisory planning and research and other activities related thereto for urban areas and regions or areas where rapid urbanization has occurred or is expected to occur and to provide planning assistance, upon request duly evidenced by ordinance or resolution, to

(1) Any city, other municipality or county;

(2) Any group of adjacent communities, incorporated or unincorporated, having common or related urban planning or development problems; or

(3) Any municipal, county, joint, joint county, multicounty or regional planning agency.

(b) The Alabama development office, as well as each and all of the aforesaid other commissions and planning agencies, are hereby further authorized and empowered to perform comprehensive advisory planning and research and other activities related thereto for urban areas and regions or areas where rapid urbanization has occurred or is expected to occur, which said areas and regions extend into adjoining states, in instances and situations where such planning and other activities for such bistate or multistate areas is now or hereafter may be authorized by compact or otherwise.

(c) The Alabama development office, the various regional planning commissions presently authorized to be created, the various joint planning commissions presently authorized to be created, the various county planning commissions presently authorized to be created and the municipal planning commissions presently authorized to be created, as well as cities and other municipalities, counties and groups of adjacent communities (incorporated or unincorporated) having common or related urban planning or development problems are authorized for the purpose of this section to perform comprehensive advisory planning, to contract with the federal government and with any public or private sources which now or hereafter legally may contract as to such planning, to receive advances or progress payments and to contract with other planning agencies, public agencies and political subdivisions. Said office, planning commissions and other planning agencies are also authorized and empowered to apply for and to accept and utilize grants and other assistance from the federal government or from any other public or private sources which now or hereafter legally may make such grants or afford such other assistance.

(d) The term "comprehensive advisory planning" as used in this section shall mean comprehensive studies of the present and future development of the land economics and land policies of a region, with due regard to neighboring regions and the state as a whole. Said term may include, but is not limited to:

(1) Preparation, as a guide for long-range development, of advisory general physical plans with respect to the pattern and intensity of land use and the provision of public facilities, including transportation facilities, together with long-range fiscal plans for such development;

(2) Advisory coordination of all related advisory plans and planned activities at both the intragovernmental and intergovernmental levels; and

(3) Preparation of suggested regulatory or administrative measures in support of the foregoing for submission to the governing bodies of constituent governmental units for review, adoption, rejection or implementation in whole or part, as said units may elect. (Acts 1963, No. 585, p. 1281.)

Existence and legal authority of county planning commissions, joint planning commissions, or municipal planning commissions are explicitly recognized in this section. In re Opinion of Justices, 370 So. 2d 1373 (Ala. 1979).

ARTICLE 4.

REGIONAL PLANNING AND DEVELOPMENT COMMISSIONS.

§ 11-85-50. Definitions.

When used in this article, the following words and phrases shall have the following meanings, respectively, unless the context clearly indicates otherwise:

(1) GOVERNMENTAL UNIT. Counties and municipalities.

(2) GOVERNING BODY. The chief legislative body of a governmental unit.

(3) MUNICIPALITY. Cities or towns.

(4) REGION. All the geographical area contained within the aggregate territorial limits of all governmental units participating in a regional planning and development commission as provided in this article.

(5) DISTRICT. A geographical area designated by the governor as provided in this article. (Acts 1969, No. 1126, p. 2084, § 1.)

§ 11-85-51. Designation of state planning and development districts by governor generally; designation of single county state planning and development districts.

(a) The governor may, from time to time as he deems appropriate and necessary, define and designate a state planning and development district by executive order.

(b) In defining boundaries of state planning and development districts, the governor shall consult with the governmental units concerned and shall consider such factors as community of interest and homogeneity; geographic features and natural boundaries; patterns of communication and transportation; patterns of urban development; total population and population density; similarity of social and economic problems; boundaries of existing regional planning commissions and councils of government; existing state functional planning areas and the utility of proposed boundaries for provision of governmental services. Districts should be as large as practicable consistent with the above factors and except as provided in subsection (d) of this section, shall include at least three contiguous counties and contain a population of at least 100,000. No county shall be divided in forming a district.

(c) The governor may change boundaries of districts as required to reflect changing conditions or otherwise to fulfill the purposes of this article observing the criteria and procedures stated in subsection (b) of this section.

(d) Any provision of this section to the contrary notwithstanding, the governor may define and designate single county state planning and development districts within any county having a population between 93,000 and 100,000 persons according to the most recent federal decennial census. (Acts 1969, No. 1126, p. 2084, § 2; Acts 1973, No. 692, p. 1039, § 1.)

§ 11-85-52. Formation of regional planning and development commissions.

(a) *Generally.* — At any time subsequent to the designation of a state planning and development district pursuant to section 11-85-51, governmental units within the district acting through their governing bodies by ordinance or resolution may adopt a written agreement for the formation of a regional planning and development commission and may petition the governor to certify such a commission for a region located entirely within a state planning and development district and consisting of at least three contiguous counties and containing a population of at least 100,000. Governmental units so petitioning must represent at least a majority of the population within the proposed region. No county shall be divided in forming a region. The governor may, after consultation with the governing bodies of the governmental units involved, amend petitions to include additional counties to assure that the objectives of this article are furthered and that no county or city will be precluded from participation in a regional planning and development commission.

(b) *Bistate or multistate commissions.* — In case two or more governmental units determine that the geographical area embraced by such units, although not meeting the minimum criteria prescribed in subsection (a) of this section, is logically, for planning and development purposes, a part of a larger area which extends into an adjoining state or states, such governmental units may adopt an agreement for the formation of a regional planning and development commission and may petition the governor to certify such commission for the proposed region. The governor may, after consultation with the governmental units which are parties to the petition and after approval by him of an appropriate interstate agreement or compact certify the commission. In such case the governor may authorize such deviations from the minimum requirements for area and population prescribed in section 11-85-51 and subsection (a) of this section and the requirements for composition of the commission prescribed in section 11-85-53 as may be necessary to conform to the interstate agreement or compact. No county shall be divided in applying the provisions of this subsection.

(c) *Single county commissions.* — Regional planning and development commissions may be formed in any county having a population between 93 000 and 100,000 persons according to the most recent federal decennial census in the same manner as any other state planning and development district: provided, however, that the requirements for the formation of such districts and commissions with respect to the population and numbers of contiguous counties shall not be applicable to districts and commissions formed pursuant to this subsection. Regional planning and development commissions so formed may function in conjunction with contiguous regional planning and development commissions with respect to any project, plan, program or other activity which by necessity crosses county or state planning and development district boundary lines. (Acts 1969, No. 1126, p. 2084, § 3; Acts 1973, No. 692, p. 1039, § 1.)

§ 11-85-53. Composition; selection, terms and replacement of representatives; financing; procedure for addition or withdrawal of governmental units, dissolution, etc.

(a) All governmental units within the boundaries of a region which are parties to the agreement for the establishment of a regional planning and development commission shall be represented on the commission as provided in this section. The agreement may provide formulas and procedures under which smaller governmental units may select a common representative and larger units may select more than one representative, but there shall be at least one representative for each county and for each city of over 10,000 population. At least a majority of the representation of a commission shall be elected public officials of the participating governmental units. This section shall not apply to any counties which have formed any regional planning commissions.

(b) The terms and manner of selection and replacement of the commission representatives shall be specified in the agreement or, pursuant to the terms of the agreement, by ordinances or resolutions adopted by participating governmental units. Terms of representatives who are not elected officials shall be arranged to provide overlapping periods of service. The term of any representative serving in such capacity by virtue of elective public office shall expire with his incumbency in such office.

(c) The agreement shall include the formula by which participating governments will contribute to the financing of the commission and the procedure for amendment, for addition of other governmental units within the region which are not parties to the original agreement and for withdrawal from the agreement by a governmental unit and for dissolution of the commission.

(d) Any governmental unit included within the boundaries of a region but not a party to the agreement and petition shall not be represented on the commission nor be entitled as a matter of right to services provided by the commission until it joins the commission by appropriate official action as provided for in the agreement or the bylaws of the commission. (Acts 1969, No. 1126, p. 2084, § 4.)

§ 11-85-54. Officers; appointment of advisory committees.

The commission shall elect a chairman and may elect an executive committee and other officers as necessary from among its membership. A commission may appoint such advisory committees as it may deem necessary. (Acts 1969, No. 1126, p. 2084, § 6.)

§ 11-85-55. Receipt of state financial support.

Regional planning commissions certified pursuant to this article may receive state financial support if they meet requirements for state financial assistance, for financial controls and for reporting established by executive order. (Acts 1969, No. 1126, p. 2084, § 8.)

§ 11-85-56. Powers and duties generally.

A regional planning and development commission established pursuant to this article is authorized and empowered to:

(1) Carry on continuous, comprehensive planning for the region, assessing needs, resources and development opportunities and formulating goals, objectives, policies and standards to guide physical, economic and human resource development;

(2) Prepare a regional plan therefor consistent with state comprehensive planning and reflecting plans and programs of the participating governmental units which shall set forth policies for the development of the region in accordance with present and future needs and resources including policies for patterns of urbanization, for the use of land and resources for commerce, industry, recreation, transportation, forestry and agriculture, for the development of human resources and for administrative measures in support thereof;

(3) Prepare an annual regional development program to implement the policies contained in the regional plan, which program shall contain an analysis of the current status of regional development in relation to the regional plan and prior regional development programs, a review of trends affecting regional development, schedules of major program expenditures and activities and capital improvements together with financing plans and recommendations for new programs or elimination or change of existing programs and for changes in administrative organization or procedures;

(4) Prepare and publish studies of the region's resources;

(5) Provide planning and technical assistance to governmental units and planning and development agencies within the region and coordinate regional planning activities with those of the state, of governmental units within the region and in neighboring regions and with the programs of federal departments and agencies and regional commissions;

(6) Borrow money and apply for and receive grants-in-aid, contributions and any other forms of financial or other assistance from any sources, public or private, for the purposes of this article subject to applicable provisions of state law;

(7) Review and comment on applications by governmental units within the region for state or federal loans, grants-in-aid or other financial assistance and indicate their relationship to the regional plan and development program and provide information regarding state and federal grants and assistance programs in the region;

(8) Adopt bylaws and issue rules and regulations for the conduct of its business;

(9) Make and enter into contracts and agreements;

(10) Acquire and dispose of real and personal property subject to applicable provisions of state law;

(11) Charge fees for services provided by the commission;

(12) Employ a director and other employees and consultants, prescribe their duties and fix their compensation;

(13) Perform other activities in furtherance of this article not inconsistent or contrary to state law; and

(14) Determine the name by which said commission shall be called and certified. (Acts 1969, No. 1126, p. 2084, § 5.)

§ 11-85-57. Joint planning agreements, etc., with adjoining counties, municipalities, etc., authorized; changes of boundaries of regional planning and development districts to include adjacent counties.

(a) Commissions formed pursuant to this article shall have the authority to enter into joint planning agreements, contracts or programs with adjacent counties, municipalities situated in adjacent counties or adjacent regional planning and development commissions.

(b) If the governor should determine that it is desirable to change the boundaries of regional planning and development districts which have been defined and designated pursuant to this article to include an adjacent county or counties within such district or districts, he shall have the authority to do so in the manner and form set forth in section 11-85-51; provided, however, that the criteria or requirements set forth in subsection (b) of section 11-85-51 with respect to population and numbers of contiguous counties shall not apply to a district designated by the governor under the authority of this section, nor to any change in the boundaries of such district which the governor may find to be desirable as provided in subsection (c) of section 11-85-51. (Acts 1973, No. 692, p. 1039, § 3.)

§ 11-85-58. Use of planning and development districts and regional planning and development districts for other purposes and programs.

State planning and development districts designated under this article and regional planning commissions established pursuant to this article shall, to the extent possible, be used as the basis for:

(1) State planning and programming;

(2) Proposing or designating areas for the purposes of administering programs which receive aid under federal acts which require districts; and

(3) Performing areawide planning including review and comment on projects, coordination and informational services for state and federal grant-in-aid programs. (Acts 1969, No. 1126, p. 2084, § 7.)

§ 11-85-59. Effect of population changes upon establishment and operation of state planning and development districts or regional planning and development commissions.

The establishment and operation of any state planning and development district or regional planning commission designated or formed pursuant to this article shall not be affected by any subsequent changes in population so long as the county comprising such district and in which such commission is

located met the requirements of this article at the time such district was designated or such commission was formed. (Acts 1973, No. 692, p. 1039, § 2.)

Article 5.

Confirmation of Operating Regional Planning and Development Commissions.

Effective date. — The act which added this article became effective May 29, 1985.

§ 11-85-70. Existing regional planning and development commissions ratified and confirmed.

Those 12 bodies, organizations, or persons respectively acting and operating as regional planning and development commissions within their respective districts on May 29, 1985, and however created or established; by formation of nonprofit corporations, by various resolutions of local governments, or by agreements and/or compacts between local governments, or otherwise; are hereby ratified and confirmed as regional planning and development commissions under sections 11-85-50 through 11-85-59. (Acts 1985, No. 85-757, § 1.)

§ 11-85-71. Procedure for additional governmental units to become members of regional planning and development commissions.

The respective regional planning and development commissions ratified and confirmed by section 11-85-70 shall henceforth continue to act and operate as regional planning and development commissions within their respective districts, and any governmental units within a particular district desiring to become a member of, and have representation on a commission within the district in which the governmental unit is located, shall pass resolutions or ordinances as applicable to accomplish that purpose and they shall thereupon become members of the commission within their respective district and shall be granted the respective representation on the commission as is provided by section 11-85-53, provided they agree by appropriate resolution or ordinance, as applicable, to contribute to the financing of the commission in keeping with a formula of financing on a population basis in the same proportion as current members as established by the commission. (Acts 1985, No. 85-757, § 2.)

§ 11-85-72. General powers, rights, obligations, etc., of regional planning and development commissions.

The regional planning and development commissions ratified and confirmed by this article as such commissions shall have such powers, rights, obligations and privileges as heretofore accorded to, and which might be hereinafter accorded to regional planning and development commissions under the laws of Alabama. (Acts 1985, No. 85-757, § 3.)

§ 11-85-73. Commissions authorized to enter into contracts with other agencies.

Regional planning commissions, business corporations, nonprofit corporations, and local entities as defined in section 23-1-21.1, or as might be hereafter defined by amendment of such section are authorized and empowered to enter into contracts, jointly, separately, and severally with each other and/or with the state of Alabama, the federal government, and/or with their respective departments and agencies, for the purpose of receiving and disbursing state, federal and/or local governmental and private funds for programs established or which might be established as a result of federal, state, and/or local legislation, and to establish on a state or local level, operate and administer any such programs under the contract terms, provided the contract performance, the operation and administration of programs thereunder are in keeping with any such legislation and regulations thereunder. Any such contracts entered into prior to May 29, 1985, are deemed to have been executed with full power and authority. (Acts 1985, No. 85-757, § 4.)

Florida

TITLE XIII

PLANNING AND DEVELOPMENT

CHAPTER 186

STATE AND REGIONAL PLANNING

186.001 Short title.
186.002 Findings and intent.
186.003 Definitions.
186.004 Governor; chief planning officer of the state.
186.005 Designation of departmental planning officer.
186.006 Powers and responsibilities of Executive Office of the Governor.
186.007 State comprehensive plan; preparation; revision.
186.008 State comprehensive plan; adoption; implementation.
186.021 State agency functional plans.
186.022 State agency functional plans; consistency with state comprehensive plan.
186.031 Annual report.
186.501 Short title.
186.502 Legislative findings; public purpose.
186.503 Definitions.
186.504 Regional planning councils; creation; membership.
186.505 Regional planning councils; powers and duties.
186.506 Executive Office of the Governor; powers and duties.
186.507 Comprehensive regional policy plans.
186.508 Comprehensive regional policy plan adoption; consistency with state comprehensive plan.
186.509 Mediation of conflicts between local governments.
186.511 Evaluation of comprehensive regional policy plan; changes in plan.
186.513 Reports.
186.515 Creation of regional planning councils under ch. 163.
186.801 Ten-year site plans.
186.805 Data Bank on Older Floridians.
186.901 Population census determination.
186.911 Growth Management Trust Fund.

186.001 Short title.—Sections 186.001-186.031, 186.801-186.911 shall be known and may be cited as the "Florida State Comprehensive Planning Act of 1972."

History.—s. 1, ch. 72-295.
Note.—Former s. 23.0111.

186.002 Findings and intent.—

(1) The Legislature finds and declares that:

(a) Growth and development issues transcend the boundaries and responsibilities of individual units of government, and often no single unit of government can plan or implement policies to deal with these issues without affecting other units of government.

(b) It is necessary to establish an integrated planning system and to ensure coordinated administration of government policies, especially those policies dealing with land use, water resources, and transportation system development.

(c) The preservation and enhancement of the quality of life of the people of this state require that a state comprehensive plan be adopted and implemented by state and regional agencies.

(2) The intent of this act is that the state comprehensive plan guide state and regional agency policies, especially those policies dealing with land use, water resources, and transportation system development. It is intended that state agency functional plans be effectively coordinated to facilitate the orderly, positive management of growth consistent with the public interest. It is also intended that the implementation of state and regional plans enhance the quality of life of the citizens of the state.

History.—s. 2, ch. 84-257.

186.003 Definitions.—As used in ss. 186.001-186.031 and 186.801-186.911, the term:

(1) "Executive Office of the Governor" means the Office of Planning and Budgeting of the Executive Office of the Governor.

(2) "Goal" means the long-term end toward which programs and activities are ultimately directed.

(3) "Objective" means a specific, measurable, intermediate end that is achievable and marks progress toward a goal.

(4) "Policy" means the way in which programs and activities are conducted to achieve an identified goal.

(5) "Regional planning agency" means the regional planning council created pursuant to ss. 186.501-186.515 to exercise responsibilities under ss. 186.001-186.031 and 186.801-186.911 in a particular region of the state.

(6) "State agency" means the Executive Office of the Governor, each executive department, the Game and Fresh Water Fish Commission, the Parole and Probation Commission, and the Department of Military Affairs.

(7) "State agency functional plan" means the agency program policies and objectives and administrative directions contained within the plan prepared pursuant to s. 186.021.

(8) "State comprehensive plan" means the goals and policies contained within the state comprehensive plan initially prepared by the Executive Office of the Governor and adopted pursuant to s. 186.008.

History.—s. 3, ch. 72-295; s. 1, ch. 78-287; s. 66, ch. 79-190; s. 3, ch. 84-257.
Note.—Former s. 23.0112.

186.004 Governor; chief planning officer of the state.—The Governor shall be the chief planning officer of the state.

History.—s. 1, ch. 67-157; s. 7, ch. 71-377; s. 4, ch. 72-295.
Note.—Former s. 23.011.

186.005 Designation of departmental planning officer.—

(1) On or before September 29, 1972, the head of each executive department and the Public Service Commission, the Game and Fresh Water Fish Commission, the Parole and Probation Commission, and the Department of Military Affairs shall select from within such agency a person to be designated as the planning officer for such agency. The planning officer shall be responsible for coordinating with the Executive Office of the Governor and with the planning officers of other agencies all activities and responsibilities of such agency relating to planning.

(2) The head of each agency shall notify the Executive Office of the Governor in writing of the person initially designated as the planning officer for such agency and of any changes in persons so designated thereafter.

History.—s. 5, ch. 72-295; s. 67, ch. 79-190; s. 1, ch. 81-169.
Note.—Former s. 23.0113.

186.006 Powers and responsibilities of Executive Office of the Governor.—For the purpose of establishing consistency and uniformity in the state and regional planning process and in order to ensure that the intent of ss. 186.001-186.031 and 186.801-186.911 is accomplished, the Executive Office of the Governor shall:

(1) Identify and monitor on a continuing basis statewide conditions and trends which impact the state.

(2) Prepare, and update or revise regularly, the state comprehensive plan.

(3) Designate the geographic boundaries of comprehensive planning districts.

(4) Designate, and prepare or direct to be prepared, specific data, assumptions, forecasts, and projections for use by each state or regional agency in the preparation of plans.

(5) Coordinate planning among federal, state, regional, and local levels of government and between this state and other states.

(6) Prepare or direct appropriate state or regional agencies to prepare such studies, reports, data collections, or analyses as are necessary or useful in the preparation or revision of the state comprehensive plan, state agency functional plans, or regional comprehensive policy plans.

(7) Act as the state clearinghouse and designate the regional planning councils as the regional data clearinghouses.

(8) Direct state agencies and regional agencies to prepare and implement, consistent with their authority and responsibilities under law, such plans as are necessary to further the purposes and intent of the state comprehensive plan.

(9) Provide such data and information to public and private agencies and to the public as it may have available.

(10) Using federal, state, local, or private funds, contract with public agencies or private firms or consultants for specialized services or research facilities, whenever such services or facilities are not otherwise available to it.

(11) Perform such other functions as are necessary to carry out the intent of ss. 186.001-186.031 and 186.801-186.911.

History.—s. 4, ch. 84-257; s. 7, ch. 85-57.

186.007 State comprehensive plan; preparation; revision.—

(1) The Executive Office of the Governor shall prepare a proposed state comprehensive plan which provides long-range guidance for the orderly social, economic, and physical growth of the state. The plan shall be composed of goals and policies that are briefly stated in plain, easily understandable words and that give specific policy direction to state and regional agencies. The goals and policies shall be statewide in scope and shall be consistent and compatible with each other. The state comprehensive plan shall not include a land use map.

(2) In preparing the goals and policies of the state comprehensive plan, the Executive Office of the Governor shall analyze the problems, opportunities, and needs associated with growth and development in this state, particularly those problems, opportunities, and needs related to land use, water resources, and transportation system development. The Executive Office of the Governor shall document present conditions and trends, forecast future conditions and trends based on expected growth patterns, and identify needs. Such conditions, trends, and needs shall be used to prepare goals and policies designed to preserve and enhance the quality of life of the citizens of this state.

(3) In the state comprehensive plan, the Executive Office of the Governor may include goals and policies related to the following program areas: economic opportunities; agriculture; employment; public safety; education; health concerns; social welfare concerns; housing and community development; natural resources and environmental management; recreational and cultural opportunities; transportation; and governmental direction and support services.

(4) The Executive Office of the Governor shall prepare statewide goals and policies related to the opportunities, problems, and needs associated with growth and development in this state, which goals and policies shall constitute the growth management portion of the state comprehensive plan. In preparing the growth management goals and policies, the Executive Office of the Governor initially shall emphasize the management of land use, water resources, and transportation system development.

(5)(a) The Executive Office of the Governor shall prepare a separate portion of the state comprehensive plan related to the long-term infrastructure and capital outlay

needs of the state. This portion shall be prepared based upon a comprehensive assessment of needs conducted by the Executive Office of the Governor, and it shall be updated annually as part of the budgeting process prescribed by chapter 216. The assessment shall provide estimates by area of the future infrastructure needs of the state that result from expected growth patterns and shall include recommendations for directing state expenditures to particular areas of the state in order to implement the growth management goals and policies of the state comprehensive plan.

(b) All capital outlay recommendations submitted to the Legislature in the budget of the Governor shall be consistent with the goals and policies of the state comprehensive plan and the long-term infrastructure and capital outlay portion when adopted.

(c) Notwithstanding the provisions of ss. 186.001-186.031 and 186.801-186.911, the Executive Office of the Governor shall prepare the long-term infrastructure and capital outlay portion of the state comprehensive plan no later than July 1, 1986.

(6) The adopted state comprehensive plan shall provide, in addition to other criteria established by law, standards and criteria for the review and approval of state agency functional plans and comprehensive regional policy plans.

(7) In preparing and revising the state comprehensive plan, the Executive Office of the Governor shall, to the extent feasible, consider studies, reports, and plans of each department, agency, and institution of state and local government, each regional planning agency, and the Federal Government and shall take into account the existing and prospective resources, capabilities, and needs of state and local levels of government.

(8) The revision of the state comprehensive plan is a continuing process. Each section of the plan shall be reviewed and analyzed yearly by personnel of the Executive Office of the Governor in conjunction with the planning officers of other state agencies significantly affected by the provisions of the particular section under review.

History.—s. 7, ch. 72-295; ss. 3, 5, ch. 77-308; s. 2, ch. 78-287; s. 68, ch. 79-190; s. 5, ch. 84-257.
Note.—Former s. 23.0114.

186.008 State comprehensive plan; adoption; implementation.—

(1) On or before December 1, 1984, the Executive Office of the Governor shall prepare, and the Governor shall recommend to the Administration Commission, a proposed state comprehensive plan. The Governor shall transmit the proposed state comprehensive plan to the Administration Commission within 15 days of his acceptance of the plan. Copies shall also be provided to each state agency, to each regional planning agency, to any other unit of government that requests a copy, and to any member of the public who requests a copy.

(2) On or before February 15, 1985, the Administration Commission shall review the proposed state comprehensive plan prepared by the Governor. The commission shall adopt a resolution, after public notice and a reasonable opportunity for public comment, and transmit the proposed state comprehensive plan to the Legislature, together with any amendments approved by the commission and any dissenting reports. The commission shall identify those portions of the plan that are not based on existing law.

(3) All amendments, revisions, or updates to the plan shall be adopted by the Legislature as a general law.

(4) The state comprehensive plan shall be implemented and enforced by all state agencies consistent with their lawful responsibilities whether it is put in force by law or by administrative rule. The Governor, as chief planning officer of the state, shall oversee the implementation process.

(5) All state agency budgets and programs shall be consistent with the adopted state comprehensive plan and shall support and further its goals and policies.

(6) The Florida Public Service Commission, in approving the plans of utilities subject to its regulation, shall take into consideration the compatibility of the plan of each utility and all related utility plans taken together with the adopted state comprehensive plan.

History.—s. 3, ch. 67-157; ss. 31, 35, ch. 69-106; s. 8, ch. 72-295; s. 1, ch. 77-308; s. 3, ch. 78-287; s. 6, ch. 84-257; ss. 5, 7, ch. 85-57.
Note.—Former s. 23.013.

186.021 State agency functional plans.—

(1) A state agency functional plan shall contain, at a minimum, a statement of the policies guiding the programs and functions of the agency and shall specify those objectives against which there shall be evaluated the achievement by the agency of its policies and the goals and policies for the state comprehensive plan. A state agency functional plan shall also identify specific agency programs which support and further the goals and policies of the growth management portion of the state comprehensive plan. Each state agency functional plan shall identify infrastructure and capital improvement needs associated with the agency programs.

(2) All amendments, revisions, or updates to a state agency functional plan shall be prepared in the same manner as the original and shall be prepared as needed because of changes in the state comprehensive plan or changes in the statutory authority and responsibility of the agency.

(3) Notwithstanding the provisions of [1]subsection (3), the Department of Environmental Regulation, with regard to the plan required by s. 373.036, and the state land planning agency, with regard to the plan defined in s. 380.031(17), shall prepare such state agency functional plans no later than 6 months after the adoption of the state comprehensive plan.

History.—s. 7, ch. 84-257; ss. 6, 7, ch. 85-57.
[1]Note.—Former subsection (3) of s. 186.021 was repealed by s. 7, ch. 85-57.

186.022 State agency functional plans; consistency with state comprehensive plan.—

(1) Within 1 year of the adoption of the state comprehensive plan, and by November 1 of each odd-numbered year thereafter, each state agency, except as provided in s. 186.021, shall prepare and submit its agency functional plan to the Executive Office of the Governor. Prior to the submission of the agency functional plans to the Governor, each agency shall hold public workshops on the proposed agency functional plan, and shall allow at least a 21-day period for public

comment. Adequate public notice shall be assured by publication of notice of hearing and comment period in the Florida Administrative Weekly.

(2) The Executive Office of the Governor shall review the proposed state agency functional plans for consistency with the state plan, and shall, within 60 days, return a proposed agency functional plan to the agency, together with any proposed revisions.

(3) Each agency functional plan shall be in a form and manner prescribed in instructions prepared by the Executive Office of the Governor after consultation with the President of the Senate and the Speaker of the House of Representatives. Each agency functional plan shall identify the financial resources necessary to implement the provisions of the plan, and shall identify the specific legislative authority necessary to implement the elements of the proposed functional plan. An agency may only implement those portions of its functional plan that are consistent with existing statutory or constitutional authority, and for which funding, if needed, is available consistent with the provisions of chapter 216. Financial resources necessary to implement the policies and goals of the state comprehensive plan shall be clearly identified and coordinated between each agency functional plan and the budget requests and recommendations prescribed in s. 216.023(1).

(4) The state agency shall, within 30 days of the return of its proposed state agency functional plan, incorporate all revisions recommended by the Governor, or shall petition the Administration Commission to resolve any disputes regarding the consistency of the state agency functional plan or the revisions recommended by the Governor with the state comprehensive plan. The Administration Commission shall resolve any disputes within 45 days of the petition.

(5) Any differences between state agencies regarding the programs, policies, or functional plans of such agencies shall be mediated by the Governor.

(6) Each agency shall transmit copies of its functional plan and all public comments on its plan to the President of the Senate and the Speaker of the House of Representatives not later than 30 days prior to the next regular session of the Legislature.

(7) Agency functional plans developed pursuant to this chapter are not rules and therefore are not subject to the provisions of chapter 120.

History.—s. 8, ch. 84-257; s. 4, ch. 85-57.

186.031 Annual report.—The Governor as the chief planning and budget officer of the state shall annually report to the Legislature and the public on the economic conditions of the state, the infrastructure and capital outlay needs of the state, and the impacts of growth and development and shall assess state, regional, and local government efforts in addressing such conditions, needs, and impacts. The report shall appraise current growth trends, shall evaluate the extent to which existing growth management policies effectively address such trends, and shall review such other factors and indicators as are appropriate. The report shall contain timely and authoritative data and information about economic and demographic growth patterns and an analysis of such information as it affects the goals and policies of the state for growth and development. The report shall contain specific recommendations for any legislative and administrative changes needed to continue to manage growth effectively and to build upon the opportunities available. The report shall be related to, and developed in conju. ction with, the regular updates of the state comprehensive plan.

History.—s. 5, ch. 67-157; ss. 31, 35, ch. 69-106; s. 72, ch. 79-190; s. 15, ch. 81-259; s. 9, ch. 84-257.

Note.—Former s. 23.015.

186.501 Short title.—Sections 186.501-186.513 shall be known and may be cited as the "Florida Regional Planning Council Act."

History.—ss. 1, 5, ch. 80-315; s. 4, ch. 82-46.

Note.—Former s. 160.001.

186.502 Legislative findings; public purpose.—

(1) The Legislature finds and declares that:

(a) The problems of growth and development often transcend the boundaries of individual units of local general-purpose government, and often no single unit can formulate plans or implement policies for their solution without affecting other units in their geographic area.

(b) There is a need for regional planning agencies to assist local governments to resolve their common problems, engage in areawide comprehensive and functional planning, administer certain federal and state grants-in-aid, and provide a regional focus in regard to multiple programs undertaken on an areawide basis.

(c) Federal and state programs should have coordinated purposes and consistent policy direction in order to avoid the proliferation of overlapping, duplicating, and competing regional agencies. To further this end, these efforts should result in [1]entities agencies which effectively carry out a wide variety of federal and state program designations.

(d) The financial and technical assistance of the state should be provided to regional planning agencies to maximize the effective use of regional programs undertaken with the authorization of local, state, or federal governments serving the citizens of this state.

(e) There is a need for the establishment at the regional level of clear policy plans that will guide broad-based representative regional planning agencies as they undertake regional review functions.

(2) It is the declared purpose of this act to establish a common system of regional planning councils for areawide coordination and related cooperative activities of federal, state, and local governments; ensure a broad-based regional organization that can provide a truly regional perspective; and enhance the ability and opportunity of local governments to resolve issues and problems transcending their individual boundaries.

(3) The regional planning council is designated as the primary organization to address problems and plan solutions that are of greater than local concern or scope, and the regional planning council shall be recognized by local governments as one of the means to provide input into state policy development.

History.—ss. 2, 5, ch. 80-315; s. 4, ch. 82-46; s. 10, ch. 84-257.

[1]Note.—The word "entities" appears to be an error; it was substituted for the word "regional" in the preparation of C.S. for H.B. 1452 (1980).

Note.—Former s. 160.002.

186.503 Definitions.—As used in this act, the term:

(1) "Comprehensive planning districts" means the geographic areas within the state specified by rule by the Executive Office of the Governor pursuant to s. 186.006.

(2) "Comprehensive regional policy plan" means a long-range guide for physical, economic, and social development of a comprehensive planning district which identifies regional goals and objectives and opportunities as embodied in the policies of a regional planning council.

(3) "Elected official" means a member of the governing body of a municipality or county or an elected county official chosen by the governing body.

(4) "Existing regional planning council" means a regional planning council created by local general-purpose governments prior to October 1, 1980, pursuant to chapters [1]160 and 163.

(5) "Federal" or "Federal Government" means the United States Government or any department, commission, agency, or other instrumentality thereof.

(6) "Local general-purpose government" means any municipality or county created pursuant to the authority granted under ss. 1 and 2, Art. VIII of the State Constitution.

(7) "State" or "state government" means the government of the State of Florida or any department, commission, agency, or other instrumentality thereof.

History.—ss. 3, 5, ch. 80-315; s. 7, ch. 81-167; s. 4, ch. 82-46; s. 7, ch. 83-55; s. 18, ch. 84-257; s. 22, ch. 85-80.

[1]Note.—The sections comprising former chapter 160 were transferred to ch. 186 by the reviser incident to compiling the 1984 Supplement to the Florida Statutes 1983.

Note.—Former s. 160.003.

186.504 Regional planning councils; creation; membership.—

(1) A regional planning council shall be created in each of the several comprehensive planning districts of the state. Only one agency shall exercise the responsibilities granted herein within the geographic boundaries of any one comprehensive planning district.

(2) Membership on the regional planning council shall be as follows:

(a) Representatives appointed by each of the member counties in the geographic area covered by the regional planning council.

(b) Representatives from other member local general-purpose governments in the geographic area covered by the regional planning council.

(c) Representatives appointed by the Governor from the geographic area covered by the regional planning council.

(3) Not less than two-thirds of the representatives serving as voting members on the governing bodies of such regional planning councils shall be elected officials of local general-purpose governments chosen by the cities and counties of the region, provided each county shall have at least one vote. The remaining one-third of the voting members on the governing board shall be appointed by the Governor, subject to confirmation by the Senate, and shall reside in the region. No two appointees of the Governor shall have their places of residence in the same county until each county within the region is represented by a Governor's appointee to the governing board. Nothing contained in this section shall deny to local governing bodies or the Governor the option of appointing either locally elected officials or lay citizens provided at least two-thirds of the governing body of the regional planning council is composed of locally elected officials.

(4) Nothing contained in this act shall be construed to mandate municipal government membership or participation in a regional planning council. However, each county shall be a member of the regional planning council created within the comprehensive planning district encompassing the county.

(5) The existing regional planning council in each of the several comprehensive planning districts shall be designated as the regional planning council specified under subsections (1)-(4), provided the council agrees to meet the membership criteria specified therein and is a regional planning council organized under either s. 163.01 or s. 163.02 or chapter 160.

History.—s. 1, ch. 59-369; s. 19, ch. 63-400; s. 1, ch. 69-63; ss. 3, 5, ch. 80-315; s. 4, ch. 82-46; s. 11, ch. 84-257.

Note.—Former s. 160.01.

186.505 Regional planning councils; powers and duties.—Any regional planning council created hereunder shall have the following powers:

(1) To adopt rules of procedure for the regulation of its affairs and the conduct of its business and to appoint from among its members a chairman to serve annually; however, such chairman may be subject to reelection.

(2) To adopt an official name and seal.

(3) To maintain an office at such place or places within the comprehensive planning district as it may designate.

(4) To employ and to compensate such personnel, consultants, and technical and professional assistants as it deems necessary to exercise the powers and perform the duties set forth in this act.

(5) To make and enter into all contracts and agreements necessary or incidental to the performance of its duties and the execution of its powers under this act.

(6) To hold public hearings and sponsor public forums in any part of the regional area whenever the council deems it necessary or useful in the execution of its other functions.

(7) To sue and be sued in its own name.

(8) To accept and receive, in furtherance of its functions, funds, grants, and services from the Federal Government or its agencies; from departments, agencies, and instrumentalities of state, municipal, or local government; or from private or civic sources. Each regional planning council shall, no later than January 30 of each year, render an accounting of the receipt and disbursement of all funds received by it to the secretary of the Department of Community Affairs. The Secretary of Community Affairs shall consolidate all such reports and submit such consolidated report to the Legislature no later than March 1 of each year. A separate accounting of the receipt and disbursement of funds received by each regional planning council pursuant to the federal Older Americans Act shall be submitted to the Legislature no later than March 1 of each year.

(9) To receive and expend such sums of money as shall be from time to time appropriated for its use by any

county or municipality when approved by the council and to act as an agency to receive and expend federal funds for planning.

(10) To act in an advisory capacity to the constituent local governments in regional, metropolitan, county, and municipal planning matters.

(11) To cooperate, in the exercise of its planning functions, with federal and state agencies in planning for emergency management under s. 252.34(3).

(12) To fix and collect membership dues, rents, or fees when appropriate.

(13) To acquire, own, hold in custody, operate, maintain, lease, or sell real or personal property.

(14) To dispose of any property acquired through the execution of an interlocal agreement under s. 163.01.

(15) To accept gifts, grants, assistance, funds, or bequests.

(16) To conduct studies of the resources of the region.

(17) To participate with other governmental agencies, educational institutions, and private organizations in the coordination or conduct of its activities.

(18) To select and appoint such advisory bodies as the council may find appropriate for the conduct of its activities.

(19) To enter into contracts to provide, at cost, such services related to its responsibilities as may be requested by local governments within the region and which the council finds feasible to perform.

(20) To provide technical assistance to local governments on growth management matters.

History.—s. 2, ch. 59-369; ss. 17, 35, ch. 69-106; s. 1, ch. 73-283; ss. 3, 5, ch. 80-315; s. 8, ch. 81-167; s. 4, ch. 82-46; s. 8, ch. 83-55; s. 4, ch. 83-334; s. 12, ch. 84-257.

Note.—Former s. 160.02.

186.506 Executive Office of the Governor; powers and duties.—The Executive Office of the Governor, or its designee, shall:

(1) Arbitrate and settle disputes between regional planning councils.

(2) Provide assistance to local general-purpose governments concerning organization of, or reorganization into, a regional planning council.

(3) Review, modify, reject, or approve those rules of the regional planning councils which pertain to the functions designated to the regional planning councils by the state. These rules shall be submitted to the Governor or his designee and, if not acted upon within 30 days of receipt, they will be assumed to be in force.

(4) Conduct an in-depth analysis of the current boundaries of the regional planning councils and include in its study the preferences of local general-purpose governments; the effect of population migration, transportation networks, population increases and decreases, economic development centers and trade areas; and other data, projections, or studies which it determines to be of significance in establishing district boundaries. The Executive Office of the Governor may make such changes in the district boundaries as are found to be feasible and desirable.

History.—ss. 3, 5, ch. 80-315; s. 4, ch. 82-46.

Note.—Former s. 160.05.

186.507 Comprehensive regional policy plans.—

(1) A comprehensive regional policy plan shall contain regional goals and policies, specifically including growth management policies; shall be consistent with, and shall further, the state comprehensive plan; and shall implement and accurately reflect the goals and policies of the state comprehensive plan. Regional plans shall address significant regional resources, infrastructure needs, or other issues of importance within the region. Regional plans shall specify regional issues that may be used in reviewing a development of regional impact. Such regional issues shall be consistent with any state statutes, rules, or policies that specifically relate to or govern a regional issue or criteria adopted for development-of-regional-impact reviews. All regional issues and criteria shall be included in the comprehensive regional policy plan adopted by rule pursuant to s. 186.508.

(2) The Executive Office of the Governor shall adopt by rule minimum criteria to be addressed in each comprehensive regional policy plan and a uniform format for each plan. Such criteria shall emphasize the need for each regional planning council, when preparing and adopting a comprehensive regional policy plan, to focus on regional rather than local issues.

(3) In preparing the comprehensive regional policy plan, the regional planning council shall seek the full cooperation and assistance of local governments to identify key regional issues and shall document present conditions and trends with respect to the policy areas addressed; forecast future conditions and trends based on expected growth patterns of the region; and analyze the problems, needs, and opportunities associated with growth and development in the region, especially as those problems, needs, and opportunities relate to land use, water resources, and transportation system development.

(4) The regional goals and policies shall be used to develop a coordinated program of regional actions directed at resolving the identified problems and needs.

(5) The council shall give consideration to existing state, regional, and local plans in accomplishing the purposes of this section.

(6) The draft regional plan shall be circulated to all local governments in the region, and the local governments shall be afforded a reasonable opportunity to comment on the regional plan.

(7) The council shall provide for adequate input by citizens into the regional planning process.

(8) Upon adoption, a comprehensive regional policy plan shall provide, in addition to other criteria established by law, the basis for regional review of developments of regional impact, regional review of federally assisted projects, and other regional overview and comment functions.

(9) Regional planning councils shall consider, and make accessible to the public, appropriate data and studies, including development-of-regional-impact applications and agency reports, in order to assist participants in the development-of-regional-impact review process. A major objective of the regional planning process shall be to coordinate with the state land planning agency in order to achieve uniformity and consistency in land

use information and data collection efforts in this state and provide a usable and accessible data base to local governments and the private sector.
History.—ss. 3, 5, ch. 80-315; s. 4, ch. 82-46; s. 13, ch. 84-257.
Note.—Former s. 160.07.

186.508 Comprehensive regional policy plan adoption; consistency with state comprehensive plan.—Within 18 months of the adoption of the state comprehensive plan, each regional planning council shall submit to the Executive Office of the Governor its proposed comprehensive regional policy plan. The Executive Office of the Governor, or its designee, shall review the proposed comprehensive regional policy plan for consistency with the adopted state comprehensive plan and shall, within 90 days, return the proposed comprehensive regional policy plan to the council, together with any revisions recommended by the Governor. The rules adopting the regional policy plan shall not be subject to rule challenge under s. 120.54(4) or to drawout proceedings under s. 120.54(17). Such rules shall become effective only after they have been submitted to the President of the Senate and the Speaker of the House of Representatives for review by the Legislature no later than 30 days prior to the next regular session of the Legislature. In its review, the Legislature may reject, modify, or take no action relative to the adopted rules. The regional planning council shall conform the rules to the changes made by the Legislature; if no action was taken by the Legislature, the rules may become effective.
History.—s. 14, ch. 84-257; s. 23, ch. 85-55.

186.509 Mediation of conflicts between local governments.—The regional planning council shall establish an informal mediation process to resolve conflicts between local governments relating to comprehensive plans. The resolution of any issue through the mediation process shall not alter any person's right to a judicial determination of any issue if that person is entitled to such a determination under statutory or common law.
History.—s. 15, ch. 84-257.

186.511 Evaluation of comprehensive regional policy plan; changes in plan.—
(1) The regional planning process shall be a continuous and ongoing process. Each regional planning council shall prepare an evaluation report on its comprehensive regional policy plan at least once every 3 years; assess the successes or failures of the plan; and prepare amendments, revisions, or updates to the plan.
(2) All amendments, revisions, or updates to a comprehensive regional policy plan shall be adopted in the same manner as the original comprehensive regional policy plan was adopted and shall be prepared as needed because of changes in the state comprehensive plan or on the basis of the evaluation report required by this section.
History.—s. 16, ch. 84-257.

186.513 Reports.—Each regional planning council shall prepare and furnish an annual report on its activities to the department and the local general-purpose governments within its boundaries and, upon payment as may be established by the council, to any interested person. The regional planning councils shall make a joint report and recommendations to appropriate legislative committees.
History.—ss. 3, 5, ch. 80-315; s. 4, ch. 82-46.
Note.—Former s. 160.08.

186.515 Creation of regional planning councils under ch. 163.—Nothing in ss. 186.501-186.507, 186.513, and 186.515 is intended to repeal or limit the provisions of chapter 163; however, the local general-purpose governments serving as voting members of the governing body of a regional planning council created pursuant to ss. 186.501-186.507, 186.513, and 186.515 are not authorized to create a regional planning council pursuant to chapter 163 unless an agency, other than a regional planning council created pursuant to ss. 186.501-186.507, 186.513, and 186.515, is designated to exercise the powers and duties in any one or more of ss. 163.012(6), 163.3164(17), and 380.031(13); in which case, such a regional planning council is also without authority to exercise the powers and duties in [1]s. 23.012(6), s. 163.3164(17) or s. 380.031(15).
History.—ss. 4, 5, ch. 80-315; s. 4, ch. 82-46.
[1]Note.—Section 23.012 was repealed by s. 18, ch. 84-257.
Note.—Former s. 160.09.

186.801 Ten-year site plans.—
(1) Beginning January 1, 1974, each electric utility shall submit to the Department of Community Affairs a 10-year site plan which shall estimate its power-generating needs and the general location of its proposed power plant sites. The 10-year plan shall be reviewed and submitted not less frequently than every 2 years.
(2) Within 9 months of the receipt of the proposed plan, the department shall make a preliminary study of such plan and classify it as "suitable" or "unsuitable." The department may suggest alternatives to the plan. All findings of the department shall be made available to the Department of Environmental Regulation for its consideration at any subsequent electrical power plant site certification proceedings. It is recognized that 10-year site plans submitted by an electric utility are tentative information for planning purposes only and may be amended at any time at the discretion of the utility upon written notification to the department. A complete application for certification of an electrical power plant site under chapter 403, when such site is not designated in the current 10-year site plan of the applicant, shall constitute an amendment to the 10-year site plan. In its preliminary study of each 10-year site plan, the department shall consider such plan as a planning document and shall review:
(a) The need, including the need as determined by the Public Service Commission, for electrical power in the area to be served.
(b) The anticipated environmental impact of each proposed electrical power plant site.
(c) Possible alternatives to the proposed plan.
(d) The views of appropriate local, state, and federal agencies, including the views of the appropriate water management district as to the availability of water and its recommendation as to the use by the proposed plant of saltwater or freshwater for cooling purposes.

STATE OF MICHIGAN

JAMES J. BLANCHARD, Governor

DEPARTMENT OF COMMERCE

DOUG ROSS, Director

LOCAL DEVELOPMENT
SERVICES BUREAU
P.O. BOX 30225
Lansing, Michigan 48909

October 28, 1987

Mr. Frank Homan
Office of Senator Sturgulewski
Box V
Juneau, Alaska 99811

Dear Frank:

As promised here is the material describing what Community Growth Alliances are all about. The CGA's, as they are called, are not formally recognized in either legislation or executive order although there is some movement to eventually have them formally recognized in legislation. I hope this helps.

Feel free to call me at (517) 373-9305 if you have any further questions.

Sincerely,

Kenneth P. Voytek

Kenneth P. Voytek
Economist
Center for Local Economic
Competitiveness

KV/ph

Enclosure: a/s

the employment of private individuals, partnerships, firms, corporations, or suitable institutions, under contracts entered into for such purposes, or through grants to such individuals, organizations, or institutions, or through conferences and similar meetings organized for such purposes. The Secretary shall make available to interested individuals and organizations the results of such research. The Secretary shall include in his annual report under section 707 a detailed statement concerning the study and research conducted under this section together with his findings resulting therefrom and his recommendation for legislative and other action.

Purposes

(d) The Secretary shall aid redevelopment areas and other areas by furnishing to interested individuals, communities, industries, and enterprises within such areas any assistance, technical information, market research, or other forms of assistance, information, or advice which would be useful in alleviating or preventing conditions of excessive unemployment or underemployment within such areas. The Secretary may furnish the procurement divisions of the various departments, agencies, and other instrumentalities of the Federal Government with a list containing the names and addresses of business firms which are located in redevelopment areas and which are desirous of obtaining Government contracts for the furnishing of supplies or services, and designating the supplies and services such firms are engaged in providing.

Study Board

(e) The Secretary shall establish an independent study board consisting of governmental and nongovernmental experts to investigate the effects of Government procurement, scientific, technical, and other related policies, upon regional economic development. Any Federal officer or employee may, with the consent of the head of the department or agency in which he is employed, serve as a member of such board, but shall receive no additional compensation for such service. Other members of such board may be compensated in accordance with the provisions of section 701 (10). The board shall report its findings, together with recommendations for the better coordination of such policies, to the Secretary, who shall transmit the report to the Congress not later than two years after the enactment of this Act.

Demonstration Projects

(f) The Secretary is authorized to make grants, enter into contracts or otherwise provide funds for any demonstration project within a redevelopment area or areas which he determines is designed to foster regional productivity and growth, prevent outmigration, and otherwise carry out the purposes of this Act.

42 USC 3151a

SEC. 302. (a) The Secretary is authorized, upon application of any State, or city, or other political subdivision of a State, or sub-State planning and development organization (including a redevelopment area or an economic development district), to make direct grants to such State, city, other political subdivision, or organization to pay up to 80 per centum of the cost for economic development planning. The planning for cities, other political subdivisions, and sub-State planning and development organizations (including redevelopment areas and economic development districts) assisted under this section shall include systematic efforts to reduce unemployment and increase incomes. Such planning shall be a continuous process involving public officials and private citizens in analyzing local economies, defining development goals, determining project opportunities, and formulating and implementing a development program. Any overall State economic development plan prepared with assistance under this section shall be prepared cooperatively by the State, its political subdivisions, and the economic development districts located in whole or in part within such State. Upon completion of any such plan, the State shall certify to the Secretary (1) that in the preparation of such State plan, the local and economic development district plans were considered and, to the fullest extent possible, such State plan is consistent with such local and economic development district plans, and (2) that such State plan is consistent, with such local and economic development district plans, or, if such State plan is not consistent with such local and economic development district plans, all of the inconsistencies of the State plan with the local and economic development district plans, and the justification for each of these inconsistencies. Any overall State economic development planning shall be a part of a comprehensive planning process that shall consider the provision of public works to stimulate and channel development, economic opportunities and choices for individuals; to support sound land use, to enhance and protect the environment including the conservation and preservation of open spaces and environmental quality, to provide public services, and to balance physical and human resources through the management and control of physical development. The assistance available under this section may be provided in addition to assistance available under section 301(b) of this Act but shall not supplant such assistance and shall be available to develop an annual inventory of specific recommendations for assistance under section 304 of this Act. Each State receiving assistance under this subsection shall submit to the Secretary an annual report on the planning process assisted under this subsection.

Direct Planning Grant

City & Sub-State Plan

State Plans

(b) In addition, the Secretary is authorized to assist economic development districts in—

(1) providing technical assistance (other than by grant) to local governments within the district; and

T/A

NOTE: This unofficial reprint of the Public Works and Economic Development Act of 1965, as amended, incorporates all amendments through the 1976 amendments (P.L. 94-487). The text was edited and is published by the Office of Chief Counsel, Economic Development Administration, U.S. Department of Commerce.

PUBLIC WORKS AND ECONOMIC DEVELOPMENT ACT OF 1965, AS AMENDED

(P.L. 89-136; 42 U.S.C. 3121 *et seq.*)

To provide grants for public works and development facilities, other financial assistance and the planning and coordination needed to alleviate conditions of substantial and persistent unemployment and underemployment in economically distressed areas and regions

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Public Works and Economic Development Act of 1965".

STATEMENT OF PURPOSE

SEC. 2. The Congress declares that the maintenance of the national economy at a high level is vital to the best interests of the United States, but that some of our regions, counties, and communities are suffering substantial and persistent unemployment and underemployment; that such unemployment and underemployment cause hardship to many individuals and their families, and waste invaluable human resources; that to overcome this problem the Federal Government, in cooperation with the States, should help areas and regions of substantial and persistent unemployment and underemployment to take effective steps in planning and financing their public works and economic development; that Federal financial assistance, including grants for public works and development facilities to communities, industries, enterprises, and individuals in areas needing development should enable such areas to help themselves achieve lasting improvement and enhance the domestic prosperity by the establishment of stable and diversified local economies and improved local conditions, provided that such assistance is preceded by and consistent with sound, long-range economic planning; and that under the provisions of this Act new employment opportunities should be created by developing and expanding new and existing public works and other facilities and resources rather than by merely transferring jobs from one area of the United States to another. Congress further declares that, in furtherance of maintaining the national economy at a high level, the assistance authorized

42 USC 3121

[38 FR 2268, Jan. 23, 1973, as amended at 39 FR 44960, Dec. 30, 1974; 44 FR 40883, July 13, 1979]

§ 302.51 Lists of redevelopment areas and centers designated under the Act.

The Economic Development Administration will maintain current lists of areas and centers designated under the Act. The lists shall be kept available for public inspection during the regular business hours of the Department of Commerce. Inquiries for such lists shall be made to the Director, Office of Management and Administration, Economic Development Administration, U.S. Department of Commerce, 14th and Constitution Avenue, NW., Room 7816, Washington, D.C. 20230.

[OCC NOTE: Revised 48 FR 5711, Jan.8, 1983]

Subpart E—Information

§ 302.60 Information.

Upon the request of the Assistant Secretary the heads of such governmental agencies as may be appropriate are authorized to conduct such special studies, obtain such information, and compile and furnish to the Assistant Secretary such data as the Assistant Secretary may deem necessary or proper to enable him to make the determinations provided for in this part. The Assistant Secretary shall reimburse when appropriate, out of any funds appropriated to carry out the purposes of the Act, the foregoing officers for any expenditures incurred by them under this section.

(Sec. 701, Pub. L. 89-136, 79 Stat. 570, as amended (42 U.S.C. 3211); Pub. L. 94-487, 90 Stat. 2331; Dept. of Commerce Organization Order 10-4 (Sept. 30, 1975), as amended (40 FR 56702 as amended at 40 FR 58878 and 41 FR 35548))

PART 303—ECONOMIC DEVELOPMENT DISTRICTS

Subpart A—Standards for Designation, Modification and Termination of Economic Development Districts

Sec.

303.1 Authorization of economic development districts.
303.2 Designation of economic development districts.
303.3 Designation of nonfunded districts.
303.4-1 District organizations.
303.4-2 Waiver of district organization basic representation requirements and organizational options thereunder.
303.4-3 District organization functions and responsibilities.
303.5 Coordination with State and local organizations.
303.6 Modification of district boundaries.
303.7 Termination and suspension of district designation.
303.8 Benefits.
303.9 [Reserved]

Subpart B—Standards for Designation, Modification, and Termination of Economic Development Centers

303.10 General standards for designation of economic development centers.
303.11 Number of economic development centers per district.
303.12 Boundaries of economic development centers and boundary modifications.
303.13 Termination and suspension of economic development centers.
303.14 Redevelopment centers.

Subpart C—Financial and Other Assistance to Economic Development Centers and Districts

303.20 Financial assistance to economic development centers.
303.21 Economic development center project characteristics.
303.22 Grant rate for economic development center projects.
303.23 Supplementary grants to district redevelopment areas.
303.24 Financial assistance to redevelopment centers.
303.25 Assistance to economic development districts.

AUTHORITY: Sec. 701, Pub. L. 89-136 (August 26, 1965); 42 U.S.C. 3211; 79 Stat. 570 and Dept. of Commerce Organization Order 10-4 (Apr. 1, 1970), unless otherwise noted.

SOURCE: 38 FR 2269, Jan. 23, 1973, unless otherwise noted.

Subpart A—Standards for Designation, Modification and Termination of Economic Development Districts

§ 303.1 Authorization of economic development districts.

(a) The Assistant Secretary may authorize, at the request of the Governor(s) of the State or States, the delineation of economic development district (hereinafter district) boundaries as a prerequisite to designation of an economic development district and as a prerequisite to the provision of planning grants, Subpart B of Part 307 of this chapter.

(b) Authorization of delineation may be made:

(1) Where the State or States after analyzing economic and social relationships among the various redevelopment area counties proposed to EDA a district boundary delineation.

(2) Where the district proposed for authorization meets the general standards for designation set forth in § 303.2.

(3) Where a consideration of the following factors has been made:

(i) The percentage of the population living in redevelopment areas.

(ii) District per capita income.

(iii) The percentage of families with annual income below the poverty threshold.

(iv) Unemployment rates and labor force participation rates of the proposed district.

(v) Economic characteristics of economic growth centers.

(vi) The proposed district's readiness to hire a professional staff and begin work.

(4) Where the district proposed for authorization of delineation of boundaries conforms to an officially delineated sub-State district, if such exists, or where the Governor has provided the Assistant Secretary with an explanation and support from any variation of the officially delineated sub-State district.

[38 FR 2269, Jan. 23, 1973, as amended at 39 FR 44960, Dec. 30, 1974]

§ 303.2 Designation of economic development districts.

The Assistant Secretary is authorized to designate economic development districts with the concurrence of the States in which the districts will be wholly or partially located.

(a) Where the proposed district is of sufficient size or population, and contains sufficient resources, to foster economic development on a scale involving more than a single redevelopment area.

(b) Where the proposed district contains at least one redevelopment area.

(c) Where the proposed district contains one or more redevelopment areas or economic development centers identified in an approved district overall economic development program (hereinafter OEDP) as having sufficient size and potential to foster the economic growth activities necessary to alleviate the distress of the redevelopment areas within the district.

(d) Where the proposed district has a district OEDP which identifies one or more proposed economic growth centers, includes adequate land use and transportation planning, contains a specific program for district cooperation, self-help, and public investment and is approved by the State or States affected and by the Secretary.

(e) Where at least three-fourths of the counties within the proposed district boundaries have submitted documentation of their commitment to support the economic development activities of the district.

(f) Where a district organization has been established which meets the requirements of § 303.4-1.

(g) Where the proposed district organization requests such designation.

[38 FR 2269, Jan. 23, 1973, as amended at 39 FR 44960, Dec. 30, 1974; 45 FR 55701, Aug. 21, 1980]

§ 303.3 Designation of nonfunded districts.

Designation is not limited to districts receiving EDA planning grants. However, any nonfunded district receiving authorization and designation is subject to the same criteria and organization requirements applicable to funded districts.

§ 303.4-1 District organizations.

(a) *Organization prerequisite to designation and funding.* The district organization is a prerequisite to initial and continued designation of an economic development district ("EDD"). In addition, it is prerequisite to the

provision of planning grants.

(b) *Legal status.* Districts shall organize in one of the following ways:

(1) As nonprofit organizations incorporated under the laws of the States in which they are located;

(2) As public organizations through intergovernmental agreements for the joint exercise of local government powers; or

(3) As public organizations established under State enabling legislation for the creation of multijurisdictional areawide planning organizations.

(c) *Basic organizational requirements.* Each district organization must meet EDA requirements concerning its membership composition as set forth in § 303.4-1(d), its authorities and responsibilities for carrying out economic development functions as set forth in § 303.4-3, and the maintenance of adequate staff support to perform its economic development functions as set forth in § 303.4-1(e) in one of the two ways cited below:

(1) In general, the foregoing requirements must be met by the board of directors (or other governing body of the organization) as a whole.

(2) However, a waiver may be granted under provisions of § 303.4-2 to permit a district organization to use one of a variety of organizational options (hereafter, the "EDA component") set forth in § 303.4-2(c) to meet the basic organizational requirements.

(d) *Representation requirements.* The district organization shall demonstrate that either the district organization as a whole or its EDA component meets all of the following requirements:

(1) It is broadly representative of the following interests:

(i) The principal economic interests of the district, including business, industry, finance, transportation, utilities, the professions, labor, agriculture, and education. In meeting this requirement, the representatives of the principal economic interests may be private citizens, part-time elected officials, or minority representatives also selected under paragraph (d)(1)(ii) of this section.

(ii) Minority groups. Minority representatives shall be selected in accordance with *Civil Rights Guidelines* issued pursuant to 13 CFR Part 311, and may be private citizens, elected officials, or government employees.

(iii) Representatives of the unemployed and underemployed.

(2) There is at least a simple majority of its membership who are elected officials of, or employees of, a general purpose unit of local government and who have been appointed to represent such government.

(i) Where appointment of local government members is not otherwise provided for by the district organization charter or by-laws, each county and major city which joins the district shall name an elected official or an employee to represent it.

(ii) Where appropriate to their nongovernmental occupations, part-time elected officials may also represent the principal economic interests.

(3) There is at least one-fifth of its membership who are private citizens who are neither elected officials of a general purpose unit of local government nor employees of such a government who have been appointed to represent that government. All districts which have been authorized or designated before June 6, 1979, must comply with this provision no later than August 21, 1981.

(i) The district organization shall demonstrate that persons fulfilling this requirement represent the interests of groups listed in paragraph (d)(1) (i) or (iii) of this section. Minority representatives who meet these criteria may be counted toward the fulfillment of the private citizen requirement.

(ii) Except where these private citizens are also selected as minority representatives under paragraph (d)(1)(ii) of this section, these representatives shall be appointed by the governing bodies of the counties actively participating in the district organization or as otherwise provided in the district organizational charter and by-laws.

(e) *Staff support.* (1) The district organization or its EDA component established according to § 303.4-2 shall be assisted by a professional staff drawn from qualified persons in planning, economics, business administration, engineering and related disciplines.

(2) EDA may provide planning grants to economic development districts to employ professional staff in accordance with Subpart B of Part 307 of this chapter.

(f) *Public participation.* District organizations shall provide access for persons who are not members of the district organization or its "EDA component" to make their views known concerning ongoing and proposed district activities in accord with the following requirements:

(1) At a minimum, the district organization shall conduct meetings open to the public once a year. It shall also publish the date and the agenda of the meeting at least four weeks in advance to allow members of the public a reasonable time to prepare to participate effectively in the meetings.

(2) The district organization shall adopt a system of parliamentary procedures to assure that board members and other interested persons and groups have access to and an effective opportunity to participate in the affairs of the district.

(3) Where an "EDA component" is used, the district organization is required to hold appropriate public meetings and hearings when it considers significant economic development matters involving authorities, responsibilities, activities, or products of the EDA component.

(4) Information should be provided sufficiently in advance of public decisions to give citizens an adequate opportunity to review and react to proposals. District organizations should seek to relate technical data and other professional material to the affected citizens so that they may understand the impact of public programs, available options and alternative decisions.

(Department of Commerce Organization Order 10-4, as amended (40 FR 56702, as amended))

[45 FR 55701, Aug. 21, 1980, as amended at 46 FR 9026, Jan. 28, 1981]

§ 303.4-2 Waiver of district organization basic representation requirements and organizational options thereunder.

(a) *Conditions for waivers to basic representational requirements.* Under the following circumstances only, EDA will grant waivers to § 303.4-1(c)(1) to permit district organizations to use an "EDA component" to meet EDA basic organizational requirements: (1) Where the subject organization is not the governing body of a designated economic development district or is not receiving a planning assistance grant under 13 CFR Part 307, Subpart B, and

(i) Where the proposed district organization is not able to meet some part of the representational requirements of § 303.4-1(d) because of mandatory requirements of an interstate compact, a State law or constitutional provision, a State governor's executive order issued pursuant to a constitutional provision or state law or a home rule charter of a participating city or county, or

(ii) Where the proposed district organization demonstrates that it would undergo special hardship if it is required to reorganize in order to comply with the requirements of § 303.4-1(c)(1); or

(2) Where the proposed district organization is an existing designated or funded economic development district which demonstrates to the satisfaction of the Assistant Secretary: (i) That it would undergo a special hardship if it is required to maintain its district status through continued compliance with § 303.4-1(c)(1), and

(ii) That it has obtained concurrence in its proposal to reconstitute the district organization under § 303.4-1(c)(2) from the principal economic interests, minority interests, and local governments involved in the district.

(b) *Consideration of requests for waivers.* EDA will consider the following points (without excluding other possibilities) in determining whether to grant a waiver under the foregoing section.

(1) Where the waiver request is based on a legal constraint under § 303.4-2(a)(1)(i), the following kinds of situations would be the basis for a

waiver: (i) Where the membership composition or the membership appointment procedures of the organization are legally specified such that it cannot meet EDA board membership requirements, or

(ii) Where only local government elected officials are legally allowed to participate in the joint exercise of local government powers.

(2) Where the waiver request is based on the demonstration of special hardship under § 303.4-2(a)(1)(ii) or § 303.4-2(a)(2), the following factors would be considered: (i) The record of the organization in delivering projects related to economic development to assist distressed populations of the area.

(ii) The mechanisms proposed to provide for the involvement of the private sector and of distressed populations, including minority groups and local jurisdictions with high rates of distress, in the economic development planning process.

(iii) The age and complexity of any interlocal agreement for the joint exercise of powers.

(iv) The array of public policy issues assigned to the organization and the appropriateness for the various categories of representation required by EDA to participate in voting on the issues, and

(v) The risk of any breach of contract obligations if the organization were required to restructure its governing board in order to comply with EDA regulations.

(c) *Organizational options available under waiver provisions.* Organizations which are granted a waiver of § 303.4-1(c)(1) may employ one of the following types of organizational structure as their "EDA component" in accordance with § 303.4-1(c)(2), to meet EDA's basic organizational requirements:

(1) An augmented governing board whose membership meets EDA requirements;

(2) A subcommittee of the governing board where the subcommittee membership meets EDA's requirements;

(3) A policy advisory committee to the governing board where the committee membership meets EDA requirements;

(4) A bicameral decisionmaking organization in which dual policy bodies are created (consistent with § 309.17(b)), one of which meets EDA's requirements; and

(5) Other types of arrangements which are found by the Assistant Secretary to meet EDA's requirements.

[45 FR 55702, Aug. 21, 1980]

§ 303.4-3 District organization functions and responsibilities.

(a) *Basic requirement.* Economic development districts (EDDs) must arrange to carry out two classes of functions and responsibilities: Those which every EDD must carry out (paragraph (b) of this section), and those which EDDs receiving grants must carry out (paragraph (c)). Where the district organization uses an EDA component to meet EDA requirements, as provided for in § 303.4-2, the EDA component of the district organization shall be given authority to carry out certain parts of these two classes of functions and responsibilities described in paragraph (d) of this section.

(b) *Functions and responsibilities common to all EDDs.* Subject to the requirements of § 303.4-1, EDDs are responsible for seeing that the following functions are provided for on a continuing basis.

(1) *Organizational actions,* including: (i) Arranging the legal form of organization which will be used;

(ii) Arranging for the membership of the board of directors to meet § 303.4-1 requirements;

(iii) Recruiting staff to carry out the economic development functions;

(iv) Establishing a management system;

(v) Contracting for services to carry out district functions; and

(vi) Establishing and directing activities of economic development subcommittees.

(2) *Civil rights responsibilities* of 13 CFR Part 311 including: (i) Arranging for the EDD board of directors and its executive committee to comply with EDA requirements for minority representation;

(ii) Submitting reports to EDA on the EDD's compliance with civil rights requirements (e.g., nondiscrimination on the basis of race, color, national origin, sex, or handicap); and

(iii) Preparing, taking action on and reporting on an affirmative action plan for the district.

(3) *Actions to develop and maintain the required district overall economic development program (OEDP), and any subsequent supplements or revisions,* including: (i) Preparing the analytic, strategic and implementation components of the OEDP;

(ii) Identifying economic development centers and redevelopment centers and any later boundary modifications;

(iii) Adopting the OEDP by formal action of the EDD governing board;

(iv) Submitting the OEDP and any supplements or revisions for reviews by appropriate governmental bodies and interested organized groups, and attaching dissenting opinions and comments received; and

(v) Obtaining EDA approval of the OEDP.

(4) *Preparation of proposals that EDA take actions* which: (i) Establish or change the designation status of the district or its growth centers; or

(ii) Affect economic development projects available to the EDD.

(5) *Coordination and implementation* of economic development activities in the district, including:

(i) [Reserved]

(ii) Assisting other eligible units within the district to apply for grant assistance for economic development purposes;

(iii) Carrying out economic development related research, planning, implementation and advisory functions as are necessary and helpful to the coordination with other local, State, Federal, and private organizations, and as are necessary and helpful to the development and implementation of the overall economic development program;

(iv) Coordinating the development and implementation of the OEDP with other local, State, Federal and private organizations (including minority organizations); and

(v) Carrying out the annual OEDP plan for implementation.

(c) *Grants management activities.* Economic development district organizations which seek and receive EDA grant assistance must carry out grants management activities, including:

(1) Preparing application materials and accepting EDA grant offers;

(2) Arranging for the contribution of the required non-Federal matching share of the grant project costs;

(3) Receiving and managing the proceeds of the grant from EDA and of the matching share contributions;

(4) Complying with grant terms and conditions, including those pertaining to financial management and to work program requirements;

(5) Incurring expenses in carrying out the purposes of the EDA grant and charging these projects costs against grant project accounts; and

(6) Keeping records, and preparing and submitting reports on the grant project.

(d) *EDA component functions and responsibilities.* Where the EDD uses an EDA component to meet EDA requirements under § 303.4-1, the following functions and responsibilities (with the exception of paragraph (d)(4)(iii), which need not be exclusive to the EDA component) shall be lodged solely in the EDA component:

(1) *Organizational actions.* The EDA component shall: (i) Adopt bylaws for the conduct of the functions and responsibilities assigned to the EDA component;

(ii) Establish and direct activities of economic development subcommittees;

(iii) Advise the district board of directors or the staff director, as appropriate, concerning the activities of the economic development staff which is established according to § 303.4-1(e)(1).

(2) *Civil Rights responsibilities.* The EDA component shall: (i) Assure that the required minority representatives participate in the functions and responsibilities of the EDA component; and

(ii) Work to resolve matters of civil rights compliance review and assist in implementing the district organization's ongoing affirmative action plan required under § 311.4(b) of 13 CFR.

(3) *Overall economic development*

program (OEDP) activities. The EDA component shall have responsibility for: (i) Preparing and recommending adoption of the district OEDP, and of any subsequent supplements or revisions required by EDA, including the recommendation therein of project implementation priorities;

(ii) Making comments to the district organization board of directors concerning any board-initiated revisions of such OEDP documents;

(iii) Informing EDA when such revisions by the district organization board of directors constitute major departures from the recommendations of the EDA component and efforts to reinstate the substance of the recommended OEDP documents have not been successful;

(iv) Submitting the OEDP and any supplements or revisions for review by appropriate governmental bodies and significant organized interest groups, and the attaching thereto of dissenting opinions and comments received; and

(v) Determining when, on the initiative of the district, to revise and resubmit the OEDP.

(4) *Coordination and implementation activities.* The EDA components unit shall: (i) [Reserved]

(ii) Take actions required by EDA concerning grant or loan applications from other eligible applicants within the district which affect the district; and

(iii) Carry out economic development related research, planning, implementation and advisory functions as are necessary and helpful to the coordination with other local, State, Federal, and private organizations and to the development and implementation of the overall economic development program.

(5) *Application for and use of EDA grants.* The EDA component shall: (i) Advise the district organization board of directors concerning the scope of work section of grant applications; and

(ii) Comply with EDA terms and conditions relating to work program requirements.

[45 FR 55702, Aug. 21, 1980]
[OCC NOTE: Amended 48 FR 29136, Jan.24, 1983]

§ 303.5 Coordination with State and local organizations.

The Assistant Secretary will cooperate with State and local organizations in activities leading to designation of economic development districts including participation in the district program, formulation of the OEDP, and identification and analyses of potential economic growth centers.

§ 303.6 Modification of district boundaries.

The Assistant Secretary, with concurrence of the State or States affected, may modify the boundaries of a district consistent with standards for authorizing new districts set forth in § 303.1 if the Assistant Secretary determines that such modification will contribute to a more effective program for economic development.

§ 303.7 Termination and suspension of district designation.

(a) The Assistant Secretary will, upon 30 days' prior notice, terminate or suspend the designated status of an economic development district:

(1) Where the district no longer meets the standards for designation: (i) As set forth in § 303.2(a), (b), (c), (d), (f), or (g), or

(ii) As set forth in § 303.2(e), except that district designation status may be continued if those counties which would maintain their commitment to support economic development activities are determined by EDA to meet the other standards of § 303.2 and the standards of § 303.1.

(2) Where a district has not maintained a currently approved district OEDP in accordance with Part 304 of this chapter.

(3) Where a district has requested termination with the approval of the State or States affected.

(4) Where a funded district fails to comply with terms and conditions of an EDA planning grant agreement.

(b) Terminations and suspensions resulting from failure to comply with Title VI of the Civil Rights Act of 1964 will be processed in accordance with the provisions of that Act.

[38 FR 2269, Jan. 23, 1973, as amended at 45 FR 55703, Aug. 21, 1980]

§ 303.8 Benefits.

(a) Designation of an economic development district is a prerequisite to EDA providing financial assistance to economic development centers.

(b) Projects in redevelopment areas which are located within designated economic development districts and which actively participate in the economic development district's OEDP planning process are eligible for 10-percent bonus grants, §§ 303.23 and 305.6 of this chapter if the project is consistent with a currently approved district OEDP.

§303.9 [Reserved] [39 FR 44960, Dec. 30, 1974]
[OCC NOTE: Removed 48 FR 6525, Feb. 14, 1983]

Subpart B—Standards for Designation, Modification, and Termination of Economic Development Centers

§ 303.10 General standards for designation of economic development centers.

The Assistant Secretary may designate an economic development center if such proposed center:

(a) Has been identified and included in an approved district OEDP.

(b) Is recommended by the State or States affected. Written concurrence from the State must be received by EDA.

(c) Is geographically and economically so related to the economic development district that the economic development center's economic growth may be expected to contribute significantly to the alleviation of distress in the redevelopment areas of the district.

(d) Does not have a population in excess of 250,000 according to the last preceding Federal census.

(e) May reasonably be expected to accelerate or maintain existing rates of growth in terms of population, employment, and income.

(f) Has the prospect of developing a diversified economy providing a wide range of health, educational, recreational, and cultural facilities; a relatively large local market; a relatively large well-trained labor force; and other similar qualities which encourage the continuing growth of economic activities.

(g) Is an active participant in the district economic development program.

[38 FR 2269, Jan. 23, 1973, as amended at 40 FR 6640, Feb. 13, 1975]

§ 303.11 Number of economic development centers per district.

The Assistant Secretary will designate the single leading growth point in an economic development district as the economic development center. However, additional centers may be designated where unusual conditions exist in the district.

(a) Where the district contains a relatively large number of redevelopment area residents who do not have reasonable community access to any one economic development center.

(b) Where the district contains several smaller growth points rather than one leading economic development center.

§ 303.12 Boundaries of economic development centers and boundary modifications.

(a) An economic development center is administratively defined as a city or grouping of contiguous incorporated places. However, where justified, boundaries may be extended to include adjoining minor civil divisions or corridors of growth between centers.

(b) The Assistant Secretary may modify either the boundaries of an economic development center or the number of economic development centers in a district after giving notice and opportunity for comment to the State or States affected, if such modification will contribute to a more effective program.

§ 303.13 Termination and supension of economic development centers.

The Assistant Secretary may, upon 30 days prior notice to the interested State and local agencies, terminate the designated status of an economic development center when—

(a) The economic development center is no longer identified or recommended for designation in an approved district OEDP.

(b) The economic development

center no longer meets the standards for designation, § 303.10.

(c) The economic development center fails to actively pursue its role as an economic development center in a manner that makes a significant impact on the performance of the economic development district within which it is located.

§ 303.14 Redevelopment centers.

The Assistant Secretary may recognize a redevelopment center which meets the criteria for economic development centers, but which falls in designated redevelopment area. There is no limit on the size of the population of a redevelopment center.

Subpart C—Financial and Other Assistance to Economic Development Centers and Districts

§ 303.20 Financial assistance to economic development centers.

The Assistant Secretary may provide financial assistance (including public works and development facility loans and grants and commercial and industrial loans and working capital guarantees) in accordance with the criteria contained in Parts 305 and 306 of this chapter for projects in economic development centers when—

(a) The project will further enhance the objectives of the overall economic development program of the district in which the economic development center is located.

(b) The project will enhance the relationship between the economic development center and the economic development district, particularly the redevelopment areas.

(c) The project will achieve one or more of the following:

(1) Encourage economic growth.

(2) Discourage out-migration from the district.

(3) Have a beneficial impact on the district's redevelopment areas.

§ 303.21 Economic development center project characteristics.

Projects in economic development centers shall have one or more of the following characteristics:

(a) High job producing capability.

(b) Remove barriers of access to jobs for the target population.

(c) Ability to trigger further project activity.

(d) Ability to trigger further economic impact.

(e) Provision of facilities and services deemed essential to stimulate further growth, at a level above that normally required for simple maintenance of a substantial community.

[38 FR 2269, Jan. 23, 1973, as amended at 39 FR 44960, Dec. 30, 1974]

§ 303.22 Grant rate for economic development center projects.

The grant rate for projects in economic development centers shall not exceed 50 percent of the project costs.

§ 303.23 Supplementary grants to district redevelopment areas.

Subject to the limitation that the maximum Federal share for any project may not exceed 80 percent of the aggregate cost (except as provided in §§ 305.5 and 305.6 of this chapter), the Assistant Secretary may increase the amount of grant assistance for public works and development facilities projects within redevelopment areas by an amount not to exceed 10 percent of the aggregate cost of any such project, if:

(a) The redevelopment area is situated within a designated economic development district and is actively participating in the economic development activities of the district and

(b) The project is consistent with the currently approved district OEDP.

§ 303.24 Financial assistance to redevelopment centers.

The eligibility of redevelopment centers for EDA financial assistance, including the 10 percent bonus as provided for in §§ 303.23 and 305.6 of this chapter, is the same as for any designated redevelopment area within the district. The grant rate for the redevelopment center shall be determined by the rate applicable to the redevelopment area within which it is located.

§ 303.25 Assistance to economic development districts.

Pursuant to Title III of the Act, the Assistant Secretary may provide other assistance to the district including:

(a) Technical assistance.

(b) Planning grants, Subpart B of Part 307 of this chapter, to assist the district organization in engaging a professional staff and carrying its planning activities.

(c) Research assistance.

PART 304—OVERALL ECONOMIC DEVELOPMENT PROGRAM

Sec.

304.1 OEDP requirements.
304.2 Redevelopment areas may use district OEPDs.
304.3 Redevelopment area OEDP Committee.
304.4 Initial OEDP.
304.5 Initial OEDP for districts.
304.6 Submission of initial OEDP.
304.7 The continuing program.
304.8 Progress report.
304.9 Revised OEDP.

AUTHORITY: Sec. 701, Pub. L. 89-136 (42 U.S.C. 3211); 79 Stat. 570 and Dept. of Commerce Organization Order 10-4 (Apr. 1, 1970), unless otherwise noted.

SOURCE: 38 FR 2271, Jan. 23, 1973, unless otherwise noted.

§ 304.1 OEDP requirement.

(a) Approval of an overall economic development program, hereinafter referred to as OEDP, is a prerequisite for designation of a redevelopment area or economic development district except those areas designated under §§ 302.5 and 302.7 of this chapter.

(b) A redevelopment area or economic development district, where appropriate, is required to maintain a currently approved OEDP to retain its previous designation for eligibility to receive EDA funds.

[38 FR 2271, Jan. 23, 1973, as amended at 39 FR 7779, Feb. 28, 1974; 39 FR 44960, Dec. 30, 1974]

§ 304.2 Redevelopment areas may use district OEDP's.

Those qualified areas within existing economic development districts may use the district's accepted OEDP in lieu of drawing up a separate area OEDP:

(a) Where the area has actively participated in and supported the district OEDP planning process, and

(b) Where the area has submitted a letter to EDA signed by the Area's chief elected official or governing body and, where appropriate, a letter from the local OEDP committee wherein the area's decision to use the district OEDP is stated.

§ 304.3 Redevelopment Area OEDP Committee.

(a) The preparation of the Area OEDP and of the ongoing development program which it charts is the primary responsibility of the Area OEDP committee.

(1) Area OEDP Committees are required only in those areas not located in districts. (District organization requirements are set forth at § 303.4-1, § 303.4-2 and § 303.4-3 of this chapter.)

(2) However, because of the crucial role of the OEDP committee, EDA recommends that all areas establish such an organization even though located within a district and using the district OEDP (as allowed under § 304.2).

(b) The Area OEDP committee shall be representative of the community so that all viewpoints are considered in discussion and decisionmaking and all available local skills are engaged in program formulation. Representation on the committee shall include representatives of local government (county, city, and town), business industry, finance, agriculture, the professions, organized labor, utilities, education, minorities, and the unemployed or underemployed. 13 CFR Part 311 of this chapter, as implemented by the *Civil Rights Guidelines*, contains the requirements for the specific representation of minority groups.

(c) If an existing development group meets the criteria as set forth in paragraph (b) of this section, that group may function as the Area OEDP committee.

(Sec. 701, Pub. L. 89-136, 79 Stat. 570 (42 U.S.C. 3211); Dept. of Commerce Organization Order 10-4 (Sept. 30, 1975), as amended (40 FR 56702, as amended))

[45 FR 55703, Aug. 21, 1980]

§ 304.4 Initial OEDP.

(a) The initial OEDP is the beginning of a planning program required by qualified redevelopment areas, title I areas, and economic development districts before the designation process can be completed.

(b) The initial OEDP will provide a concise and accurate background of the area or district in order to assist the local leaders and EDA to understand the current development situation. Such background may include a discussion of the district or area's geography, population, labor force, natural and manmade resources, economic and social activities.

(c) The initial OEDP will examine economic development and community improvement opportunities and problems. This includes an identification of major current activities of other organizations in connection with economic development and community improvement opportunities and problems.

(d) The initial OEDP will provide a realistic development program and work program that will be developed and implemented in an effort to:

(1) Promote the district or area's economic progress.

(2) Improve community facilities and services.

(3) Serve as a basis for a continuing planning and development program.

(e) The initial OEDP will be developed with a specific regard for energy conservation concerns and principles, and shall reflect this regard in any developed or proposed plans, programs, or projects.

[38 FR 2271, Jan. 23, 1973, as amended at 45 FR 57962, Aug. 29, 1980]

§ 304.5 Initial OEDP for districts.

The requirements for the initial OEDP for districts are those contained in § 304.4 and the following:

(a) The identification and proposal for designation or recognition of at least one economic growth center.

(b) An economic growth center program describing the role to be played by the proposed center in the implementation of the district wide development program, particularly as it relates to the redevelopment areas.

§ 304.6 Submission of initial OEDP.

When the initial OEDP is completed, the following steps shall be taken to obtain EDA approval:

(a) The initial OEDP of the area or district to be designated is to be reviewed by appropriate governmental bodies and all organized interested groups, especially the appropriate State agency, those organizations with OMB Circular A-95 review authority, and the EDA Regional Office.

(b) Dissenting opinions or comments from the above entities shall be submitted to EDA as attachments. If no comments are received, there shall be a note from the submitting party indicating to whom and when the OEDP was sent to the various organizations for comments.

(c) The OEDP committee shall reproduce the initial OEDP in sufficient quantity for the use of all groups taking part in the program. The local organization shall submit seven copies to its EDA Economic Development Representative including one copy for his use and six copies for the EDA Regional Office. Two copies shall also be sent to the State agency designated by the Governor to handle EDA activities and to the appropriate Regional Commission, if any.

(d) The EDA Regional Office Planning Division staff will review the OEDP for its adequacy. If the OEDP can be approved, the staff will notify the Economic Development Administration in Washington of its approval. If, however, the staff finds the initial OEDP inadequate, it will contact the chairman of the OEDP committee by letter and outline the required revisions or request a supplement.

§ 304.7 The continuing program.

After setting up and organizing the committee and submitting the initial OEDP, the area or district shall implement the development program, and periodically update the development program with annual progress reports, § 304.8, or with a revised OEDP, § 304.9.

§ 304.8 Progress report.

(a) The OEDP annual progress report for the annual designation and eligibility review for redevelopment areas shall be submitted after January 1, but not later than March 31 of each year, covering the preceding calendar year.

(b) If located within an economic development district, a redevelopment area, may, at its discretion, notify EDA annually, on or before March 31, that the district annual OEDP progress report satisfactorily covers the area's own planning and programing.

(c) The annual progress report for districts shall be submitted annually 30 days after the anniversary date of the EDA planning grant, Part 307, Subpart B, and shall cover the period of the planning grant. Those districts which do not receive EDA planning grants, shall submit the report annually within 30 days of either their district designation date or their fiscal year.

(d) Extensions for submitting the area and district progress reports will be granted only under exceptional circumstances.

(e) Areas and districts submitting initial or revised OEDP during the last quarter of the calendar year will not be required to submit an annual progress report by the following March 31. The report will be due the following year covering a period of 1 year to 15 months.

(f) If the area progress report has not been submitted by March 31, or cannot be approved, the Regional Director:

(1) Will inform the area or district chairman of the nonreceipt or disapproval of the progress report.

(2) Will direct a member of the EDA regional office staff to visit and consult with the area or district chairman on the most expeditious way of submitting the progress report.

(3) May allow a reasonable extension of time (not to exceed 60 days) to prepare the report or supplemental data. Under very exceptional circumstances the Regional Director may allow a further extension. However, the report must be received not later than June 15.

(4) Will recommend that the Assistant Secretary notify the State and the affected area or district officials that the eligibility status of the area or district is suspended pending receipt of an acceptable progress report if the progress report has not been received within the required time period. This means no applications for projects for financial assistance from the affected area or district will be approved.

(g) If an unacceptable progress report was submitted, a supplement covering the deficiencies shall be prepared by the OEDP committee.

[38 FR 2271, Jan. 23, 1973, as amended at 39 FR 44960, Dec. 30, 1974]

§ 304.9 Revised OEDP.

(a) A revised OEDP will be required if EDA determines that the initial OEDP of the area or district is inadequate.

(b) A revised OEDP will be required if EDA determines that the initial OEDP is outdated.

(c) An area or district shall also revise its initial OEDP if the OEDP committee determines that a complete reassessment of the local situation or a complete reassessment of the economic development program is desirable.

(d) A revised OEDP may be submitted in lieu of the annual OEDP progress report. Failure of an area or district to submit a revised OEDP in acceptable form within the time specified, and extensions thereof, may result in the suspension or termination of such area's or district's designation after 30 days written notice by EDA.

(e) Before any revised OEDP for a district is approved by EDA, it shall be reviewed by appropriate governmental bodies and all organized interested groups, especially the appropriate State agency, those organizations with OMB Circular A-95 review authority, and the EDA Regional Office.

[38 FR 2271, Jan. 23, 1973, as amended at 40 FR 2796, Jan. 16, 1975]

ACT 118 of 1969

PLANNING AND DEVELOPMENT DISTRICTS

AN ACT TO AUTHORIZE THE ARKANSAS PLANNING COMMISSION TO DESIGNATE PLANNING AND DEVELOPMENT DISTRICTS; TO RECOGNIZE THE ORGANIZATIONS REPRESENTATIVE OF SUCH DISTRICTS; TO MAKE PAYMENTS TO SUCH ORGANIZATIONS; TO ESTABLISH THE CONDITIONS UPON WHICH PAYMENTS MAY BE MADE; AND FOR OTHER PURPOSES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. PURPOSE. (a) The purpose of this Act is to encourage multi-county planning and develop organizations which have been formed, or which may be formed in the future, as voluntary non-profit associations to promote economic development, to assist local governments and private organizations in obtaining federal grants and loans, to prepare comprehensive regional plans for economic development and improve government services, to enlist private support for these activities, and to coordinate private and public programs in the multi-county districts. Recognizing the beneficial services to be provided the people of this State through the activities of such multi-county planning and development organizations established for the aforementioned purposes, and in order to encourage such organizations in their efforts to provide such beneficial services, the General Assembly hereby establishes a program of providing financial assistance to such associations to enable them to continue and expand their activities in furtherance of the purposes of this Act.

(b) Nothing in this Act is intended to be inconsistent with or contrary to a policy of relying on the private enterprise system.

SECTION 2. DESIGNATION OF DISTRICTS.

(a) The General Assembly of the State of Arkansas hereby recognizes as Planning and Development Districts the boundaries of the following eight existing or proposed Economic Development Districts:

(1) Northwest Arkansas Economic Development District, Inc., consisting of Benton, Washington, Madison, Carroll, Boone, Newton, Marion, Searcy and Baxter Counties.

(2) North Central Arkansas Economic Development District, Inc., consisting of Fulton, Izard, Sharp, Stone, Independence, Jackson, Van Buren, Cleburne, White, and Woodruff Counties.

(3) Northeast Arkansas Economic Development District, Inc., consisting of Randolph, Clay, Lawrence, Greene, Craighead, Mississippi, Poinsett, Cross, Crittenden, St. Francis, Lee, and Phillips Counties.

(4) Southeast Arkansas Economic Development District, Inc., consisting of Grant, Jefferson, Arkansas, Cleveland, Lincoln, Desha, Bradley, Drew, Chicot, and Ashley Counties.

(5) Southwest Economic Development District of Arkansas, Inc., consisting of Sevier, Howard, Little River, Hempstead, Nevada, Ouachita, Dallas, Calhoun, Miller, Lafayette, Columbia, and Union Counties.

(6) Western Arkansas Economic Development District, Inc., consisting of Crawford, Franklin, Sebastian, Logan, Scott, and Polk Counties.

(7) West Central Arkansas Economic Development District, Inc., consisting of Johnson, Pope, Conway, Yell, Perry, Montgomery, Garland, Pike, Clark, and Hot Spring Counties.

(8) Central Arkansas Economic Development District, Inc., consisting of Faulkner, Saline, Pulaski, Lonoke, Prairie, and Monroe Counties.

(b) The Arkansas Planning Commission is hereby authorized to change the number and boundaries of Planning and Development Districts, provided that the concurrence therein is obtained of the governing boards of each of the affected existing Districts as established and recognized in sub-section (a) of this Section.

(c) Nothing in this Act is intended to change or conflict with the status of regional and metropolitan planning commissions or councils of governments established under Act 26 of 1955, as amended. This Act does not change the designation of urban and metropolitan planning organizations presently recognized by the Arkansas Planning Commission for programs of the Department of Housing and Urban Development or any other department of the Federal Government.

SECTION 3. RECOGNIZED ORGANIZATIONS.

(a) The governing boards of directors of the eight existing or proposed Economic Development Districts are hereby recognized as the representative organizations of the initial Planning and Development Districts as recognized in Section 2(a) of this Act.

(b) The Arkansas Planning Commission is hereby authorized, whenever district boundary changes have been made in accordance with Section 2(b), to recognize the representative organizations of the new Planning and Development Districts, provided, that no representative organization of a new Planning and Development shall be recognized unless the membership of the governing board thereof complies with the provisions of sub-section (c) of this Section.

(c) In order to qualify for the benefits of the provisions of this Act, the representative organization of a Planning and Development District shall have a governing board of directors a majority of whose members are elected officials of local governments and the remainder of whose members represent economic development organizations and organizations broadly representative of diverse community interests.

(d) The operations of representative organizations of Planning and Development Districts shall be solely within the discretion and control of the local governing boards of directors of the respective Districts, it not being the intention of the General Assembly that anything in this Act create any power, authority or control in the State Planning Commission or any other State agency over the management and operations of said organizations. Provided, that continued State financial support of such organizations as provided in this Act shall terminate with respect to any organization that uses State funds for any purpose not within the intent and purposes of this Act, until such organization shall make restitution for any misused funds and furnishes proof of compliance with respect to future operations.

SECTION 4. PAYMENTS AUTHORIZED.

(a) The Arkansas Planning Commission is hereby authorized to make payments from time to time to officially recognized organizations of Planning and Development Districts from State funds appropriated for such purpose. Payments shall be scheduled as nearly as possible to begin on July 1 of each fiscal year and on the first day of each calendar quarter thereafter.

(b) Funds appropriated for payments to recognized organizations of Planning and Development Districts shall be allocated, in equal shares, among the initial eight (8) recognized Planning and Development Districts as established in Section 2(a) of this Act. If, in the future, any change occurs in the District boundaries of any of the initial eight (8) Districts, as authorized in Section 2(b) of this Act, the #1 allocation of appropriated funds to the former district or districts which comprise counties reorganized in the new District, shall be apportioned to the new District or Districts in accordance with equitable criteria established by the State Planning Commission and published in advance prior to the establishment of the new District or Districts.

SECTION 5. CONDITIONS OF PAYMENTS.

Whenever the General Assembly shall have appropriated funds to be used for making payments as authorized in this Act, the Arkansas Planning Commission shall notify the respective boards of directors of the Districts of the amount allocated to such District as provided in Section 4 hereof and shall notify the District that application for such funds may be made upon forms provided therefor by the Planning Commission. Upon receipt of application for such allocated funds from a District, the Arkansas Planning Commission shall determine that the following conditions have been met before making such payments:

(1) The organization applying for payment is officially recognized for a designated District in accordance with Section 2 and Section 3 of this Act.

(2) The governing board of directors of the organization shall certify that a proposed budget has been established for the expenditures of State and local funds for purposes consistent with the purposes of this Act.

(3) The organization has obtained non-federal matching funds committed from local governments or private sources at least equal to the amount of the payment of State funds, and the President and/or Treasurer of the Board of Directors of the organization shall certify from time to time that such matching funds from local or private sources are on deposit to the organization's own account before quarterly payments of State funds may be made to the District.

(4) At the end of each fiscal year, an audited report of expenditures of the District shall be submitted to the Arkansas Planning Commission; and, any State funds unexpended or unobligated by June 30th shall be returned by the District to the State Treasury. In addition, if such District shall have used any State funds for any purpose not within the purposes of this Act, such amount thereof shall be reimbursed to the State of Arkansas before any additional payments may be made to the District.

Upon receipt of the application for funds from a District, the Arkansas Planning Commission shall review the same and if said Commission shall determine that the District is qualified to receive payments under this Act, State funds shall be paid to the District on a dollar per dollar matching basis of funds provided from local or private non-federal sources, but in no event may State matching funds exceed the amount of funds allocated to the District for the fiscal year from funds appropriated therefor. It is the specific intention of the General Assembly that all or part of the State and local funds may be used to qualify for matching federal funds to be used for the purposes provided in this Act. In the event a District shall not qualify for the total amount of State funds allocated to the District during any fiscal year, because of failure to provide the required matching funds from non-federal local or private sources, the amount thereof for which the District does not qualify shall remain in the State Treasury and shall not be apportioned for payment to other districts, it being the intention hereof that each District shall receive no payment in excess of the prorata share of State funds allocated to the District.

SECTION 6. All laws and parts of laws in conflict with this Act are hereby repealed.

SECTION 7. If any provision of this Act or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are declared to be severable.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1581 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY 1988

ARTICLES OF INCORPORATION

OF

SOUTHEAST IDAHO COUNCIL OF GOVERNMENTS, INC.

KNOWN ALL MEN BY THESE PRESENT:

That we, the undersigned, citizens of the United States and residents of the State of Idaho, do hereby associate ourselves together to form a non-profit organization, and in order to form a corporation for the purposes hereinafter stated under the pursuant to the provisions of Chapter 10 of Article 30, Idaho Code, and amendments hereafter made thereto and the laws of the State of Idaho relating to the organizations of corporations wherepecuniary profit is not the object, and we do hereby certify and declare as follows:

ARTICLE I.

NAME

The name of this corporation is Southeast Idaho Council of Governments, Inc.

ARTICLE II.

PLACE OF BUSINESS

The principal place of business and post office address of this corporation shall be Pocatello, Bannock County, Idaho. The corporation may have such other places of business as the directors shall henceafter determine.

ARTICLE III.

DURATION

The duration of the corporation shall be perpetual.

ARTICLE VI.

MEMBERSHIP

The membership of this corporation shall be open to any municipal corporations, Boards of County Commissioners, Soil Conservation Districts, school districts and/or the governing bodies of other geo-political sub-divisions which comply with the following conditions:

A. Conditions for governmental and non-governmental agency membership.

1. Voting memberships extended to their units which:

   a. Formally enter into an intergovernmental agreement supporting the council or non-governmental resolutions of support.

   b. Comply with requirements concerning financial contributions of its members.

2. Associate non-voting memberships are available to any governmental agency with representation on any of the appointed committees.

B. Withdrawal

A member government may withdraw at any time when the chief executive and governing body signify by letter of intent in writing to the Executive Council 60 days prior to the effective date of withdrawal.

C. Dues

Membership dues, service fees, and other charges as recommemded by the Executive Council and approved by the General Assembly to defray expenses shall be assessed against the members.

Membership of this corporation shall be limited to those persons now and hereafter serving as duly appointed, qualified, and acting members of the Southeast Idaho Council of Governments, Inc., who shall remain members of this corporation during their tenure as members and until their successors upon said Incorporation shall have been duly appointed and qualified. Membership in the corporation shall not entitle a person to any interest whatsoever in the assests of the corporation but only to participate in the management of the affairs of

the corporation, in meeting of the members regularly called and held within the period covered by such membership. The members assessment shall be specified in the bylaws of the corporation. Member's rights and interest shall be equal.

ARTICLE VII.

BOARD OF DIRECTORS/EXECUTIVE COUNCIL

The number of directors of the corporation hereafter referred to as the Executive Council shall not be less than five (5), nor more than twenty five (25) and shall, as near as possible, be consitiuted of 2/3 elected officials and 1/3 non-elected officials based upon the total membership composition. At first annual meeting following incorporation a Executive Council will be chosen in accordance with the provisions of the bylaws of the Corporation and the laws of the State of Idaho, in such cases made and provided.

ARTICLE VIII.

SEAL

This corporation shall have a seal of a design as set forth in the bylaws of the corporation.

ARTICLE IX.

The By-Laws of this corporation may be repealed, amended, altered or new By-Laws adopted at any annual meeting, or at any special meeting of the members of the corporation called for that purpose, by a vote representing not less than two-thirds of the membership. Furthermore, the Executive Council of this corporation shall have the power to repeal, amend, and alter the By-Laws of the corporation, and to adopt new By-Laws, by vote of not less than two-thirds of the members of said Executive Council, provided that the Executive Countil shall not make or alter any By-Laws fixing the qualifications, classification, term of office or compensation of the members of such Board.

ARTICLE IV.

PURPOSES

This corporation is not organized for pecuniary profit nor shall it have any power to issue any capital stock, and no part of its earnings shall inure to any member, director or individual. The purposes for which this corporation is formed are as follows: (a) study area and governmental problems and public service needs of mutual interest and concern; (b) coordinate the comprehensive planning efforts of the several members. (c) Coordinate existing public service activities in terms of financial resources, equipment, human resources and human development; (d) formulate recommendations for review and action by members of the Association and to encourage action by the Idaho Legislature, agencies of State and local governments and agencies of the Federal government to implement both plans and coordinated activities of the members severally and individually. (e) Improve the regional economy by striving for adequate employment opportunities prosperous agriculture, wise utilization of natural and human resources and adequate processing, marketing and transportation facilities for the total area. (f) Furnish general and technical aid to member governments and individuals, as they request, to promote and accomplish projects, policies and plans. (g) And to accomplish those purposes and functions as outlined in the bylaws.

ARTICLE V.

BOUNDARIES

The Council may include any municipal corporations which are economically and socially related, any counties which are socially and economically related, soil conservation districts, school districts, and other geo-political units of state government which are economically and socially related. The initial boundaries of the Council shall be coterminous with and include the area encompassed by State Planning Reg. V which includes the counties of Bingham, Bannock, Power, Caribou, Oneida, Franklin and Bear Lake.

ARTICLE X

The names and addresses of the incorporators, each of whom is entitled to one certificate of membership as provided in these Articles, valid until the first annual meeting, regardless of qualifications, are as follows:

NAME	ADDRESS
Gene Edwards	Route 1, Box 188 Malad, Idaho 83252
Sam Reed	Soda Springs, Idaho 83276
LaMar Whyte	Springfield, Idaho 83277
Scott B. McDonald	1438 Monte Vista Pocatello, Idaho 83201
Robert L. Newhart	1371 Willard Pocatello, Idaho 83201

In testimony whereof the following persons acknowledge that they are citizens of the United States of America, over the age of 21 years, and have voluntarily joined together to incorporate this corporation under thelaws of the State of Idaho.

Dated this 26th day of February, 1976.

NAME	DATE
Gene Edwards	Feb. 26, 1976
Sam Reed	Feb. 26, 1976
LaMar Whyte	Feb. 26, 1976
Scott B. McDonald	Feb. 26, 1976
Robert L. Newhart	Feb. 26, 1976

State of Idaho)
ss
County of Bannock)

On this 26th day of February 1976, before me, the undersigned, a notary public in and for said State, personally appeared Gene Edwards, Sam Reed, LaMar Whyte, Scott McDonald and Robert Newhart, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that they executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

(seal)

Notary Public for Idaho
Residing at Pocatello, Idaho

No. 52977

Articles of Incorporation

of

SOUTHEAST IDAHO COUNCIL OF GOVERNMENTS

Domestic
Perpetual

Place of business Pocatello, Idaho
Existence Perpetual
Capital Stock C10 T30

STATE OF IDAHO
Department of State
Boise, Idaho

Approved, filed and admitted to the records of articles of incorporation of the State of Idaho and certificate issued this 3rd day of March, 1976 at 8:51 o'clock A. M.

FEES PAID

Filing	$ 15.00
Recording	2.40
Cert. Copy	
Certificate	
License Tax	
TOTAL	$17.40

Pete T. Cenarrusa
SECRETARY OF STATE

By Megan Tapp
Assistant CORPORATION CLERK

FILED BY Scott B. McDonald
Box 4169
Pocatello, Idaho 83201

AMENDED BYLAWS

OF THE

SOUTHEAST IDAHO COUNCIL OF GOVERNMENTS, INC.

ARTICLE I

ELIGIBILITY FOR MEMBERSHIP OF CORPORATION

Sufficient action establishing intent to join said corporation found under and pursuant to the provisions of Chapter 10 of Article 30, Idaho Code, shall be such action as is required by the local laws of the governing body of each member.

A. QUALIFICATION OF MEMBERSHIP

1. The members of the Southeast Idaho Council of Governments, Inc., hereinafter referred to as SICOG, may include the following, with the boundaries as established in the Articles of Incorporation:

a. Any municipal corporation
b. Any Board of County Commissioners
c. Soil and Water Conservation District
d. Other geo-political entities and the following:

In addition, each Chamber of Commerce organized within any of such counties may apply for membership, and any other service organizations or any other interested groups of any such counties may apply for membership and may, upon approval of such application by the SICOG Board of Directors, become members.

2. Said membership becomes effective immediately upon compliance with the following conditions:

a. Voting memberships are extended to units or organizations which:

1. Formally enter into an intergovernmental agreement supporting the Council.

2. Comply with requirements concerning financial contributions of its members.

3. Associate non-voting memberships are available to any governmental agency with representation on any of the appointed committees.

4. A member may withdraw at any time when the chief executive and governing body signify by letter of intent in writing to the SICOG Board of Directors 60 days prior to the effective date of withdrawal.

5. Membership dues, service fees, and other charges as approved by the SICOG Board of Directors to defray expenses, shall be assessed against the members.

B. TERMS AND TERMINATION OF MEMBERSHIP

1. All members of the corporation shall appoint representatives to serve as members on the SICOG Board of Directors. The representatives shall serve at the pleasure of the member unit which they represent.

2. Representation shall terminate upon any of the following conditions:

a. Death or resignation
b. Non re-appointment
c. Loss of public office
d. Loss of Minority Caucus support

ARTICLE II

A. FUNCTIONS

1. This corporation shall have the following power, responsibilities and functions:

a. To make, adopt and extend an overall development plan for the district encompassed by the boundaries as set forth in the Articles of Incorporation, hereinafter referred to as the "district", with due regard for the development of the overall economic, social, and physical needs of the district, as well as such other portions of the area of state or interstate as may be affected thereby. To advise and assist its members

within the district on how to best implement the plan for the overall best interests of each member as related to the total region.

b. To prepare and execute such programs of research as may be necessary and advisable in carrying out its purposes.

c. To prepare and suggest means of implementing plans for economic and population projections, land use, transportation, public facilities through citizen participation.

d. To contract with persons or firms or other units or levels of government to carry out the purposes of this organization.

e. To coordinate and function with the Regional Clearinghouse for projects related to federal, state and local units of government to assure the maximum efficiency of public investment, minimum duplication and consistency with regional plans.

f. To prepare periodic reports as may be required by the bylaws of this corporation or federal or state legislation or regulations pertaining thereto.

g. To acquire and hold real and personal property for its use and to incur expenses to carry out its functions.

h. To receive gifts, contributions and donations which may be made to it for its use and purposes.

i. To publish studies in connection with its work which may be of benefit to its members or other agencies or programs within or outside of the district.

j. To prepare and adopt an annual budget and work program to be submitted to the Economic Development Administration, other federal agencies, and the appropriate state agency(ies) and the constituent members thereof.

k. To hold an annual meeting each October to discuss work plan and budget elements and to elect officers to the Board of Directors.

ARTICLE III

A. PURPOSES

1. The Southeast Idaho Council of Governments, Inc., is created for the following purposes: (a) study area and governmental problems and public service needs of mutual interest and concern; (b) coordinate the existing public service activities in terms of financial resources, equipment, human resources and human development; (c) formulate recommendation for review and action by members of the Council and to encourage action by the Idaho Legislature, agencies of state and local governments and agencies of the Federal government to implement both plans and coordinate activities of the members separately and individually; (d) improve the regional economy by striving for adequate employment opportunities, prosperous agriculture, wise utilization of natural and human resources and adequate processing, marketing and transportation facilities for the total area; (e) furnish general and technical aid to member governments and individuals, as they request, to promote and accomplish projects, policies and plans; (f) and to accomplish those purposes and functions as outlined in the bylaws; (g) to do all things necessary, convenient or incidental to its purposes; (h) this district shall not supersede or replace any of the existing public or political jurisdictions or bodies.

ARTICLE IV

A. ORGANIZATION STRUCTURE

1. The organizational structure of SICOG shall consist of a Board of Directors, Committees, and Executive Director and Staff.

2. The Board of Directors shall be the general governing body for SICOG.

   a. The responsibilities of the Board of Directors are to:

      (1) Adopt areawide goals, priorities, and objectives.

      (2) Adopt an annual budget and plan of work.

      (3) Promote consistent land use planning through a review of existing plans or contracting, as necessary and within budgetary limitations, for additional planning.

      (4) Resolve membership questions.

      (5) Initiate or assist the coordination with existing public activities or future services by establishing interlocal agreements between government jurisdictions on matters of a regional nature, or when two or more jurisdictions are involved.

      (6) Propose, initiate, or approve any study, plan, policy, discussion or other SICOG policy matters.

3. The internal administration, procedures, practices and programming of SICOG and any other duties and responsibilities as may be delegated by the corporation, shall be vested in the Board of Directors which shall be composed of: One (1) Commissioner from each member county, appointed by the Chairman of the Board of County Commissioners; One (1) representative of each incorporated municipality, except that the City of Pocatello shall have two voting representatives on the Board of Directors; One (1) representative of all of the Soil Conservation Districts within the Council, appointed by the Director of Division Five of the Idaho Association of Soil Conservation Districts; One (1) representative-at-large will be chosen where practical to represent, but not limited to, the following interests: Agriculture, Business, Labor and Education.

4. The Board of Directors so appointed shall collectively appoint by resolution, with the exception of minority representation, non-elected officials from throughout the district representing appropriate special interest groups.
5. Minority representation on the Board of Directors shall be comprised of one (1) representative from the Shoshone-Bannock Tribal Council, one (1) representative of the Idaho Migrant Council and one (1) representative chosen by a caucus of minority organizations. The caucus of minority organizations shall take place in October of each year, prior to the SICOG Annual Meeting.
6. The original members of the Board of Directors shall have been elected by the initial membership of record as established in the Articles of Incorporation.
7. Subsequent to the original Board of Directors, all members of the Board of Directors shall be appointed by their respective member entities. Appointments shall be in writing and presented to the Executive Director at the annual meeting of the corporate membership or within thirty days thereafter.
8. The presiding officers of the Board of Directors shall consist of a President, a Vice-President, and a Secretary/Treasurer. The presiding officers of the Board shall be elected at the annual meeting in October. The presiding officers of the Board shall be representative of general purpose local governments.
9. The Board of Directors shall meet at least monthly, but special meetings may be convened or the regular monthly meeting cancelled at the discretion of the President.
10. A quorum shall consist of those present at a properly called meeting.

11. Voting on routine matters by the Board of Directors shall require a simple majority of the quorum. Budgetary matters shall require two-thirds majority of the quorum.

12. The duties of the Board of Directors are to:

a. Serve as the financial control body and receive and expend funds, and set the annual budget and fee schedule;

b. Appoint, remove and fix salary of the Executive Director deemed necessary to serve the purposes of the Board;

c. Determine arrangements under which planning services of the Board would be made available to member governments or resource committees and provide the same;

d. Promote the area through recommendations for proposals advantageous to the area and consistent with SICOG's overall planning activities, priorities and goals;

e. Provide the opportunity for Federal and State representatives to serve as resource personnel in matters of importance to any organizational level of SICOG;

f. Seek grants-in-aid and contributions to SICOG;

g. Appoint ad hoc committees as needed;

h. Handle all matters pertaining to membership and withdrawal of membership;

i. Actively seek designation as the Regional Clearinghouse for the area; and

j. Any other matters of area interest.

13. <u>COMMITTEES</u>

a. The Board of Directors of SICOG may form Committees as considered appropriate for their needs. These may include, but are not limited to, the following:

Land Utilization and Water Conservation
Agriculture and Forestry
Recreation, Tourism and Wildlife
Industry and Transportation

Community Services and Human Resources
Private Industry Council
Economic Development
Area Agency on Aging
Personnel, Budget and Bylaws

b. All groups or individuals interested in participating on Committees may request the opportunity to serve on such Committees from the Board and the President.

c. Duties of Committees:

(1) Elect a Chairperson from their membership who will serve as a link to the Board of Directors.

(2) Meet as often as necessary to propose, review and study project measures and planning activities as assigned.

(3) Seek the assistance of State and Federal Representatives or other resource personnel to assist as technical advisors.

(4) Recommend policy and priorities to the Board of Directors.

(5) Assist in the development and implementation of the Annual Plan of Work.

ARTICLE V

AGENCY ASSISTANCE

A. SICOG may request and accept technical, advisory or other assistance from Federal, State and City or county agencies.

B. Those agencies designated representatives will be the official spokesman for their agencies and can participate as advisors at every level of SICOG.

ARTICLE VI

A. ALLOCATIONS OF COSTS

1. Counties and cities holding membership in SICOG, Inc. shall contribute to the expenses of SICOG pursuant to the budgetary laws set forth in the Idaho

Code, applicable resolutions and/or ordinances of municipal corporations or Boards of County Commissioners and rules and regulations of SICOG, provided, however, that services and facilities may be provided by such participating agencies in lieu of assessment. Annual assessments from units of governments shall be made on a per capita basis, provided, however, that the per capita assessment shall not exceed twenty cents (20¢) unless the voting rights on the Board of Directors are changed to a one-to-one vote basis. Each city is responsible for its resident population and each county is responsible for residents in its unincorporated area. In order that proposed budget(s) may be implemented, member units shall pay annual dues as provided in these bylaws.

2. Failure to pay such sum by any member within ninety days of receiving notice from the corporation of its being due, shall be grounds for revocation of membership of the delinquent member in the corporation.

3. The dues for each member of the corporation shall be established annually by the Board of Directors. Such dues need not necessarily be equal, but the Directors shall take into consideration all factors which effect the amount thereof, to the end that each member shall pay its fair, but not disproportionate share of the annual operating budget of the corporation.

4. In the event of withdrawal by a member from the corporation, said members shall not be entitled to a return of any dues or portion thereof, heretofore paid; in the event of admission of a new member during fiscal year, said new member shall pay a prorata share of the annual dues required for the balance of the fiscal year yet remaining.

5. The failure of any member to pay the dues as set by the Board of Directors within ninety (90) days of the due date, thereof, shall be grounds for the revocation of membership of such member. Such membership can only be reinstated upon payment of delinquent and current dues.

ARTICLE VII

A. CONTRACTS AND CONTRACTUAL SERVICES

1. SICOG may contract generally and enter into any contract or reasonable agreement with the Federal government, the state, and any municipal corporation and/or any other governmental agency for the purpose of district planning and/or conducting studies of district problems of mutual concern, and/or to do things considered essential to accomplish the purposes of SICOG, and may receive grants and gifts in furtherance of such programs and/or efforts.

ARTICLE VIII

A. EXECUTIVE DIRECTOR AND CONSULTANTS

1. The Board of Directors may employ and discharge an Executive Director.

2. The Executive Director is authorized to carry out the business of SICOG, including the selecting of any consultants as deemed convenient to carry out the purposes and functions of SICOG.

3. The Executive Director is charged to execute the business of SICOG within the guidelines as set forth in the Personnel Manual and Affirmative Action Plan.

ARTICLE IX

A. AMENDMENTS

1. The Bylaws may be amended by two-thirds of those members of the Board of Directors present at a regular or special meeting.

2. The proposed amendment(s) shall be submitted to each Board member two weeks prior to a regular or special meeting.

3. The Articles of Incorporation may be amended as provided by the laws of the State of Idaho.

ARTICLE X

A. VACANCIES IN OFFICE

1. Vacancies in office due to death, resignation, non re-election, removal, disqualification or otherwise, shall be filled for the unexpired term of the office vacated as follows:

a. If the vacancy is in the office of Board of Directors appointed as provided in Article IV, Section A.3. hereof, the vacancy shall be filled by appointment of the governing bodies of the participating members involved.

b. If the vacancy is in the office of Board of Directors appointed under the provision of Article IV, Section A.3. hereof, the successor shall be appointed by the Shoshone-Bannock Tribal Council, Idaho Migrant Council or minority caucus, as appropriate.

ARTICLE XI

A. INDEMNIFICATION

1. The corporation shall indemnify each of its officers, directors and employees, whether or not then in office (and his or her executors, administrator and heirs) against all reasonable expenses actually and necessarily incurred by him or her, including but not limited to judgments, attorney's fees and court costs, in connection with the defense of any litigation or administrative proceeding to which he or she may have been made a party because he or she is or was a director, officer or employee of the corporation, provided, however, he or she shall have no right to reimbursement in relation to matters in which he or she has been adjudged liable to the corporation for negligence or misconduct in the performance of his or her duty as director, officer or employee by reason of willful misconduct, bad faith, gross negligence or reckless disregard of the duties of his or her office of employment.

Members:

Senators
JOYCE COHEN, Co-Chair
BILL BRADBURY
JIM HILL
KEN JERNSTEDT
JOHN KITZHABER
President of the Senate
GLENN OTTO
EUGENE TIMMS

JOSEPH CORTRIGHT
Executive Officer

MICHELLE WONG
Senior Legislative Assistant



Members:

Representatives
WAYNE FAWBUSH, Co-Chair
BERNIE AGRONS
STAN BUNN
LARRY CAMPBELL
MARGARET CARTER
RON EACHUS
VERA KATZ
Speaker of the House
BILL MARKHAM

JULIA COOLEY
Committee Manager

JOINT
LEGISLATIVE COMMITTEE ON TRADE
AND ECONOMIC DEVELOPMENT

Room 132, State Capitol
SALEM, OREGON 97310
(503) 378-8811

June 27, 1987

1987 MAJOR ECONOMIC DEVELOPMENT LEGISLATION

The 1987 Legislature's economic development package lays the foundation for the "Oregon Comeback" directed by Governor Goldschmidt. A combination of balanced regional strategies oriented to local needs and statewide strategies directed at particular industries and opportunities form the basis for the state's economic development efforts. The following legislation is the heart of the program:

HB 3011: The Oregon Comeback Act: Signed by the Governor in May, HB 3011 establishes the framework for developing regional economic development strategies. Each region of the state is slated to have an locally-designed, state-approved economic strategy by 1989. Some $25 million in lottery funds are designated to implement regional strategies.

SB 964: Funding for Statewide Strategies: $60.9 million in lottery proceeds will be used during 1987-89 for economic development. A key element of the Comeback will be the development of statewide strategies to develop important sectors of the Oregon economy, including agriculture, tourism and other basic industries. SB 964 provides funding for new and continued initiatives with statewide significance.

SB 113: Special Public Works Fund: Provides an additional $7.2 million in lottery funds to continue the program established in 1985 to fund roads, sewers, water lines and other public works needed to support specific economic development projects. The Economic Development Department will make grants and loans to municipalities and counties.

HB 3010 and SB 5502: Economic Development Department Budget & Reorganization: These bills strengthen the Economic Development Department, consolidating in one place Oregon's economic development, job training and community development programs. HB 3010 also sets a new state policy for economic development, emphasizing small business growth and job retention. SB 5502 increases the general fund budget for the Economic Development Department from $9.5 million in 1985-87 to $13.1 million in 1987-89.

SB 281 and SB 280: New Initiatives to Provide Capital For Business Investment: These bills create two new programs to meet the capital needs of expanding Oregon Businesses. SB 281 creates a privately owned and financed Oregon Capital Corporation to provide up $50 million in equity capital. SB 280 creates new loan guarantee program in the Oregon Business Development Fund to guarantee small loans to undercapitalized businesses.

LAYING THE FOUNDATION FOR THE OREGON COMEBACK: SUMMARY OF 1987 ECONOMIC DEVELOPMENT LEGISLATION

1987 has been a pivotal year for the Oregon economy. The state's total wage and salary employment has again reached 1,060,000 jobs--the historic pre-recession peak recorded in 1978. The unemployment rate has fallen below the national average for the first time in the decade and now stands at only 5.5%. But troubling signs of economic malaise remain. Oregon's per capita income, which was above the national average in 1978, is now more than $1200 below the national average. In large measure, Oregon's economic recovery has replaced the high wage jobs lost to recession, with lower paying jobs.

The continuing problems posed by deep-seated changes in the economy are a significant challenge to state leaders. Governor Neil Goldschmidt proposed his "Oregon Comeback" plan to assure that state economic development efforts address the needs of every part of the state. The 1987 Legislature took major strides to implement a statewide program to deal with these problems.

A key step in writing economic development legislation in the 1987 Legislature was the further refinement of the economic development criteria first adopted in 1985. The Legislature rewrote the state's economic development policy to incorporate five principal criteria:

- Develop the state's human resources to provide career opportunities and long term economic security for the state's citizens, especially the economically distressed and disadvantaged.

- Promote sectors of the economy that compete in national and international markets.

- Emphasize efforts to aid small communities and rural areas suffering from economic dislocation.

- Provide family wage jobs for Oregonians.

- Concentrate on activities that harness Oregon's economic comparative advantages.

The Legislature declared, for the first time, that Oregon's economic development strategy should focus the state's development and promotion efforts on Oregon's small businesses and on existing industries.

The 1987 Legislature enacted a package of Legislation dealing with every major aspect of economic development, from public works and education to small business and capital development. While the allocation of nearly $61 million in expected lottery revenues was a focus of considerable attention, other programs addressed the role of ports, private sector financial institutions and job training. The following pages more fully describe the accomplishments of the 1987 Legislature in shaping economic development policies which lay the foundation on which the Oregon Comeback will be built.

DEVELOP REGIONAL STRATEGIES: HB 3011

The differences in the economic health of Oregon's varied regions have created the perception in past years that state economic development efforts have not met the needs of all Oregonians. Governor Goldschmidt's call for an Oregon Comeback is based on the need to develop a regional strategy for each region of the state, to assure fairness to all Oregonians and Oregon communities, and to assure that resources for economic development are focused on the most important priorities.

HB 3011--"The Oregon Comeback Act"--establishes the framework for the regional strategy program.

Local Decision-makers choose the Regional Strategy

The process of formulating regional strategies begins with Oregon's thirty-six counties, which singly or together will form economic regions. Each county commission must hold public hearings to invite comments on suggested regional strategies. Proposed strategies--and regional groupings of counties--must also be decided in a public hearing process.

A regional strategy will consist of a clear statement of economic objectives, an identification of a chosen industry or industries around which the strategy is based, and a "short list" of actions to implement the strategy.

State Resources will support the Regional Strategies

Regional strategies will be submitted to the Economic Development Department for its review and approval. The Department will work to assure that local strategies are effectively linked with one another, with state economic development efforts and with the private sector.

The Governor will have final authority to approve each regional strategy and to designate the amount of state resources that will be committed to each strategy. A total of $25 million will be available in 1987-89 to pay for regional strategy projects. Under the HB 3011's "no seconds" clause, no region can get financing for a second regional strategy until each region has received funding for its first strategy.

Efforts to Implement Strategies are Already Underway

Several regions have already formed and are developing regional economic development strategies.

In Central Oregon, Deschutes, Jefferson and Crook Counties have joined to form a region that will focus on tourism development.

A second strategy has emerged for the Portland Metropolitan area centered around the Portland Convention Center. Some $7.5 million of the $25 million available this biennium for regional strategies is earmarked for convention center construction costs.

Lane County is developing its strategy around the proposed Riverfront Science Park in Eugene. Here state assistance is sought to provide transportation improvements needed to develop new industrial property near the University of Oregon.

STATEWIDE STRATEGIES FOR KEY SECTORS: SB 964

Complementing efforts to support each region are efforts to support industries and economic activity on a statewide basis. The Legislature added the following strategies to the Governor's proposal for regional strategies:

Attract More Tourists to Oregon through Greater Marketing Efforts

Tourism is, by many accounts, Oregon's third largest industry. Yet the Governor's initial budget called for no real increase in tourism promotion activities. A key legislative initiative in SB 964 was to add $2,000,000 in lottery funding for additional statewide efforts to promote tourism marketing. This level of funding will enable the economic development Department to undertake a greatly expanded level of advertising including regional television advertising. Looking to the future, SB 996 creates an Oregon Olympics Commission to coordinate efforts to woo the 1998 Winter Olympics to Oregon.

Expand Promotional Efforts for Oregon Agricultural Products

Some $250,000 in lottery funds is earmarked for additional agricultural marketing efforts. Recent efforts to bolster sales through special promotional efforts including the Delta mission to Japan, a special marketing campaign with Bloomingdale's in New York and through cooperative advertising in adjacent states have indicated the promise of such promotion efforts for increasing sales of agriculture products.

Create an Oregon Trade and Marketing Center

In cooperation with the federal government and private sector, the State will expend $1.5 million to establish an Oregon Trade and Marketing Center in downtown Portland. The Center will include offices for state and federal agencies involved in international trade, and will include exhibit, meeting and specialized international trade spaces.

Provide a Strategic Reserve for Emerging Opportunities

Some $2,250,000 in lottery funds will be set-aside in a special "Strategic Reserve" to be used by the Governor to meet unanticipated economic development opportunities that emerge during the biennium. The Economic Development Department is required to develop strategies to guide the expenditure of this money that will address the problems of the state's basic industries.

Continue and Expand the Stabilization & Conversion Fund

SB 950 continues the operation of the Stabilization and Conversion Fund which assists communities and workers affected by business closures. The Fund conducts conducts feasibility studies, offers management assistance and can provide limited capital financing. The Stabilization Fund will receive an additional $500,000 in lottery funds during the 1987-89 biennium.

Support Economically Important Community Events and Activities

A final statewide strategy is continuing support for a wide variety of community-based activities that stimulate local economies. Some $250,000 is reserved for promotional and marketing activities to support downtown retail activities. County fairs throughout the state will receive $400,000 to make capital improvements. Both programs continue funding begun in 1985.

MEETING VITAL PUBLIC WORKS NEEDS: SB 113

A 1984 study by the Oregon Executive Department showed that by 1989, Oregon communities will face a shortfall of more than $700 million in revenues to fund identified needs for roads, sewers, water lines and other public works. Many of these projects are needed to allow the development of industrially and commercially zoned lands.

Expand the Existing Special Public Works Fund

In 1985, the Legislature established the Special Public Works Fund to meet the most pressing infrastructure needs with potential impacts on economic development. In the coming biennium the fund will receive $7.2 million from the proceeds of the state lottery. Monies in the fund will be used to make grants or loans to cities, counties and ports to fund projects related to specific economic development opportunities.

Closely Link Public Works Grants to Economic Development

Administration of the Special Public Works Fund, previously split between two agencies, will be consolidated in the Economic Development Department. All moneys in the Special Public Works Fund will be used for "site-specific" projects--grants and loans to pay the costs of infrastructure for new and expanding industry. SB 113 deleted the requirement that a major portion of public works funds be distributed through an annual competition. Instead, applications for grants and loans may be made at any time, whenever development opportunities arise.

Provide Innovative Financial Solutions to Public Works Costs

SB 113 establishes a variety of new mechanisms to enable cities and counties to fund needed infrastructure. One-half of the money in the fund can be used for loans and the other half for grants. The Economic Development Department is required to retain the value of the fund over time, so that it can fund present as well as future public works needs.

The Economic Development Department is authorized to issue bonds to raise money for eligible public works projects, and to provide financial assistance to municipalities through simple loans, deferred repayment loans, debt service subsidies and other assistance. SB 113 also authorizes cities and counties also to borrow from the Special Public Works Fund without issuing bonds.

Fair Regional Distribution Required

SB 113 continues the requirement, established in 1985, that monies in the special public works fund be distributed fairly between urban and rural areas of the State. Not less than 33% of the money in the fund can be used in urban areas and not less than 33% can be used in rural areas. The remaining 34% is distributed at the discretion of the Economic Development Department.

FILL GAPS IN OREGON'S CAPITAL MARKET: SB 280, SB 281, SB 282

Oregon's economic development has been hindered in many instances by the lack of equity capital for expanding Oregon businesses. A capital market study commissioned by the Legislature in 1984 showed that Oregon's small businesses, especially those outside the state's urban areas, and in traditional industries, have had considerable difficulty in obtaining capital. The 1987 Legislature enacted new initiatives to close the capital gap while making improvements to existing programs.

Continue the Oregon Resource & Technology Corporation

Established by the 1985 Legislature, the Oregon Resource & Technology Development Corporation serves as the state's venture capital arm, making investments in new and innovative technologies, products and processes. The Corporation will receive an additional $3 million in lottery funding during the 1987-89 biennium, bringing its total capitalization to $8.5 million.

In addition, SB 282 makes a number of technical changes to the original legislation that established the Oregon Resource & Technology Development Corporation.

Create a New Privately Funded $50 Million Oregon Capital Corporation

Closing the capital gap confronting Oregon businesses depends largely on establishing a partnership with the private sector to provide new forms of equity capital. SB 281 would allow the creation of a privately-owned and operated Oregon Capital Corporation to make equity and subordinated debt investments in growing Oregon businesses.

The state will provide $10 million in tax credits to investors in the corporation. In return, the corporation would be required to meet certain objectives for investing in Oregon businesses. If the corporation failed to meet any of the objectives, its owners would forfeit their tax credits.

Add Loan Guarantees to the Oregon Business Development Fund

Oregon now provides loans to the state's small businesses through the Oregon Business Development Fund, established in 1983. SB 280 modifies the Oregon Business Development Fund by adding authority for the Economic Development Department to provide partial loan guarantees for private loans to qualified Oregon businesses.

Some $3 million will be made available to the Oregon Business Development Fund in the coming biennium: $2 million for additional direct loans, and $1 million for the establishment of a loan guarantee program.

Moneys in the Oregon Business Development Fund are targeted for small businesses and women and minority entrepreneurs. At least 25% of the fund's loan money must go to loans of less than $50,000, and 15% of the loans and loan guarantees must go to women- and minority-owned businesses.

IMPROVE PROGRAMS TO AID SMALL BUSINESSES: HB 3010, HB 3364, SB 957

Place a New Emphasis on Small Business

HB 3010 rewrites Oregon's statutory economic development policy to place greater emphasis on the development of existing Oregon businesses including the creation, expansion and retention of small businesses. HB 3010 declares that it is the economic strategy of the state "to focus its development and promotion efforts on small businesses and on existing industries."

Continue the Innovative Oregon Marketplace Program

The Legislature provided an additional $750,000 to continue the Oregon Marketplace program begun in 1985. SB 957 requires the Economic Development Department to contract for the statewide operation of a Marketplace program through the 1987-89 biennium. The Marketplace matches potential suppliers of Oregon goods and services with firms that now purchase those items out of state.

Aid Minority and Women Businesses

HB 3364 greatly strengthens Oregon's commitment to minority and women businesses, creating an advocate for minority and women business in the Governor's Office, clarifying the procedures for certification of minority and women contractors, and increasing the penalties for fraudulently seeking such certification.

Integrate Small Business Development Centers into Economic Development Effort

Oregon's Small Business Development Center Network will officially become part of the state's economic development efforts in 1987. Through its 22 offices--located mostly at community colleges--SBDC's provide training, management assistance and counseling to small business-owners and would-be entrepreneurs. The Small Business Development Centers will receive $950,000 in general fund support for the 1987-89 biennium, over and above the substantial federal and local funds contributed to their operation.

Establish a Small Business Advocate

SB 5502, the budget for the Economic Development Department, provides for the new position of Small Business Advocate. The Advocate will assume existing statutory responsibilities for providing regulatory assistance and one-stop permits for all businesses. The Advocate will assure that all state agencies respond to the problems of small business.

Bolster Efforts to Aid and Retain Distressed Businesses

The Economic Development Department will implement new business retention strategies to aid economically-distressed but potentially viable businesses. For the first time, the department has hired a productivity specialist to work with existing businesses to enhance labor productivity. The Stabilization and Conversion Fund is expanded by SB 950 to finance advisory services to help retain businesses. Using the resources of the Department, other state agencies, and other economic development groups, the Department will provide a variety of tailored services--management advice, market analysis and financial planning.

STRENGTHEN THE ECONOMIC DEVELOPMENT DEPARTMENT: SB 5502

Provide Additional Resources for the Department

The Economic Development Department's General Fund budget will increase almost 43 percent, a reflection of its greater responsibilities and an increasing state commitment to economic development. Spending will total some $13,100,000, an increase of $3,900,000 over 1985-87 spending levels.

The Legislature has divided the Department's budget into two one-year segments. Funding for the second year will be based on policies and programs developed during the 1987-88 fiscal year, and must be approved by the Legislative Emergency Board.

Consolidate Community Development Programs

Oregon's two key programs for meeting community public works needs will be moved from the Executive Department to the Economic Development Department by HB 3010. First, the federally-funded community development block grant program for non-metropolitan cities and counties will provide $13.6 million for housing programs, community development and economic development activities. Second, administration of the Special Public Works Fund--formerly split between the Executive and Economic Development Departments--will be consolidated in Economic development. These programs will be fully integrated with the Department's other similar programs to provide the widest range of services to meet community development needs.

Merge Job Training and Economic Development Programs

Administration of the state's major job training program--the $78 million federally-funded "Job Training Partnership Act"--is also being shifted to the Economic Development Department. Frequently, opportunities to promote the economy and to retrain displaced or disadvantaged workers go hand-in-hand. Consolidated state administration of these programs in a single agency enhances the ability of economic development programs to benefit those who are most in need of assistance and makes job training programs effective economic development tools.

Respond to Specific Development Opportunities

The Legislature provided special funding for the Economic Development Department for special opportunities. HB 3289 provided $1.1 million for state efforts to encourage the federal government to build the $4.5 billion "superconducting supercollider" in Oregon. HB 2250 appropriated $135,000 to the Economic Development Department for a supplemental spring and summer tourism advertising campaign to bolster the state's tourism industry.

Assist Worker-owned Enterprises

SB 701 directs the Economic Development Department to play a lead role for the state in providing information and technical assistance to workers seeking to form cooperatives or to purchase the firms they work for. SB 701 also assures that worker-owned businesses have access to state programs to aid small businesses.

STRENGTHEN THE ROLE OF EDUCATION: SB 964

Education plays a critical role in Oregon's economic development efforts. Both by providing a modern, well-trained labor force, and researching new ideas and technologies, the state's educational system contributes to economic expansion. Recognizing this, the Legislature has invested considerable resources in educational improvement, especially in higher education.

Complete Higher Education Capital Construction

Funding of $11,800,000 is authorized for the 1987-89 biennium to provide for the completion of the four new buildings begun at Portland State University, the University of Oregon, Oregon Institute of Technology and Oregon State University last biennium. These buildings will house educational and research facilities for programs with industrial and commercial applications.

Create Ed-Net: the Statewide Two-Way Educational Television Network

In HB 3167, the Legislature approved some $250,000 in funding for planning studies for a two-way educational network to enable the state's educational resources to be more accessible to citizens throughout the state. Ed-Net, as the project is called, will produce detailed specifications and implementation recommendations for a state-of-the-art two-way audio-visual communications systems linking campuses and workplaces throughout Oregon.

Complete Community College Capital Construction

Additional funding is also provided for community college capital construction projects planned beginning the 1985-87 biennium. Some $650,000 in capital funds will go for a health care training facility and Rogue Community College and an Adult Education Center at Umpqua Community College.

Equip Centers of Excellence

A third program continued from the 1985-87 biennium is the "Centers of Excellence" programs at the state's major research universities. In 1987-89, $1,500,000 will be available to pay for additional facility improvements to Centers of Excellence in molecular biology, electrical engineering, laser optics and other fields.

Improve Agricultural Experiment Stations

Research into improving Oregon crops plays a critical role maintaining the competitiveness of farmers. SB 964 appropriates $450,000 to complete construction of a potato research facility near Redmond, and for related agricultural research.

Expand Technical Education in Portland Metropolitan Area

SB 964 provides some $300,000 to remodel a vacant elementary school in Clackamas County, which will serve as a Portland-area campus for technical training courses offered by the Oregon Institute of Technology. Local governments will match the state contribution with over $800,000 to buy and remodel the existing building.

LINK JOB TRAINING AND ECONOMIC DEVELOPMENT: SB 604

Training new workers and retraining for existing workers, especially those affected by economic dislocations, is an important element in improving the state's economy. Traditionally, however, Oregon's various job training programs have not been fully integrated with one another or with economic development efforts. The 1987 Legislature passed two bills, SB 604 and HB 3010, which articulate job training policy and improve the links between job training and economic development.

Establish a State Job Training Policy

SB 604 sets forth a job training policy to develop the state's human resources; to help economically disadvantaged citizens attain self-sufficiency, to coordinate programs to assure effective delivery of training services; to promote local initiative and innovation to better meet local needs; to enhance work force productivity and competitiveness; and include job training as one of Oregon's economic development goals.

Create a State Employment and Training Policy Board

SB 604 bolsters the state's capacity to coordinate various job training efforts. Over $300 million federal and state funds is committed to Oregon's employment and training programs involving six major players: the Job Training Partnership Administration, the Employment Division, the Adult and Family Services Division, the Bureau of Labor and Industries, Division of Vocational Education and Community Colleges and Department of Workers Compensation. There is a lack of coordination among major players, which makes assessment of program effectiveness more difficult.

SB 604 creates a 13-member State Employment and Training Policy Board to coordinate and oversee these programs, to identify and rank training needs, to minimize inefficient use of resources, and to assess program effectiveness.

Shift Job Training Partnership Act Funds to the Economic Development Department

HB 3010 reorganizes the state's economic efforts, moving the Job Training Partnership Administration (JTPA) to the Economic Development Department. The federal government provides funding to job training of young workers, disadvantaged and dislocated workers. These funds are distributed by the state to locally-based Private Industry Councils that make final funding and administrative decisions. The state's JTPA programs will receive $78 million from the federal government for the next biennium.

Create a Targeted Training Fund

To supplement federally funded training efforts, SB 525 establishes a Targeted Training Fund, which will receive $750,000 in lottery funds for the 1987-89 biennium. Under this program the Economic Development Department will make grants to community colleges to develop quick-response training for new and existing industries. The program also requires matching fund from client industry in sharing the training costs.

REALIZE THE POTENTIAL OF OREGON'S PORTS: HB 2612, SB 962

The state's twenty-three ports have undergone severe economic hardship in recent years. State-sponsored port and transportation studies completed in 1986 concluded that Oregon ports face serious financial difficulties and may require a higher level of port planning, coordination and management. These studies also called for a stronger state commitment and a more active state port policy.

The 1987 Legislature took several steps to assist the state's port districts to deal with these problems, and to better utilize existing port development resources. HB 2612 establishes a nine-member Oregon Port Planning and Development Advisory Committee to advise the Economic Development Commission on ports issues, and SB 962 authorizes the International Port of Coos Bay to become a state port and gives the Port greater bonding authority.

Redefine State Ports Policy

Recognizing the vital role of the ports in the state's economy, a state ports policy is established to direct the state's resources to coordinate among state agencies to facilitate ports planning and development, to promote the ports' long-term economic self-sufficiency, to encourage cost-effective and prudent investment and to enhance the ports management capability.

HB 2612 establishes the nine-member Oregon Ports Planning and Development Advisory Committee to coordinate ports development activities, to advise and make specific recommendations to the Economic Development Commission on port issues and to oversee ports studies.

Expand the Capabilities of Oregon Ports

Two bills expanded and clarified the ability of ports to take on a variety of economic development tasks. HB 2609--the Homeport Hospitality Act--extends certain privileges of Oregon residency to armed forces personnel temporarily stationed in Oregon. HB 2610 widens Port powers to stimulate tourism by authorizing Oregon ports to construct and operate recreational facilities.

Fund Needed Port Marketing and Planning Activities

The 1987 Legislature funded several ports activities out of the liquid portion of the Oregon Port Revolving Fund. HB 2612 includes $210,000 for two professional staff for the Ports Division, $250,000 for Port Emergency Assistance Fund, 1.5% of the asset of the fund annually not exceeding $250,000 for the next biennium for the Port Planning and Marketing fund. The Port Revolving Loan fund will also finance further studies of Columbia River port development opportunities and means of improving port management.

Expand the State Role in the Oregon International Port of Coos Bay

If approved by the electors of the port district, SB 962 authorizes the Governor to appoint a seven-member Oregon International Port of Coos Bay Commission. Two of its members will serve one four-year term and may come from outside the Port. The Port would be authorized to issue up to $500,000 annually in general obligation bonds without further voter approval up to a maximum of $1.5 million outstanding at any one time. The Port would also be authorized to annex areas within Coos County and within the watershed of the Coos River.

IMPROVE THE STATE'S ENTER[illegible]ISE ZONE PROGRAM: SB 545

Oregon's economic recovery has not reached every corner of the state; many communities remain mired in the problems of economic restructuring. Enterprise zones, established in 1985, provide special state incentives for development of these areas. Since 1985, the Governor has designated twenty zones around the state, eighteen in rural areas and two in urban areas.

The program is designed to help improve the economy in depressed areas in the state, particularly to help create jobs in those areas. Qualified businesses in the zone investing in certain properties are allowed to receive partial property tax exemption for a period of not more than five years.

SB 545 expands the definition of qualified property, and expands the eligibility for enterprise zone tax exemptions to large investments that retain jobs in enterprise zones.

Create Additional Incentives for Enterprise Zone Investment

The original enterprise zone legislation, passed in 1985, allows a partial property tax exemption on the value of new construction and any new equipment affixed to the newly constructed property. SB 545 broadens this exemption to include renovation of existing property, personal and leased property and increases in land value from site preparation. The requirement that firms obtain 50% or more of its gross receipts from zone activities is deleted.

Extend the Exemption to Investments to Retain Jobs

Current law requires firms to expand employment levels at least 10% in order to qualify for enterprise zone tax exemptions. SB 545 would extend the tax exemption to any investment in an enterprise zone that exceeded $25 million, provided that it met certain standards for job retention. State standards for job retention are set in SB 545; cities or counties sponsoring enterprise zones can set different job retention standards at their option. This provision will create additional incentives for very large investments needed to assure the modernization and continued competitiveness of existing businesses located in enterprise zones.

Clarifications of Administrative Provisions for Enterprise Zones

In rural enterprise zones, only primarily non-retail businesses may qualify for tax exemptions. In urban enterprise zones, retail businesses may qualify for the exemption. The 1985 statute creating enterprise zones did not define "retail" business, leaving this important feature ambiguous. SB 545 defines retail businesses as those that sell merchandise or services to the general public for personal or household consumption.

ALLOCATION OF LOTTERY REVENUES
1987-89 Biennium

The proceeds of the Oregon Lottery, established by the voters in 1984, are constitutionally dedicated to economic development and job creation. Each biennium, the Legislature provides for the allocation of the net proceeds of the lottery among a variety of economic development programs. For the 1987-89 biennium, the estimated $60,955,000 in lottery revenues will be allocated as follows:

I. Regional Strategies	
Regional Strategies Fund	$17,500,000
Convention Center Fund	7,500,000
II. Statewide Strategies	
Tourism Marketing	2,000,000
Resource & Technology Corporation	3,000,000
Oregon Marketplace	750,000
Agribusiness Marketing	250,000
Targeted Training	755,000
Strategic Reserve Fund	2,250,000
Stabilization & Conversion Fund Replacement	500,000
Oregon Institute of Technology	300,000
Oregon Trade and Marketing Center	1,500,000
Downtown Development Association	250,000
County Fairs	400,000
III. Public Works	
Special Public Works Fund	7,200,000
IV. Business Lending	
Oregon Business Development Fund	2,000,000
Loan Guarantee Program	1,000,000
V. Education	
Higher Education Capital Construction	11,200,000
Community College Capital Construction	650,000
Other Programs	1,950,000
TOTAL	**60,955,000**

Enrolled
Senate Bill 964

Sponsored by COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT (at the request of Committee on Regional Convention, Trade and Spectator Facilities)

CHAPTER .....

AN ACT

Relating to lottery funds; creating new provisions; amending ORS 284.430 and section 1, chapter 829, Oregon Laws 1985; appropriating money; limiting expenditures; and declaring an emergency.

Be It Enacted by the People of the State of Oregon:

SECTION 1. (1) There is allocated to the Regional Strategies Fund from the Executive Department Economic Development Fund, the amount identified in section 43 of this Act.

(2) Amounts available under subsection (1) of this section shall not be used for ongoing or continuing operating expenses, debt retirement or to meet any state agency expenses.

SECTION 2. There is allocated to the Special Public Works Fund from the Executive Department Economic Development Fund the amount identified in section 28 of this Act.

SECTION 3. There is allocated from the Executive Department Economic Development Fund the amount identified in section 36 of this Act for county fairs.

SECTION 4. There is allocated from the Executive Department Economic Development Fund the amount identified in section 29 of this Act for the Oregon Institute of Technology.

SECTION 5. There is allocated from the Executive Department Economic Development Fund the amount identified in section 32 of this Act for tourism marketing.

SECTION 6. There is allocated from the Executive Department Economic Development Fund the amount identified in section 33 of this Act for the Oregon Resource and Technology Development Corporation.

SECTION 7. There is allocated from the Executive Department Economic Development Fund the amount identified in section 34 of this Act for the Oregon Marketplace, chapter _____, Oregon Laws 1987 (Enrolled Senate Bill 957).

SECTION 8. There is allocated from the Executive Department Economic Development Fund the amount identified in section 35 of this Act for agricultural opportunities.

SECTION 9. There is allocated from the Executive Department Economic Development Fund the amount identified in section 37 of this Act for targeted training, chapter _____, Oregon Laws 1987 (Enrolled Senate Bill 525).

SECTION 10. There is allocated from the Executive Department Economic Development Fund the amount identified in section 38 of this Act for the Economic Development Department for the Strategic Reserve Fund.

SECTION 11. There is allocated from the Executive Department Economic Development Fund the amount identified in section 39 of this Act to the Economic Stabilization and Conversion Fund.

SECTION 12. There is allocated from the Executive Department Economic Development Fund the amount identified in section 40 of this Act for the Oregon Business Development Fund.

SECTION 13. There is allocated from the Executive Department Economic Development Fund the amount identified in section 30 of this Act for the Trade Center project.

SECTION 14. There is allocated from the Executive Department Economic Development Fund the amount identified in section 31 of this Act for the Oregon Downtown Development Association.

SECTION 15. There is allocated from funds available in the Executive Department Economic Development Fund to the Department of Higher Education the following sums for the following purposes:

(1)	Higher Education Capital Construction Fund	$ 11,200,000
(2)	Agricultural Experiment Station	$ 450,000
(3)	Centers of Excellence Equipment	$ 1,500,000

SECTION 16. There is allocated from funds available in the Executive Department Economic Development Fund to the Department of Education $650,000 for community college construction.

SECTION 17. ORS 284.430 and section 1, chapter 829, Oregon Laws 1985, are added to and made a part of ORS chapter 461.

SECTION 18. (1) The transfer to the Executive Department Economic Development Fund for the biennium beginning July 1, 1987, is projected at $60,955,000, which represents 34 percent of expected lottery ticket sales. To maintain accountability, the Oregon State Lottery Commission shall report quarterly the status of its revenues and transfers made to the Executive Department Economic Development Fund to the appropriate legislative review agency.

(2) Revenues earned for economic development which have not been transferred in the 1987-1988 fiscal year shall not exceed $3.8 million. This limit shall be reduced continuously without interruption in subsequent years by $380,000 per year until reduced to zero. Revenues earned for economic development which have not been transferred shall be $3 million or less on June 30, 1989.

SECTION 19. The Executive Department shall, by rule, establish a uniform allocation schedule of revenues based on the estimate contained in subsection (1) of section 18 of this Act that allocates all balances in the Executive Department Economic Development Fund each quarter and is adjusted to incorporate the payments to higher education in accordance with section 7, chapter 828, Oregon Laws 1985, and to the Oregon Convention Center beginning July 1, 1988, as provided in subsection (2) of section 23 of this Act.

SECTION 20. The Executive Department is directed to establish, by rule, an allotment process to reduce each allocation in the event of a revenue shortfall, provided:

(1) That reductions in each allocation shall be made in proportion to the shortfall in quarterly revenues.

(2) Prior quarter allocation shortages shall be funded from succeeding quarter revenues.

SECTION 21. (1) Revenues in excess of the amounts needed to fund the quarterly allocation shall be carried forward to succeeding quarters provided that such amounts in excess of $2 million shall be transferred:

(a) Seventy-five percent to Special Public Works Fund.

(b) Seventy-five percent to Strategic Reserve Fund.

(2) Amounts available under subsection (1) of this section shall not be used to meet any state agency expenses unless approved by the Emergency Board.

SECTION 22. The Executive Department is authorized to approve the short-term movement of balances between the following categories to meet short-term cash flow requirements, provided that all transfers are returned by January 1, 1989:

(1) Regional Strategies Fund.

(2) Special Public Works Fund.

(3) Strategic Reserve Fund.

SECTION 23. (1) There is created an Oregon Convention Center Account in the Regional Strategies Fund, to consist of all moneys credited thereto, including moneys from the Executive Department Economic Development Fund. The account is continuously appropriated to the Economic Development Department. Moneys in the account shall be paid to the Metropolitan Service District for the purposes of paying the expenses of the construction of the Oregon Convention Center.

(2) Commencing July 1, 1988, an amount equal to $15 million shall be allocated from the Executive Department Economic Development Fund to the Oregon Convention Center Account in quarterly instalments of $1,875,000, subject to subsection (4) of this section, and allowing for changes in lottery revenues.

(3) Moneys in the account shall be paid quarterly when practicable to the Metropolitan Service District for the purpose of paying the expenses of the construction of the Oregon Convention Center.

(4) The Metropolitan Service District shall hold such funds prior to their expenditure in an interest bearing account, and shall seek the highest return on investment consistent with prudent risk and its need for the funds. The district shall quarterly certify the amount of interest earnings on any unexpended funds, and the amount of any such interest earnings shall be subtracted from the amount to be paid to the Oregon Convention Center Account in the quarter following the quarter in which the interest was earned. The amount of the interest earnings shall also be subtracted from the total amount to be transferred to the district under this Act.

SECTION 24. (1) There is created a Regional Strategies Fund to consist of all moneys credited thereto, including moneys from the Executive Department Economic Development Fund, and all interest earned on the Regional Strategies Fund. The fund is continuously appropriated to the Economic Development Department to be used for grants to implement chapter 115, Oregon Laws 1987 (Enrolled House Bill 3011), and this Act.

(2) The fund shall not be used to pay administrative expenses of the department, to retire any debt or to reimburse any person or municipality for expenditures made or expenses incurred prior to the adoption of a regional strategy.

SECTION 25. (1) There is created a Strategic Reserve Fund to consist of all moneys credited thereto, including moneys from the Executive Department Economic Development Fund, and all interest earned on the Strategic Reserve Fund. The fund is continuously appropriated to the Economic Development Department to be used to implement the state-wide strategies under chapter 115, Oregon Laws 1987 (Enrolled House Bill 3011).

(2) The fund shall not be used to pay administrative expenses of the department, to retire any debt or to reimburse any person or agency for expenditures made or expenses incurred prior to the adoption of the state-wide strategy as provided in subsection (3) of this section.

(3) After September 1, 1987, no money shall be disbursed from the Strategic Reserve Fund until the department adopts and submits to the Legislative Assembly a strategy for expenditure of such funds. The department is directed in the preparation of such a strategy or strategies to place particular emphasis on developing cost-effective, long-term policies to assist the creation, expansion and preservation of Oregon's principal traded sector industries, including but not limited to agriculture, forest products, electronics and other diversified manufacturing.

SECTION 26. ORS 284.430 is amended to read:

284.430. Any economic development program financed with proceeds from the state lottery authorized by section 4, Article XV of the Oregon Constitution **and ORS chapter 461** shall have displayed conspicuously on the site or as part of the program information specifying that the program is being financed by the state lottery.

SECTION 27. Section 1, chapter 829, Oregon Laws 1985, is amended t read:

Sec. 1. (1) [*During the period beginning on the effective date of this Act and ending on July 1, 1987,*] All agencies, persons and organizations expending moneys for the net proceeds of the lottery authorized by section 4, Article XV of the Oregon Constitution for the public purpose described in section 4, Article XV of the Oregon Constitution shall report to the Joint Legislative Committee on Trade and Economic Development on the economic development consequences of those expenditures. Such reports shall be submitted in accordance with an annual schedule and in a form prescribed by the committee, and shall include at a minimum information on the following:

(a) An accounting of the amounts expended from the lottery proceeds;

(b) An estimate of the amounts of public and private funds expended in concert with lottery funds to achieve the public purpose described in section 4, Article XV of the Oregon Constitution;

(c) An estimate of the number of jobs produced by the total expenditure of funds for the public purpose described in section 4, Article XV of the Oregon Constitution; and

(d) Such other information as the committee may require.

(2) The reports required by subsection (1) of this section shall be submitted to the [*Sixty-fourth*] Legislative Assembly.

SECTION 28. In addition to and notwithstanding any other law, the amount of $7.2 million is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for purposes of section 2 of this Act.

SECTION 29. In addition to and notwithstanding any other law, the amount of $300,000 is established for the biennium beginning July 1, 1987, as the maximum limit for the payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Oregon Institute of Technology.

SECTION 30. In addition to and notwithstanding any other law, the amount of $1.5 million is established for the biennium beginning July 1, 1987, as the maximum limit for the payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Trade Center project. However, the proposal shall be submitted to the Emergency Board for approval before committing or expending any funds.

SECTION 31. In addition to and notwithstanding any other law, the amount of $250,000 is established for the biennium beginning July 1, 1987, as the maximum limit for the payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Oregon Downtown Development Association.

SECTION 32. In addition to and notwithstanding any other law, the amount of $2 million is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for tourism marketing.

SECTION 33. In addition to and notwithstanding any other law, the amount of $3 million is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Oregon Resource and Technology Development Corporation from funds received from the Executive Department Economic Development Fund for the Oregon Resource and Technology Development Corporation.

SECTION 34. (1) In addition to and notwithstanding any other law, the amount of $750,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Oregon Marketplace.

(2) The contractor selected by the Economic Development Department pursuant to chapter_____, Oregon Laws 1987 (Enrolled Senate Bill 957), shall report to the Economic Development Department on the expenditure of all funds provided in this Act, including a description of activities conducted with such funds, in such financial detail as the department, by rule, shall prescribe.

(3) The contractor selected by the Economic Development Department pursuant to chapter_____, Oregon Laws 1987 (Enrolled Senate Bill 957), shall implement the Oregon Marketplace on a state-wide basis.

SECTION 35. In addition to and notwithstanding any other law, the amount of $250,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for agricultural opportunities.

SECTION 36. In addition to and notwithstanding any other law, the amount of $400,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for county fairs.

SECTION 37. In addition to and notwithstanding any other law, the amount of $755,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for targeted training under chapter _____, Oregon Laws 1987 (Enrolled Senate Bill 525).

SECTION 38. In addition to and notwithstanding any other law, the amount of $2,250,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Strategic Reserve Fund.

SECTION 39. In addition to and notwithstanding any other law, the amount of $500,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Economic Stabilization and Conversion Fund.

SECTION 40. In addition to and notwithstanding any other law, the amount of $3 million is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Oregon Business Development Fund.

SECTION 41. In addition to and notwithstanding any other law, the amount of $1,500,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Department of Higher Education from funds received from the Executive Department Economic Development Fund for the Department of Higher Education for purposes of section 15 of this Act.

SECTION 42. In addition to and notwithstanding any other law, the amount of $650,000 is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Department of Education from funds received from the Executive Department Economic Development Fund for the Department of Education for purposes of section 16 of this Act.

SECTION 43. In addition to and notwithstanding any other law, the amount of $25 million is established for the biennium beginning July 1, 1987, as the maximum limit for payment of expenses by the Economic Development Department from funds received from the Executive Department Economic Development Fund for the Regional Strategies Fund implementing regional strategies, of which $7.5 million is to be available under section 23 of this Act.

SECTION 44. Prior to expending any moneys under sections 32, 35 and 38 of this Act, the Economic Development Department must find that the expenditure of funds complies with the standards listed in ORS 184.025 (1) and (3) to (5).

SECTION 45. The allocation of the Executive Department Economic Development Fund made by this Act shall supersede, replace and is in lieu of any prior authorization of any allocation of such funds.

SECTION 46. This Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this Act takes effect July 1, 1987.

Passed by Senate June 18, 1987

.....
Secretary of Senate

.....
President of Senate

Passed by House June 22, 1987

.....
Speaker of House

Received by Governor:

.....M., ..., 1987

Approved:

.....M., ..., 1987

.....
Governor

Filed by Office of Secretary of State:

.....M., ..., 1987

.....
Secretary of State

Enrolled
House Bill 3011

Sponsored by COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

CHAPTER .....

AN ACT

Relating to the Oregon Comeback; and declaring an emergency.

Be It Enacted by the People of the State of Oregon:

SECTION 1. This Act shall be known as the Regional Economic Development Act.

SECTION 2. As used in this Act, unless the context requires otherwise:

(1) "Department" means the Economic Development Department.

(2) "Region" means a county or groups of counties that join together to develop and implement an economic strategy.

(3) "Regional strategy" is an economic development plan to build or enlarge a principal economic activity selected by the region and its citizens.

SECTION 3. (1) The Legislative Assembly finds that regional strategies are key to the state's economic revitalization and that to be effective regional strategies must have the coordinated support of available resources.

(2) The Legislative Assembly declares that the purpose of this Act is

(a) To encourage the development of strategies that address the economic problems of each region of the state;

(b) To effectively utilize available resources through a regional strategies program; and

(c) To coordinate private and public resources to support economic development.

SECTION 4. (1) Not later than 60 days after the effective date of this Act, by rule, the department shall adopt standards for regional economic development strategies.

(2) The standards shall provide that the strategies are approved in accordance with criteria reflecting the economic benefits to the state. Each strategy must at a minimum set forth in measurable terms the extent to which the strategy will:

(a) Build or enlarge economically viable industries, with reasonable long-term growth prospects, including opportunities for innovative new industries;

(b) Result in a net benefit to the state in the long term and not require continuing state subsidies;

(c) Utilize existing public and private assets, including infrastructure, human resources and plant and equipment;

(d) Improve the conditions of the economically disadvantaged and increase the number of family wage jobs;

(e) Harness Oregon's comparative advantage with emphasis on the growth and development of existing, in-state businesses, especially small businesses;

(f) Direct assistance primarily to strategies that assist businesses selling goods and services in markets for which national or international competition exists;

(g) Result in the economic revitalization of small cities and underdeveloped urban and rural areas; and

(h) Assure that public investments to implement a strategy are matched, to the maximum extent possible, by the contribution of private financial and other resources.

(3) The department shall expedite and facilitate the definition of regions, based on historical, cultural and economic links among counties by recommending potential groupings of counties to form regions.

SECTION 5. Regional economic development strategies shall serve as a basis for state financial assistance to projects to aid a regional economy. Each county or group of counties that form a region shall submit a regional strategy which at a minimum shall include the following elements:

(1) An identification of the principal industry or economic activity that the region is seeking to stimulate with its regional strategy;

(2) An analysis of the unique or significant resources that provide the foundation for the strategy;

(3) An evaluation of alternative resources and alternative strategies for the region;

(4) An analysis of barriers to development of the selected economic activity in the region and an identification of the means to overcome those barriers;

(5) A list of actions to implement the regional strategy, including actions by:

(a) Local governments;

(b) The private sector;

(c) State government; and

(d) Federal Government;

(6) A prioritized list of activities to be undertaken or funded by the state from lottery proceeds and other sources;

(7) A plan for involvement of disadvantaged and minority groups in the regional strategies and an identification of job training and employment practices to benefit the economically disadvantaged including but not limited to, affirmative action goals; and

(8) A description of the number and types of jobs created, investments made and other measurable indications of economic progress as set forth in section 4 of this Act.

SECTION 6. (1) The governing body of each county of this state shall be responsible for the submission of a regional strategy as provided in section 5 of this Act. The governing body of a county may, by ordinance, delegate its responsibility under this section to another body. Wherever possible, the governing bodies of counties shall work to form multicounty regional strategies.

(2) Individually or in concert with the governing bodies of other counties, the governing body of each county shall solicit public comment and involvement in the development of ideas and suggestions for regional strategies. Notwithstanding subsection (1) of this section, after giving appropriate notice, each county governing body shall at least once hold a public hearing to receive suggestions.

(3) Individually or in concert with the governing bodies of other counties and after giving appropriate public notice not less than two weeks prior, the governing body of each county or the body designated to prepare the regional strategy shall hold a public hearing in each county in the region prior to a vote to recommend to the Governor the regional strategy described in section 5 of this Act.

SECTION 7. (1) After considering the recommendations submitted under section 6 of this Act, the Governor may designate a region and adopt a proposed regional strategy or return the strategy to the affected counties for modification.

(2) The department shall coordinate adopted regional strategies with existing state and local economic development efforts to support a state strategy for economic development.

(3) The department shall discourage competition among regions for existing Oregon businesses and economic activity.

SECTION 8. (1) In carrying out the provisions of this Act, the department shall work to assure that all counties are included in a region with an adopted strategy and that each regional strategy is considered for implementation not later than July 1, 1989.

(2) A region shall not be entitled to funding under this Act in excess of the amount specified in the regional strategy adopted by the Governor prior to the time that each other region of the state has received initial funding for the priority activities within its approved strategy.

SECTION 9. The department shall consult with the Legislative Committee on Trade and Economic Development on the designation of regions, the adoption of regional strategies, the expenditure of funds on behalf of such strategies and the accomplishments of such strategies.

SECTION 10. This Act being necessary for the immediate preservation of the public peace, health and safety, an emergency is declared to exist, and this Act takes effect on its passage.

Passed by House April 22, 1987

.....
Chief Clerk of House

.....
Speaker of House

Passed by Senate May 1, 1987

.....
President of Senate

Received by Governor:

.....M., ..., 1987

Approved:

.....M., ..., 1987

.....
Governor

Filed by Office of Secretary of State:

.....M., ..., 1987

.....
Secretary of State

Members:

Senators
JOYCE COHEN, Co-Chair
WALTER BROWN, Vice-Chair
WILLIAM FRYE, Alternate
KEN JERNSTEDT
JOHN KITZHABER,
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GLENN OTTO
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JOINT
LEGISLATIVE COMMITTEE ON TRADE
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Room 132, State Capitol
SALEM, OREGON 97310-1347
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BERNIE AGRONS, Alternate
LARRY CAMPBELL
MARGARET CARTER
DELNA JONES
VERA KATZ,
Speaker of the House
MAX RIJKEN

SALLY PAULBITSKI
Committee Assistant

December 11, 1984

RECOMMENDED CRITERIA FOR LOTTERY FUNDING

Oregon's lottery, approved by the voters on November 6, will provide about $25 million to $40 million annually for economic development.

Based on its analysis of the economic problems of the State, the Joint Legislative Committee on Trade and Economic Development has adopted the following nine general criteria which it recommends the 1985 Legislature consider in its allocation of lottery funds for economic development:

Substantive Criteria

- The Declining Number of Quality of Jobs for Oregonians

  The problem of the declining number of family wage jobs in Oregon identified in a report prepared for the Committee is a problem the Legislature should address in setting priorities for the use of lottery funds.

- Problems of Distressed and Dying Communities

  Oregon's economic recovery has been very uneven. Many one-industry towns throughout the state face serious economic distress, which the state's current economic development policies have done little to address. Nearly all of the recently announced plant investments have gone into metropolitan areas, for example.

- The Chronic Lack of Development in Rural Areas

  Not all of the state's rural communities face economic extinction, but their economic futures rest on different assets than the state's metropolitan areas. These areas will need different policies, and a special emphasis if their economic development efforts are to succeed.

- The Impairment and Underuse of Higher Education

  Oregon's system of higher education plays a vital role in securing the state's economic future, but, due to severe budget problems, has been severely cut. Restoring the quality of educational programs at the

state's major colleges and universities, and emphasizing those with large potential contributions to the state's economy should be an important part of any economic development strategy.

- The Vital Role of Small Business

  In Oregon, as nationally, small businesses are the largest producers of new jobs. While programs to aid larger businesses are often more visible and more easily administered, emphasizing small business development and entrepreneurship can pay large dividends for the state's economy. In particular, programs should recognize the special potential for promoting economic equality that results from stimulating the growth of women- and minority-owned businesses.

- Oregon's Comparative Advantages

  Wherever possible, the State should spend its resources in economic development on projects that either develop or exploit Oregon's economic comparative advantages over other states as a place to do business. Programs should seek to build on Oregon's advantages by increasing the value-added in Oregon, for example, by further processing of agricultural and timber products. In the long run, Oregon's best prospects for permanent, high quality jobs rest in industries that utilize Oregon's unique human and natural resources.

- Traded Industries

  Wherever possible, the State should allocate its resources to the development of so-called "traded sectors of the economy: Oregon businesses that compete in national and international markets. As economist Adam Smith noted more than 200 years ago, it is these industries that create wealth and are the economic base of our communities. As it has done it legislatively-authorized bond loan programs, Oregon should give highest priority to those economic development efforts which stimulate businesses selling goods and services chiefly outside Oregon.

Georgia's Area Planning and Development Commissions



The Vital Link

GEORGIA'S APDCS: THE VITAL LINK

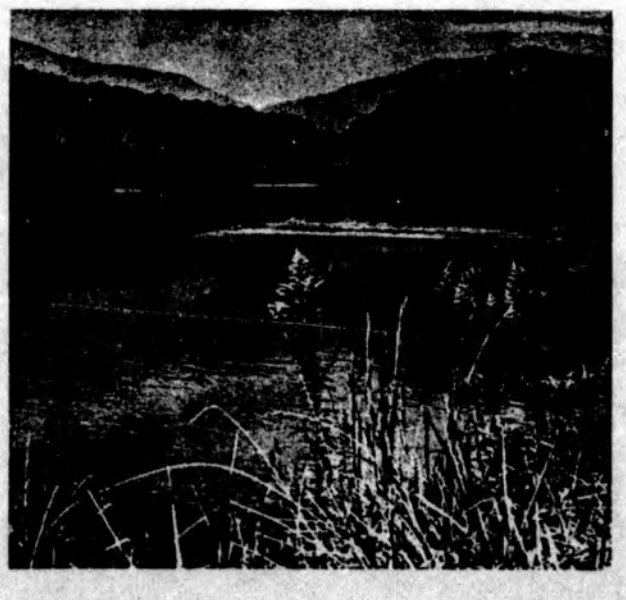
• A local city official needs to obtain an updated map of his area but he does not have a drafting department. He needs a professional cartographer he can depend on.

• Community leaders are concerned about growth activity in their area and they see that this growth is tied to the surrounding cities and counties. They need a qualified planner to help coordinate a realistic approach to work out problems while recognizing potential opportunities.

• A developer is interested in pursuing land development opportunities. He needs accurate statistical data to help him determine if the project is feasible.

In these types of situations, local officials and local citizens depend on an Area Planning and Development Commission (APDC), an organization created on behalf of local governments within a designated region.

Local governments rely heavily on their APDCs to assist them in carrying out activities that will benefit their units of government. Local officials and community leaders work closely with the professional APDC staff to receive maximum possible service from federal and state agencies. In this way, APDCs provide a vital link between local, state, and federal governments and agencies by pooling unlimited skills into eighteen central offices that serve cities and counties throughout Georgia.



LOCAL INITIATIVE PROMPTED APDC DEVELOPMENT

In the mid-1950s, several River Development Associations were formed to develop a particular river. Because of the success these developers experienced and the large number of units of government involved, leaders at the state level were encouraged to provide the unique opportunity of joining local governments in Georgia together for the purpose of solving regional problems.

The State Legislature amended the Georgia General Planning Enabling Act of 1957 to allow for two or more cities and/or counties to join together for the purpose of planning. After the act was passed, the first APDC was formed in 1961. Today there are eighteen APDCs operating under Georgia Code 50-8-30, which provides for the legislative base of APDCs. Each APDC serves a two-fold purpose—to strengthen the efficiency of local government and to help its respective region develop in response to area needs and available resources.



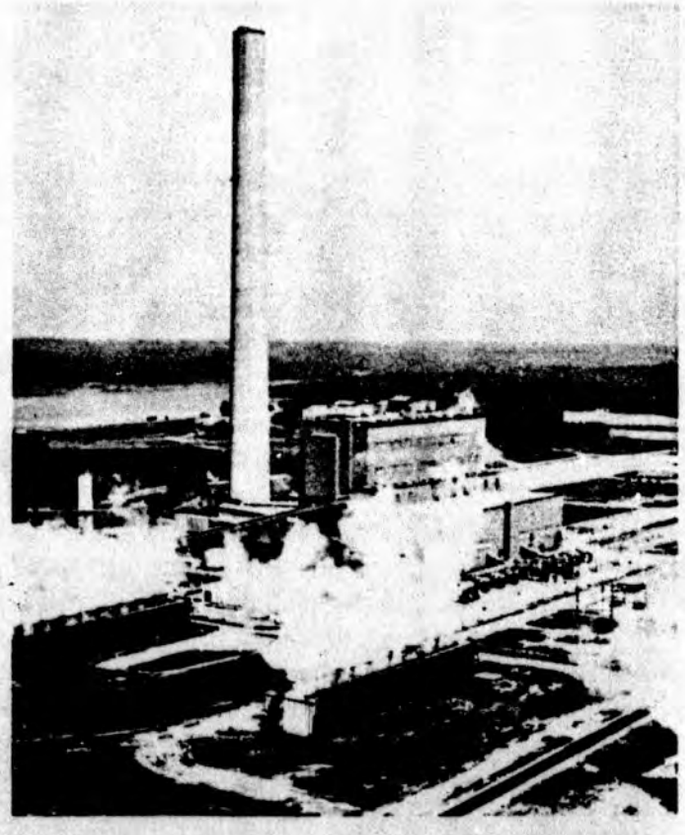






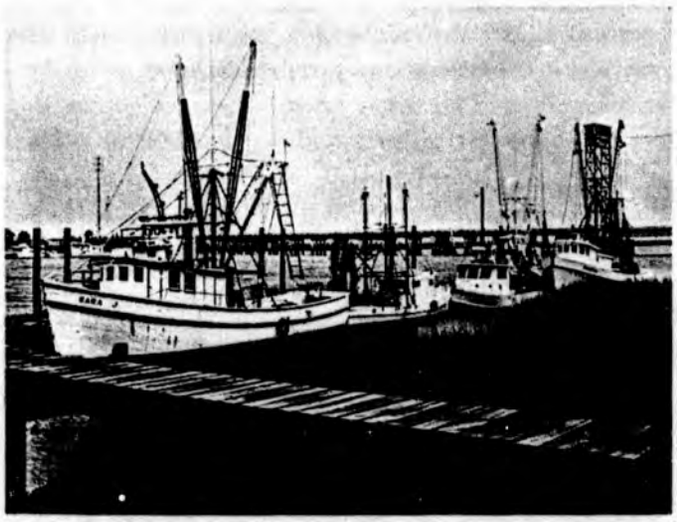
MEMBER COMMUNITIES MAKE APDC POLICIES

Each APDC is governed by a Board of Directors appointed by its designated cities and counties to make up its membership. These leaders, two-thirds of whom are elected officials, meet on a regular basis to set policies and work programs. These policies guide the APDC staff in carrying out its program responsibilities. The Board of Directors identify local and regional problems and rely on the APDC staff to see that the projects and activities are recognized and completed on a timely basis. These programs use the professional talents of the staff in various areas of regional planning, economic development, transportation, land use, recreation, historic preservation, health and human resources, civil, sanitary, or traffic engineering, as well as landscape architecture, statistics, and public administration.



APDCS TAKE A REGIONAL VIEW

Although APDCs work closely with city and county officials, they also promote progress of their entire area by alerting city and county officials to ways in which they can pool resources and use them to achieve common goals. In this way, city and county leaders work together to develop a regional perspective. By bringing together similar problems and working through their APDC, local officials are more apt to identify and define specific answers to these problems while contributing to an areawide perspective in a significant way. APDCs help local people search out answers to local and regional problems, find alternatives, and assist them in carrying out effective actions.

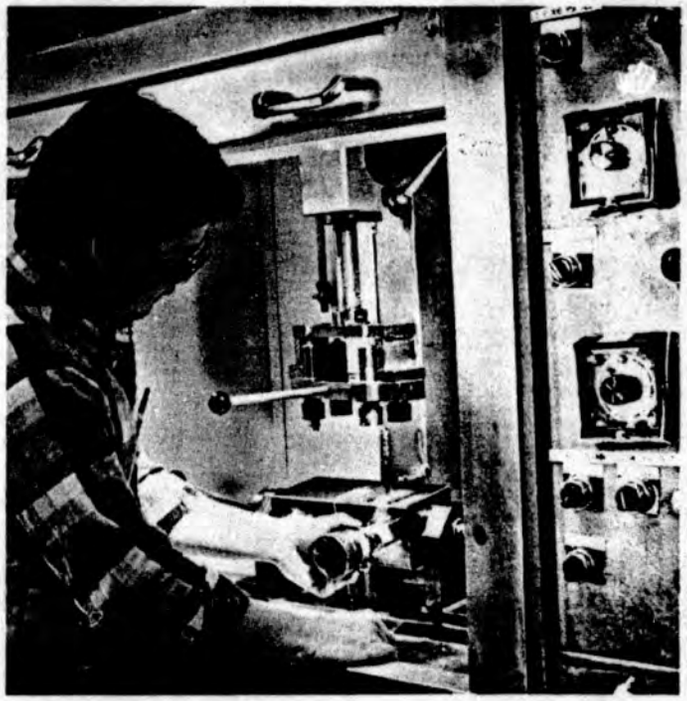


To provide a regional perspective, most APDCs classify their programs under three general headings: DEVELOPMENT—signifying commercial, industrial, and economic improvements and progress; GOVERNMENTAL MANAGEMENT—areas ranging from personnel development to financial management; and PLANNING—including human resources, land use, and specialized programs and planning studies.

A list of specific kinds of activities implemented by the APDC network follows. Many of the programs vary from APDC to APDC because each commission develops its own programs based on local needs.

APDC ACTIVITIES

Intergovernmental Consultation Process (formerly A-95 Review)—a means to prevent agencies from duplicating their funding efforts. The local APDC identifies a project to be consistent with local and areawide plans.



Budget/Financial Administration—assistance in budget preparation or preparation of personnel system.

Community and Rural Development—identification and utilization of available resources that would increase public and private partnership to allow communities to increase their job base through shopping centers, commercial warehouses, and industrial development.

Criminal Justice—assistance in procedures and management.

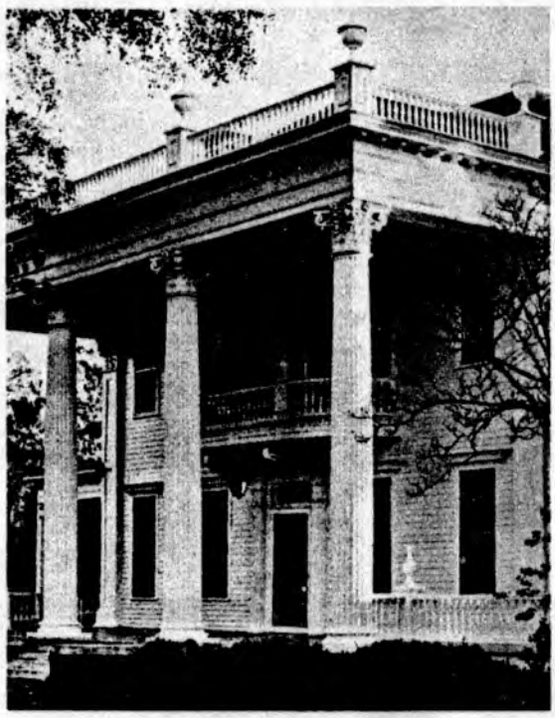
Data Processing—information and services to aid in handling large amounts of statistics; consultation on computer purchasing, utilization.

Demographic/Statistics—current facts, figures, and estimates about the future growth in a specific area.

Disaster Preparation—assistance in emergency disaster and storm planning.

Downtown and Economic Development—industrial development assistance; information, data, consultation for community planning and industrial prospects and building community consensus.

Grant Application Writing—research and preparation of applications for various grants available on federal and state levels; administration of grants received.



Historic Preservation—technical assistance in preparation of National Register of Historic Places nominations, local education, organization, and planning efforts; surveys of historic resources; information on state and national historic preservation programs.

Housing—information on housing conditions, market analysis, programs, and financing.

Information—information clearinghouse services in community development, economic development, and related fields; copies of state laws.

Job Training—information on and administration of training programs for economically disadvantaged persons and dislocated workers.

Land-Use Planning—assistance in land-use planning procedures and techniques; preparation of local or regional land-use plans.



Litter Reduction—information on litter control, landfill space, recycling, and resource recovery.



Loan Packaging—through private, non-profit corporations, APDCs package loans for private business people who use state and federal loan programs.

Management—technical and research assistance in general management problems, personnel, and fiscal management.

Maps—cartographic information, maps, aerial photography, satellite data, and geologic information.

Natural Resources—consultation on natural resources development, management, and protection services.

Ordinances—preparation of model code of ordinances; preparation/codification of ordinances.

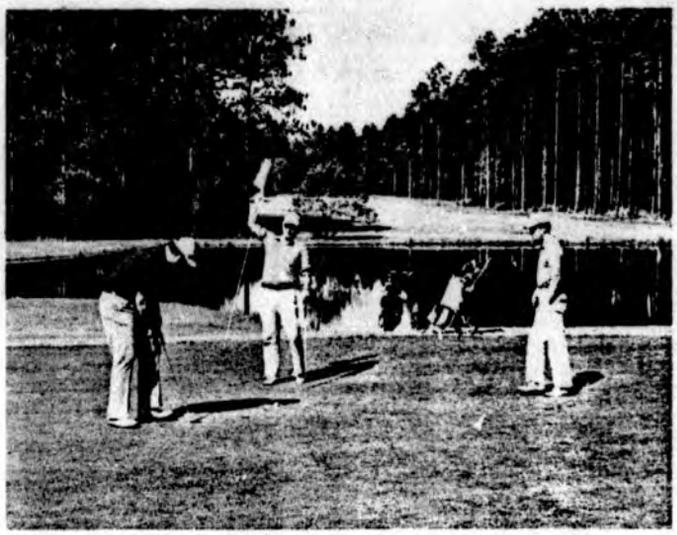
Personnel—assistance in developing personnel policies and procedures; job descriptions; affirmative action plans; pay plans; wage surveys.

Records Management—training and assistance in record-retention schedules, forms, and file management.

Recreation Planning—assistance in preliminary plans for parks; recreation surveys; grant requests.

Research—basic research information and data on topics such as rural development, planning, public finance, urban problems, vital statistics; library of information relevant to concerns of local government officials.





Ridesharing—coordination in developing van/carpools; park-and-ride lots.

Administration of Services to Elderly—administration of services which include nutrition sites, home-delivered meals, nursing home ombudsmen, and community care.

Sewerage and Solid Waste—consultation on management of sewer systems; collection and disposal technical assistance; preparation of solid waste plans.



Subdivision Regulations—model regulations; preparation of local regulations.

Tourism—tourist promotional information; preparation of brochures; coordination of events.





Transportation Planning—assistance in preparation of transportation studies and programs.

Water Systems—advice on managing and improving water systems.

Zoning—guidance in developing zoning ordinances; preparation of ordinances; zoning administration.



MEMBER CITIES AND COUNTIES FINANCE APDC BUDGET

APDCs in Georgia were organized at a time when there were no state or federal funds available to support their operation. Therefore, cities and counties levied per capita assessments for this purpose. These assessments have continued and now range from 25 cents to $1.00. Several APDCs have implemented a unique assessment structure that places a greater fee on a county whose local officials use more of the APDC services than local officals of another county. This way assessments are greater for those local governments who request more APDC services. Additional financial resources are provided through various state and federal agencies.

APDCS LINK WITH OTHER AGENCIES

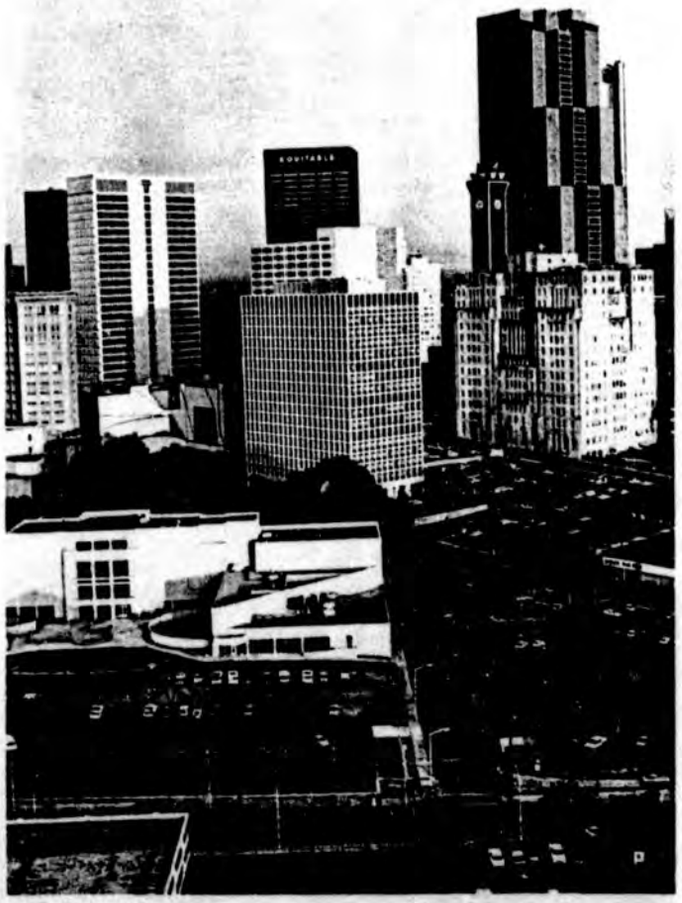
APDCs in Georgia are a vital link in the total Georgia intergovernmental system. This intergovernmental system contributes to the effective and efficient management of state and federal activities by banding small numbers of governments together through an APDC to work on and solve regional problems they might have. Because of this cooperation and joint working efforts among local governments, these local entities receive benefits that they would not receive otherwise.

The Department of Community Affairs serves as the state agency charged with promoting the orderly development of community services and coordinated state, areawide, and local development plans. DCA contracts with APDCs to offer continuing education and training to APDC staff and maintains a skilled professional and technical staff of community development planners and resource personnel.

This entire coordinated approach would not be possible without the University System and city/county government associations in Georgia. The Association County Commissioners of Georgia and the Georgia Municipal Association, which are both advocates for local government, provide leadership and political support for local leaders throughout the state.

APDCS STAND READY TO RESPOND

The APDCs were created by local governments for the purpose of providing a ready-action unit to respond at any time to any subject of immediate concern to a particular unit of government. As opportunities and planning problems increase for city and county governments and as more responsibility is shifted from the federal government to state and local governments, the APDC link will remain vital to these units of government. APDCs are designed to meet local and regional needs effectively and efficiently now and in the future.



AREA PLANNING AND DEVELOPMENT COMMISSIONS

MAY, 1979



DEPARTMENT OF COMMUNITY AFFAIRS
PLANNING AND PROGRAMMING DIVISION

GEORGIA'S AREA PLANNING & DEVELOPMENT COMMISSIONS

Altamaha Ga. Southern APDC
P.O. Box 328
Baxley, GA 31513
(912) 367-3648

Atlanta Regional Commission
Suite 1801
100 Edgewood Ave., N.E.
Atlanta, GA 30335
(404) 656-7700
GIST 221-7700

Central Savannah River APDC
P.O. Box 2800
Augusta, GA 30904-0800
(404) 737-1823
GIST 337-1823

Chattahoochee-Flint APDC
P.O. Box 2308
Newnan, GA 30264
(404) 253-8521
GIST 221-6114 or 6131

Coastal APDC
P.O. Drawer 1917
Brunswick, GA 31521
(912) 264-7363
GIST 365-7363

Coosa Valley APDC
P.O. Drawer H
Jackson Hill Dr.
Rome, GA 30161
(404) 295-6485
GIST 231-6485

Georgia Mountains APDC
P.O. Box 1720
Gainesville, GA 30503
(404) 536-3431
GIST 261-5480

Heart of Georgia APDC
501 Oak St.
Eastman, GA 31023-1198
(912) 374-4771
GIST 327-6403

Lower Chattahoochee APDC
P.O. Box 1908
Columbus, GA 31994
(404) 324-4221
GIST 259-7468

McIntosh Trail APDC
P.O. Drawer A
Barnesville, GA 30204
(404) 358-3647

Middle Flint APDC
P.O. Box 6
Ellaville, GA 31806
(912) 928-1204/937-2561
GIST 345-1204

Middle Georgia APDC
600 Grand Building
Macon, GA 31201
(912) 744-6160
GIST 321-6160

North Georgia APDC
503 W. Waugh St.
Dalton, GA 30720
(404) 272-2300
GIST 234-2300

Northeast Georgia APDC
305 Research Drive
Athens, GA 30610
(404) 548-3141
GIST 241-5900

Oconee APDC
P.O. Box 707
Milledgeville, GA 31061
(912) 453-5327
GIST 324-5327

South Georgia APDC
P.O. Box 1223
Valdosta, GA 31601
(912) 333-5277
GIST 349-5281 or 349-5277

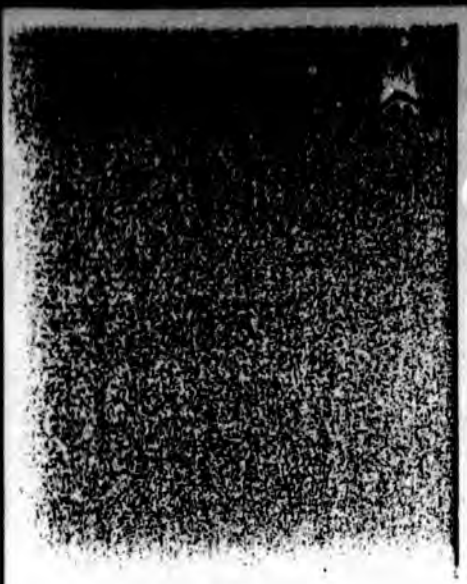
Southeast Georgia APDC
P.O. Box 2049
Waycross, GA 31501
(912) 285-6097
GIST 368-6097

Southwest Georgia APDC
P.O. Box 346
Camilla, GA 31730
(912) 336-5616
GIST 341-4315

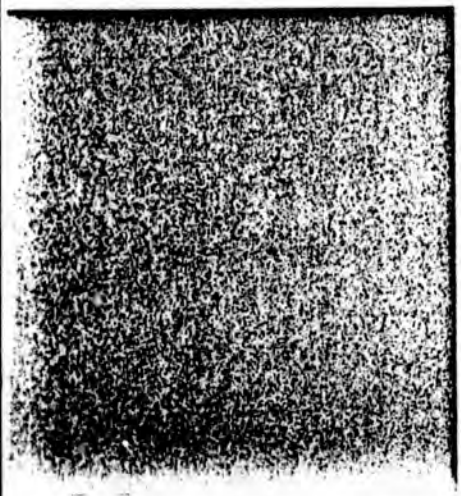
Economic Development Districts in Georgia

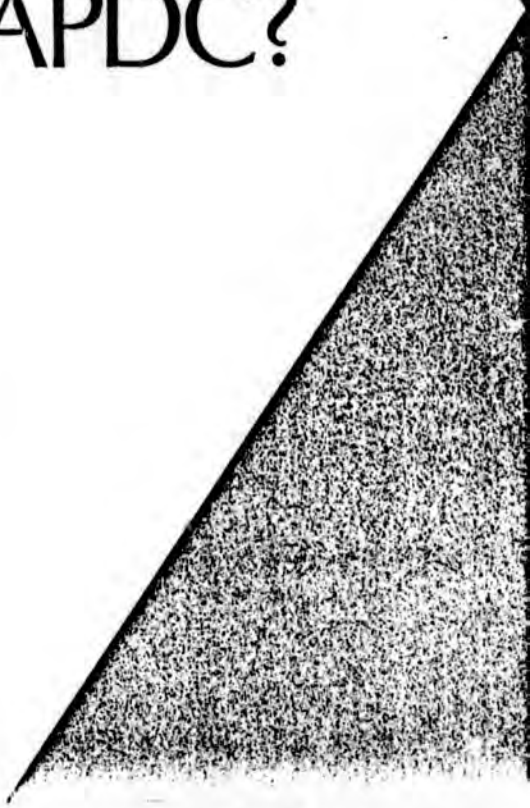
This booklet is about Georgia's APDCs

What they are and why



What's an APDC?





AN APDC IS AN AREA PLANNING AND DEVELOPMENT COMMISSION.

In brief, its business is to come up with ways of helping member counties and cities to make the most of their resources—human, economic, and natural—so that people in the area can live a better life. All but 4 of Georgia's 159 counties are members of one of the state's 19 APDCs.

APDC POLICY IS MADE BY MEMBER COMMUNITIES.

Each APDC is guided by a board of directors which meets monthly to make decisions about the direction and speed, the spirit and substance of that commission's work.

Made up of local leaders, the board consists of at least one representative from each member county and one from the cities within that county. They are often elected officials or someone appointed by them.

The board employs and directs a staff. It is usually made up of an executive director, and others with professional training in city or regional planning, economic development, transportation, and law enforcement. Some APDCs also employ recreation or health planners, sanitary or traffic engineers, landscape architects, or public administrators.

LOCAL DIMES AND QUARTERS ARE THE BACKBONE OF APDC BUDGETS.

APDCs exist because of the 10-25¢ per capita contribution of member counties and cities, matched by state and federal funds for planning. But APDCs can multiply 100 times and more the value of these planning dollars by helping their communities get state and federal money to carry out plans made with APDC assistance.

APDCs TAKE A REGIONAL VIEW OF LOCAL PROBLEMS.

Although much of their work has been with counties and cities, APDCs have kept a regional perspective.

Local planning has meant answering calls for help from communities—help with land and buildings, homes and businesses, streets and traffic, budgets and government. It's the APDC's job to help local people search out answers, find directions, name alternatives, or lay a blueprint which they can act on.

But no matter how local the problem, APDCs offer community decision-makers a big view of what's going on in the area—how their own problems tie in with what's happening up and down the river, up and down the road.

APDCs WORK TOWARD THE PROGRESS OF THEIR WHOLE AREA.

They alert counties and cities to ways in which they can share burdens and expenses, pool scarce resources and funds, work together toward common goals.

APDCs continually count people, jobs, houses, factories, public services, and other essentials in the area. They interpret and present the facts to local leaders so that they can size up their own needs in light of the region-wide picture.

And APDCs are the rallying point for regional action—the meeting ground for those with ideas for cooperative projects. They also provide technical assistance to get cooperative plans off the ground.

APDCs GREW OUT OF LOCAL PROBLEMS, LOCAL INITIATIVE.

In the late forties, there was tremendous upheaval in Georgia's factories and farms, cities and countrysides. It created changes everywhere: bursts of growth in a few counties, slow decline in others, and a new breed of problems for all local governments.

By the early fifties, pressures mounted. Local leaders began to look beyond county lines and city limits for help. They had already worked together staging fairs and developing rivers. Why not join forces on other problems?

A handful of local planning commissions were already in operation. It seemed logical to go from city and county planning to city-county planning, and from there to multi-county planning.

This was the course which local leaders followed. In 1960, the state legislature gave legal status to area-wide planning.

APDCs ARE CREATURES OF LOCAL GOVERNMENT.

Whether they're helping to solve a problem or take advantage of an opportunity, they're doing it because local leaders **asked** them it do it.

Their only power is the power of persuasion. They give advice, not orders. They can recommend, but they can't insist. They can make plans, but they can't make laws. In short, **their work needs the consent and support of member cities and counties.**

In addition, APDCs work with state and federal, public and private agencies, helping to coordinate the efforts of all those who are working toward the progress of their area.

What's Planning and Development?

TO APDCs, PLANNING AND DEVELOPMENT MEANS:

- COLLECTING USEFUL FACTS
- PROMOTING TEAMWORK
- HELPING GET THINGS DONE TODAY
- KEEPING AN EYE ON TOMORROW
- SETTING THE STAGE FOR PROGRESS

ALL 19 APDCs HAVE A LOT IN COMMON

IN THE PLANNING AND DEVELOPMENT THEY DO AND THE WAY THEY GET IT DONE.

BUT EACH IS DIFFERENT.

EACH ADAPTS TO THE GEOGRAPHY, ECONOMY, AND SPIRIT OF ITS AREA.

EACH APDC HAS PRODUCED

IMAGINATIVE, TAILOR-MADE APPROACHES TO THE NEEDS OF ITS CITIES AND COUNTIES.

AN EAST GEORGIA APDC DESIGNED AND LAUNCHED A SUCCESSFUL EXPERIMENT IN GOVERMENTAL EFFICIENCY. Eight of its counties are sharing a central computer system to figure taxes and make out tax bills. This unique APDC project has saved time and money: what was once a month's work is now done more accurately in one hour.

APDCs HAVE HELPED TRANSFORM THE NATURAL BEAUTY OF THEIR AREAS INTO RECREATION AND TOURIST ATTRACTIONS. They have designed and promoted a canoe trail, a bicycle trail, historical tours, and hunting and fishing preserves. They have also opened the door to federal grants for community parks, park buildings, and equipment.

AN APDC PROPOSED AND HELPED ESTABLISH A FOUR-COUNTY INDUSTRIAL PARK CORPORATION. APDC planning and coordination made this private, non-profit park eligible for federal assistance to help bring in water, sewer, and natural gas, as well as a railroad spur. Residents of four counties are on the park's board of directors. The park is located in the corner of one county, only 15 minutes from the other three.

AN APDC HELPED ORGANIZE A SMALL BUSINESS INVESTMENT CORPORATION IN ITS MOUNTAIN COUNTIES. The corporation provides local businessmen badly needed high-risk capital through long-term, low-interest loans. It supplements the services of conventional lending agencies in the 11 counties.

APDCs BACKED UP LOCAL EFFORTS TO FORM REGIONAL HOUSING CORPORATIONS. These non-profit organizations will acquire funds and sites in order to produce, rent and sell houses for low or middle income families. Local developers and local banks will have first priority in the program. APDCs provided facts, plans, and initiative.

APDCs HAVE PLANNED EXPRESSWAYS AND RAPID TRANSIT FOR BIG CITIES. The Atlanta expressway system and transit authority came as a result of area-wide planning in the forties and fifties. Planning done in the sixties is now giving people in the Atlanta area a system of regional parks, and solutions to metropolitan sewer problems.

A CENTRAL GEORGIA APDC GAVE A BIG BOOST TO THE SAGGING ECONOMY OF A SMALL RURAL TOWN. APDC staff worked with the townspeople to obtain a 350-job industry and a 50-bed nursing home. Planning made the town eligible for grants and loans which helped pay for the new factory and a $667,000 sewer system.

APDC COMMUNITIES HAVE CASHED IN ON NEW FEDERAL ASSISTANCE FOR LAW ENFORCEMENT MUCH SOONER THAN OTHERS. They were organized for action—the special planning needed to make them eligible for such benefits as patrol cars, radio equipment, better jails, police information centers, and higher salaries for law enforcement personnel.

APDCs HAVE HELPED REVITALIZE DOWNTOWN BUSINESS DISTRICTS. They have deployed staff specialists and brought in outside experts in civic design. Small town merchants and shoppers have profited from retail trade studies, parking improvements, and suggestions for sprucing up shabby storefronts, unattractive streets.

TAILOR-MADE INDEED WAS THE ANSWER TO ONE APDC TO A CALL FROM A COMMUNITY WHICH WANTED TO BRING INDUSTRY TO AN ISLAND. Thanks to the planning and consultation of the APDC, a 17-mile railroad was built from the mainland to the island with multi-million dollar assistance from state and federal sources.

THE PAY-OFF FROM PLANNING AND DEVELOPMENT IS NOT ALWAYS DRAMATIC.

BUT IT'S CONSISTENT.

MULTI-MILLION DOLLAR RAILROADS ARE RARE.

BUT USEFUL, CONCRETE BENEFITS ARE ROUTINE.

FOR EXAMPLE . . .

APDCs PROVIDE FACTS.

They do research to monitor the health and growth of their area. APDCs analyze facts and figures periodically to keep current on what's happening and why.

If their research turns up potential trouble, they alert local leaders and help work out ways of averting a problem. If their studies find an opportunity for growth, they help communities take advantage of it.

But good news or bad, the facts APDCs provide are designed to be used to make realistic plans.

For example, some of the data is stored in the Georgia Department of Industry and Trade's data bank, where it is available to out-of-state businessmen looking for the best location for a plant or branch office. All the data from APDC studies is made available to people in and out of the area via maps, publications, and conferences.

APDCs PROVIDE PEOPLE POWER.

They help their communities find expert help or to train their own specialists. They make available the skills of their own staff members trained in planning, economic development, research, and law enforcement.

Often they add to their staffs experts in recreation, sanitary or traffic engineering, landscape architecture, health planning, public administration, or other specialties needed by member counties. They also call on faculty members of colleges, and specialists in other public and private organizations, in and out of the area.

APDCs help communities upgrade their own people power. They organize workshops and refresher courses to keep elected officials and public employees up to date. And many APDCs have fostered some form of manpower training to equip semi-skilled breadwinners in their areas for better jobs, higher incomes.

APDCs PROVIDE PLANNING POWER.

They help member towns and counties make plans—make basic decisions about the priorities and direction of community life.

Local citizens feel the power of planning in workaday improvements such as zoning ordinances and wiser public expenditures. But planning has an even more dramatic impact when it makes communities eligible for special opportunities.

For example, communities with comprehensive plans can get federal funds for housing, urban renewal, and water or sewer systems, among others. More specialized plans make communities eligible for assistance in such categories as health, law enforcement, or recreation.

Localities in commission areas have a big head start when new federal or state programs are enacted. APDCs can direct local officials to the program that will best meet their needs. With much of their planning and research already in hand, communities can count on APDC help to acquire program dollars and benefits with a minimum of delay.

LEGISLATIVE LANDMARKS

1947 Atlanta Metropolitan Planning Commission organized as Georgia's and the nation's first metropolitan (2-county) planning commission by special act of General Assembly. Commission expanded to 5-county Atlanta Region Metropolitan Planning Commission in 1960.

1957 Georgia Planning Act passed by General Assembly permitting local organization of any city, county or city-county planning commission.

1960 Georgia Planning Act amended to permit local organization of area planning commissions by any combination of counties and cities.

1960 Eleven counties in the Coosa Valley organize first formal APDC.

1967 State Planning and Programming Bureau created in the office of the governor by the General Assembly. The act established the Governor's Advisory Committee as a liaison between APDCs and the Bureau. Committee composed of one member from each APDC board of directors.

1970 Bureau of State Planning and Community Affairs replaces SPPB by act of General Assembly. Act defines broad permissive and mandatory responsibilities of APDCs and relationship to Bureau. APDCs required to:

- prepare area biennial development programs;
- prepare 6-year schedules of area capital improvement programs and priorities;
- forecast area needs and resources;
- review and comment on local government applications to state, federal, quasi-governmental or private agencies for loans and project grants.

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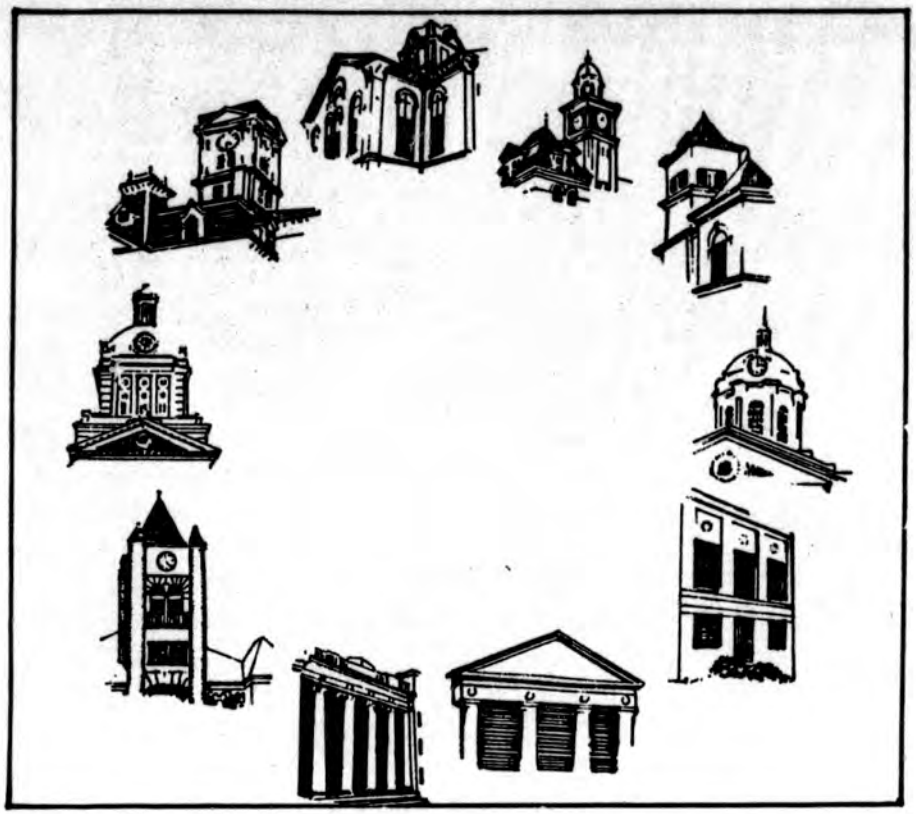
The Northeast Georgia Area
Planning And Development Commission

ORGANIZATION AND

OPERATIONAL POLICIES



A statement by its Board of Directors

July 16, 1987

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Claire Stevenson	Senior Planner / Land Use
Julie Cheney	Senior Planner / Certified Development Company



■ What is the Northeast Georgia Area Planning and Development Commission?

NEGAPDC is a voluntary, legally constituted association of cities and counties within the ten-county Northeast Georgia area (Barrow, Clarke, Elbert, Greene, Jackson, Madison, Morgan, Oconee, Oglethorpe, and Walton Counties), established in 1962 to assist local governments in planning for common needs, cooperating for mutual benefit, and coordinating sound areawide development.

■ What is its purpose?

NEGAPDC is an organization of, by, and for local governments. Its purpose is to strengthen the individual and collective power of local governments by recognizing areawide opportunities and matters of mutual concern, helping local governments resolve both local and areawide problems through joint decisions, and to develop means to assist local governments in the implementation of those decisions.

■ How was it established?

The local governments of Northeast Georgia, assisted by chambers of commerce and other civic groups, created NEGAPDC under authority provided by the Planning Enabling Act of 1957. Georgia Act 1066, as amended, passed by the General Assembly in 1970, established the proprietary interests of the state in the organization and function of area planning and development commissions. The foregoing legislation, now revised and incorporated in the Official Code of Georgia Annotated (Sections 50-8-30 through 50-8-45), established the fact that these organizations are controlled by, and exist to serve, the local governments of their respective regions. The concept of local control has been reemphasized by NEGAPDC bylaws adopted by participating member governments.

■ How is it governed?

The structure of NEGAPDC is as follows: To meet current state and federal requirements pertinent to policy board composition, the bylaws of the commission were changed, effective January 1, 1979, to increase membership on the board of directors from 28 to 33 members who serve two-year terms of office and are eligible for reappointment. Two-thirds of the board of directors (22) are elected officials from units of general purpose local government; one-third of the board membership (11) are private citizens. To meet additional federal guidelines relative to representation of minorities, at least 8 members of the board, who may be either elected officials or private citizens, are minority residents in Northeast Georgia. Finally, any number of associate directors may be elected by the board to serve one-year terms of office without voting privileges.

To meet the foregoing requirements, the revised bylaws of the commission state that each of the 10 county commissions in Northeast Georgia shall appoint one commissioner to the NEGAPDC board. The city governments in *each* of the 10 counties agree among themselves on a mayor or city council member to represent their collective interests on the board. Two additional elected officials from Northeast Georgia are selected by the board to serve as members-at-large.

Nominations for minority representation are made collectively by organizations representing low income and minority groups in the area with confirmation of each member being made by county commissioners in the nominee's home county.

After satisfying city, county, and minority representational requirements outlined above, additional directors needed to establish board membership of 33 persons are selected from Northeast Georgia at large by board members who base such selections on demonstrated interest in regional planning and development matters. These nominations are submitted to county commissioners in each nominee's home county for confirmation.

The board makes all fiscal, budgetary, and program policy decisions, determines the program of work, and appoints an executive director to carry out specific programs in line with the objectives of the board. The executive director is authorized to hire a professional staff to assist him in carrying out the program of work. The capabilities of the staff vary with work program requirements, but normally include competence in: land use, water resources, wastewater, recreation, historic preservation, solid waste, energy, transportation, job training, economic development assistance, aging program development and governmental management technical assistance.

The board and staff are augmented by 6 standing volunteer advisory committees and 1 special advisor who are appointed by the commission chairman. The committees (Aging, Development, Natural and Historic Resources, Personnel & Finance, Planning, and Water Resources along with a special advisor in the area of Governmental Management) provide active involvement of approximately one hundred area citizens, local officials, and resource people who meet, at regular intervals, in the commission headquarters, to work with the staff on the entire range of work program activities addressed by the NEGAPDC. Committee chairmen make regular reports to the board at monthly meetings. Generally, policy positions taken by the board are premised on advisory committee research and recommendations.

The officers of the board consist of a chairman, vice-chairman, and secretary-treasurer. An executive committee composed of the chairman, vice-chairman, and 6 members of the board of directors is elected annually by the board to undertake such duties and assume such powers as the board may see fit to delegate. The personnel/finance committee recommends and guides implementation of board decisions regarding fiscal and personnel matters, advises on the investment and care of the funds of the commission, and guides the preparation of monthly, quarterly, and annual financial reports to the board. The nominating committee and the bylaws review committees are ad hoc groups composed of board members who are appointed by the chairman annually to meet special needs of the commission.

■ What is the policy position?

Through the years of its existence, NEGAPDC has worked to strengthen areawide cooperation and coordination. Members of the board feel that all past and current activities of NEGAPDC have been in keeping with the intentions of local governments within the area and guidelines established in the Official Code of Georgia Annotated (Sections 50-8-30 through 50-8-45). At the same time, questions occasionally arise concerning the current and future role of the NEGAPDC in dealing with local and areawide issues. The NEGAPDC board of directors responds to the major recurring issues as follows:

■ Although NEGAPDC seeks implementation of its plans, the planning documents it prepares never commit a unit of general purpose local government to a specific course of action.

Inasmuch as professional planning in a regional agency involves significant expense that is shared by all member governments, it is obvious that no plans should be prepared unless there is a reasonable possibility of implementation.

Areawide planning documents, often the result of federal or state initiatives for some specific purpose, are never prepared by the staff unless there is agreement by local officials and the NEGAPDC board of directors that such documents will benefit the area overall. Documents of this kind tend to influence the allocation of state and federal resources, particularly when capital improvements are addressed. Local planning documents, on the other hand, are normally prepared at the request of public officials who seek solutions to problems that only affect their jurisdictions.

While well conceived planning documents, requested by public officials, should be implemented if the expense of their preparation is to be justified, the NEGAPDC board of directors submit that documents prepared by the commission staff never *commit* a local government to a specific course of action. Implementation authority must remain with local officials; the NEGAPDC board would not have it otherwise.

■ NEGAPDC does not seek to expand its role in review and comment.

NEGAPDC is designated as an areawide project notification and review clearinghouse under federal Executive Order 12372. This federal directive provides for review and comment on applications through the state clearinghouse for a number of federal grants affecting the Northeast Georgia area. This process provides input from local government officials to the state and federal agencies which must make the funding decision. Furthermore, it provides an appropriate mechanism to monitor major regional development, avoids duplication of effort among public agencies, and encourages the effective implementation of areawide plans. The board endorses the current review and comment process which includes staff review, consultation with appropriate advisory committees, and concurrence of local officials. The review and comment process does not include an authorization for veto power over local projects by NEGAPDC.

■ NEGAPDC supports selection of the board of directors by its local member governments.

As a voluntary organization, responsible to local government, it is appropriate that directors be appointed by member governments. Any system of direct election by the general public would tend to undermine NEGAPDC's direct accounting to local government and would be a step toward regional government.

■ **NEGAPDC recognizes the chambers of commerce and related groups, functioning in the several counties and communities of Northeast Georgia, as the first line industrial development organizations of the geographic areas they represent.**

NEGAPDC will not act as a "lead agency" in economic development unless specifically requested to do so, in specific cases, by a local unit of government. As a matter of policy, the NEGAPDC will prepare economic profiles, economic forecasts, tourism, retail trade, and other studies as necessary to reinforce the industrial and economic activities of local chambers of commerce and development organizations in the ten-county Northeast Georgia area.

■ **NEGAPDC opposes having taxing authority.**

State enabling legislation and NEGAPDC policy specifically prohibit taxing authority. The NEGAPDC does not need, nor does it seek, authority to levy taxes in any form, directly or indirectly. The local governments of Northeast Georgia support the work program of NEGAPDC through voluntary local dues and fees supplemented by financial support from state and federal programs. During the years that NEGAPDC has been in operation, no board member, staff member, or representative has ever suggested that this commission be authorized to levy taxes. The board emphatically endorses existing intergovernmental mechanisms for financing local and areawide planning activities.

■ **NEGAPDC opposes a regional government for the Northeast Georgia area.**

One of the fundamental reasons for the existence of NEGAPDC is that of seeking solutions to local and areawide problems through cooperative activities of member governments. Such activities do not interfere with, or in any way diminish, the rights, authority, autonomy, or identity that local units of government enjoy under the laws of the State of Georgia. Cooperation of local units of government with, or without, the assistance of NEGAPDC, does not imply the formation of a regional goverment. Regional government, whether defined as the involuntary unification of local governments (a new layer of government), or the involuntary transfer of functions and operational authority to a supergovernmental structure, is the direct opposite of the NEGAPDC approach. NEGAPDC, as a creature of, by, and for local government, is clearly a desirable alternative to, rather than a step toward, regional government.

■ **NEGAPDC does not seek any regulatory powers.**

Neither state enabling legislation nor the bylaws of NEGAPDC provide a basis for the exercise of any regulatory powers. The board supports the exercise of regulatory power by state and local governments as authorized by state law.

■ **NEGAPDC does not intend to be an operating agency delivering services to the general public.**

The Official Code of Georgia Annotated authorizes NEGAPDC to enter into arrangements with local, state, federal, and private organizations for the management, administration, or operation of human service programs. While APDCs are not permitted to engage in direct delivery of goods and services to individual consumers, they may enter into contracts with other authorized entities, including units of local government, for the delivery of such goods and services.

In the area of direct delivery of *governmental services*, the Code authorizes APDCs to provide technical assistance to local governments, but is clear on the point that law enforcement, fire protection, operation of solid waste systems and the like are primary functions of local officials.

In view of the foregoing, and in keeping with the policies of this commission dating back to its organization in 1962, the board of directors of NEGAPDC has never authorized the commission staff to operate or manage any program or project in competition, or in conflict, with a local government. When called upon by local officials, NEGAPDC does provide contractual services, technical assistance, and advice — to member governments — within staff and fiscal capabilities.

■ NEGAPDC should continue to be a voluntary association of local governments.

NEGAPDC is based on the willing cooperation of local governments, working together voluntarily to identify areawide opportunities and to resolve mutual problems. While local officials in some parts of the nation have suggested that regional policymaking is more effective when membership in their regional organization is mandatory, the NEGAPDC board strongly prefers voluntary membership, allowing any local government to join, refrain from joining, or to withdraw from NEGAPDC at will. The record of achievement of this APDC is attributed solely to the willingness of member governments to work together without coercion or control.

All local governments in the Northeast Georgia area, as well as state and federal officials, are encouraged to support the continued operation of the NEGAPDC as the most cost-effective and responsive means to obtain competent technical assistance needed for both community level and areawide problem solving. NEGAPDC is an extension of, and a supplement to, the local governments of the region who work together for a healthy and prosperous Northeast Georgia.

■ NEGAPDC affords opportunity for redress for area citizens who claim discriminatory action on part of NEGAPDC.

Individual, public, and private organizations and institutions which participate in NEGAPDC programs as recipients, contractors, or in any other respect, who claim discriminatory action on the part of NEGAPDC, its board of directors, staff, consultants, or contractors, may communicate the facts surrounding the alleged discrimination to: Executive Director, Northeast Georgia Area Planning and Development Commission, 305 Research Drive, Athens, Georgia 30610. The executive director will pass information received to the NEGAPDC chairman who will arrange for an appropriate hearing on each complaint. Complainants will be offered opportunity at the hearing to be represented by counsel of their own choice (at their own expense), the right of cross-examination, and will be provided with a summary record of the proceedings along with a recorded decision including findings of facts and a statement of reasons for the decision.

■ The NEGAPDC board of directors has adopted a code of ethics.

NEGAPDC board of directors has adopted, as part of its bylaws, Section 45-10-3 of the Official Code of Georgia Annotated which provides a code of ethics for members of boards, commissions, and authorities created by general statutes. The code section requires these board members to:

(1) Uphold the Constitution, laws, and regulations of the United States, the State of Georgia, and all governments therein and never be a party to their evasion;

(2) Never discriminate by the dispensing of special favors or privileges to anyone, whether or not for remuneration;

(3) Not engage in any business with the government, either directly or indirectly, which is inconsistent with the conscientious performance of his governmental duties;

(4) Never use any information coming to him confidentially in the performance of governmental duties as a means for making private profit;

(5) Expose corruption wherever discovered;

(6) Never solicit, accept, or agree to accept gifts, loans, gratuities, discounts, favors, hospitality, or services from any person, association, or corporation under circumstances from which it could reasonably be inferred that a major purpose of the donor is to influence the performance of the member's official duties;

(7) Never accept any economic opportunity under circumstances where the member knows or should know that there is a substantial possibility that the opportunity is being afforded the member with intent to influence the member's conduct in the performance of the member's official duties;

(8) Never engage in other conduct which is unbecoming to a member or which constitutes a breach of public trust; and

(9) Never take any official action with regard to any matter under circumstances in which the member knows or should know that the member has a direct or indirect monetary interest in the subject matter of such matter or in the outcome of such official action.

BACKGROUND

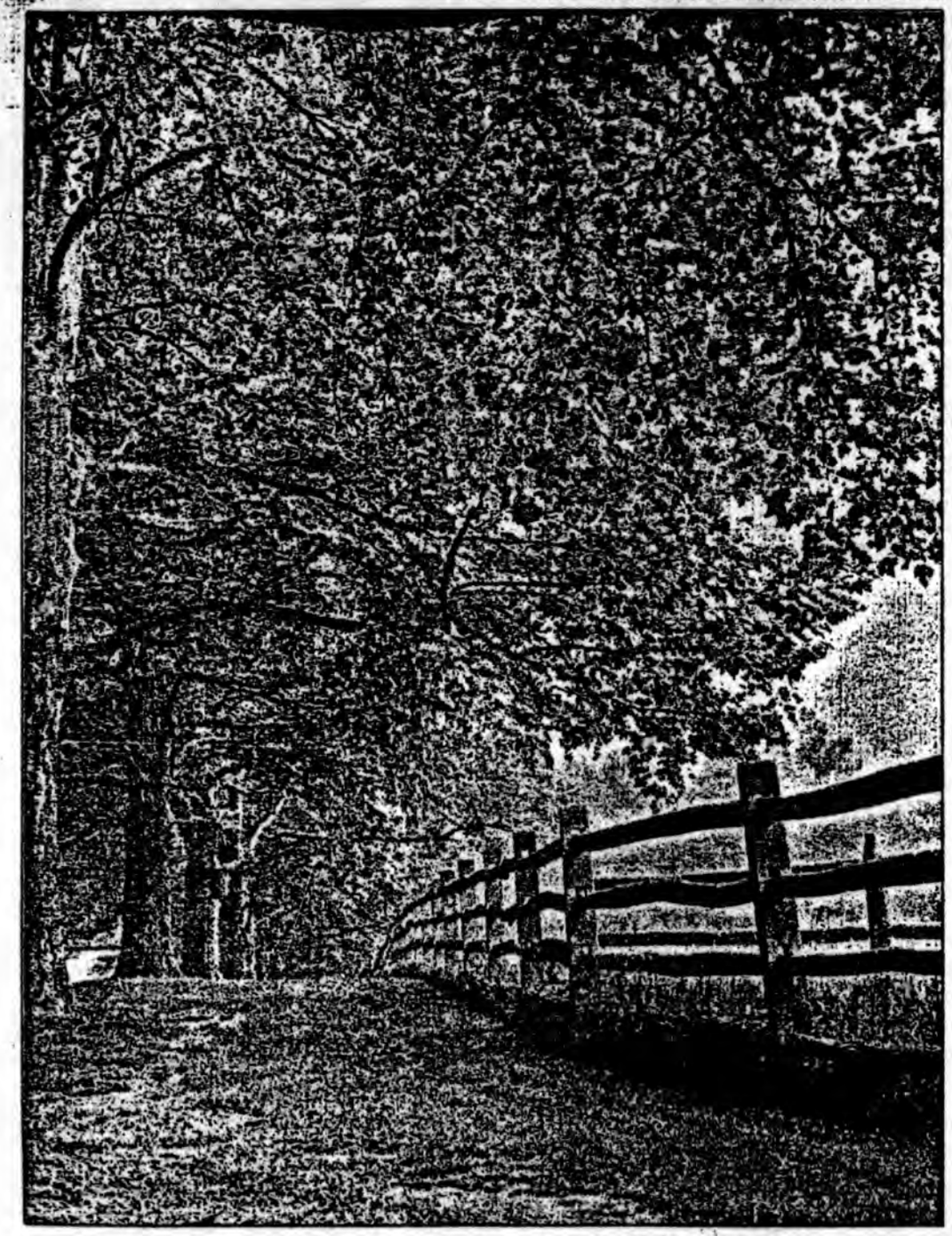
The NEGAPDC board of directors adopted its first policy statement on regionalism on June 28, 1976. The original statement was readopted, without change, on August 18, 1977. Readopted with minor modifications on September 21, 1978 as NEGADPC Organization and Operational Policies, the statement included language needed to comply with 1978 enactments of the Georgia General Assembly, which amended Georgia Act 1066. Minor editorial changes were made in the statements adopted by the board of directors on July 17, 1980, June 18, 1981, June 17, 1982, and July 21, 1983. When readopting the statement on July 19, 1984, the board of directors added a new section offering opportunity of redress for area citizens who claim discriminatory action by NEGAPDC, its board of directors, staff, consultants, or contractors and adopted the state code of ethics. No changes were made to the statement, which was readopted by the board of directors on July 18, 1985. Only the listing of advisory committees was changed in the statement readopted by the board of directors on July 17, 1986. Minor editorial changes were made in the statement readopted by the board on July 16, 1987.



Choyce A. Johnson, Chairman

1986 Annual report

Northeast Georgia Area Planning & Development Commission



The Path of Progress:

Changing perspectives as resources diminish

A word about NEGAPDC



Every year the board of directors of this commission review their Organization and Operational Policies, make necessary changes and publish the statement in brochure form. It is mailed to mayors and city councils and to county commissioners throughout the Northeast Georgia area to remind these officials that their regional commission is continuing to assist them in planning for com. on needs, to cooperate for mutual benefit, and to coordinate area development. In other words, the board is certifying that this APDC remains on course, doing the sort of things its founders had in mind when they organized it in the first place.

Completing its 24th year of operation, NEGAPDC does administer several important regional programs through contracts with state agencies, but it is, first and foremost, a planning and development organization that is a rallying point for regional action. It's home-owned, home-operated, and it responds to the needs of the local governments who validate it. It is, as stated in earlier annual reports, "an annex to every city hall and courthouse in Northeast Georgia that local officials can turn to when there are insufficient resources to get a job done."

The University of Georgia's Institute of Community and Area Development published a booklet in 1971 in conjunction with APDC executive directors that was written by Dottie Sparer of Athens. One section of the publication laid out the framework of these regional organizations when she said: "APDCs are creatures of local government. Whether they're helping to solve a problem or take advantage of an opportunity, they're doing it because local leaders asked them to do it. Their only power is the power o persuasion. They give advice, not orders. They can recommend, but they can't insist. They can make plans, but they can't make laws. In short, their work needs the consent and support of member cities and counties."

Like the local governmental entities it serves, NEGAPDC, in tune with the times, is attempting to improve its products and its output as federal and state resources are being substantially reduced. As this report goes to press, it can be reported, however, that our commission is in sound financial condition, adequately staffed, and capably managed by a dedicated Board of Directors. We expect to be around as an even more effective regional organization to celebrate a quarter century of service next year!

Message from the chairman



When I retired and hung my U.S. Air Force uniform in the closet several years ago, I stepped into the political arena with the naive idea that I knew what those turkeys were talking about when they referred to **"running"** for public office.

I found out all too soon that the **running** really begins when you win an office and get on with the job at hand. This year, for example, as I attempted to chair this important Area Planning and Development Commission, act as mayor of my hometown, participate in community organizations, support the Georgia Municipal Association and run for a seat in the Georgia General Assembly, I have trotted off about seventeen pounds.

I confess, however, that I have loved every minute of it because my peregrinations *(look in dictionary later)* have placed me in frequent contact with valued friends and neighbors across this region of the state.

Above all, I have enjoyed the privilege of serving as your chairman for the past two years, working with a board of directors that includes some of the most dedicated and capable men and women in Georgia. With their encouragement, the momentum of a talented and dedicated staff, and the cooperation and assistance of the federal and state agencies that support our work program, we have continued to enhance the reputation of a regional planning and development organization that serves the ten counties and 47 cities and towns of this region with a high degree of effectiveness.

Notwithstanding the erosion of federal support for our commission, we have chalked up some real success stories this year. The achievements noted in the pages that follow speak for themselves. The highlight of the year for the board, of course, was the completion of our new headquarters annex. I can report, with pride, that this handsome facility was free of debt as we moved our Job Training Division into it in May.

As I leave the governing body of this exemplary organization at the end of December and pass the gavel to my friend and associate, Commissioner Choyce Johnson, I want you to know that I will be close at hand as a member of your legislative delegation working to bring Georgia's Area Planning and Development Commissions to their maximum potential as helpers to local governments.

Best Regards,

John O. Mobley Jr.

John O. Mobley Jr.

P.S. Clint Lane is truly a dear friend despite my comments through the years concerning his U.S. Navy background.

Planning & Development

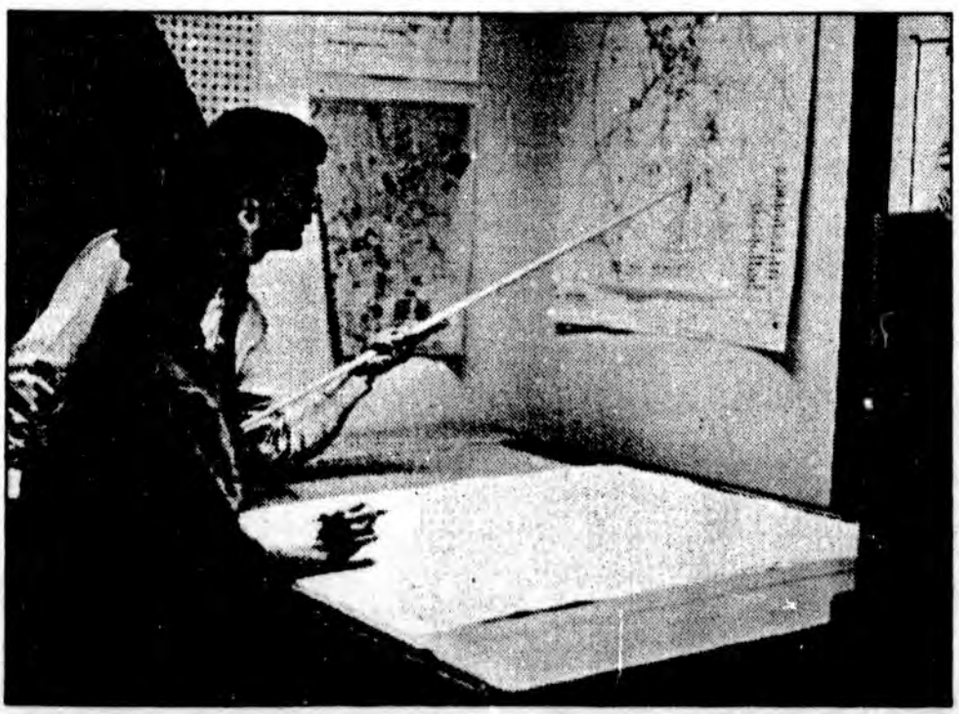
As the population increases and development continues, the need for ongoing coordinated physical, economic and fiscal planning grows simultaneously.

The planning and development division of NEGAPDC is well-suited to assist Northeast Georgia and its local governments in preparing for the realities of growth. The goal of this division is to provide planning and growth-management services to the region, while at the same time striving to maintain the natural beauty and character of the region.

The staff, with invaluable guidance from the advisory committees, works to produce projects and programs that will help member governments not only in long-range planning, but in handling day-to-day operations.

The 1986 work program attests to the professional spirit and quality of work that people have come to expect from the NEGAPDC staff.

The commission crosses city and county boundaries to meet whatever needs exist — whether it's helping Statham get its first computer or preparing a landscape design for the Monroe Primary School.



During the past year, members of the planning and development staff, under a contract with the state Department of Community Affairs, prepared an analysis of population growth in the 10 area counties.

Passage of the 1985 Zoning Procedures Law and increasing pressures of population growth kept our staff busy revising and creating land-use ordinances. Planners prepared a packet of information to help local governments understand and comply with the new law.

The staff helped revise land-use ordinances for Winterville, Greensboro, Greene County, Jefferson, Madison, Bogart and Good Hope. A new ordinance was prepared for Pendergrass, and others were begun for Hoschton, Russell and Bostwick.

New or revised zoning maps were prepared for Greene County, Greensboro, Statham, Bethlehem, Winterville, Jefferson, Bogart and Monroe.

Planners also helped prepare applications to improve recreational facilities in Athens, Barrow County, Oconee County, Bostwick and Comer. Overall recreation plans were completed for Elbert County, Hoschton and Bostwick.

A large part of the planning and development division's effort is devoted to helping counties develop plans for landfills and solid waste management. In 1986, we prepared landfill modification plans for Greene County, Jackson County and Elberton, and completed new plans for Oconee and Walton counties.

Planners were called on by cities and counties for numerous other projects throughout the year. At the request of our member governments, we:

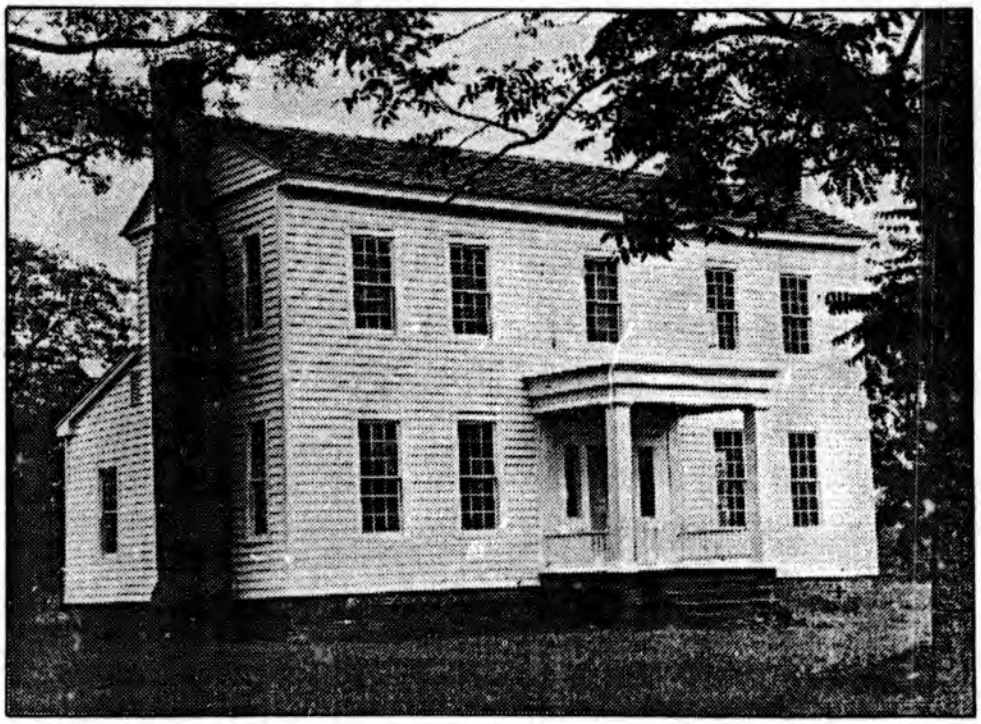
- assisted Statham in purchasing their first computer;
- printed promotional brochures for Winterville and Madison County;
- completed a fire insurance study for Elbert County;
- prepared reduced-scale city maps for use by fire, police and emergency medical departments in Jefferson and Bowman;
- helped Morgan County obtain grant funds for jail renovations and improvements to two volunteer fire departments;
- helped Oglethorpe County obtain grant funds to improve the Philomath fire station; and
- produced a landscape design for the Monroe Primary School.

A new area for NEGAPDC staff members during the past year was personnel management. As their first project, staffers helped Elberton develop a job analysis and pay plan, and revise the city's personnel plan and practices.

Planners are now working to help Elbert County, Social Circle and Winder evaluate the personnel systems they have in place.

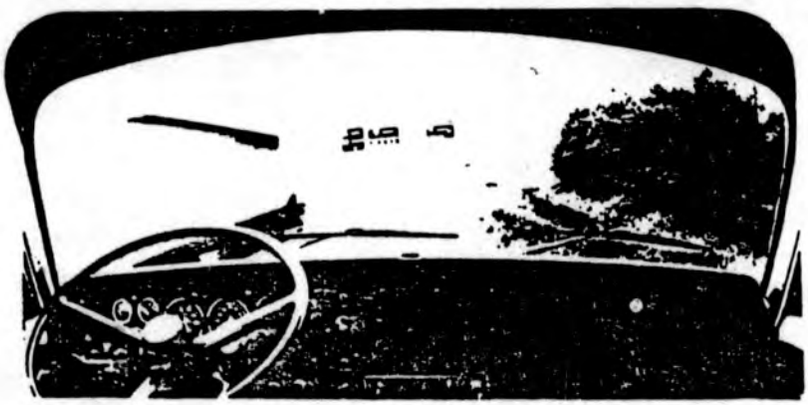
Promoting overall economic development in Northeast Georgia is a basic function of the planning and development division, and it's not a responsibility we take lightly.

Last year, planners held an economic development workshop to provide communities with information on revitalizing their downtown areas, and held an areawide conference for development authorities in the 10-county region.



NEGAPDC staff members also:

- helped Colbert obtain $10,000 for renovations to the city gym;
- prepared economic profiles on Barrow, Elbert, Madison, Morgan, Greene, Jackson and Walton counties;
- prepared applications for a Governor's Emergency Fund loan for water and sewer improvements in Jefferson;
- assisted Union Point, Nicholson and Elbert County with Community Development Block Grant projects, and helped Braselton administer an Urban Development Action Grant.
- helped Morgan County obtain grants totaling $9,000 for two fire stations and $20,000 for jail improvements;
- helped Comer obtain $7,000 for improvements to Arnold Park;
- assisted the city of Bogart in obtaining $4,000 for a water line extension;
- selected Madison County for a pilot Economic Development Program, coordinated leadership class and follow-up activities; and
- tracked and reported to the Georgia Department of Transportation major economic and residential development projects that affect highway capacity and traffic patterns.



Transportation

NEGAPDC staff provides administrative and technical assistance to locally managed Rural Public Transportation programs. These transportation systems are in place to serve the elderly and handicapped who would otherwise be unable to attend senior citizen center activities or get to their doctor's appointments, fill prescriptions or pay bills.

Activities during the year included quarterly workshops for operators on such topics as vehicle maintenance and financial management. This was also the year of the first "Roadeo," in which drivers competed in written quiz, driving and vehicle inspection events — a time of learning and fun.

In addition, the commission has kept abreast of local highway development and offered technical assistance to local governments regarding traffic counts.

Staff planners also prepared proposals and assisted in hiring staff for the Barrow-Oconee-Walton traffic safety study, which is evaluating areas of high accident reports and recommend ways to alleviate problems.

Historic preservation

During the past year, Northeast Georgia citizens and local governments were active in many preservation projects.

The National Register of Historic Places will soon announce new listings in Elbert, Clarke, Greene, and Morgan counties. New historic districts are slated for Athens and Greensboro; historic rural properties in Greene and Elbert counties will include plantation houses and churches.

Winder and Jefferson moved to protect and enhance their historic resources by adopting historic preservation ordinances. Both cities now have active preservation commissions which are implementing the ordinances.

The Investment Tax Credit Program for historic structures continues to be a major economic factor in Northeast Georgia. Tax credit applications for rehabilitation of historic buildings have been given to individuals and companies in every area county. To date, more than $8 million has been spent in tax credit projects in Northeast Georgia.

A new feature in NEGADPC's historic preservation service is the Rural Preservation Project. The project is designed to create an appreciation for historic rural properties and foster rural economic development.

Certified Development Company

The Certified Development Company of Northeast Georgia Inc. is a non-profit corporation organized in 1983 through the efforts of the NEGAPDC to further economic development in the 10-county region.

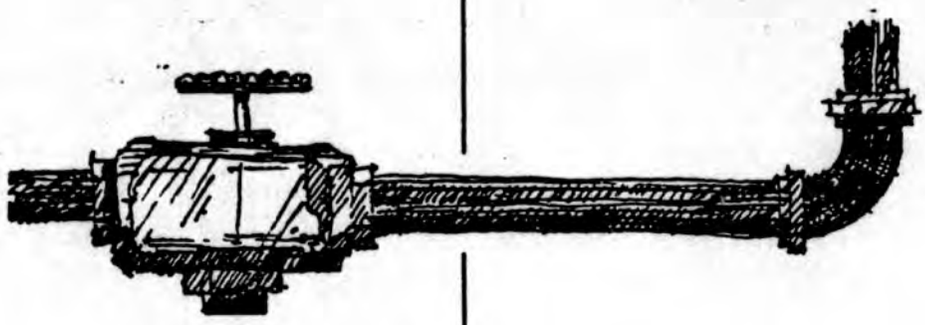
The purpose of the CDC is to assist communities in this region in stimulating the growth and expansion of small businesses. The results of this program can be measured in terms of the creation and retention of jobs, increased tax base, expanded business ownership and improved community services.

The primary function of the CDC is to administer the U.S. Small Business Administration's Section 503 loan program. The 503 loan program provides long-term, fixed asset financing to eligible businesses for the following uses: acquisition of land, land improvements, construction of a new building, purchase, renovation or major addition to an existing building, leasehold improvements, and the purchase of capital machinery and equipment.

A separate board of directors oversees operations of the CDC and the administration of the loan program. Members are drawn from the ranks of elected officials, financial institution officers, and business and community organizations. Officers of the corporation are: Robert Carson, president; Hickory Schepis, vice president; and Archie Patterson, secretary-treasurer.

To date, the CDC has had five loans approved, totalling $1,166,000 in debentures, leveraging $1,726,485 in private investment, and creating more than 150 jobs for this region. Firms assisted include: New Elberton Mills in Elberton County; Southeastern Color Lithographers, University Moving and Storage Company and Clarke Cars, Inc. DBA Car Craft in Clarke County; and Home Delivery Food Services, Inc. DBA Fresh Frozen Foods in Jackson County.

The 503 loan program has recently undergone a major change in its method of funding debentures to provide financing for business expansions and start-ups.



The Budget Reconciliation Act, signed into law by the President on April 7, 1986, required the SBA to conduct a pilot program of selling debentures guaranteed by SBA pursuant to Section 503 of the Small Business Investment Act to investors either publically or by private placement. These debentures will be known as 504 debentures to distinguish them from the debentures sold to the Federal Financing Bank, which are known as 503 debentures.

The Act also authorizes 504 debentures to be pooled and certificates evidencing ownership of all or part of a pool to be sold rather than the individual debentures. The certificates will be known as 505 certificates. All loans approved after July 1, 1986 will be 504 loan/debenture authorizations.

Basically the same eligibility standards and regulations that apply to 503 apply to 504 loans. The structure and delivery system for 504 debentures will be essentially the same as 503 debentures with several minor exceptions.

This major change is a positive one for CDCs and for the federal government. The privatization program means that funding levels for the 503/504 loan program will no longer be part of the federal budget and therefore will no longer be subject to a ceiling on the amount of loan security for the programs.

CDC

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Cliff Brooks
Billy R. Brown
*Robert Carson
Dr. Catherine Foster
*Felix P. Graham Jr.
B. Amrey Harden Jr.
Frances Enslen-Jones
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*Ben Stewart
J.H. Terrell Jr.
Jeanne B. Westbrook
*Julie Hill Cheney, manager

***member of executive board**

Area Agency on Aging

When NEGAPDC was designated as the Area Agency on Aging in 1974, there were only four senior centers operating in Northeast Georgia. There are now 11 centers, one in every county plus an additional one in Clarke, that serve as focal points for activities for people over 60 years of age.

To support these programs, NEGAPDC is provided with approximately $140,000 in federal and state money, which is divided among the county programs. Local funds, contributions by participants and fund-raising events account for the additional $200,000 necessary to operate these centers.

Many things have changed during the past 12 years. Originally the primary emphasis was provision of adequate nutrition, but the centers now offer multifaceted programs targeted toward areawide and local needs. The importance of adequate nutrition is not forgotten, though. Some 157,000 meals were served through the sites in the past 12 months. Other needs of older people are being addressed by the centers' programs.

In-home services require much support from the 559 volunteers who assist center staff with activities that include calling isolated homebound to check on their well-being and to offer reassurance; helping with light chores and errands for someone temporarily incapacitated; and visiting friends who are unable to attend center activities.

Many services offered at the centers target specific needs of older people. Educational programs, health-related activities such as blood pressure checks, and a wide variety of social and recreational activities allow elderly people to maintain control of many aspects of their lives. More than 7,500 services were provided last year to help participants remain independent and healthy.

The Area Agency on Aging contracts for a variety of other programs that strengthen the support network for older area citizens. The Elderly Law Project, for example, provides legal counseling for civil matters such as estate planning, wills, denial of benefits, and other non-criminal legal matters. Community education is a vital element of the legal services contract.

The Community Care Services Program is the newest Aging initiative. After the first full year of operation, the caseload doubled to more than 300 clients who have chosen to remain in the community rather than move to nursing homes or other institutions. Community Care clients are elderly people who are eligible, or would be eligible within 100 days of nursing home admission, for Medicare benefits.

During the past year, Northeast Georgia was able to expand to offer all available Community Care services to clients at risk for institutionalization. These services include: assessment, case management, home-delivered services, homemaker aide services, alternative living, adult day rehabilitation, emergency response and respite care.

Title V of the Older Americans Act allows for an employment program for citizens over 55. The Senior Community Services Employment Program placed 25 people in jobs to receive training and develop skills that can lead to unsubsidized employment.

Clients in nursing homes and personal care homes have a readily available advocate through the long-term ombudsman contract administered by the AAA. The ombudsman received 75 complaints regarding quality of nursing care, food services and living conditions in the 17 nursing homes and 36 licensed personal care homes across the 10-county region.

The AAA staff is working to monitor these contracts while developing plans to better meet needs of older citizens. Monthly in-service training for area staff members, preparation of picture identification cards for senior citizens, editing the monthly newsletter *(Older Voice)*, coordinating the Silver-Haired Legislature, planning areawide seminars on topics of concern, such as Alzheimer's Disease, are just a few of the activities going on at NEGAPDC.

All activities are guided by the Areawide Policy Advisory Council on Aging. Members of the council alert staff to needs, resources and changes in the 10-county area. They bring local needs to the attention of others and help incorporate them into an areawide plan that serves as a blueprint for action on behalf of older persons in the area. Involvement of these volunteers sets an example for others to stay active and work toward achieving a higher quality of life for the area's 38,084 people over 60 years of age.

Services provided t

COUNTY	No. of participants		Cor
BARROW	533		
CLARKE			
Dudley Park	501		
Magnolia	478		
ELBERT	536		
GREENE	43[illegible]		
JACKSON	587		
MADISON	510		
MORGAN	399		
OCONEE	257		
OGLETHORPE	296		
WALTON	617		
Total	5,145		

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Obelia Greene
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George Paul Jr.
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Hogan Smith
R.E. Smith
William Wagner
Virginia Webb
Rev. Bruce Wismer
Mattie Young
Joseph Zsilka
Viola Zsilka

ırough the Aging program — July 1, 1985 through June 30, 1986

egate meals	Home-delivered meals	In-home services	Outreach (contacts)	Legal services (contacts)	Ombudsman (contacts)	Transportation (vehicle mileage)
16,782	4,797	3,618	425			25,866
13,880	n/a	4,312	311			18,157
n/a	11,877	11,739	204			13,502
20,852	4,973	6,855	333			50,191
6,197	4,502	3,032	266			33,025
19,571	3,805	7,287	471			56,099
7,074	3,299	3,364	363			36,814
7,158	3,973	5,245	251			41,504
5,177	2,205	3,607	228			33,559
5,925	1,373	5,412	253			30,654
10,580	3,505	7,634	494			30,733
13,196	44,309	62,105	3,599	1,161	717	370,104

10-county area

10-county area

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Thomas Bell
mayor, town of Bethlehem

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Athens city councilman
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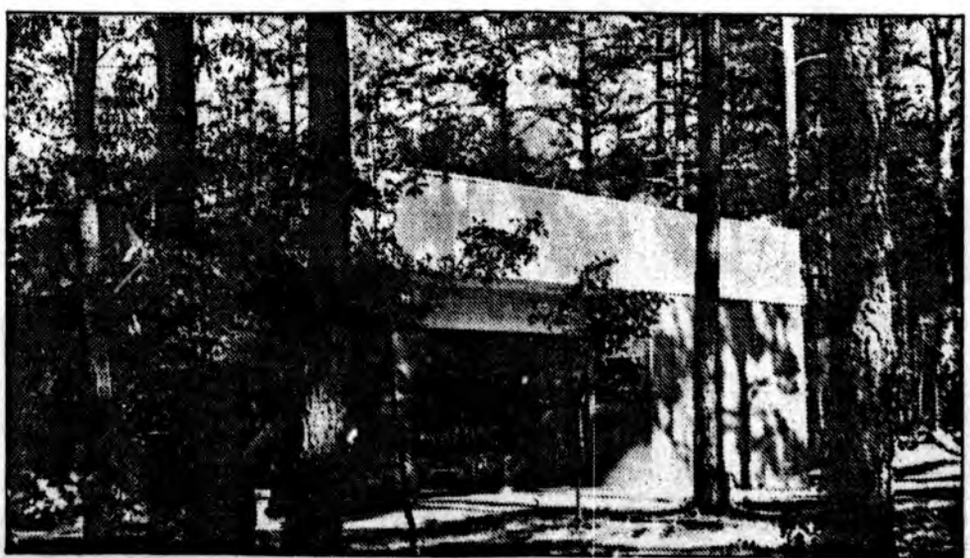

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eligibility specialist

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transportation planner
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CDC manager
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cartographer
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codification intern

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Community Care planner

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Carl Evans
Community Care case manager
Betty Ladson
Community Care case manager
Jean Kidd
Community Care case manager
Faye Daniels
JTPA older workers program
Dory Bartell
JTPA veterans program



Editing and design by:
TERESA K. WEAVER

MISSISSIPPI

REPORT OF CONFERENCE COMMITTEE

MR. PRESIDENT AND MR. SPEAKER:

We, the undersigned conferees, have had under consideration the amendments to the following entitled BILL:

S. B. No. 2839: Provide State Economic Development Plan.

We, therefore, respectfully submit the following report and recommendation:

1. That the House recede from its Amendment No. 1.

2. That the Senate and House adopt the following amendment:

Amend by striking all after the enacting clause and inserting the following in lieu thereof:

SECTION 1. This act may be cited as the "Statewide Economic Development and Planning Act of 1987."

SECTION 2. (1) The Legislature finds that the prospective well-being of the people of the State of Mississippi requires that the economic development of the state should be strategically, comprehensively and exhaustively planned and that the plan be reviewed and continuously updated and systematically implemented. The Legislature further finds that the state should foster open communication between government and the private sectors of our economy and that the state should provide a policy, a vision and a framework to encourage an environment conducive to entrepreneurship and rapid development in the State of Mississippi.

(2) The Legislature hereby declares that the public policy of this state requires an overall, comprehensive and coordinated plan for maximum and accelerated economic development of the state. It is the express intent of the Legislature that such plan be developed and maintained with annual revisions as required.

SECTION 3. The Mississippi Board of Economic Development is authorized to:

(a) Appoint special advisory and/or full-time task

continuing and ongoing development efforts envisioned by this act proceed with all deliberate speed and with the full cooperation of all parties involved.

In an effort to facilitate continuing and future legislative support for this economic development initiative, the Department of Economic Development and the Research and Development Center shall present status reports on their work, as it relates to the purpose and requirements of this act, to the Joint Legislative Budget Committee, thereby having an opportunity to interact with legislative leaders and maintain and foster communication and cooperation between all parties. The Director of the Joint Legislative Budget Committee shall coordinate the scheduling of said reports and may specify selected topics for presentation by the Department of Economic Development and the Research and Development Center to the Joint Legislative Budget Committee. Such reports shall begin with the month of July 1987; and there shall be a minimum of four (4) reports to the Committee in each fiscal year. The Director of the Joint Legislative Budget Committee may require such reports to be made orally and/or in writing to regular meetings of the Joint Legislative Budget Committee.

SECTION 6. (1) The Special Task Force for Economic Development Planning, to consist of not more than twenty (20) members, is hereby created. The task force shall be composed of:

(a) Five (5) members from the state's public universities and junior colleges. These members shall be selected by the Board of Economic Development from nominees from the universities and junior colleges.

(b) One (1) member representing the private colleges of the state to be selected by the Board of Economic Development from nominees made by the private colleges.

assignment from their respective agencies and continue to receive full salary and benefits from their respective agencies. All other persons serving on the special task force will be sponsored by their respective organizations. In unusual circumstances where persons who could make notable contributions to the work of the task force cannot be sponsored as hereinabove provided, the Department of Economic Development will make efforts to assist in gaining sponsorship for such persons. Vacancies on the task force shall be filled by the Board of Economic Development from the agency or organization from which the vacancy occurred.

The Executive Director of the Research and Development Center shall organize and coordinate the work of the task force and may designate subgroups of task force members to assigned or selected areas of interest. The Executive Director of the Department of Economic Development may make recommendations regarding the task force and subgroup assignments.

SECTION 8. The Governor's Office of General Services shall make available office space for the special task force to include conference room facilities.

SECTION 9. The mission and role of the special task force shall be to function as an independent research and analytical group charged with assisting the Board of Economic Development and the Research and Development Council in setting measurable, achievable and significant state economic development goals. The task force shall make recommendations regarding such goals and present findings and detailed recommendations which will enable the state to achieve the stated goals. Recommendations of the task force shall be specific to the extent that actions needed are explicitly set out and supported with in-depth analyses as to the contributions such actions would have on the total development effort. All such recommendations shall be accompanied by specific

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
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CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02-576(2/77)

MISSISSIPPI

REPORT OF CONFERENCE COMMITTEE

MR. PRESIDENT AND MR. SPEAKER:

We, the undersigned conferees, have had under consideration the amendments to the following entitled BILL:

S. B. No. 2839: Provide State Economic Development Plan.

We, therefore, respectfully submit the following report and recommendation:

1. That the House recede from its Amendment No. 1.

2. That the Senate and House adopt the following amendment:

Amend by striking all after the enacting clause and inserting the following in lieu thereof:

SECTION 1. This act may be cited as the "Statewide Economic Development and Planning Act of 1987."

SECTION 2. (1) The Legislature finds that the prospective well-being of the people of the State of Mississippi requires that the economic development of the state should be strategically, comprehensively and exhaustively planned and that the plan be reviewed and continuously updated and systematically implemented. The Legislature further finds that the state should foster open communication between government and the private sectors of our economy and that the state should provide a policy, a vision and a framework to encourage an environment conducive to entrepreneurship and rapid development in the State of Mississippi.

(2) The Legislature hereby declares that the public policy of this state requires an overall, comprehensive and coordinated plan for maximum and accelerated economic development of the state. It is the express intent of the Legislature that such plan be developed and maintained with annual revisions as required.

SECTION 3. The Mississippi Board of Economic Development is authorized to:

(a) Appoint special advisory and/or full-time task

forces on goals and innovative programs and pay travel expenses of task force members performing their official duties;

(b) Contract with the Research and Development Center which may utilize state agencies and institutions, local and regional public agencies, and private organizations;

(c) Solicit and receive grants, contributions and funds from appropriate sources for financing development of a statewide economic development plan.

SECTION 4. (1) The Legislature directs that any funds appropriated for the purpose of developing and maintaining the economic development action plan may not be expended unless such funds are matched by at least an equal amount of money from each of the following sources:

(a) The Governor's Office of Federal-State Programs or other appropriate agency in the executive branch of state government, such matching funds to come preferably from federal or other special funds available to the agency.

(b) Private agencies, organizations, businesses and/or individuals.

(2) The Board of Economic Development, whether or not state funds are appropriated for the purpose of developing and maintaining an economic development plan, shall initiate action to secure funding and in-kind contributions from outside sources to support and finance expenses of the Special Development Task Force and other necessary expenses of this act.

SECTION 5. It is the intent of the Legislature that the efforts initiated by this act to achieve desired economic development should be joint efforts of government and private enterprise and also joint efforts between legislative and executive branches of government and between state and local government. It is the express intent of the Legislature that the

continuing and ongoing development efforts envisioned by this act proceed with all deliberate speed and with the full cooperation of all parties involved.

In an effort to facilitate continuing and future legislative support for this economic development initiative, the Department of Economic Development and the Research and Development Center shall present status reports on their work, as it relates to the purpose and requirements of this act, to the Joint Legislative Budget Committee, thereby having an opportunity to interact with legislative leaders and maintain and foster communication and cooperation between all parties. The Director of the Joint Legislative Budget Committee shall coordinate the scheduling of said reports and may specify selected topics for presentation by the Department of Economic Development and the Research and Development Center to the Joint Legislative Budget Committee. Such reports shall begin with the month of July 1987; and there shall be a minimum of four (4) reports to the Committee in each fiscal year. The Director of the Joint Legislative Budget Committee may require such reports to be made orally and/or in writing to regular meetings of the Joint Legislative Budget Committee.

SECTION 6. (1) The Special Task Force for Economic Development Planning, to consist of not more than twenty (20) members, is hereby created. The task force shall be composed of:

(a) Five (5) members from the state's public universities and junior colleges. These members shall be selected by the Board of Economic Development from nominees from the universities and junior colleges.

(b) One (1) member representing the private colleges of the state to be selected by the Board of Economic Development from nominees made by the private colleges.

(c) One (1) member from the membership or staffs of each of the following organizations: Mississippi Association of Supervisors, Mississippi Municipal Association, Mississippi Association of Planning and Development Districts, and the Mississippi Industrial Development Council. These members will be appointed to the task force by the Board of Economic Development from recommendations made to the board by the respective organizations.

(d) Two (2) members from federal agencies to be recruited by the Board of Economic Development.

(e) Eight (8) members to be selected by the Board of Economic Development upon recommendation of the executive director, from nominations and applications made to the Board; six (6) of these members shall be representatives of business and/or professional enterprises in Mississippi; two (2) of the eight (8) members may be representative of business or professional enterprises residing outside Mississippi and may include foreign nationals.

(2) It is the intent of the Legislature that the task force will be organized selected and constituted in such a way that it represents the most talented individuals that could possibly be assembled to address the economic development concerns and issues of this state. Task Force members shall be appointed by July 1, 1987, and the Task Force shall have its organizational meeting no later than August 1, 1987.

SECTION 7. All persons selected for service on the task force shall be creative, knowledgeable and accomplished people with the capacity to contribute to the mission of the task force. Task force members shall be selected by the Board of Economic Development without regard for race, age or sex.

Members from state agencies and institutions shall serve on

assignment from their respective agencies and continue to receive full salary and benefits from their respective agencies. All other persons serving on the special task force will be sponsored by their respective organizations. In unusual circumstances where persons who could make notable contributions to the work of the task force cannot be sponsored as hereinabove provided, the Department of Economic Development will make efforts to assist in gaining sponsorship for such persons. Vacancies on the task force shall be filled by the Board of Economic Development from the agency or organization from which the vacancy occurred.

The Executive Director of the Research and Development Center shall organize and coordinate the work of the task force and may designate subgroups of task force members to assigned or selected areas of interest. The Executive Director of the Department of Economic Development may make recommendations regarding the task force and subgroup assignments.

SECTION 8. The Governor's Office of General Services shall make available office space for the special task force to include conference room facilities.

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recommendations with respect to allocation of resources, including any additional funding necessary to fund all economic development activities.

SECTION 10. The Board of Economic Development shall contract with the Research and Development Center to prepare a State Economic Development Action Plan (SDAP) which shall consist of six (6) parts as provided in Sections 11 through 16 of this act and which shall be revised and updated annually.

SECTION 11. Part I of the SDAP will identify specific, quantifiable state economic development goals to be accomplished by December 31, 1993, and by December 31, 1998. Prior to adopting the goals required for Part I of the SDAP, one (1) public hearing shall be held in each Planning and Development District (PDD) in coordination with the Director of each PDD and the Department of Economic Development to receive public input on the goal setting process and deliberations pertaining thereto.

The goals adopted by the Board of Economic Development and the Research and Development Council shall be reasonable, challenging, achievable and shall be expressed in measures of economic and educational achievement that would represent measurable, comparative and significant economic progress for the state.

SECTION 12. Part II of the SDAP shall include:

(a) An inventory and analysis of the state's competitive advantages and an inventory and analysis of factors which tend to retard economic development in Mississippi;

(b) Identification and analysis of state, national and international economic trends affecting Mississippi's economic development;

(c) An analysis and evaluation of the state's taxing effort as it affects the state's economic development efforts and

an analysis of how economic development goals and objectives relate to projected short and long-term state and local revenues and to the possible and potential impact on the revenue structure;

(d) An identification and analysis of key factors affecting economic development in the state;

(e) An identification and analysis of factors affecting industrial location and decisions affecting expansion of existing business and industry within the state;

(f) An analysis of the state's incentive programs and economic development strategies and a comparison with other states;

(g) An analysis of the state's work force and of the economic conditions that work force will face in future years.

SECTION 13. Part III of the SDAP shall provide a procedure for monitoring the implementation of the state's economic development efforts. In formulating this procedure, the Research and Development Center will survey, identify and analyze every government program and private resource and activity that is available to, that is being applied toward, or that contributes to the accomplishment of the goals adopted by the Board of Economic Development and the Research and Development Council. The resources and economic development activities (programs) of state government, local government, federal government and private business shall be identified and analyzed to determine the specific areas in which they contribute to achievement of the overall goals.

The Research and Development Center shall also identify all federal funds that flow into Mississippi for any and all purposes, make comparisons with other states and prepare appropriate analyses to identify sources of federal funds where potential exists for attracting and obtaining larger amounts of federal

funds for the state.

The planning and development districts shall be utilized fully in determining the goals established herein and shall be the primary source of information and evaluation as to local and regional economic priorities as well as the identification and reporting of local governments and local and regional private business resources available for the accomplishment of such goals.

Part III of the SDAP shall require each agency and institution of state government involved in economic development, including the Institute for Technology Development and the state universities and junior colleges, to prepare and submit to the Department of Economic Development, the Research and Development Center and the Legislative Budget Committee work programs covering their economic development activities. The Research and Development Center shall specify a uniform format for agencies to follow in preparing their work programs. These work programs shall cover in general the next five (5) years of the SDAP and, in significant detail, the upcoming fiscal year. With each annual work program for the upcoming fiscal year, each agency shall make a full report on accomplishments of its previous year's work program. Work programs shall be submitted by August 15, 1987, for fiscal year 1988 by those agencies identified by the Department of Economic Development as being required to submit work programs in accordance with this act. Work programs submitted August 15, 1987 shall report on accomplishments of the prior fiscal year's work in economic development activities. The work program for fiscal year 1989, and for succeeding years, shall be submitted on June 1 prior to the beginning of the ensuing fiscal year.

The SDAP shall require copies of the overall economic development plans from each of the ten (10) planning and development districts to be submitted annually to the Research and

Development Center along with annual work programs and details of accomplishments of the prior fiscal year's work program. These materials shall be incorporated by reference in Part III of the SDAP.

SECTION 14. Part IV of the SDAP shall be an analysis and evaluation of materials in Parts II and III of the SDAP. This phase of the plan shall also make an overall evaluation of the relative contributions that the resources and efforts identified in Part III are making toward achievement of the overall state economic development goals. This phase of the plan shall contain specific recommendations for inclusion in the state's overall economic development efforts (among other things) (a) specific programs for accelerating overall economic development through greater results from the state's agricultural resources; (b) specific programs for rural areas of the state and those areas with the highest unemployment and lowest per capita incomes; (c) specific programs for international trade and the attraction of foreign investment through development of specialized, university-based or other programs; (d) the specific niches that Mississippi has and on which it should focus development efforts and/or those niches the state should seek to develop; and (e) the scope and role of each university and junior college with respect to economic development efforts of each institution.

This phase of the plan shall also evaluate the organization and structure of state economic development agencies and the assignment of functions and responsibilities for economic development among state agencies and institutions.

SECTION 15. (1) Part V of the SDAP shall consist of recommendations of the Board of Economic Development and the Research and Development Council. The recomendations shall be made based on findings and conclusions of the special task force.

Such recommendations shall also be based on Part IV of the SDAP and shall seek to improve in every possible and feasible manner the coordination and implementation of all activities and programs to be outlined and identified as required in Part III of the SDAP.

The recommendations in the first annual report shall address but not be limited to the following matters pertaining to the Department of Economic Development and the Research and Development Center:

(a) A mission statement of the agencies to include consideration for the role the agencies should have in coordinating economic development activities across state agencies and with local and regional governments and organizations;

(b) A mission statement for each division of each agency;

(c) Any organizational, staffing and reporting relationships regarding economic development programs and activities.

Recommendations may also address organizational issues for other economic development programs and activities of state government.

(2) The Special Task Force on Economic Development shall make recommendations for Part V of the SDAP regarding new initiatives and new programs and the alteration or expansion of existing programs as deemed necessary to achieve the goals established by the Board of Economic Development and the Research and Development Council. Such recommendations shall state specifically what is to be done, who is to do it and how it is to be done and shall also set out the cost-benefits of each recommendation.

SECTION 16. As Part VI of the SDAP, the Research and Development Center, in consultation with the Department of

Economic Development shall develop a legislative package containing statutory actions required to implement the programs and recommendations necessary to achieve the goals established by the Board of Economic Development and the Research and Development Council. The legislative package shall be prepared and presented in bill format.

SECTION 17. The Executive Director of the Department of Economic Development with the assistance of the Executive Director of the Research and Development Center shall present the annual revisions of the SDAP to the Joint Legislative Budget Committee prior to the annual budget hearings and discuss with the joint committee Parts III, IV and V. The presentation shall review the established goals and report and assess progress for the current reporting period of achieving official goals and make recommendations for any program changes that might be needed. Additional reports shall be made to the Joint Legislative Budget Committee as requested and as required by Section 5 of this act.

SECTION 18. The Research and Development Center shall annually request of the Mississippi Municipal Association and the Mississippi Association of Supervisors a summary of development efforts of local governments that relate to the SDAP and which contribute to the accomplishment of the goals set by the Board of Economic Development and the Research and Development Council for the state.

SECTION 19. The first annual SDAP shall be completed no later than September 1, 1988. The Department of Economic Development with assistance of the Research and Development Center shall present the first annual SDAP to the joint Legislative Budget Committee and to the Legislature in joint assembly in January 1989. A preliminary report on the status of the SDAP shall be made to the Joint Legislative Budget Committee in

November 1987 and in May 1988. The Special Task Force for Economic Development shall stand terminated by operation of law on January 1, 1989.

SECTION 20. This act shall take effect and be in force from and after passage.

FURTHER, amend the title by striking it in its entirety and inserting the following in lieu thereof:

AN ACT TO PROVIDE FOR A STATE ECONOMIC DEVELOPMENT PROCESS; TO ESTABLISH ECONOMIC DEVELOPMENT GOALS; TO COORDINATE STATE ECONOMIC DEVELOPMENT PLANNING; TO ESTABLISH A MONITORING, EVALUATION, REPORTING AND ACCOUNTABILITY PROCESS; TO DIRECT THE BOARD OF ECONOMIC DEVELOPMENT TO CONTRACT WITH THE RESEARCH AND DEVELOPMENT CENTER TO PREPARE A COMPREHENSIVE ECONOMIC DEVELOPMENT ACTION PLAN FOR THE STATE OF MISSISSIPPI; AND FOR RELATED PURPOSES.

CONFEREES FOR THE SENATE:

C. Robert Montgomery

Paul Richard Lambert

Ollie Mohamed

CONFEREES FOR THE HOUSE:

Charlie Williams

Dick Hall

Mack L. Wadkins

West Virginia

REGIONAL PLANNING AND DEVELOPMENT

An Act of the West Virginia Legislature
Second Extraordinary Session, 1971

(Com. Sub. for House Bill No. 3—Originating in the House Committee on the Judiciary)

(Passed November 3, 1971; in effect from passage. Approved by the Governor, November 17, 1971.)

AN ACT to amend and reenact article twenty-five, chapter eight of the code of West Virginia, one thousand nine hundred thirty-one, as amended, relating to planning and development; the powers and duties of the governor with respect thereto; the delineation of regions and publication, hearing and certification requirements with respect thereto; the establishment of regional councils for planning and development purposes; the meetings, membership, organization, powers and duties of such regional councils; the receipt, expenditure and appropriation of funds by such regional councils; review functions; the establishment of executive committees of, advisory committees for, and citizens' participation in, such regional councils; preparation, submission and approval of the annual budget of such regional councils; effect on existing organizations and pending applications for funds or grants; and a rule of construction.

Be it enacted by the Legislature of West Virginia:

That article twenty-five, chapter eight of the code of West Virginia, one thousand nine hundred thirty-one, as amended, be amended and reenacted to read as follows:

ARTICLE 25. INTERGOVERNMENTAL RELATIONS-REGIONAL PLANNING AND DEVELOPMENT.

§8-25-1. Legislative findings and purposes.
§8-25-2. Definitions.
§8-25-3. Powers and duties of governor.

§8-25-4 Delineation of regions and recommendations of governor thereon, publication of statement fixing regional boundaries, public hearings, certification of regional boundaries; change in boundaries.
§8-25-5. Regional councils; organization meetings, formation, receipt of funds and assistance; powers and duties, effect on existing organizations.
§8-25-6. Same—Membership; organization; executive committee; officers and personnel.
§8-25-7. Same—Contracts for services, materials, etc.; publication of notice for bids.
§8-25-8. Same—Powers and duties generally.
§8-25-9. Same—Review of applications for loans or grants.
§8-25-10. Cooperation with other planning or development agencies, governmental units and officials.
§8-25-11. Appointment of citizens' advisory committees.
§8-25-12. Annual budget; contributions by governmental units; deposits and disbursements.
§8-25-13. Annual report.
§8-25-14. Effect of article upon pending projects and applications.
§8-25-15. Construction of article.

§8-25-1. Legislative findings and purposes.

The Legislature hereby finds and declares that as a result of changes in the economy, population shifts, new transportation demands and increasing demands for public services, and as a result of increasing complexity in government programs and added demands on public revenues, there is a need to plan comprehensively for the future development of West Virginia and to provide for the efficient management of limited public revenues for the purpose of promoting the orderly development of the state and harmonizing the development of the state's governmental, social, economic, environmental and physical resources, while maintaining acceptable levels of public services and facilities toward the end of promoting the general health, safety and welfare of all its citizens. The Legislature further finds that the responsibility for planning and development rests with the governor of the state, as the state's chief planning officer. The Legislature hereby further finds and declares that problems of growth and development so transcend the boundary lines of governmental units that no single unit can plan for the solution of these problems without affecting other units of government; that intergovernmental cooperation on a regional basis is an effective method to approach common planning and development problems and to seek more efficient and economical solutions to common problems of local government, and that assistance of the state is needed to make the most effective use of local, state, federal and private resources and funding in serving the citizens of all the state and of such regions; and the Legislature further finds that any assistance provided by the state for the purpose of this article is for the benefit of all its citizens and for a public purpose.

It is, therefore, the purpose of this article to delegate to the governor, the responsibility for planning and development in order to (1) achieve the objectives and policies necessary for the orderly growth and development of the state; (2) facilitate intergovernmental cooperation; and (3) designate regions and provide for the creation of regional planning and development councils; all being hereby declared to be public purposes.

§8-25-2. Definitions.

The following terms, wherever used or referred to in this article, shall have the following meanings unless a different meaning clearly appears from the context:

(a) "Comprehensive planning" shall mean the process of (1) assessing, within a geographic area, the needs and resources of the area; (2) formulating goals, objectives, policies and standards to guide its long-range governmental, social, economic, environmental and physical development; and (3) preparing plans and programs therefor which (a) identify alternative courses of action and the spatial and functional relationships among the activities to be carried out thereunder; (b) specify the appropriate ordering in time of such activities; (c) take into account other relevant factors affecting the achievement of the desired development of the area; and (d) provide an overall framework and guide for the preparation of functional and project development plans.

(b) "Development" shall mean the process of implementing, carrying out, effectuating, administering or otherwise performing the activities, processes, steps or operations as necessary to meet the comprehensive plan-

ning goals, objectives, programs and plans formulated, accepted, adopted or approved as a result of comprehensive planning.

(c) "Region" shall mean a specific geographic area consisting of at least one county or two or more contiguous counties in which a regional council may exercise authority and powers in accordance with the provisions of this article.

(d) "Regional council" shall mean a regional planning and development council established pursuant to the provisions of this article.

§8-25-3. Powers and duties of governor.

The governor, as chief executive officer of the state, shall be responsible for planning and development of the state's governmental, social, health, economic, environmental and physical resources. In executing this responsibility, the governor shall:

(1) Prepare, revise and update state development plans which he shall, at least annually, submit to the Legislature. Such plans shall identify and stress statewide goals, objectives and opportunities, giving appropriate consideration to regional council and local governmental plans; and shall include, but not be limited to, population and economic analysis; appraisals of the state's natural resources; general land use policies; policies for housing and urban development; transportation policies; policies for health services; manpower programs; employment opportunities; education; law enforcement; environmental protection and other programs; projection of needs for public facilities, recreation and open space; and policies for intergovernmental relations and governmental organization: *Provided*, That once a regional plan is submitted to the governor by a regional council for his consideration in preparing, revising or updating a state plan, the governor shall have a period of sixty days from the date such regional plan is received by him within which to specify in writing to the regional council his objection or objections to such regional plan, and if no such objection or objections are so specified, then such regional plan shall become a part of the state plan being prepared, revised or updated; and if any such

objection or objections are so specified, the regional council shall have a period of sixty days from the date of receipt of such specification within which to modify its regional plan or otherwise respond to such objection or objections, and, thereafter, the governor shall, in preparing, revising or updating a state plan, give such consideration to such original regional plan, modified regional plan or other response of the regional council, as the case may be, as he deems appropriate;

(2) Advise and consult with regional councils and regional and local planning agencies in developing state development plans and studies;

(3) Facilitate the coordination of planning and development activities of all state departments, agencies and institutions; local governments; regional councils; and other public and private agencies within the state;

(4) Review local, areawide and state applications for planning and development assistance;

(5) Review and appraise the progress of state government in achieving the goals and objectives set forth in the state development plans;

(6) Monitor and coordinate the state's participation in federal and state aid programs and be responsible for liaison with the appropriate federal and state agencies; and be responsible for all federal programs which require the designation of responsible state agencies, if no other state agency has heretofore been legally designated;

(7) Assist local governments, regional councils and other public bodies in obtaining federal, state or other available funds and services;

(8) Facilitate state and local capital improvement projects to meet the requirements of industrial and socio-economic development in various governmental units within the state;

(9) Provide professional and technical assistance and make information available to regional councils and local governments within the state; and be responsible for receiving and disseminating information regarding federal grant assistance within the state; and

(10) Apply for and accept advances, grants, contributions and other forms of assistance from the state or federal government or from any private or public agencies or foundations, to carry out the provisions of this article.

§8-25-4. Delineation of regions and recommendations of governor thereon; publication of statement fixing regional boundaries; public hearings; certification of regional boundaries; change in boundaries.

(a) Within sixty days after the effective date of this article, the governor shall define and recommend for the purposes of this article regional boundaries embracing each municipality and county within the state.

(b) In delineating boundaries of the regions, the governor shall consider such factors as the units of local government shall express by proper resolution, including community interest and homogeneity; geographic features and natural boundaries; patterns of communication and transportation; patterns of urban development; uniformity of social and economic problems; special problems, boundaries of existing metropolitan and other substate planning and administrative areas; and utility of the proposed boundaries for efficient provision of governmental services. Municipalities shall not be divided when forming a region, except insofar as it is necessary to keep multi-county municipalities within a region.

(c) The governor shall, within six months after the effective date of this article, certify to the secretary of state the boundaries of each region.

(d) Not less than sixty days prior to the certification of the boundaries of any region, the governor shall cause a statement setting forth the counties to be included within the boundary of the proposed region to be published as a Class I-0 legal advertisement in compliance with the provisions of article three, chapter fifty-nine of this code, and the publication area for such publication shall be the proposed region. The governor shall forward a copy of the statement to the principal executive officer or officers of each municipality and county located within the proposed region.

(e) Prior to the time that the governor shall certify the boundaries of a region, he or his designee shall conduct at least one public hearing at a convenient place within the proposed region. The governor shall advertise the meeting by means of a Class I-0 legal advertisement in compliance with the provisions of said article three, and the publication area for such advertisement shall be the proposed region. All public and private organizations located in, and all individuals residing in, municipalities or counties within or adjacent to the proposed region shall be permitted to appear and testify on matters pertaining to its boundaries.

(f) At any time following the certification of the boundaries of any region, the governor may change such boundaries, pursuant to the criteria and procedures set forth in subsections (b), (c), (d) and (e) of this section.

§8-25-5. Regional councils; organization meetings; formation; receipt of funds and assistance; powers and duties; effect on existing organizations.

(a) The governor shall provide for an organizational meeting of each of the regional councils within sixty days after his certification pursuant to section four of this article. He shall notify the president of each county court and the mayor of each municipality of the region of the time and place of such meeting. The official so notified shall attend this meeting or shall designate a representative. In the case of the county court, another member of the court shall be the designee or, in the case of a municipality, a member of the governing body of such municipality shall be the designee. Those present shall constitute a quorum and shall select a temporary chairman and secretary and shall provide for a subsequent meeting or meetings at which time the members provided for in section six of this article shall be nominated and elected and the permanent organization and bylaws established.

(b) Each regional council formed pursuant to this article shall fulfill the purposes of development regions and shall be eligible to receive state funds and technical assistance in accordance with the provisions of this article.

(c) (1) Nothing herein contained shall in any way limit or restrict the powers, duties and responsibilities of planning bodies organized under article twenty-six of this chapter relating to interstate planning commissions.

(2) Interstate planning commissions in existence on the effective date of this article are hereby designated as the planning and development councils for the region, insofar as the West Virginia member counties of such interstate planning commissions are concerned, and such commissions shall be empowered to act as the planning and development councils for such regions insofar as the West Virginia member counties are concerned.

(3) When additional West Virginia counties are added, under the provisions of this article, to such interstate planning commissions, their membership in such commissions shall comply, insofar as the West Virginia counties are concerned, with the council membership requirements of this article.

(4) Regional councils or commissions established under this article and article twenty-six of this chapter may, at the option of the county courts of the participating West Virginia counties, continue to have all the powers, duties and responsibilities permitted and required under said article twenty-six, in addition to the powers, duties and responsibilities provided herein for regional councils.

(5) State regional councils or commissions and their corresponding boundaries in existence on the effective date of this article, which were established under the former provisions of this article, and any nonprofit corporation in existence on the effective date of this article, which was established under chapter thirty-one of this code and pursuant to section eighteen, article five, chapter seven of this code and which has had in its employ a full-time paid executive staff for a period of no less than six months immediately prior to the effective date of this article, may be designated by the governor as planning and development regions and regional councils. Such designation shall be made within sixty days after the effective date of this article. Regional councils so designated shall have a period of six months from the date of designation to comply with the membership structure required by this article. Nothing herein contained shall be construed to deprive such existing state regional councils of their legal authority prior to the expiration of the aforementioned six-month period.

§8-25-6. Same—Membership; organization; executive committee; officers and personnel.

(a) All municipalities and all counties within the region shall be represented on the regional council. The county representative shall be the president of the county court or a member of the county court designated by him. The municipal representative shall be the mayor or a member of the governing body designated by him. The number of members of the regional council by virtue of this subsection shall comprise not less than fifty-one percent of the total number of members.

(b) Regional council members serving by virtue of subsection (a) of this section shall select additional members to serve on the council to represent principal community or regional interests, including, but not limited to, commerce, industry, labor, agriculture, education, health and any such interests as may be required by federal law or regulations. The selection of such members shall also provide for reasonable representation of geographic, economic and ethnic groups without exclusion of significant minority groups. Subsequent changes in the designation of representatives shall be determined by the regional council. The number of members serving by virtue of this subsection shall not exceed forty-nine percent of the total number of members.

(c) Each regional council shall select from its membership a chairman, who shall preside at each council meeting, and an executive committee, which shall be comprised of one representative from each county court and one representative from the largest municipality within each county in the region and such other members as the aforesaid representatives may select, but such other members so selected shall not constitute more than forty-nine percent of the total membership of the

executive committee. The executive committee shall perform such administrative duties as are prescribed by the regional council in its bylaws and shall exercise the review function provided for in section nine of this article. Each regional council may further provide for such other officers as it shall deem necessary and may establish other committees which may include citizens who are not regional council members.

(d) Each regional council shall establish personnel rules and shall appoint a director who shall be qualified by reason of training and experience. The director shall be empowered to appoint and remove other employees in accordance with the regional council's personnel rules. He may, with the approval of the executive committee, enter into agreements with governmental agencies within the region for the use of personnel, equipment and facilities.

§8-25-7. Same—Contracts for services, materials, etc.; publication of notice for bids.

Each regional council is empowered and authorized to contract for services of consultants to perform planning, development, engineering, legal or other services of a professional, specialized or technical nature; and such consultants shall be persons appropriately qualified under state statutes dealing with the applicable profession or occupation. Each such contract must have the express approval of the regional council or the executive committee. Such contracts shall not be subject to any law relating to public bidding: *Provided*, That every contract of the council for the purchase of merchandise, materials or supplies in the amount of one thousand dollars or more shall be let to the lowest responsible bidder after notice requesting such bids has been published as a Class I-0 legal advertisement in compliance with the provisions of article three, chapter fifty-nine of this code, and the publication area for this publication shall be the region in question.

§8-25-8. Same—Powers and duties generally.

Each regional council may:

(a) Continuously engage in comprehensive planning and development processes and prepare, and from time to time revise, amend, extend or add to, a plan or plans for the development of the region consistent with any state comprehensive planning and development objectives and reflecting plans and programs of the participating governmental units. Any such plan or plans shall be based on studies of governmental, social, economic, environmental and physical conditions and trends, and shall aim at the coordinated development of the region in order to promote the general health, welfare, convenience and prosperity of its people. Such plan or plans, or parts thereof, shall be prepared by persons appropriately qualified under state statutes dealing with the applicable profession or occupation. Such plan or plans shall be submitted for review to the appropriate agencies in accordance with the provisions of this article. The plan or plans shall embody the policy recommendations of the regional council, and may include, but shall not be limited to: (1) A statement of goals, objectives, standards and principles sought to be expressed in the plan or plans to guide economic, social, environmental and human resource development; (2) recommendations for transportation networks in the region, including land, water and air transportation, and for communication facilities; (3) recommendations concerning the need for and proposed general location of public and private works and facilities, which by reason of their function, size, extent or for any other cause are of a regional, as distinguished from a purely local concern; and (4) recommendations for the long-range programming and financing of capital projects and facilities.

(b) Prepare and from time to time revise, amend, extend or add to a regional development program to implement the policies contained in the comprehensive development plan for the region. The program shall contain a listing of development projects and programs, priorities for the financing of these projects and programs and recommended methods for project and program financing.

(c) Prepare and recommend ordinances, rules and regulations which would implement regional and local plans.

(d) Prepare and publish studies of the region's resources, both natural and human, with respect to existing and emerging problems of industry, commerce, transportation, population, housing, agriculture, environment, health, education, welfare, public service, local governments and any other matters which are relevant to regional planning.

(e) Collect, process and analyze the social and economic statistics for the region which are necessary to planning studies and make the results of such collection, processing and analysis available to the general public.

(f) Participate with other governmental agencies, educational institutions and private organizations in the coordination of the regional research and educational activities described in subdivisions (d), (e) and (h) of this section.

(g) Cooperate with, and provide, upon request, planning and technical assistance to municipalities, counties and planning and development agencies within the region, and coordinate regional planning with the planning activities and plans of the state and of the municipalities and counties within the region, as well as neighboring areas, including those in adjoining states, and the programs of federal departments and agencies.

(h) Provide information to officials, departments, agencies and instrumentalities of the federal, state and local governments and to the public at large, in order to foster public awareness and understanding of the objectives of the regional plans and the functions of the regional and local planning and development councils, and to stimulate public interest and participation in the orderly, integrated development of the region.

(i) Apply for, accept and expend funds and grants provided for the purposes hereof by the government of the United States or its departments or agencies; by departments and agencies of the state or any other state; by one or more municipalities, counties or other political subdivisions of this state or of any other state; or by any other agency, public or private; or from any individual whose interests are in harmony with the purposes hereof, including planning councils and commissions, all in

accordance with any federal requirements and subject to any conditions or limitations of the constitution or laws of this state.

(j) Perform development on a regional basis as necessary to undertake, complete or accomplish the goals and purposes of comprehensive planning in the region by intergovernmental contract or joint enterprises, or both, with local governmental units or combinations of such units pursuant to article twenty-three of this chapter.

(k) Exercise powers jointly or in cooperation with agencies or political subdivisions of the state of West Virginia or any other state, or with agencies of the United States, subject to constitutional and statutory provisions applicable to interjurisdictional agreements.

(l) Adopt bylaws and such other rules and regulations as may be necessary to effectuate the purposes of this article.

(m) Exercise all other powers and authority necessary and proper for the discharge of its duties.

§8-25-9. Same—Review of applications for loans or grants.

Each regional council shall review all applications of governmental units or independent agencies within the region for loans or grants from the federal government or any of its agencies or the state of West Virginia or any of its agencies. All recommendations and comments on applications for the aforementioned funding programs shall be forwarded to the governor. Each council shall establish and maintain a clearinghouse for the purpose of establishing required review procedures in compliance with the "Intergovernmental Cooperation Act of 1968 (Public Law 90-557)," and the "Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 87-754)," and the rules and regulations pertaining thereto, as promulgated by the United States office of management and budget. The state review agency designated by the governor shall inform regional councils of state review findings relating to applications submitted from within the jurisdiction of each council.

§8-25-10. Cooperation with other planning or development agencies, governmental units and officials.

To effectuate the purposes of this article, regional councils shall cooperate with planning agencies or development agencies within the region or within other regions, with the governing bodies and administrative officials of any municipality, county or any other political subdivision, including those in other states, or with any other entity, private or public, whose interests are in harmony with the purposes of this article, in order to coordinate and harmonize planning and development for the cooperating units. All state departments and agencies shall cooperate with regional councils established under this article and shall make available for the studies conducted by such councils, reports, data and other informational and technical assistance within financial and personnel limitations. Each regional council may appoint such committees and may adopt such rules and regulations as may be proper to effect such coordination and integration. The governing bodies and administrative officials of municipalities, counties and other political subdivisions within this state are hereby empowered and authorized to cooperate with such planning and development agencies and with the governing bodies and administrative officials of political subdivisions and planning and development agencies in other states for the purpose of such coordination and integration in accordance with the provisions of this article.

§8-25-11. Appointment of citizens' advisory committees.

Each regional council may appoint advisory committees of interested and affected citizens to assist in the review of plans, programs and other purposes of this article referred for review by the regional council. Whenever a special advisory committee is required by any federal or state regional program, the regional council chairman shall, with approval of the executive committee, appoint such committees as advisory groups to the regional council.

§8-25-12. Annual budget; contributions by governmental units; deposits and disbursements.

Each regional council shall adopt an annual budget, to be submitted to the participating governmental units which shall each contribute to the financing of the council according to a formula adopted by the council and approved by a majority of the counties and a majority of the municipalities participating in the regional council. All such contributions shall be fair and equitable and shall be based on the population of each participating governmental unit as determined on the basis of the latest decennial census, or such other criteria as may be determined by each respective regional council. Each participating county and municipality is hereby directed and empowered to pay over and contribute to the operation of said councils in accordance with the formula adopted as hereinbefore provided. Such sums, as are appropriated hereunder, may be transferred to the regional councils for deposit and disbursement as the regional councils may designate and direct. By such transfer, the governing body designates the regional council as its disbursing agent.

§8-25-13. Annual report.

On or before July thirty-first of each year, each regional council shall prepare an annual report. The regional council shall submit copies of the report to the participating governmental units and to the governor. The report shall include the following:

(a) A consolidated statement of the regional council's receipts and expenditures by category since the preceding report.

(b) A consolidated, detailed regional council budget for the year in which the report is filed and the following year including an outline of its program for such period.

(c) A description of any comprehensive plan adopted in whole or in part for the region.

(d) Summaries of any studies and development progress and the recommendations resulting therefrom made for the region.

(e) A listing of all applications for federal grants or loans submitted by the governmental units within the

region together with the action taken by the regional council in relation thereto.

(f) A listing of plans of local governmental units submitted to the region and actions taken in relation thereto.

(g) Recommendations of the regional council regarding federal and state programs, cooperation, funding and legislative needs.

§8-25-14. Effect of article upon pending projects and applications.

Any of the provisions of this article to the contrary notwithstanding, no pending application for federal or state grants, loans, mortgages or other types of funding nor any application for grants, loans, mortgages or other types of funding intended to supplement a pending project shall be required to be approved by any such regional council nor shall any such pending application be delayed or disapproved by reason of the provisions of this article.

§8-25-15. Construction of article.

The provisions of this article shall be liberally construed to accomplish its objectives and purposes.



I, A. James Manchin, Secretary of State of the State of West Virginia, hereby certify that

the following and hereto attached is a true and correct copy of planning and development regions encompassing the counties and municipalities of the State of West Virginia as filed in this office on May 3, 1972 by Governor Arch A. Moore, Jr.

Given under my hand and the Great Seal of the said State at the City of Charleston, this

Seventh day of

October 19 80

A. James Manchin

Secretary of State

OFFICE OF THE GOVERNOR
CHARLESTON 25305

May 3, 1972

ARCH A MOORE, JR.
GOVERNOR

To the Honorable
The Secretary of State
State Capitol
Charleston, West Virginia

Dear Mr. Secretary:

Pursuant to the provisions of Article Twenty-five, Chapter Eight of the Code of West Virginia, I do hereby certify the following as planning and development regions encompassing the counties and municipalities of the State of West Virginia:

Region One (1), consisting of the counties of McDowell, Mercer, Monroe, Raleigh Summers and Wyoming.

Region Two (2), consisting of the counties of Cabell, Lincoln, Logan, Mason, Mingo and Wayne.

Region Three (3), consisting of the counties of Boone, Clay, Kanawha and Putnam.

Region Four (4), consisting of the counties of Fayette, Greenbrier, Nicholas, Pocahontas and Webster.

Region Five (5), consisting of the counties of Calhoun, Jackson, Pleasants, Ritchie, Roane, Tyler, Wirt and Wood.

Region Six (6), consisting of the counties of Doddridge, Harrison, Marion, Monongalia, Preston and Taylor.

Region Seven (7), consisting of the counties of Barbour, Braxton, Gilmer, Lewis, Randolph, Tucker and Upshur.

Region Eight (8), consisting of the counties of Grant, Hampshire, Hardy, Mineral and Pendleton.

Region Nine (9), consisting of the counties of Berkeley, Jefferson and Morgan.

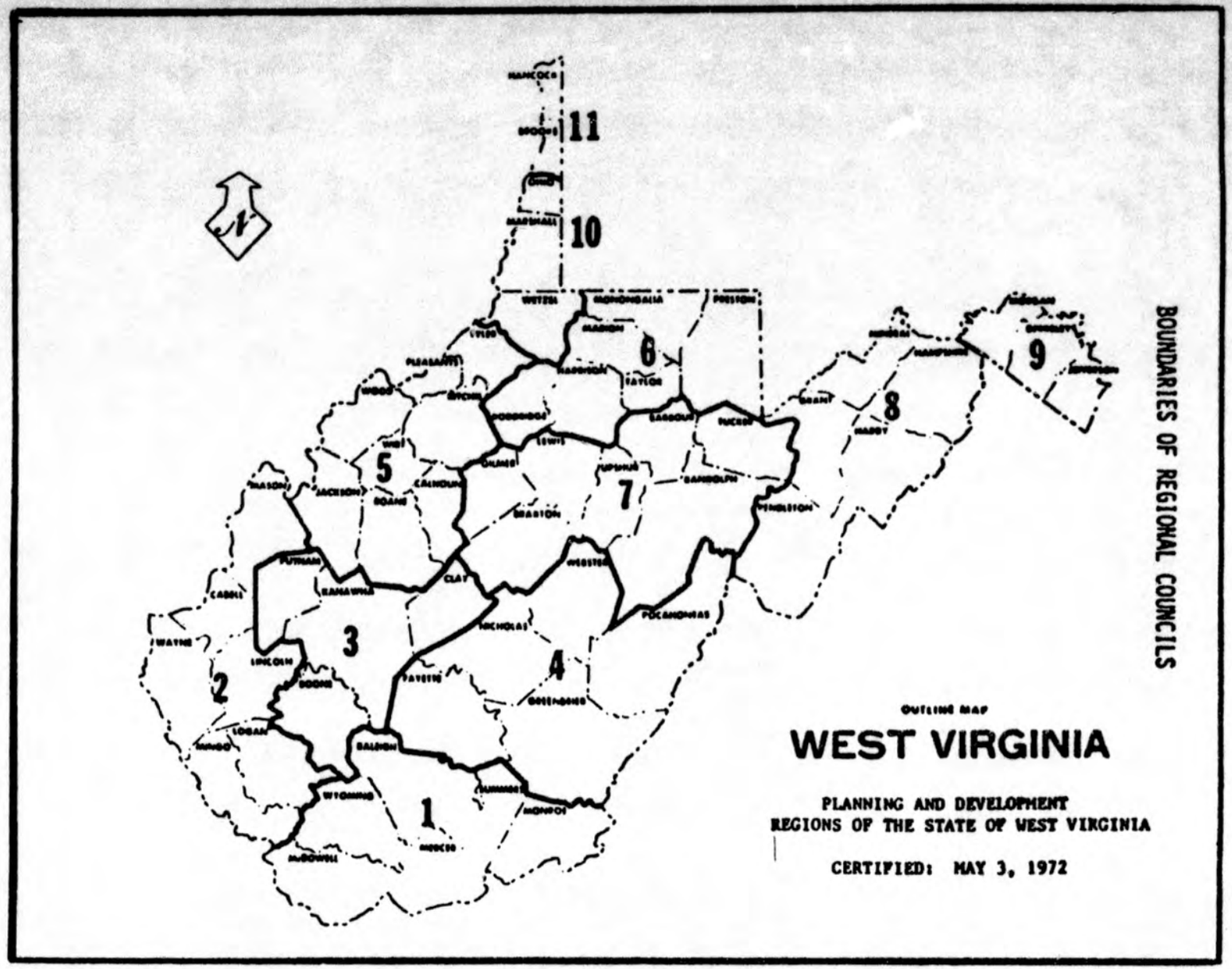
Region Ten (10), consisting of the counties of Marshall, Ohio and Wetzel.

Region Eleven (11), consisting of the counties of Brooke, and Hancock.

Submitted herewith is a map of the State of West Virginia outlining the regions as defined above.

Arch A. Moore Jr.

ARCH A. MOORE, JR.
GOVERNOR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BOUNDARIES OF REGIONAL COUNCILS
OUTLINE MAP
WEST VIRGINIA
PLANNING AND DEVELOPMENT
REGIONS OF THE STATE OF WEST VIRGINIA
CERTIFIED: MAY 3, 1972

affect, impair or invalidate the remaining provisions thereof, but shall be confined in its operation to the specific provisions so held unconstitutional or invalid. Any provision of this chapter which is found to be in conflict with any other statute or charter shall be controlling and shall supersede such other statute or charter to the extent of such conflict. (1966, c. 651.)

§ 15.1-1391. Validation of creation of authorities, appointment of directors and proceedings; curative resolutions. — All proceedings heretofore taken with respect to the creation of authorities by any municipality pursuant to this chapter are hereby validated and confirmed and all such authorities are declared to be legally created. All incumbent directors of authorities are declared to be and are lawfully appointed directors of authorities, notwithstanding any failure to conform to the requirements of this chapter, and all such appointments are hereby ratified, validated and confirmed; provided, however, all terms of incumbent directors shall conform to the amendments to Code § 15.1-1377 respecting terms of office adopted by the 1980 Session of the General Assembly. The governing body of any municipality is hereby authorized to adopt such corrective resolutions as may be necessary to carry out the requirements of the immediately preceding sentence. All proceedings heretofore taken to provide for or with respect to the authorization, issuance, sale, execution or delivery of bonds by or on behalf of any authority are hereby validated, ratified, approved and confirmed, and any such bonds so issued shall be valid, legal, binding and enforceable obligations of such authority. (1980, c. 304.)

§§ 15.1-1392 to 15.1-1399: Reserved.

CHAPTER 34.

VIRGINIA AREA DEVELOPMENT ACT.

Article 1.

General Provisions.

Sec.

15.1-1400. Short title.
15.1-1401. Purpose of chapter.
15.1-1402. Definitions.

Article 2.

Planning Districts.

15.1-1403. Organization of planning district commission.
15.1-1404. Powers of commission generally.
15.1-1405. Purpose of commission; powers and duties of local planning commissions not affected; exceptions.
15.1-1406. (Effective until July 1, 1982) Preparation and adoption of comprehensive plan.
15.1-1406. (Effective July 1, 1982) Preparation and adoption of comprehensive plan.
15.1-1407. Commission and governmental subdivisions to act only in conformity with comprehensive plan.
15.1-1408. Amendment of comprehensive plan.
15.1-1409. Review of comprehensive plan by commission.
15.1-1410. Commission to review applications for State or federal aid by local governing bodies.
15.1-1411. Cooperation and consultation with other agencies.
15.1-1412. State aid.
15.1-1413. Local governing bodies authorized to appropriate or lend funds.
15.1-1414. Procedure when governmental subdivisions included in planning district also participate in regional planning commission.
15.1-1415. Exemption of commission from taxation.
15.1-1416 to 15.1-1419. [Reserved.]

Article 3.

Service Districts.

15.1-1420. Creation authorized.
15.1-1421. Planning district commission authorized to prepare and promulgate plan for creation of service district.

Sec.
15.1-1422. Contents of plan.
15.1-1423. Charter of service district.
15.1-1424. Submission of plan to Department of Housing and Community Development; approval or disapproval by local governing bodies.
15.1-1425. Referendum on approval of plan and adoption of charter.
15.1-1426. Judges to order election to choose elected members of service district commission.
15.1-1427. Composition of commission.
15.1-1428. Election districts; qualifications, nomination and election, etc., of elected members of commission.
15.1-1429. Chairman of commission.
15.1-1430. Effective date of organization of district; fiscal year.
15.1-1431. Powers of district generally.
15.1-1432. Merger of planning district commission into service district; planning division of service district.
15.1-1433. State aid.
15.1-1434. Filing copies of charter and ordinances.
15.1-1435. Adoption of ordinances.
15.1-1436. Annual assessment upon governmental subdivisions in district; tax levies by governmental subdivisions.
15.1-1437. Fees, rents and charges for services provided by district; requiring connection with sewage disposal and water supply systems.
15.1-1438. Bonds and other obligations of district; fees, rents and charges for use of projects; exemption from taxation.
15.1-1439. Annexation by municipalities within district.
15.1-1440. Exemption of district from taxation.
15.1-1441. Amendment of service district plan.
15.1-1442 to 15.1-1449. [Reserved.]

Article 4.

Miscellaneous Provisions.

15.1-1450. Construction of chapter.
15.1-1451. [Not set out.]
15.1-1452. Inconsistent laws inapplicable.
15.1-1453 to 15.1-1499. [Reserved.]

ARTICLE 1.

General Provisions.

§ 15.1-1400. Short title. — This chapter shall be known and may be cited as the "Virginia Area Development Act." (1968, c. 224.)

Law Review. — For note on "Public Regulation of Water Quality in Virginia," see 13 Wm. & Mary L. Rev. 424 (1971). For article, "Virginia Natural Resources Law and the New Virginia Wetlands Act," see 30 Wash. & Lee L. Rev. 19 (1973). For article entitled, "Special Purpose Taxation Districts: Coming or Going?" see 11 U. Rich. L. Rev. 87 (1976).

§ 15.1-1401. Purpose of chapter. — This chapter is enacted:

(a) To improve public health, safety, convenience and welfare, and to provide for the social, economic and physical development of communities and metropolitan areas of the State on a sound and orderly basis, within a governmental framework and economic environment which will foster constructive growth and efficient administration.

(b) To provide a means of coherent articulation for community needs, problems, and potential for service in relation to State government.

(c) To foster planning for such development by encouraging the creation of effective regional planning agencies and providing the financial and professional assistance of the State.

(d) To make provision for the creation of a unit of government capable of efficiently performing governmental functions and services on a regional basis, the cost of which can be borne equitably by those receiving the benefits thereof.

(e) To deter the fragmentation of governmental units and services. (1968, c. 224.)

§ 15.1-1402. Definitions. — For the purposes of this chapter:

(a) *"Planning district"* shall mean a contiguous area within the boundaries established by the Department of Planning and Budget.

(b) *"Service district"* shall mean a unit of government created as provided in this chapter.

(c) *"Governmental subdivision"* shall mean the counties, cities and towns of this State.

(d) *"Political subdivisions"* shall include the governmental subdivisions, sanitary, sanitation and transportation districts, authorities and other such public bodies created under the laws of this State.

(e) *"Governing body"* shall include the board of supervisors of a county, the council of a city or town, the board of commissioners or other board or body in which the powers of a political subdivision are vested by law.

(f) *"Population,"* unless a different census is clearly set forth, shall mean the number of inhabitants according to the United States census latest preceding the time at which any provision dependent upon population is being applied, or the time as of which it is being construed, unless there is available an annual estimate of population prepared by the Tayloe Murphy Institute of the University of Virginia, which has been filed with the Department of Planning and Budget, in which event the estimate shall govern. (1968, c. 224; 1976, c. 760.)

ARTICLE 2.

Planning Districts.

§ 15.1-1403. Organization of planning district commission. — (a) At any time after the establishment of the geographic boundaries of a planning district, pursuant to § 2.1-63.5 of the Code, the governmental subdivisions embracing at least forty-five percent of the population within the district acting by the governing body may organize a planning district commission by written agreement among them. Any governmental subdivision not a party to such charter agreement shall continue as a part of the planning district but, until such time as such governmental subdivision elects to become a part of the planning district commission as hereinafter provided, shall not be represented in the composition of the membership of the planning district commission. Provided, however, whenever a planning district is created which contains only two counties, the governing body of either county may organize a planning district commission in accordance with the provisions of this chapter if the governing body of the other county does not agree to organize such a planning district commission.

(b) The charter agreement shall set forth:

(1) The name of the planning district.

(2) The governmental subdivision in which its principal office shall be situated.

(3) The effective date of the organization of the planning district commission.

(4) The composition of the membership of the planning district commission; provided, however, that at least a majority, but not substantially more than a majority, of its members shall be elected officials of the governing bodies of the governmental subdivisions within the district with each county, city and town of more than three thousand five hundred population having at least one representative, and the other members being qualified voters and residents of the district, who hold no office elected by the people; and provided further, however, should the charter agreement, as adopted, so provide, an alternate may serve in lieu of one of the elected officials of each of the governing bodies of the participating governmental subdivisions.

(5) The term of office of the members, their method of selection or removal and the method for the selection and the term of office of a chairman.

(6) The voting rights of members, and such voting rights need not be equal and may be weighed on the basis of the population of the governmental subdivision represented by the member, the aggregation of the voting rights of members representing one governmental subdivision, or otherwise.

(7) The procedure for amendment, for addition of other governmental subdivisions within the planning district which are not parties to the original charter agreement, and the withdrawal from the charter agreement by governmental subdivisions within the planning district electing to do so.

(c) The governing body of any governmental subdivision which is a member of the planning district commission may provide for compensation to be paid by it for its commission members, except for any full-time salaried employees of the subdivision; provided that the amount of such compensation shall not exceed the amount fixed by the planning district commission. (1968, c. 224; 1970, cc. 303, 703; 1972, c. 595; 1973, c. 176.)

Editor's note. — Section 2.1-63.5, referred to in subsection (a) of this section, was repealed by Acts 1976, c. 760.

§ 15.1-1404. Powers of commission generally. — (a) Upon organization of a planning district commission, pursuant to charter agreement, it shall be a public body corporate and politic, the purposes of which shall be to perform the planning and other functions provided by this chapter, and it shall have the power to perform such functions and all other powers incidental thereto.

(b) Without in any manner limiting or restricting the general powers conferred by this chapter, the planning district commission shall have power:

(1) To adopt and have a common seal and to alter the same at pleasure.

(2) To sue and be sued.

(3) To adopt bylaws and make rules and regulations for the conduct of its business; provided, however, a planning district commission shall not amend its budget once adopted during the applicable fiscal year except pursuant to an affirmative vote of the same number of the entire membership of the planning district commission required to adopt the budget.

(4) To make and enter into all contracts or agreements, as it may determine, which are necessary or incidental to the performance of its duties and to the execution of the powers granted under this chapter.

(5) To make application for and to accept loans and grants of money or materials or property at any time from any private or charitable source or the United States of America or the Commonwealth of Virginia, or any agency or instrumentality thereof.

(6) To exercise any power usually possessed by private corporations, including the right to expend such funds as may be considered by it to be advisable or necessary in the performance of its duties and functions.

(7) To employ engineers, attorneys, planners, such other professional experts and consultants and such general and clerical employees as may be deemed necessary, and to prescribe their powers and duties and fix their compensation.

(8) To do and perform any acts and things authorized by this chapter through or by means of its own officers, agents and employees, or by contracts with any persons, firms or corporations.

(9) To execute any and all instruments and do and perform any and all acts or things necessary, convenient or desirable for its purposes or to carry out the powers expressly given in this chapter. (1968, c. 224; 1975, c. 83.)

§ 15.1-1405. Purpose of commission; powers and duties of local planning commissions not affected; exceptions. — (a) It shall be the

purpose of the planning district commission to promote the orderly and efficient development of the physical, social and economic elements of the district by planning, and encouraging and assisting governmental subdivisions to plan for the future. It shall not be the duty of the commission to perform the functions necessary to implement the plans and policies established by it or to furnish governmental services to the district. No action of a planning district commission shall affect the powers and duties provided to local planning commissions by law, except as a special case recognized and approved as such by the General Assembly, two such special cases being the LENOWISCO (Lee, Norton, Wise, Scott, and Big Stone Gap) Planning District Commission of Southwest Virginia, and the Cumberland Plateau (Buchanan, Dickenson, Russell and Tazewell) Planning District Commission.

(b) The following functions may be assumed by the LENOWISCO (Lee, Norton, Wise, Scott, and Big Stone Gap) Planning District Commission.

The authority conferred by this subsection is contingent upon its ratification by resolution of the governing body of each member governmental subdivision of the planning district. This shall not apply to any function assumed prior to January one, nineteen hundred seventy-five.

1. To carry out a program of small stream maintenance for purposes of environmental improvement and minor flood control and to have the authority to own and operate equipment and own properties necessary to undertake such a program. Any and all such stream improvements and flood control measures shall be coordinated with the Commission of Game and Inland Fisheries, State Water Control Board, and Commission of Outdoor Recreation, as they relate to the quality or quantity of water and aquatic life in the streams affected, or related to land resources. Official agency views regarding improvement and control measures shall be drafted and provided to the LENOWISCO Planning District Commission.

2. To operate a solid waste disposal program, including: (i) the operation of an experimental rural solid waste collection system; (ii) a junk or abandoned car collection and disposal program; or (iii) a program to eliminate promiscuous dumps, and to have the authority to own and operate equipment and own properties necessary to undertake such a program.

(b1) The Cumberland Plateau Planning District Commission may assume the following functions, and shall have the authority to own and operate the equipment and properties necessary to carry out such functions:

1. To carry out a program of small stream maintenance for purposes of environmental improvement and minor flood control; any and all such stream improvements and flood control measures shall be coordinated with the Commission of Game and Inland Fisheries, State Water Control Board, and Commission of Outdoor Recreation, as they relate to the quality or quantity of water and aquatic life in the streams affected, or related to land resources. Official agency views regarding improvement and control measures shall be drafted and provided to the Cumberland Plateau Planning District Commission.

2. To operate a tanker truck water supply system to towns and communities in the Cumberland Plateau Planning District experiencing drought and water shortage.

3. To operate a program of assistance to local governments in site preparation of public land to accommodate public improvements, including site preparation for industry and recreation.

4. To aid public water and sewer development in taking pipelines underneath roadways, and to detect and correct sewer infiltration.

5. To operate programs for elimination of promiscuous dumps and other environmental clean-up activities as determined by local governments.

6. To engage in construction and repair work on roads and streets not in the State Highway System or the secondary system of highways.

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The authority conferred by this subsection is contingent upon its ratification by resolution of the governing body of each member governmental subdivision of the planning district.

(c) The aforementioned programs in subsections (b) and (b1) shall not be undertaken by such planning district commission within the boundaries of any county, city or town in such district without the express consent by duly adopted resolution of the governing body of such county, city or town. (1968, c. 224; 1972, c. 814; 1975, c. 381.)

§ 15.1-1406. (Effective until July 1, 1982) Preparation and adoption of comprehensive plan. — (a) Each planning district commission shall undertake to prepare a comprehensive plan for the guidance of the development of the district. Such plan shall concern those elements which are of importance in more than one of the governmental subdivisions within the district, as distinguished from matters of only local importance. The comprehensive plan may concern such subjects and may be divided into such parts or sections as the planning district commission may deem desirable to promote the orderly and efficient development of the physical, social and economic elements of the district. Individual parts or sections of the plan may from time to time be adopted as they are ready.

(b) Before the comprehensive plan, or any part thereof, shall be adopted, it shall be submitted to the Department of Intergovernmental Affairs and to the local planning commission (or, if there be none, to the governing body) of each governmental subdivision within the district for a period of not less than thirty days prior to a hearing to be held by the planning district commission thereon, after notice as provided in § 15.1-431. Each such local planning commission shall make recommendations to the planning district commission with respect to the effect of the plan, or part thereof, within its governmental subdivision on or before the date of said hearing.

(c) Upon approval of the comprehensive plan, or part thereof, by a planning district commission after such public hearing, it shall be submitted to the governing body of each governmental subdivision (excluding towns of less than three thousand five hundred population) within the district for adoption and, upon adoption thereof by the governing bodies of a majority of such governmental subdivisions, the comprehensive plan, or part thereof, shall become effective with respect to all action of a planning district commission. The plan shall not become effective with respect to the action of the governing body of any governmental subdivision within the district until adopted by the governing body of such governmental subdivision. (1968, c. 224; 1976, c. 760.)

Cross reference. — For this section as amended effective July 1, 1982, see the following section, bearing the same number.

Law Review. — For article, "Virginia Natural Resources Law and the New Virginia Wetlands Act," see 30 Wash. & Lee L. Rev. 19 (1973).

§ 15.1-1406. (Effective July 1, 1982) Preparation and adoption of comprehensive plan. — (a) Each planning district commission shall undertake to prepare a comprehensive plan for the guidance of the development of the district. Such plan shall concern those elements which are of importance in more than one of the governmental subdivisions within the district, as distinguished from matters of only local importance. The comprehensive plan may concern such subjects and may be divided into such parts or sections as the planning district commission may deem desirable to promote the orderly and efficient development of the physical, social and economic elements of the district. Individual parts or sections of the plan may from time to time be adopted as they are ready.

(b) Before the comprehensive plan, or any part thereof, shall be adopted, it shall be submitted to the Department of Housing and Community Development and to the local planning commission (or, if there be none, to the governing body) of each governmental subdivision within the district for a period of not less than thirty days prior to a hearing to be held by the planning district commission thereon, after notice as provided in § 15.1-431. Each such local planning commission shall make recommendations to the planning district commission with respect to the effect of the plan, or part thereof, within its governmental subdivision on or before the date of said hearing.

(c) Upon approval of the comprehensive plan, or part thereof, by a planning district commission after such public hearing, it shall be submitted to the governing body of each governmental subdivision (excluding towns of less than three thousand five hundred population) within the district for adoption and, upon adoption thereof by the governing bodies of a majority of such governmental subdivisions, the comprehensive plan, or part thereof, shall become effective with respect to all action of a planning district commission. The plan shall not become effective with respect to the action of the governing body of any governmental subdivision within the district until adopted by the governing body of such governmental subdivision. (1968, c. 224; 1976, c. 760; 1981, c. 315.)

Cross reference. — For this section as in effect until July 1, 1982, see the preceding section, bearing the same number.

The 1981 amendment, in subsection (b), substituted "Department of Housing and Community Development" for "Department of Intergovernmental Affairs" in the first sentence.

§ 15.1-1407. Commission and governmental subdivisions to act only in conformity with comprehensive plan. — When the comprehensive plan, or any completed part thereof, shall become effective as the district plan, the planning district commission shall not, except as provided in the plan, establish any policies or take any action which, in its opinion, is not in conformity therewith. When the comprehensive plan, or any completed part thereof, shall have become effective in any governmental subdivision, such governmental subdivision shall not proceed with the construction of any public improvement or public institution or with the acquisition of any land for public purposes or the disposition of any public lands, which construction, acquisition or disposition is in conflict with the district plan. (1968, c. 224.)

§ 15.1-1408. Amendment of comprehensive plan. — The comprehensive plan, or any completed part thereof, may be amended in the same manner as provided for the original approval and adoption of the plan and parts thereof, provided, however, that if the planning district commission determines that a proposed amendment has less than district-wide significance, such amendment may be submitted only to the local planning commissions and governing bodies of those governmental subdivisions which the planning district commission shall determine to be affected. (1968, c. 224.)

§ 15.1-1409. Review of comprehensive plan by commission. — At least once every five years the comprehensive plan, or completed parts of it, shall be reviewed by a planning district commission to determine whether it is advisable to amend the plan. (1968, c. 224.)

§ 15.1-1410. Commission to review applications for State or federal aid by local governing bodies.—(a) In each planning district in which a planning district commission has been organized, the governing body of each governmental subdivision shall submit to the planning district commission for

review any application to agencies of the State or federal government for loans or grants-in-aid for projects before such application is made.

(b) The planning district commission shall advise the governmental subdivision, within ten days from the date of the submission of the application, as to whether or not the proposed project, for which funds are requested, has district-wide significance. If it does not have district-wide significance, the planning district commission shall certify that it is not in conflict with the district plan or policies. If it does have district-wide significance, the planning district commission shall determine, within forty days from the date of the submission of the application, whether or not it is in conflict with the district plan or policies. In making such determination, it may also consider whether the proposed project is properly coordinated with other existing or proposed projects within the district. (1968, c. 224; 1972, c. 599.)

§ 15.1-1411. Cooperation and consultation with other agencies. — A planning district commission may cooperate with other planning district commissions, councils of governments, or the legislative and administrative bodies and officials of other districts or governmental subdivisions within or without a district, so as to coordinate the planning and development of a district with the plans of other districts and governmental subdivisions and the State. A planning district commission may appoint such committees and adopt such rules as needed to effect such cooperation. A planning district commission shall also cooperate with the Department of Housing and Community Development and use advice and information furnished by such Department and by other State and federal officials, departments and agencies. Such Department and such officials, departments and agencies having information, maps and data pertinent to the planning and development of a district may make the same, together with services and funds, available for use of a planning district commission.

All agencies of the State shall consult the Department of Housing and Community Development prior to engaging in planning activities which will require planning district commission participation. (1968, c. 224; 1976, cc. 488, 760; 1977, c. 613.)

§ 15.1-1412. State aid. — Upon the organization of a planning district commission, it shall be entitled to receive State financial support to assist it in carrying out its purposes. Such State aid shall be in an amount not in excess of five thousand dollars for each twenty-five thousand persons residing in the governmental subdivisions which are parties to the charter agreement, but, in any event, not less than ten thousand dollars for any such planning district commission. In order to be allocated such State aid, each planning district commission shall prepare and submit annually to the Governor, in such manner as he shall direct, a budget showing its estimated receipts and expenditures during the next fiscal year. After the review of such budget, the Governor with the assistance of the Department of Housing and Community Development shall, subject to the availability of funds, allocate such amount as will, in his judgment, be sufficient to enable the planning district commission to carry out its functions. The fiscal year of the planning district commission shall end June thirtieth. (1968, c. 224; 1977, c. 613.)

§ 15.1-1413. Local governing bodies authorized to appropriate or lend funds. — The governing bodies of the governmental subdivisions within a planning district are authorized to appropriate or lend funds to the planning district commission. (1968, c. 224.)

§ 15.1-1414. Procedure when governmental subdivisions included in planning district also participate in regional planning commission. — (a) As promptly as practicable and no later than six months after the organiza-

tion of a planning district commission, any of the governmental subdivisions of which participate in a regional planning commission organized pursuant to § 15.1-432, one of the following shall occur:

(1) If the population of the governmental subdivisions within the planning district participating in the regional planning commission exceeds two thirds of the population of all of the governmental subdivisions participating in the regional planning commission, those governmental subdivisions participating in the regional planning commission, but not within the planning district, shall withdraw and, thereupon, the regional planning commission shall merge into the planning district commission.

(2) If the population of the governmental subdivisions in the planning district participating in the regional planning commission is less than one third of the population of all of the governmental subdivisions participating in the regional planning commission, those governmental subdivisions participating in the regional planning commission and being within the planning district shall withdraw from the regional planning commission.

(3) If the population of the governmental subdivisions in the planning district participating in the regional planning commission is more than one third but less than two thirds of the population of all of the governmental subdivisions participating in the regional planning commission, the regional planning commission may merge into the planning district commission, with the concurrence of a majority of both commissions. After such concurrence but prior to such merger, the governmental subdivisions not within the planning district shall withdraw from the regional planning commission. If such merger is not consummated within six months from the date of the organization of the planning district commission, the governmental subdivisions within the planning district commission shall withdraw from the regional planning commission.

(b) Upon the withdrawal of a governmental subdivision from a regional planning commission, pursuant to the provisions of this section, all of its interest in the assets and responsibility for the liabilities of the regional planning commission shall cease and terminate as of the date of such withdrawal.

(c) Upon the merger of a regional planning commission into a planning district commission, the planning district commission shall be the surviving entity and be entitled to all of the assets and shall assume all of the liabilities of the regional planning commission, provided that the agreement between the participating governmental subdivisions establishing the regional planning commission shall not be effective after such merger. (1968, c. 224.)

Editor's note. — Section 15.1-432, referred to in this section, was repealed by Acts 1970, c. 332.

§ 15.1-1415. Exemption of commission from taxation. — The planning district commission shall not be required to pay any taxes or assessments upon any project or upon any property acquired or used by it or upon the income therefrom. For purposes of § 58-441.6 (p), a planning district commission shall be deemed a "political subdivision of this State" as the term is used in that section. (1968, c. 224.)

§§ 15.1-1416 to 15.1-1419: Reserved.

CODE OF VIRGINIA

1950

1986 Cumulative Supplement

ANNOTATED

Prepared under the Supervision of

The Virginia Code Commission

BY

The Editorial Staff of the Publishers

Under the Direction of

A. D. KOWALSKY, S. C. WILLARD, W. L. JACKSON,
P. R. ROANE, K. S. MAWYER, AND S. S. WEST



VOLUME 3A

1981 REPLACEMENT

Annotated through South Eastern Reporter, 2d Series, through Volume 339, page 703. For complete scope of annotations, see preface in supplement to Volume 1.

Place in Pocket of Corresponding Volume of Main Set.
This Supersedes Previous Supplement, Which
May Be Retained for Reference Purposes.

THE MICHIE COMPANY
Law Publishers
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allocations for carry forward from one calendar year to another. The objective shall be to ensure maximum utilization of the state ceiling. (1986, c. 504.)

§ 15.1-1399.9. Changes to federal law. — In the event that the Congress of the United States revises federal law controlling private activity bonds such that the provisions of this chapter are affected, the Governor is empowered to establish interim measures through Executive Order to allocate Virginia's total bond issuing authority until state law can be amended accordingly. (1986, c. 504.)

CHAPTER 34.

VIRGINIA AREA DEVELOPMENT ACT.

Article 1.

General Provisions.

Sec.
15.1-1402. Definitions.

Article 2.

Planning Districts.

15.1-1403. Organization of planning district commission.
15.1-1404. Powers of commission generally.
15.1-1405. Purpose of commission; powers and duties of local planning commissions not affected; exceptions.
15.1-1412. State aid.
15.1-1416. Dual membership authorized.

ARTICLE 1.

General Provisions.

§ 15.1-1402. Definitions. — For the purposes of this chapter:

(a) *"Planning district"* shall mean a contiguous area within the boundaries established by the Department of Planning and Budget.

(b) *"Service district"* shall mean a unit of government created as provided in this chapter.

(c) *"Governmental subdivision"* shall mean the counties, cities and towns of this Commonwealth.

(d) *"Political subdivisions"* shall include the governmental subdivisions, sanitary, sanitation and transportation districts, authorities and other such public bodies created under the laws of this Commonwealth.

(e) *"Governing body"* shall include the board of supervisors of a county, the council of a city or town, the board of commissioners or other board or body in which the powers of a political subdivision are vested by law.

(f) *"Population,"* unless a different census is clearly set forth, shall mean the number of inhabitants according to the United States census latest preceding the time at which any provision dependent upon population is being applied, or the time as of which it is being construed, unless there is available an annual estimate of population prepared by the Tayloe Murphy Institute of the University of Virginia, which has been filed with the Department of Planning and Budget, in which event the estimate shall govern.

(g) *"Commission"* shall mean the planning district commission and is composed of the duly appointed representatives of the governmental subdivisions which are parties to the charter agreement. (1968, c. 224; 1976, c. 760; 1986, c. 164.)

The 1986 amendment added subdivision (g and substituted "Commonwealth" for "State" at the end of subdivisions (c) and (d).

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§ 15.1-1403. Organization of pl any time after the establishment of district, the governmental subdivisi of the population within the distr organize a planning district commis Any governmental subdivision not continue as a part of the plannin governmental subdivision elects to commission as hereinafter provided tion of the membership of the pla planning district is created which c body of either county may orgar accordance with the provisions of t other county does not agree to orga

(b) The charter agreement shall s

(1) The name of the planning dist

(2) The governmental subdivisi situated.

(3) The effective date of the org sion.

(4) The composition of the memb At least a majority of its members bodies of the governmental subdivi city and town of more than 3,500 tive. In any planning district oth planning district number 20, a tov the planning district commission district commission may, in its di by a majority vote of the members qualified voters and residents of t people. Should the charter agree may serve in lieu of one of the ele of the participating governmental

(5) The term of office of the me and the method for the selection a

(6) The voting rights of membe and may be weighed on the ba subdivision represented by the m of members representing one gove

(7) The procedure for amend subdivisions within the planning charter agreement, and the wi governmental subdivisions withi

(c) The governing body of any of the planning district commiss by it for its commission member of the subdivision. The amount amount fixed by the planning di 703; 1972, c. 595; 1973, c. 176; 19

The 1986 amendment added subdivision (g) and substituted "Commonwealth" for "State" at the end of subdivisions (c) and (d).

ARTICLE 2.

Planning Districts.

§ 15.1-1403. Organization of planning district commission. — (a) At any time after the establishment of the geographic boundaries of a planning district, the governmental subdivisions embracing at least forty-five percent of the population within the district acting by the governing body may organize a planning district commission by written agreement among them. Any governmental subdivision not a party to such charter agreement shall continue as a part of the planning district but, until such time as such governmental subdivision elects to become a part of the planning district commission as hereinafter provided, shall not be represented in the composition of the membership of the planning district commission. Whenever a planning district is created which contains only two counties, the governing body of either county may organize a planning district commission in accordance with the provisions of this chapter if the governing body of the other county does not agree to organize such a planning district commission.

(b) The charter agreement shall set forth:

(1) The name of the planning district.

(2) The governmental subdivision in which its principal office shall be situated.

(3) The effective date of the organization of the planning district commission.

(4) The composition of the membership of the planning district commission. At least a majority of its members shall be elected officials of the governing bodies of the governmental subdivisions within the district, with each county, city and town of more than 3,500 population having at least one representative. In any planning district other than planning district number 8 and planning district number 20, a town of 3,500 or less population may petition the planning district commission to be represented thereon. The planning district commission may, in its discretion, grant representation to such town by a majority vote of the members of the commission. Other members shall be qualified voters and residents of the district who hold no office elected by the people. Should the charter agreement, as adopted, so provide, an alternate may serve in lieu of one of the elected officials of each of the governing bodies of the participating governmental subdivisions.

(5) The term of office of the members, their method of selection or removal and the method for the selection and the term of office of a chairman.

(6) The voting rights of members, and such voting rights need not be equal and may be weighed on the basis of the population of the governmental subdivision represented by the member, the aggregation of the voting rights of members representing one governmental subdivision, or otherwise.

(7) The procedure for amendment, for addition of other governmental subdivisions within the planning district which are not parties to the original charter agreement, and the withdrawal from the charter agreement by governmental subdivisions within the planning district electing to do so.

(c) The governing body of any governmental subdivision which is a member of the planning district commission may provide for compensation to be paid by it for its commission members, except for any full-time salaried employees of the subdivision. The amount of such compensation shall not exceed the amount fixed by the planning district commission. (1968, c. 224; 1970, cc. 303, 703; 1972, c. 595; 1973, c. 176; 1982, c. 660.)

The 1982 amendment deleted "pursuant to § 2.1-63.5 of the Code" following "geographic boundaries of a planning district" near the beginning of the first sentence of subsection (a), and divided subdivision (4) of subsection (b), which formerly consisted of one sentence, into the present first, second, fourth and fifth sentences and added the present third sentence. In the present second sentence of subdivision (b) (4) the amendment deleted "but not substantially more than a majority" following "at least a majority." The amendment also divided subsection (c), which formerly consisted of a single sentence, into two sentences.

§ 15.1-1404. Powers of commission generally. — (a) Upon organization of a planning district commission, pursuant to charter agreement, it shall be a public body corporate and politic, the purposes of which shall be to perform the planning and other functions provided by this chapter, and it shall have the power to perform such functions and all other powers incidental thereto.

(b) Without in any manner limiting or restricting the general powers conferred by this chapter, the planning district commission shall have power:

(1) To adopt and have a common seal and to alter the same at pleasure.

(2) To sue and be sued.

(3) To adopt bylaws and make rules and regulations for the conduct of its business; provided, however, a planning district commission shall not amend its budget once adopted during the applicable fiscal year except pursuant to an affirmative vote of the same number of the entire membership of the planning district commission required to adopt the budget.

(4) To make and enter into all contracts or agreements, as it may determine, which are necessary or incidental to the performance of its duties and to the execution of the powers granted under this chapter.

(5) To make application for and to accept, disburse and administer, for itself or for member governmental subdivisions so requesting, loans and grants of money or materials or property at any time from any private or charitable source or the United States of America or the Commonwealth of Virginia, or any agency or instrumentality thereof.

(6) To exercise any power usually possessed by private corporations, including the right to expend such funds as may be considered by it to be advisable or necessary in the performance of its duties and functions.

(7) To employ engineers, attorneys, planners, such other professional experts and consultants and such general and clerical employees as may be deemed necessary, and to prescribe their powers and duties and fix their compensation.

(8) To do and perform any acts and things authorized by this chapter through or by means of its own officers, agents and employees, or by contracts with any persons, firms or corporations.

(9) To execute any and all instruments and do and perform any and all acts or things necessary, convenient or desirable for its purposes or to carry out the powers expressly given in this chapter. (1968, c. 224; 1975, c. 83; 1986, c. 164.)

The 1986 amendment inserted "disburse and administer, for itself or for member governmental subdivisions so requesting" in subdivision (b)(5).

§ 15.1-1405. Purpose of commission; powers and duties of local planning commissions not affected; exceptions. — (a) It shall be the purpose of the planning district commission to promote the orderly and efficient development of the physical, social and economic elements of the district by planning, encouraging and assisting governmental subdivisions to plan for the future and, if requested by a member governmental subdivision or group of member governmental subdivisions and to the extent the commission

may elect to act, assisting the subdivisions by carrying out plans and programs for the improvement and utilization of said elements. The commission shall not, however, have a legal obligation to perform the functions necessary to implement the plans and policies established by it or to furnish governmental services to the district. The authority of the commission shall include the power, to the extent the commission may from time to time determine, to exercise such power when requested to do so by a member governmental subdivision or group of member governmental subdivisions, to participate in the creation or organization of nonprofit corporations to perform functions or operate programs in furtherance of the purposes of this chapter; to perform such functions and to operate such programs itself; to contract with nonprofit entities, including local governments, performing such functions or operating such programs to provide administrative, management, and staff support, accommodations in its offices, and financial assistance; and to provide financial assistance, including matching funds, to interdistrict entities which perform governmental or quasi-governmental functions directly benefiting the commission's district and which are organized under authority of the Commonwealth or of the federal government. Nothing herein shall be construed to permit the commission to perform functions, operate programs, or provide services within and for a governmental subdivision if the governing body of that jurisdiction opposes its doing so.

(a1) No action of a planning district commission shall affect the powers and duties provided to local planning commissions by law, except as a special case recognized and approved as such by the General Assembly, two such special cases being the LENOWISCO (Lee, Norton, Wise, Scott, and Big Stone Gap) Planning District Commission of Southwest Virginia, and the Cumberland Plateau (Buchanan, Dickenson, Russell and Tazewell) Planning District Commission.

(b) The following functions may be assumed by the LENOWISCO (Lee, Norton, Wise, Scott, and Big Stone Gap) Planning District Commission.

The authority conferred by this subsection is contingent upon its ratification by resolution of the governing body of each member governmental subdivision of the planning district. This shall not apply to any function assumed prior to January 1, 1975.

1. To carry out a program of small stream maintenance for purposes of environmental improvement and minor flood control and to have the authority to own and operate equipment and own properties necessary to undertake such a program. Any and all such stream improvements and flood control measures shall be coordinated with the Commission of Game and Inland Fisheries, State Water Control Board, and Division of Parks and Recreation, as they relate to the quality or quantity of water and aquatic life in the streams affected, or related to land resources. Official agency views regarding improvement and control measures shall be drafted and provided to the LENOWISCO Planning District Commission.

2. To operate a solid waste disposal program, including: (i) the operation of an experimental rural solid waste collection system; (ii) a junk or abandoned car collection and disposal program; or (iii) a program to eliminate promiscuous dumps, and to have the authority to own and operate equipment and own properties necessary to undertake such a program.

(b1) The Cumberland Plateau Planning District Commission may assume the following functions, and shall have the authority to own and operate the equipment and properties necessary to carry out such functions:

1. To carry out a program of small stream maintenance for purposes of environmental improvement and minor flood control; any and all such stream improvements and flood control measures shall be coordinated with the Commission of Game and Inland Fisheries, State Water Control Board, and

Division of Parks and Recreation, as they relate to the quality or quantity of water and aquatic life in the streams affected, or related to land resources. Official agency views regarding improvement and control measures shall be drafted and provided to the Cumberland Plateau Planning District Commission.

2. To operate a tanker truck water supply system to towns and communities in the Cumberland Plateau Planning District experiencing drought and water shortage.

3. To operate a program of assistance to local governments in site preparation of public land to accommodate public improvements, including site preparation for industry and recreation.

4. To aid public water and sewer development in taking pipelines underneath roadways, and to detect and correct sewer infiltration.

5. To operate programs for elimination of promiscuous dumps and other environmental clean-up activities as determined by local governments.

6. To engage in construction and repair work on roads and streets not in the State Highway System or the secondary system of highways.

The authority conferred by this subsection is contingent upon its ratification by resolution of the governing body of each member governmental subdivision of the planning district.

(c) The aforementioned programs in subsections (b) and (b1) shall not be undertaken by the planning district commission within the boundaries of any county, city or town in the district without the express consent by duly adopted resolution of the governing body of the county, city or town. (1968, c. 224; 1972, c. 814; 1975, c. 381; 1984, c. 739; 1986, c. 164.)

The 1984 amendment in the second sentence of subdivision (b) 1 and in subdivision (b1) 1 substituted "Division of Parks and Recreation" for "Commission of Outdoor Recreation" and in subsection (c) substituted "the planning" for "such planning," substituted "the district" for "such district," and substituted "the county" for "such county."

The 1986 amendment divided former subsection (a) into present subsections (a) and (a1), and rewrote present subsection (a).

§ 15.1-1412. **State aid.** — Upon the organization of a planning district commission, it shall be entitled to receive state financial support to assist it in carrying out its purposes. Such state aid shall be in an amount as provided in the general appropriations act. In order to be allocated such state aid, each planning district commission shall prepare and submit annually to the Governor, in such manner as he shall direct, a budget showing its estimated receipts and expenditures during the next fiscal year. After the review of such budget, the Governor with the assistance of the Department of Housing and Community Development shall, subject to the availability of funds, allocate such amount as will, in his judgment, be sufficient to enable the planning district commission to carry out its functions. The fiscal year of the planning district commission shall end June 30. (1968, c. 224; 1977, c. 613; 1985, c. 127.)

Editor's note. — Acts 1984, c. 755, the appropriations act, in item 105 provides in part that: "Except as noted below, and notwithstanding any contrary provision of law, the amounts of State assistance for Financial Assistance for Substate Planning apportioned to planning district commissions shall not exceed six thousand two hundred fifty dollars ($6,250) for each 25,000 persons but, in any event, shall not be less than twenty thousand dollars ($20,000) for any commission." Item 105 then lists the allocations made to the individual planning district commissions.

The 1985 amendment rewrote the second sentence.

§ 15.1-1416. Dual membership authorized. — Notwithstanding any contrary provision of law, Chesterfield County, a member of the Richmond Regional Planning District Commission, may also become a member of the Crater Regional Planning District upon such terms and conditions as may be mutually agreed to. No additional state financial support shall be paid due to Chesterfield County's becoming a member of the Crater Regional Planning District. (1985, c. 109.)

CHAPTER 36.

AGRICULTURAL AND FORESTAL DISTRICTS ACT.

Sec.
15.1-1509. Power of local governing body to enact ordinances; application form and fees; maps; sample form.
15.1-1511. Creation of districts.
15.1-1513. Discontinuance of association in district.

§ 15.1-1507. Declaration of policy findings and purpose.

Applicability of § 58.1-3229 et seq. — The machinery (§ 58.1-3299 et seq., relating to agricultural land-use assessments) specially provided for promotion of the policy defined in this section is as functional in a city as in a county. County of Rockingham v. City of Harrisonburg, 224 Va. 62, 294 S.E.2d 825 (1982).

§ 15.1-1509. Power of local governing body to enact ordinances; application form and fees; maps; sample form. — A. The local governing body shall have the authority to enact ordinances and to promulgate forms to effectuate this chapter. The local governing body may charge a reasonable fee for all applications submitted pursuant to this chapter, such fee not to exceed $150 or the costs of processing and reviewing an application, whichever is less.

B. The local governing body shall prescribe application forms for agricultural and forestal districts that include but are not limited to the following information:

1. The general location and boundaries of the district;

2. A summary of the acreage in the district including (i) estimated total acreage in the district and (ii) acreage owned by persons proposing the district;

3. The name, address, and total acreage owned within the proposed district and signature of each landowner proposing the district; and

4. The date of application, date of final county or city action and whether approved, modified or rejected.

C. The application form shall be accompanied by a United States Geological Survey seven and one-half minute topographic map that clearly shows the boundaries of the proposed district and boundaries of properties within the proposed district owned by each applicant. A general county highway map showing the general location of the proposed district shall also accompany each application form.

D. A copy of the application with maps shall be submitted to the Commissioner of the State Department of Agriculture and Consumer Services by the local governing body together with a copy of the final approved plan. This shall be done only if the application is ultimately approved by the local governing body.

Sen. Shrydlewski

MEMORANDUM

State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various Economic Recovery Proposals

FROM: J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

C.E.R ENDORSED SB 392 3/14/88

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.

C.E.R. ENDORSED CONCEPT 3/22/88

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.

NO ACTION

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.

NO ACTION

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.

NO ACTION

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.

ON AGENDA

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:

Loan Amount	Interest Rate	Payment
$ 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.

NO ACTION

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 nonjudicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

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.

NO ACTION

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

C.E.R. CONCEPT ENDORSED SB408 3/22/88

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

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The Honorable Jan Faiks
The Honorable Max Gruenberg
The Honorable David Donley
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Minutes -

House Only

HEARING DATES AND TOPICS

January 18 -- House members. House organizational meeting. Initial subcommittees established and three phase plan adopted.

January 29 -- Joint meeting with Senate members. Economic overview of Alaska. Witnesses: 1) Commissioner Tony Smith, Department of Commerce and Economic Development, 2) Lee Gorsuch, Director of ISER, 3) Dave Rose, Executive Director, Alaska Permanent Fund Corporation.

February 1 -- Joint meeting with Senate members. Economic overview of Alaska. Witness: Commissioner Tony Smith, Department of Commerce and Economic Development. Discussed the Real Estate Investment Trust and the HOAP program within the Department.

February 8 -- House members. Economic overview of Alaska, Private Agencies. Witnesses: 1) Malcolm Roberts, Commonwealth North, 2) Mike Abbott, Resource Development Council, 3) Alex Kochkin, ASK* Information Search, 4) Peter McDowell, Alaska State Chamber of Commerce. Discussed ways to help economic recovery.

February 9 -- Joint meeting with Senate members. FDIC housing issues. Witnesses: Jay Hone, Larry Schannault and Martha Hicks, Federal Deposit Insurance Corporation. Discussed possible remedies for dealing with the large number of loans held by the FDIC.

February 10 -- House members. Committee activities. A timeline of Committee activities was established and the Housing and Banking subcommittee were requested to hold hearings and make a recommendation regarding the Anchorage Economic Development Corporation's (A.E.D.C.) proposal to assess the FDIC Alaska portfolio. (no tape or transcript)

February 15 -- House members. Economic overview of Alaska, Regional perspectives. Witnesses: 1) Eric McDowell, McDowell Group -- Southeast perspective, 2) Bob Keller, Fairbanks Native Association -- Rural Perspective, 3) Leslye Korvola, Fairbanks North Star Borough -- Interior. Summaries of the economic activity and needs of the regions.

February 22 -- House members. First report of the Housing and Banking Subcommittee specifically regarding the AEDC proposal to assess the FDIC portfolio. Collection of Disputed Assessments. Witnesses: 1) Commissioner Hugh Malone, Department of Revenue, 2) Senator Jan Faiks, 3) Steve Kettle, Department of Revenue, 4) William Floerchinger, Director, Division of Oil and Gas. Discussed various proposals and methods of expediting collection of disputed back tax assessments.

February 29 -- House Members. Economic overview of Alaska, review of the Fischer Report. Witnesses: 1) Victor Fischer, 2) Gregg Ericson, Office of Management and Budget, Office of the Governor. Discussed Fischer's report to the Mayor of Anchorage on the economic condition of that community and possible ways to remedy the stricken economy. Also report from the Subcommittee on Housing and Banking.

March 2 -- House members. Subcommittee reports. Reports of the Resource Development, Transportation, Employment and Industry and Small Business Subcommittees. Also discussion of Willow Park Resolution, Homeporting, and recyclable products. (Tape, but no transcript possible due to machine error)

March 7 -- Joint meeting with Senate members. Economic overview. Witness: Dr. Ryan Amacher, Economist, Clemson University. Discussed general economic theory and its application to Alaska's economy. This meeting was followed by a meeting of the Senate members regarding the Hallwood Bridge Bank proposal and FDIC issues.

March 8 -- House members. Subcommittee Reports. Reports of the Rural, Interior and Southeast subcommittees were presented to the committee members. (no transcript)

March 9 -- House Members. Presentation by Commonwealth North: Using the Permanent Fund as a Positive

Counter-Cyclical Force in the Alaska Economy. Witnesses: Malcolm Roberts and Loren Lounsbury of Commonwealth North. Discussed the elements of this plan, specifically the proposal for an Alaska Economic Index.

March 11 -- House members. Subcommittee reports. Continued action on reports, review of all subcommittees and draft reports. Witness: 1) Gail Gatton, Alaska Environmental Lobby. (no tape or transcript)

March 16 -- House members. Subcommittee reports. Continued discussion of Resource Development etc., Small Business and Housing and Banking reports. "Southwest Plan", Residential real estate (HJR 72) and Alaska Economic Index (HCR 52) resolutions discussed. The last two were approved for introduction.

March 18 -- House members. Consideration of Senate recommendations. Housing and Banking progress was discussed. Senate Bills were referred to subcommittees. Addendum of the Interior Report was adopted. "Southwest Plan" resolution was discussed.

March 23 -- House members. Report on Senate actions, the Housing and Banking Subcommittee interim report and review and approval of the Executive Summary by the House members.

March 25 -- House members. Subcommittee reports on Senate Legislative Recommendations. Presentation and approval of proposed legislation of Housing and Banking Subcommittee (HB 549, HB 550, HCR 54) and the "Southwest Plan" (HJR 73). Committee report is issued.

March 30 -- House members. Review of Senate recommendations, status report of House members' legislation before Senate committee members and discussion of future committee activities.

April 7 -- House members. Overview of multistate insurance antitrust suit. Witnesses: 1) Tom Dove, Assistant Attorney General, California Attorney General's Office, 2) Dick Monkman, Alaska Department of Law, Antitrust, 3) Paul Roller, Alaska Department of Commerce and Economic Development, Division of Insurance. Also discussion of Housing and Banking legislation (HB 555).

April 8 -- House members. (Anchorage) Public testimony on activities of the Committee and long term plan. Witnesses: Jerry McCutcheon, Belle Dawson, Norman Rokeberg, Alan Fuller. Also discussed and approved for introduction AEDC proposal regarding tax exemptions and deferrals of economic development property (HB 557).

April 9 -- House members. (Anchorage) Public testimony on activities of the Committee and long term plan. Witnesses: 1) Charles Konigsberg, 2) Jack Keane. Also Scott Hawkins of AEDC and Ted Moninski of the Alaska Public Utilities Commission (APUC) discussed the AEDC's utilities bill.

April 11 -- House members. Continuation of the overview of the multistate insurance antitrust suit. Witnesses: 1) Paul Roller, Division of Insurance, 2) Craig Berrington, General Counsel to the American Insurance Association. Discussed the committee's and the state's role in the insurance dispute.

April 15 -- House members. Continuation of the overview of the multistate insurance antitrust suit. Witnesses: 1) Doug Mertz, Department of Law, Environmental Conservation, 2) Harlan Knudson, Health Association of Alaska. Mertz discussed the threatened insurance company action towards Alaska vis-a-vis Department of Environmental Conservation. Knudson discussed cost of insurance to health industry. Proposed letter to the Governor submitted to members and language for resolutions.

April 22 -- House members. Status of Committee introduced and supported legislation. This also included a discussion of HB 432 and HB 555. Update on the insurance issues and discussion of final report. Also some discussion of interim activity.

April 28 -- Joint with the Senate members. Testimony of Dean Lester Thurow of the Massachusetts Institute of Technology. Discussed economic consequences of specific Alaska legislation and proposals. (House members were unable to attend as floor session carried over)

April 29 -- House members. Final meeting. Status of Committee introduced and supported legislation. Resolution urging state involvement in the

multistate insurance antitrust suit is approved. HERC committee resolution is approved for introduction by Rules (HR 14). (no tape or transcripts due to machine error)

There were no more meetings of the House members of the Joint Committee on Economic Recovery held during the session. The House Economic Recovery Committee was created by House Resolution on May 7, to meet through the interim and continue the work of the House members.

Joint Committee on Economic Recovery

House
January 18, 1988

Present: Representative Max Gruenberg (chair)
Representative Red Boucher
Representative Steve Reiger
Representative Drue Pierce
Representative Mark Boyer
Representative Fran Ulmer

Rep. Gruenberg: We have a memo we have prepared for consideration. We have appointed tentatively the subcommittees, a list will be out.

Rep. Reiger: Banking
Rep. Boucher: Small Business
Rep. Koponen: Interior
Rep. Navarre: Natural Resources
Rep. Brown: Housing
Rep. Miller: Employment and Industry
Rep. Adams: Rural
Rep. Ulmer: S.E.Alaska

We plan to send out a memo to other House members, in the mailboxes today, asking them what subcommittees they want to be on. Then we will see who we want to participate. I want as broad a participation as possible on a bi-partisan basis, looking at the best ideas from around the state, specifically addressing the economic situation. Since this is a committee to address the economic situation, let's be flexible so you can each deal with your own areas of expertise. Next week we can start with general overview testimonies. First, we'll look at legislation already in, then working up our own, then as a long range solution, make recommendations for subsequent sessions. The subcommittees will make legislative recommendations to the full committee and they will go through the usual process.

Rep. Brown: Where would the commercial real estate issues fall?

Rep. Gruenberg: It could fit into many areas. Some things will not fall directly under one subcommittee, so you can work together on some issues.

Rep. Koponen: We shouldn't consider economic recovery as just getting back to where we were before, but that we also look at going on, urging people to take advantage of opportunities that have opened up; because we were not good enough before, not competitive enough.

Rep. Gruenberg: We're open to that idea, and are interested in the long term. The question was asked about the Senate participation here, it's up to the Senate leaders how they will organize their part of this

committee. These subcommittee subject matters seem to be comfortable for the Senate members.

Rep. Ulmer: Why isn't there a south central subcommittee?

Rep. Gruenberg: The Southcentral matters seems to fall into certain areas of subject matter already set up in the other subcommittee, i.e., housing, banking, etc.

Rep. Reiger: I think there's going to be alot of overlap, even amongst the functional committees there'll be overlap. This is a way to see that areas of focus, get that focus, in defense of the Chair.

Details of scheduling were discussed.

Rep. Boucher had concerns about the further regionalization of the state, also getting ideas from all over the state on what people's successes are.

Rep. Miller recommended narrowing our focus as soon as possible and addressing issues we can do something about right now.

Rep. Gruenberg adjourned the meeting.

Tape #1, 4

Joint Committee on Economic Reform 1/18/88
Organizational Meeting

4:18 PM, Meeting called to order.
All members present.

tape #'s

26 -- subcommittees discussed

80 - subcommittee membership, methods

110 -- proposed three phases of the committee process described

143 -- Rep. Brown: Wishes to focus on Commercial and residential real estate market.

168 -- Rep. Koponen: Discusses a need to go beyond just a return to "where we were". Take advantage of the decline of the dollar and realize the benefits to tourism.

215 -- Senate involvement discussed.

240 -- Rep. Ulmer: Asks why there is no Southcentral Regional Committee. General Discussion ensues regarding the committee structure.

275 -- Rep. Rieger: Describes the necessary overlaps that will occur with the subcommittees.

380 -- Boucher wishes to discuss successful small businesses as opposed to failures.

General discussion of subcommittees, overlapping and merging. Rep. Rieger asks if there might be a deadline or date for the "passage" of legislation added to the list.

Meeting is adjourned at 4:50 PM

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Joint Committee on Economic Recovery
House
February 8, 1988

Present: Representative Max Gruenberg (chair)
Representative Niilo Kopenen
Representative Mike Navarre
Representative Fran Ulmer
Representative John Sund
Senator Jalmar Kerttula
Several members are excused, or in other meetings.

Testifying: Malcolm Roberts, Commonwealth North Exec Dir.
Mike Abbott, Resource Development
Alex Kochkin, ASK
Peter McDowell, State Chamber of Commerce

Mr. Roberts: We look at issues facing the state and make recommendations on public policy. (Brief background of company)

We appreciate the invitation to be here. The crisis is statewide, not just Anchorage. The solutions we seek must address the long term weaknesses, not short term. The problems were not started by the real estate industry or greedy bankers. If oil had stayed at $27, they would have been heroes. The impact of the drop of the price of oil affected all of us, but this is only one phase of the problem. A full 82% of the state revenues came from the north Slope. As we all know, Prudhoe Bay oil will soon see a decline. It was 14 years ago when the pipeline began, and 14 years from today with expected production drops, the pipeline will be running at ¼ what it is now, 502,000 barrels/day. We must find a new partnership to get things moving. We would urge the state to assist our municipalities with the money so designated to be utilized by putting to work idle businesses and contract labor, rather than expanding municipal public works departments. We recommend you use private companies whenever possible to do the work, the private sector can easily expand and easily contract, but once you enlarge the public payroll it is difficult to reduce it. We a program to support our municipalities and local governments. We must put into motion the construction of roads, rail extensions, hydro-projects, water and waste water facilities, docks and ports, all of which can pay their own operating and maintenance expenses and generate revenues to pay the state for the initial investment. We urge you to take a statewide view, and look at long term solutions for an economy that's dangerously dependent on one source of revenue.

Rep. Navarre: What do we use as a money source with dwindling oil revenues?

Roberts: We will be publishing a text called the Alaska Development Board where we will make a number of specific recommendations on that,

but I would suggest AK is one of the more fortunate states in terms of not only resources in the till, but capacity to tackle other projects.

Mr. Kochkin reiterated the problem of dependency on oil. He outlined the purposes of marketing beyond just advertising, brochures, etc. and illustrated his point with the fisheries and tourism industries. He's talking with others about developing a plan to tie in various capital projects to help smaller industries or businesses work together with other businesses to offer helpful services to customers.

Rep. Gruenberg asked the necessity of a coordinated, state economic policy. Mr. Kochkin commented that it would be useful especially in coordinating information, but that it would be difficult. Rep. Gruenberg requested information on good ideas which other states are doing to improve economic recovery.

Questions for Mr. Kochkin continued.

END OF TAPE (Side B only)

Mr. Abbott: As you know the Resource Development Council has been working on economic development concerns and issues for more than 12 years now. These programs we would advocate would have similar benefit and application at any time, not just now. In the area of fisheries, I should also mention we have tried to maintain a non-budget impact so I won't be mentioning areas that might impact the budget process. The RDC strongly supports the development of mariculture programs. There's some doubt as to if it's legal, we like to see the legislature introduce a regulatory and management program that would alleviate any problems that might follow. We believe it would have a tremendous economic near term impact. In terms of Forestry, the RDC is strongly supportive of the state's development of it's own timber resources and the ability to allow for the development of non-state timber resources as well. We feel the Forest Management Agreement process is a likely candidate to allow the state to enhance it's forest management program, but we don't feel that's the only way. There is opportunities that can be taken advantage of without forest management agreement, similar to those developed in Canada, and we'd like to see the legislature take action to allow those to take place. In terms of tourism development, we're very eager to see the state enter into a program with the federal government in the Denali area. Although there is a near term impact in terms of matching federal funding, we think there's policy oriented questions the state could be looking at. We're very disappointed, for example with the process the Div. of Parks used to analyze the issue of helicopter landings in Chugach State Park. There proved to be a flaw in the park concession and management process. You're talking about a positive economic development impact with little or no environmental impact. We'd like to see the park management system through legislation be a little more responsive to the opportunities out there. These parks are not to be managed as federal parks, they do not have the same goals in mind. Our parks were created with an eye for using them to enable Alaskans to utilize the park in a manner consistent with the use for which they were created. In the area of mineral development, we've

proposed a number of changes to state statute in areas ranging from water quality assessment standards to coastal zone management review, etc. There are actions that can be taken at this point that can increase the industry development. In the area of oil and gas development, I feel compelled to mention we totally support the development of ANWR resolution. Getting off of that as quickly as possible, we've also proposed a program of incentives , including the removal of certain dis-incentives. In discussions we've had with members of the RDC council involved in oil and gas development, there is great support for removal of disincentives to areas of oil and gas as well as incentives. There's a great deal of interest in revenue-positive programs to take advantage of at this time. We're also working on a variety of other programs, land management oriented, that aren't generally associated with near term economic recovery, but in fact are likely to help the state's economy over the long term, and in fact likely to demonstrate some short term benefits as well.

Rep. Gruenberg asked about the need for a comprehensive state economic policy.

Mr. Abbott: We support the development of language and statute that's going to give state employees and the administration a bit of guidance in this area. There is a risk though, that might in fact distract them from looking at actual regulatory and statutory changes that can have direct impact on what we're doing. Many of you might remember the state, a few years ago, passed an economic development statute. Although we supported that statement at the time, and we still support the tenents it generated, I think you'll find very little use of that or very little reference to it. We support positive statements, we would hope that wouldn't reflect all the attention away from specific policy and statutory changes that need to be made.

Rep. Gruenberg asked if Mr. Abbott knows of specific suggestions from other states in terms of state policies, etc.

Mr. Abbott: It's difficult for Alaska to draw upon exact references from other states mostly because our situation is so different. We are not in a position similar to any other state, in terms of ownership of resources, land management, etc. To draw upon some other states' programs might turn out to be relatively unsuccessful, but we are looking for good ideas.

Rep. Gruenberg asked about providing positive incentives for development of highly expensive, risky, marginal oilfields.

Mr. Abbott: The 2 specific programs we have advocated that fall under that category, is the reinstitution of oilfields on state land, which would provide a royalty break of some percentage for operators that discover a new field, for some years. The other program we supported is a consistent use or mandatory use of exploration ? credits in the leasing program, we think both of these are product oriented and production oriented incentives that are likely to generate new activity. There are always going to be marginal fields in Alaska. We do not feel it is the responsibility of the state to make every incidence of oil

profitable for commercial extraction. We do feel, however, that this line of what's marginal and what's not is one the state should be prepared to be flexible in evaluating, depending on it's own economic circumstances. We hope our incentive program would allow the state that flexibility.

Rep. Sund wanted Rep. Gruenberg to reference the statute Mr. Abbott referenced as AS 44.99.100, the economic policy statute. Rep. Gruenberg clarified his question in reference to that statute.

Peter McDowell: One of my capacities as co-chairman of the AK. State Chamber of Commerce/Comm. on Strategic Planning for the 1990's. You have a copy of our report entitled Report to Alaska's Economic Leaders, recently reprinted in the form you have now. We invite you to exercise economic leadership collectively and individually. We recommend you study what the private sector has said about economic leadership, in particular, 5 documents included in this report you have here. We encourage you to begin and expand the education of Alaska's people, especially it's children about their economy, and recognize the importance of Alaska's political economy to other facets of life in the state. To become educated about the nature of economic change in the world and it's effect on Alaska. To insist on sound diagnosis as a basis for economic strategy. To require that economic programs be monitored and evaluated for sure public accountability and necessary adjustments. To participate in shaping a vision of Alaska's economic future. To identify actions compatable with that vision and motivate people to undertake them, and finally to join with us in the State Chamber of Commerce in a state-wide public-private and university partnership to provide the leadership for economic expansion and diversification. First I'll give you a framework for understanding the Alaska economy. Our first major conclusion during the 2 years we spent developing this report is that an export base model is the most appropriate framework for facilitating an evaluation of the Alaska economy, based on a very straight-forward premise that is that business sectors which bring cash into the economy are part of the export problem. Since long before contact with the Russians, we have been exporters, usually a very high grade of natural resources. We also export geo-political location to the U.S. military, public domain, federal-civilian agencies and scenic and recreational resource values to tourists. An export base analysis performed on a community, region, state or nation, divides the economy into 2 segments: the firms and individuals primarily serving export markets and those serving markets internal for the local economy. The goods and services which the community sells outside it's boundaries are considered exports. These include all sales made outside the community, not just trade with foreign nations. All remaining goods and services serve the local markets. In this division of markets there is a cause and effect relationship. Export markets are considered to be the prime movers of the local economy. If employment serving these markets rises or falls, employment serving the local market is presumed to move in the same direction. Thus, if a basic industry must lay off workers, the local retail merchant will feel the impact as the laid off workers have less to spend, or will leave that local economy. Because of this, export sector economic activity is basic. Employment which serves the local market is considered adaptive, and is called secondary.

The fundamental insight is no basic, no secondary. The basic export sectors that play the prime role in Alaska's economy are oil and gas, fishing, timber, minerals, coal, travel and tourism, national defense, federal-civilian services and the PFD. We see the biggest single portion of the export model is oil and gas, about 2/3 in 1986. In 1986, the lowest year we've had for oil in several years, oil was still 2/3 of the value of total exports, even after the drastic price drop. Another area is fishing, the value of fish caught by resident fishermen in AK waters in 1986 is estimated to be $300 mil. Dollars generated from timber are estimated to be about $200 mil. Coal at $25 mil. primarily represented exports to Korea. Travel and tourism, estimated at over $500 mil for 1986, excluding transportation to and from AK, and this only represents about 3 months worth of activity. Defense building in AK was about 1.6 bil. If you do have some basic economic activity, and even a low year, then you will have a secondary economy. We identify transportation, world markets and international trade, private retail and wholesale trade and services, state gov't. services, transportation and construction services, and local government services as the essential secondary sectors active in the AK economy. The jobs in these sectors are important, the more goods and services available in the state, the lower the leakage of purchasing power from the basic economy. Growth in support sector jobs is however severly constrained by growth in the export sector, the lower the exports, the lower the level of support required. In the recent past, AK has had a large export surplus mainly because of Prudhoe Bay. That has changed. Another insight about the export model is export and basic sector projects are the only ones that have a multiplier effect. They create more jobs in total than those related to the basic industry projects. We take the position that AK needs all the export projects it can get, that the size of the enterprise is also an issue and so is it's liability. We suggest the export model as the initial framework to analyze the economic projects, communities, and state as a whole. I would suggest if projects do not have a positive impact on the expansion of AK's import model shouldn't be undertaken. The commission also has suggested 6 statewide strategies for development and diversification:

1. Continuing support for existing basic sectors. We believe a fundamental strategy we all need to be aware of is that retention of our existing economy should take 1st place.
2. We encourage the consideration of starting up a software development sector. The compound growth rate for software has been second only to telecommunications.
3. We recommend increasing the national defense presence in AK, and aggressively marketing our geo-political location.
4. Expanding AK participation in the growth and Americanization of commercial fisheries.
5. Substituting for imports of insurance services and investment services.

(Brief examples.) These suggestions are documented in the report. We offer these opportunities to you in hopes that they may work to the enhancement of the AK economy through the leadership of it's public and private sectors.

Rep. Koponen mentioned the problem of software investment is the high cost of phone lines.

Rep. Gruenberg asked if controlling the supply of Alaska's resources would help create more wealth. Mr. McDowell didn't know. Rep. Gruenberg also asked him his view of setting up a comprehensive state economic policy.

Mr. McDowell: The commissions view has always been that there needs to be a consensus, among Alaska's economic leaders, about how it works and how to make it grow. If that's what you're talking about. To process education and understanding. We suggested earlier you put the export model up against any projects you're looking at.

Rep. Gruenberg: Aren't there certain kinds of things that will have a multiplier effect if done internally?

Mr. McDowell: Within limits, you can use the assumption, no exports, no multiplier. There's very little multiplication in this economy.

Rep. Gruenberg: What are you thoughts on the possibility of trade with Canada?

Mr. McDowell: I'm not convinced there's much demand in the Yukon. It's the same kind of resource-export economy.

Rep. Koponen asked what we could do to make internal investment more attractive.

Mr. McDowell read from a paper he wrote. He said the infusement of management-technical assistance need to be incorporated into the investment project.

Rep. Sund feels the greatest restriction to development in the Alaskan economy is in the management of our resources. He wanted to know if the state should spend more than 6¢ of every dollar to manage resources. Mr. McDowell didn't have any idea, but he did agree that management of resources is a partnership. He mentioned the case of many types of crab that are harvested but we have no idea of how they reproduce, and soon there'll be no more to catch because we will have wiped them out from not understanding how to keep them going.
Sen. Kerttula made a brief remark of concurrence with the subject at hand.

Rep. Gruenberg adjourned the meeting at 10:22.

Joint Committee on Economic Recovery
House

February 15, 1988

Present: Rep. Max Gruenberg, Chair
Representative Cliff Davidson
Representative Mike Miller
Representative Fran Ulmer

Witnesses:

Eric McDowell
President, McDowell Group

Bob Keller
Fairbanks Native Association

Leslye Korvola
Fairbanks North Star Borough

TAPE ONE, SIDE ONE

Rep. Gruenberg calls the meeting to order and states the committee will consider the economies of the state on a regional basis.

Eric McDowell states the McDowell Group (Group) has done management consulting in Alaska for 16 years, including 200 to 300 studies of the state regional and local economies and other projects. McDowell states Southeast Alaska looks homogeneous, but it is not, and it is considered in three economic regions: (1) Juneau, (2) other urban communities, and (3) rural or villages. McDowell refers to material which has been distributed describing the proportion of the regional economy which is due to each of the major industries. State government is the largest industry, one-third of the economy, basically in Juneau; second is fisheries, including harvesting and processing, or one-fourth of the economy, and third is forest products. Federal government represents approximately 14% of the economy, and tourism is 7%, construction is 2% and mining is less than 1% at this time. Southeast compared to all of Alaska has lower than average employment in mining, finance, insurance, real estate and university as well as service and trade, but is heavier than other areas in manufacturing and government.

McDowell states Juneau constitutes 40% of Southeast in population and employment, with 2/3 being government. Juneau's growth and decline parallels the Railbelt area;

losing a slightly greater portion of its economy than Anchorage. Juneau's growth also parallels Anchorage.

Rep. Gruenberg states the budget for state government follows by a year or two the growth of the economy elsewhere because of oil royalties, and asks if Juneau is directly parallel or if there is a lag. McDowell responds there is a time lag in terms of government and activities; however Juneau is first to react to budget changes.

McDowell describes medium to small urban communities as Ketchikan, Sitka, Petersburg, Wrangell, Haines and Skagway and states they are not as severely effected by changes in state government as is Juneau. Primary changes in their economy are related to forest products and fisheries, and they have a cycle independent of the rest of the state, more closely resembling Kodiak, parts of the Kenai Peninsula and Prince William Sound. Forest products are the primary economy, together with fishing. McDowell points out that the forest products suffered a slump but has been recovering since 1985 and is currently strong. Long term growth is not considered; cycles are primary. McDowell states tourism has an impact on Ketchikan, Sitka, Haines and Skagway, as well as Juneau.

The rural or village Southeast Alaska includes Metlakatla, Klawock, Craig, Kake, Angoon, and several other small communities. They are subject to the cycles of fisheries and forest products, but because of their poorer economy they do not receive benefits of up cycles to the extent the small urban communities do as they do not have plant and equipment investments. Good fishing years do not mean a good economy for these areas. Although some benefits are derived from forest products, it does not ensure employment for the Native people in the area. Third, they are sensitive to changes in state and federal economic programs, and have suffered from the cutbacks in state programs. Subsistence is important to the lifestyle in the rural and village areas.

McDowell distinguishes differences between rural Alaska and Southeast and the very rural western regions -- all of the villages in Southeast have reasonable access to regional centers because of transportation systems connecting the communities, and because of timber and fishing they are slightly stronger than the most remote villages in Southeast. Income is significantly below the rest of the Southeast economy.

Rep. Gruenberg refers to the access to the Marine Highway System, asking if the poorness of the residents isolates them. McDowell responds the Marine Highway System is available as fares are reasonable when compared to air fares.

Rep. Davidson asks the average family income in a village. The figure is not available at this time.

McDowell refers to trends in industries -- state government is down; fisheries is presently strong and stable but nature and regulation, including limited entry, limits the growth potential, and forest products are also cyclical; the federal government has been stable, but has been reduced regionwide; tourism is stabilizing; construction will continue to be severely depressed; mining is insignificant but shows new development that is a positive factor.

Rep. Ulmer asks for comments on the housing industry in Southeast, stating most testimony taken by the committee has referred to the Railbelt area. McDowell responds that the Group has completed work for the Juneau Economic Commission, and states Juneau's real estate situation is comparable to Anchorage's, with at least 1,000 vacant units and poor market conditions. Rep. Ulmer asks if the the ferry service cutback has had an impact on Southeast. McDowell is familiar with the situation, and points out that cost of transportation must be considered in cost of living. Transportation prior to the ferry system was extremely expensive, and the ferry system has reduced that expense. McDowell states that commercial fares are considered quite high by some individuals.

Rep. Davidson refers to the trends in fisheries and asks for comments on limited entry and the push in Southeast to become more involved in other species. McDowell clarifies that Davidson refers to limited entry's effect on non-limited entry. Limited entry has an enormous effect on non-limited entry -- everyone wishing to fish has no choice but to fish halibut, black cod, or whatever is unlimited; the effect of expanding the effort on unlimited species and thus contracting the seasons. McDowell points out this was necessary to rebuild the resource, and removal of the foreign fleet from the eastern gulf in the early 1980's was a major source of impact. Davidson asks how limited entry has affected youthful entry; is access denied to the only economic opportunity village youth might have? McDowell responds access is denied to those financially unable to buy in, but in any industry there is cost of entry. McDowell confirms that the system as it is denies access to less economically capable, especially in village Alaska, or those who do not have any other economic means to gain capital for investment. McDowell confirms that there is a trend where limited entry permits are leaving the villages, particularly seine permits.

Rep. Gruenberg asks for suggestions on what the legislature might do to assist in any of the three sub-regions. McDowell responds he is not familiar with pending legislation, and he believes two major problems should be addressed: (1) housing and real estate, which is debilitating to Juneau in particular, and (2) look at village Southeast to determine what programs that have been cut back have made the most significant impact, and perhaps restore them.

Rep. Gruenberg calls on Robert Keller and Leslie Korvola to testify, via teleconference. Ms. Korvola states she is with Community Services for North Star Borough. Korvola refers to a quarterly report recently distributed by the Borough to give a comprehensive view of employment, housing, cost of living and other factors. Rep. Gruenberg states the Committee has the document. Korvola states the data is not necessarily representative of the entire Interior region. Korvola focuses on the section entitled "Economic Inflight" because it focuses on the expectations of the community, and urges the Committee to review it carefully. Korvola states the article underscores the importance of revenue sharing.

Rep. Gruenberg asks Ms. Korvola to refer to figures by page number. Gruenberg states he has the "Fall 1987 Edition" and at page 78 is table 61. Korvola states that is not the most current edition. The correct document will be transmitted to Juneau for distribution. Korvola states the article deals with the dilemma in the local economy. Korvola states there are various ways to deal with the reduced income; and points out that when state moneys are no longer available at the same level, the Fairbanks economy cannot fully recover. The Committee has no questions. Regarding employment, Department of Labor statistics indicate that government is a significant part of the local employment picture. Korvola points out that nearly one-half of the local government employment is at the University.

TAPE ONE, SIDE TWO

Robert Keller testifies from Fairbanks via teleconference. Keller describes his role at Fairbanks Native Association, stating they have had an economic development program since 1982 to assist individuals starting in private businesses. Keller presently supervises a project attempting to identify ways to employ low-income people in the Fairbanks Borough area. The Native Business Center under Bureau of Indian Affairs funding works statewide for Native business enterprises, and the Small Business Center is a state Department of Commerce program serving the Interior and North Slope, not restricted to Native Alaskans. The Center is funded by the state at a level substantially below that of 1986. Keller discusses an address by Rep. Miller at the Chamber of Commerce when he pointed out that the first thing cut is economic development. Keller agrees. Referring to the Native Center, Keller describes plans to open a ski resort with cross country trails, and hiking trails for summer as a recreational and tourism facility. Community and Regional Affairs has assisted in the project. Keller points out that to be successful, good technical assistance must be provided.

Keller describes a project for fish processing in Fairbanks, pointing out the marketing and packaging procedure and the hope of developing a salmon sausage line for nationwide sales.

The final project is the Arctic Co-operative of Tanana Chiefs, serving villages in the interior social services system. Arctic Co-operative stands for Alaska Resources Commodities Trading and Investment Company, buying botanical products and packaging them for Christmas sales through mail order industry. Keller believes there is great potential, a willingness to work and seize the potential in the area, and there needs to be support at the State level, consisting of (1) marketing through a central source, and (2) reasonable levels of financial assistance. Keller urges that AIDEA be encouraged to reach out into the interior and small Native groups. Keller states small projects can be successful.

Keller met with a business analyst who studied interior villages and summed the experience, stating the state needs to take a positive action to assist miners, many of whom are about to lose everything they have worked many years for because the Administration does not take a positive view toward mining. It is suggested the State enter the court cases on the side of the miners. For agriculture it is suggested the state make land available on a fee simple basis by lottery or market price at terms for conversion to farmlands. Keller describes the failure of the Delta farm project. Keller urges the state return to lending for tourism oriented projects. Keller suggests tourism be promoted more, especially for winter months. Wilderness lodges should be promoted. Keller points out that financing is difficult for anyone in the rural area. Keller believes there is no shortage of "intelligent, hard working people who if given half the chance could operate profitable businesses." Keller urges orderly planning to avoid boom and bust cycles, and assistance for marketing and tourism.

Keller supports the Community and Regional Affairs' program known as Rural Economic Development Initiatives, which has $3.2 million for rural communities, and describes the requirements for qualification.

Rep. Gruenberg thanks Mr. Keller for the many suggestions and asks that Keller send a follow-up letter for the Committee.

Mr. McDowell refers to program recommendations, and states with regard to development, he has seen many state and federal prcgrams come and go, some successful, some not. McDowell encourages that Keller consider two, both involving generic marketing, one for tourism and one for fisheries, both of which yield excellent returns for the investment and receive support from the private sector. McDowell refers to Alaska Seafood Marketing Institute and Division of Tourism programs. Additionally, McDowell states the political influence of the legislature can be used to great advantage with regard to resources issues. McDowell states his firm has completed a two year study of the impact of tourism in Alaska, and economic information is available.

Rep. Gruenberg suggests copies of statistics and data be provided for the Committee.

Ms. Korvola agrees with Mr. McDowell in support of generic marketing, and also supports tourism development. Korvola urges that money be spent carefully to give a good return and have long term merit.

There being no further comments, the meeting adjourned at 9:55 a.m.

Joint Committee on Economic Recovery - HOUSE
February 22, 1988

Present: Rep. Max Gruenberg, Chair
Rep. Kay Brown
Rep. Steve Rieger
Rep. Niilo Koponen
Rep. Steve Frank
Rep. Fran Ulmer
Rep. Sam Cotten

Witnesses:

Hugh Malone, Commissioner
Department of Revenue
P. O. Box s
Juneau, Alaska 99811

Sen. Jan Faiks
P. O. Box V
Juneau, Alaska 99811

Steve Kettel
Department of Revenue
P. O. Box S
Juneau, Alaska 99811

William E. Florerchinger, Director
Oil and Gas - Audit Division
550 West 7th, Suite 560
Anchorage, Alaska 99501

TAPE ONE, SIDE ONE

001

Rep. Gruenberg calls the meeting to order and asks Rep. Brown to report to the Committee.

Rep. Brown states the subcommittee on housing and banking met 12 hours over a week-long period to hear testimony and evaluate proposals. A written report has been distributed. Rep. Brown states the Anchorage Economic Development

Corporation proposal was reviewed. That proposal asks for $250,000.00 to assess FDIC foreclosed loans and failing properties. The subcommittee recommends against the proposal at this time, although it has served as a catalyst, and the subcommittee will reconsider it after further work. The subcommittee will review "orphan" loans, those having difficulty and working without a bank. Brown states that 85% of the portfolio is business loans, and the balance is real estate loans. The other proposal studied was Real Estate Stabilization Trust, and this study is not yet completed. Brown states that proposal would set up an entity to receive foreclosed loans and the state would be asked to buy into the trust for $150 million, and to loan additional sums in the future if needed for cash flow. Brown states the problem is a $2 billion problem in real estate, and about one-half is involved with state agencies. The subcommittee considered whether state involvement would be effective, and much caution was urged from witnesses because of the effect on renters and non-property owners. The reduction in rent in Anchorage is estimated to be about $72 million coming into the economy, or 14 new jobs. Brown states there are positive side effects -- stimulation of the economy through competition.

Brown states the subcommittee considered Federal Asset Deposit Disposition Association, set up to sell properties from failed savings and loan associations in the fall of 1985 with $25 million. Brown states the Association is losing $1 million per month and has asked the federal government for an additional $10 million. Brown believes this indicates there are difficulties with this type of agency. Brown states the subcommittee will focus on residential properties in its study.

180

Motion by Rep. Koponen to accept the report of the subcommittee on housing and banking.

Rep. Rieger believes it is important that the committee look at other proposals. Rieger states the question is the recommendation to appropriate $250,000 which is preparatory to the state becoming owners of a portfolio of loans. Rieger believes the proposals are seeking assurance that the market will act rationally.

There being no objection to accepting the subcommittee report, it is so ordered. Rep. Gruenberg states the report will be submitted to all members of the House and the Senate.

235

Rep. Gruenberg states the Committee will recess to 9:00 a.m., at which time the Commissioner of Revenue will address the

Committee, and that Senator Faiks will speak to the Committee at 9:45 a.m.

250

Rep. Gruenberg calls the meeting back to order. Present are Reps. Miller, Ulmer, Koponen, Navarre, Boyer and Davis.

255

Commissioner Hugh Malone of Department of Revenue states that staff members Bill Florerchinger, head of Oil and Gas Aduit Division; Steve Kettel, head of Income Audit Division; Carl Meyer, head of Appeal Section, Deborah Vogt, head of Hearing Section, special assistant Royce Weller, and Bruce Botelho of Department are also present.

Malone states the department has in excess of $2.5 billion in assessed but uncollected taxes, penalties and interest for oil and gas income or production taxes. Malone states the final assessment for royalties due has not been completed, but represents possibly billions of dollars. In addition, disputed tax cases are in the courts, with a motion to move from the state to federal courts.

Malone outlines the background of disputed tax amounts, which started in 1977 when Prudhoe Bay began. Malone states "the law defines the value of oil for tax and revenue purposes as at the point of production or field. We arrive at that value by a net-back approach, taking the value of oil in a market or at a sale and subtracting back the cost of production. It sounds like a simple procedure, but it is not." In the early years producers were struggling, and the world oil prices were $12 to $40 making value difficult to determine. Federal price controls in effect made it difficult to capture the real value of oil, and windfall profits tax made a confusing situation. Malone describes the process of oil going to different markets, with some producers setting value when the oil is produced, and others when it is sold. Also, some producers sell oil outright, some sell it to themselves, and others trade it. Transportation costs, except for the tariff, are also complicated. Malone states that without the ban on export, the process would be even more complicated.

380

Malone states "Oil producers think the confusion is on the part of the state -- the fluctuation in the price of oil and political manipulation of the price -- but there is another issue to be considered. There is no discussion of the damge we are doing to ourselves." Malone refers to the 1981 repeal of state separate accounting income tax law for oil and gas income, which was replaced by the apportionment income tax currently in effect. Malone states that income from oil and

gas property tax is eroding; that in 1978 the assessed value of the tax base was $11 billion, and the state received $173 million, or 78% -- in 1987 the assessed value was $18 billion and the state received $102 million, or 28% of the total revenues. Malone states ELF provides large tax breaks for high-production oil fields, while providing insufficient tax reduction for marginal fields. Additionally, the ELF loss is larger than was anticipated becuase (1) production in dollar levels are higher so the percentage decrease in severance tax is larger than it would be otherwise, and (2) the estimate is higher because of increased drilling. One factor in ELF's formula is the number of wells in production. Malone states that $2 million is being lost in two fiscal years, and describes the situation as "self inflicted poverty."

465

Rep. Gruenberg asks that Commissioner Malone furnish a copy of statements for distribution to all members of the Legislature. Commissioner Malone agrees to do so.

Rep. Davis asks if anyone has run numbers of the impact of the change to apportionment rather than separate accounting. Commissioner Malone responds that the department is tracking it and was last updated a year ago. Rep. Davis confirms that since 1984, it becomes approximation.

510

Rep. Koponen asks if there is an impact from modified apportionment taxation in other industries. Commissioner Malone responds there is, and the administration is examining the issue. Malone states the oil companies are happy because apportionment reduces their income tax burden, but other industries have made public statements against modified apportionment because they do not like having "swarms of auditors going through their books all of the time." Malone states that Alaska has one of the most aggressive audit programs in existence, and companies do not like to have their operations exposed.

Rep. Koponen refers to businesses moving from Alaska because of the vulnerability they face by remaining in Alaska. Commissioner Malone states he does not have a response, and the question is where oil prices will settle if we keep the structure. Rep. Koponen asks if other states have modified apportionment or unitary tax. Steve Kettel states "many do; most states that have income tax use some sort of apportionment. Alaska uses a worldwide apportionment scheme. We are the last state to use that approach. Most other states have come to the water's edge approach, looking at the income on a domestic basis and many include dividends coming from foreign corporations."

590

Rep. Davis asks the effect on other multi-nationals considering locating in Alaska. Kettel states there are two considerations, (1) experts agree the actual incidence of the tax is a small factor in the decision of a business to locate in an area, and (2) internal company policies. State and local tax is a small determining factor. Kettel states the question is expectations of future profits, and he believes we should look at what will happen in the next 10 years. Kettel states the corporate sector will look at taxes to a lesser degree than the oil companies.

640

Rep. Davis refers to monies lost by reduction in fisheries taxes and asks if that money has been reinvested in Alaska. Kettel answers "basically, yes." There has been $60 million invested around the state, but the question is whether that money would have been invested regardless of the tax reduction.

675

Rep. Gruenberg states he is not convinced that a general statement can be made concerning attractions to industry because it varies from one industry to another. Gruenberg asks if Alaska should look more carefully at specific industries. Kettel responds affirmatively and states that in establishing a tax program, you make certain you have revenue to provide services to the people who come with the industry, and it is important to not discourage industry through tax mechanisms. Rep. Gruenberg asks "do you think it is good public policy for us to look at what will attract somebody to develop a particular parcel of real estate?"

TAPE ONE, SIDE TWO

Commissioner Malone responds it is a very complex question of tax credits and tax breaks, and it is not recommended, but it is done.

050

Rep. Miller asks if a tax is 60-80% of profit, does it become a large part of the decision of where to do business. Commissioner Malone responds that there is no simple answer. With regard to oil, Malone states "we want to realize significant percentages of the value from our lands. The state's policy is to move those up to the margin. It is very difficult." Malone states oil is a product which has high value and profit potential, and it comes from state land. It is possible to push taxes up to where it discourages investment. That situation has to be monitored. ELF has not

worked very well, and needs to be revised. The concept is o.k."

115

Rep. Koponen comments that he believes modified apportionment discriminates against Alaska based corporations and targeting of a particular business is something a municipality might do, but targeting against a particular industry is something in which the general public can assist. Koponen refers to a study in Connecticut involving established industries and the wrapper tobacco industry. Koponen states "we can make that kind of decision in the kind of public expenditures we make and the tax policy we design."

170

Rep. Gruenberg states that Senator Faiks is present to address the Committee concerning SB 401, and asks that Commissioner Malone yield to the Senator at this time.

Senator Faiks states she represents the State of Alaska to develop a process to collect the maximum amount of revenue due the state in a timely manner so that the Legislature can develop budget and determine fiscal policy of the state in the easiest manner. Faiks states that since 1980 she has been a member of Common Sense for Alaska -- a fiscally conservative organization interested in the fiscal policy of Alaska. Common Sense as a volunteer project did an assessment of the Audit Division of Department of Natural Resources and several divisions in the Departments of Commerce and Transportation to determine the reason for the large number of disputed taxes. Referring to SB 401, Faiks states "this bill is a management bill -- it has nothing to do with the kind of taxes, what the taxes are, how they are managed. It spells out a procedure for the collection of taxes to the State of Alaska in the most efficient manner possible within the three year statute of limitations." Faiks states it is to assist the Commissioner of Department of Revenue collect the taxes due the State of Alaska, and adds "They can't pay if there is not a system in place to keep the process moving."

250

Sen. Faiks describes the current process regarding appeals, with the audit and assessment. Between the time of the audit and assessment there is no informal hearing between the taxpayer and the Department. This can go on for three years. There is no communication between the taxpayer and the Department. When the assessment is determined, the taxpayer has 30 days to appeal. The appeal process is informal, and adversarial, with each side preparing a record in support of its case. This is followed by a formal hearing, spelled out in the Administrative Procedures Code, and is court-like. At

the end of the hearing a formal decision is made, a findings of fact and conclusions of law. Then the taxpayer appeals to the Superior Court. This is a key factor because it is an appeal of the decision, not the facts of the case. The Superior Court makes a decision. Faiks notes the indefinite period of time for this process.

295

Again referring to charts, Senator Faiks describes the process under SB 401 as a definitive process with a time line for each step, and they can be extended with consent of both parties. Faiks describes the process as informal -- with dialogue. If the taxpayer agrees with the proposed assessement by the department, they get the assessment and it becomes final. It is unappealable. If the taxpayer does not agree with the proposed assessement, they request a policy review hearing to ascertain whether the correct policy has been used by the department. This results in a policy review decision, and the taxpayer gets the assessment and the current status. "He can go to court, and the trial is de novo, which means all of the facts are presented. The court is not assuming the facts set forth by the Department are correct. The is the important part of the bill." Currently the Superior Court does not rule on the facts; they rule on whether the taxpayer received due process. They assume the facts are correct. It is difficult for the taxpayer to say the Department of Revenue did something wrong.

350

Rep. Koponen states he is reminded that a model like this is a small immitation of the real thing. One thing that is left out in both cases is the staffing levels. Koponen asks if staff requirments have been determined. Senator Faiks responds "you are asking a chicken or egg question." They have the best staff, but they may need more. Faiks states "I want to maximize the amount of taxes collected in Alaska that is fair and equitable, that we have a good reputation in doing that, and we get our money. The answer to your question is no, I have not analyzed the staffing because to me that is not the problem. I believe the problem is the process and the time frames. The Commissioner will give staff requirements."

Rep. Koponen states "Our responsibility is to provide the best service at the least cost to the State of Alaska so one of the things we would be concerned with is the staffing levels."

375

Rep. Navarre asks, in the appeal process, from the time of appeal to the Superior Court, to the decision, what is the time, and how does it compare with the final steps in SB 401? Senator Faiks' response cannot be heard on tape. Rep. Navarre

confirms that "essentially we would go through the procedure again in court." Sen. Faiks states "Correct, the facts of the case are ruled by the Department and the Court accepts those as fact. The Department does not have to prove that they did it right." Sen. Faiks advises Rep. Navarre that SB 401 speeds up the process "because we get to court faster."

440

Rep. Brown asks for clarification of "policy review". Sen. Faiks responds that the Administrative Procedures Manual spells out policy. "It is were the regulations complied with correctly, were laws followed correctly, and the Department follow procedure and regulations of the Department fairly and equitably." Senator Faiks suggests asking Department of Law how many people they take to court.

455

Rep. Gruenberg asks if "clear weight of the evidence" standard is the same as "substantial evidence" standard. Senator Faiks responds affirmatively.

485

Rep. Boyer asks if the process could be moved along by having the taxpayer pay the assessment, and thereafter appeal, so that money is received and there is incentive for the taxpayer to move the process along. Senator Faiks responds that this could be one solution; she has come up with her solution, and there may be others. Rep. Boyer suggests looking at alternatives. Senator Faiks states there are procedural problems in the process because there is no dialogue between the taxpayer and the department. Faiks states "there are multi-million dollar oil tax assessments issued by the audit division without any discussion with the taxpayers, and without any review by the Commissioner. The present process is very difficult for the Commissioner when he has to be the judge making the final decision." Faiks points out that the hearing officer is an employee of the Department; thus the department is prosecutor, judge and jury under the present system. Faiks believes taxpayers view the process as a "fishing expedition"

580

Sen. Faiks cites a February 1987 report entitled "Review of the Selected Department of Revenue" by Common Sense which described the goal of the Department as to "maintain fair and equitable taxing system in the state and to achieve an acceptable level of oil and gas producer compliance." Common Sense concluded there are not clearly defined procedures to attain that goal. A 1984 report on the New York Tax Appeal System states the close relationship between the State Tax

Commission, which rules upon contested tax matters, and the Department of Taxation and Finance, which assesses and collects the taxes, violates the doctrine of separation of powers, fuels perceptions of unfairness and creates the risk of actual bias in the adjudication of tax disputes.

615

Rep. Davis asks the amount of the fiscal note on SB 401, and whether additional staff will be required in the Audit Division. Sen. Faiks states the Commissioner must answer that question. Rep. Davis asks, regarding early resolution of tax laws, if it might be contrary to the best interests of the oil industry because they may be making more money on the money in dispute. Sen. Faiks responds that is not her concern, she wants Alaska to have the money; her concern for the oil companies is that they have equitable treatment and that there is a fair process in place where all taxpayers are treated the same. Faikes believes "the oil industries are big boys and I want them to pay up. The system has to be in place to create that process."

650

Rep. Koponen refers to the chart outlining the proposed procedure and notes that it eliminates departmental appeals and goes directly to court, except that it is trial de novo, and asks if is ascertained that all facts will be "on the table" at that time. Koponen asks if facts can be held back in the preliminary stage. Sen. Faiks states it is a very expensive process, and if there are no major disputes, "we get our money." Rep. Koponen believes there is no real incentive to come to an agreement under the proposal.

TAPE TWO, SIDE ONE

001

Rep. Gruenberg confirms that Sen. Faiks' presentation is completed, and Commissioner Malone again joins the Committee. The Commissioner states he will discuss disputed assessements, and acknowledges an area of the interest for the Committee is SB 401. Malone states the forum is difficult to discuss the Bill because the Committee does not have the Bill in its possession, and normal administrative steps of analyzing fiscal notes and related documents have not been done. The Commissioner will discuss the audit process and the issues raised by Senator Faiks, and then give a perspective on how the Department has addressed those questions. Commissioner Malone refers to the Common Sense report and believes the issues identified regarding the administrative process were correct, and that some serious administrative problems have occurred, but most of them are subject to correction by efficient administration of the program in existence. Malone

states the issue of royalties and taxes are priorities of the administration. Malone states the separate accounting system and the severance tax program have been addressed by re-establishing the Oil and Gas Audit Division and training of increased staff, including hearing officers, economists and computer specialists, and reorganization of Income and Excise Tax Audit Division.

The Commissioner describes the Department's plan to reduce the number of cases in appeals, including consolidation of audit cycles, setting priorities, and discussing the issues with the taxpayers. In addition, the Department is looking at ways to use the information and data base the state has developed in the Amerada Hess royalty case -- looking at and using the information to reduce the time and effort needed to complete the audit cycle. The Department is gathering tax data on a current basis, collecting it from the taxpayer immediately following the tax period, rather than retrieving it from taxpayer's archives as has been done in the past. Funding for this is included in the FY 89 request. Malone states there are political jurisdictions using this approach, including United Kingdom and Norway. The Department is studying the approach to incorporate it into our laws to give some certainty to the state and the industries.

157

Commissioner Malone believes a tax program must be accountable to the taxpayer and the public. A confidentiality law prevents that accountability to the legislature, and Malone would invite companies to waive their confidentiality rights under the law to discuss with the Committee the specifics of tax cases. Malone acknowledges not all fault is on the side of the taxpayer. Second, to be efficient, "we should collect what the law intends, and thirdly, they should be fair and timely."

Malone states Sen. Faiks touched a basic issue in the administrative hearing process; can an agency be the prosecutor, judge and jury, and do it fairly? Malone points out that the theory behind the administrative process does not apply just to taxes, but to anyone who has agreed to administrative decision of a government agency in the State of Alaska, and describes the process. Reasons for the process are that the Department knows what the issues are and is able to examine them to develop a factual record in an efficient manner, and there is a safety valve, the Courts. The Commissioner believes the current process can work. He states the informal conference is not a due process proceeding; it is a method of getting facts on the table. The Commissioner believes going to de novo review, especially one in which the agency's ability to raise issues is severely limited, would probably substantially reduce the ability of the Department to administer the tax laws and to achieve compliance.

285

Rep. Gruenberg welcomes William Floerchinger, and Rep. Cotton, who have joined the Committee. Rep. Gruenberg states the intent of the Committee was not to hear specifically SB 401 testimony -- the Committee is concerned about all aspects of economic recovery, and when a large amount of back taxes could provide an infusion of cash to the state, that is something to be cognizant of in a general way -- that was the purpose of the hearing today.

Commissioner Malone declares agreement, that the legislature must know where money will come from, and supports the idea of Rep. Boyer that taxpayers pay the tax, then proceed with the process.

300

Mr. Floerchinger comments on the direction of the Oil and Gas Audit Division at this time; an in depth study of all cases under audit and appeal has been made. Floerchinger states the staffing level is critical in this type of audit program. Initially the department had 6 to 8 auditors for 22 taxpayer cases, including multi-national corporations. It is critical that there be skilled staff to review records when obtained and analyze the materials. Currently there are 57 audit-cycle cases, some of which may be consolidated; and there are as many as 42 to 50 issues in each case. Attempts are being made through dialogue to gain informal agreement, and written agreement, as to the issues to go through the process. This is expected to streamline the procedure. Floerchinger believes this method is working and states his goal is that by the end of the calendar year at least 40% of the dollars outstanding will either be agreed to and paid or through the hearing process. Floerchinger believes by the end of 1989 the figure will be near 90%. Floerchinger states the Department is establishing positive audit planning in the new cycle.

380

Floerchinger refers to the proposed procedure, stating one issue not mentioned in the charts is the process for obtaining records and documents. Presently the Department is working with taxpayers to obtain records on an informal basis, and the average length of time is in excess of 6 months from request to receipt. This, states Floerchinger, is a problem in keeping the process within the 3 year statute of limitations. SB 401 provides for an appeal process in which appeal of the initial request for documents is allowed. Floerchinger estimates this step will take in excess of 300 days to get into Court to toll the statute of limitations; a loss of 300 days from the statute of limitations period. Floerchinger points out the statute of limitations is 1,095 days from the time the tax return is filed until the statute tolls and no

additional assessments can be made. Floerchinger states that the production tax is a monthly return, and there is not staff or buildings large enough to audit each monthly tax return separately. Currently the Division waits until 12 monthly returns have been filed; then the audit cycle commences. That takes 395 days from the first period. The proposed bill has 330 days in appeals process to obtain the records, followed by 300 days, or a total of 1,025 days lost from the statute of limitations period, leaving 70 days in which to audit a multi-national corporation. Floerchinger believes it puts the Division in a position in which it is impossible to protect the state's interest to arrive at a fair and equitable tax. Floerchinger states audits could not be accomplished in the timeframe of SB 401.

425

Rep. Gruenberg believes there are two basic, separate and distinct issues -- (1) the process takes too long, and (2) the process is unfair because of a bias in combination of functions. Floerchinger agrees. Rep. Gruenberg believes speeding up the process could be addressed separately from the other issue. Floerchinger believes they are intertwined because of the requirement that the steps be held within the Department. Under trial de novo, the Department loses the opportunity to view and assess what documents mean to the tax process. Gruenberg agrees, but asks, who decides; a judge or an employee or independent hearing officer, which is irrelevant to the process itself. Gruenberg suggests the issues be addressed separately. Commissioner Malone agrees, but has concerns, i.e., the taxpayer does not have to produce documents under SB 401. Malone points out the present law states the Department makes the final decision, giving the taxpayer the incentive to produce information to be used in argument. SB 401 removes the process in the current law which gives the Department the information.

475

Rep. Koponen asks if the tax collection process would be simpler under separate accounting. Commissioner Malone believes it would not, because the separate accounting law is difficult to administer. Commissioner Malone states many of the difficulties can be solved by applying proper administrative procedures.

485

Commissioner Malone states the fairness of the hearing process is a myth because it has not happened yet -- it is a "closeting the monster" situation and questions how much weight it should be given.

505

Rep. Koponen states that in Harvard classes management cases were never discussed without assessment of the resources available to carry out a given task and the appropriateness of the resources. Koponen states an outline is insufficient in his view to arrive at a meaningful solution of a problem.

At 10:55 a.m., the meeting is adjourned.

Joint Committee on Economic Recovery
House

February 29, 1988

Present: Representative Max Gruenberg
Representative Kay Brown
Representative Steve Rieger
Representative Fran Ulmer
Representative Mike Miller
Representative Mark Boyer
Representative Heinrich Springer
Senator Joe Josephson

Witnesses:

Senator Vic Fischer

Gregg Erickson
Office of Management and Budget

TAPE ONE, SIDE ONE

Meeting is called to order by Rep. Gruenberg at 8:35 a.m. A quorum is present. Rep. Gruenberg states the Housing & Banking Subcommittee will give a report, followed by former Senator Vic Fischer who will discuss the Anchorage economic review.

Rep. Rieger states the Subcommittee has had three meetings since the last Committee meeting, the first with Barry Hulin of First Federal Bank and Bert Wagnon of AIDEA; another with Willis Kirkpatrick of Division of Banking; and a work session to consider two proposals presented to the Committee and a draft resolution. Rieger states the Subcommittee reached a recommendation on one project, the Willow Park demolition project.

Rep. Rieger reads the committee recommendation: The subcommittee recognizes the value of the Willow Park demolition project and recognizes a responsibility for asbestos abatement of this state owned facility. The subcommittee supports efforts to obtain state, federal and local funds to complete this relocation and demolition project. The subcommittee recognizes the specific dollar amounts for demolition and asbestos abatement are still being refined. The subcommittee recommends that additional analysis be done to find appropriate sources of funds. The subcommittee further recommends that project costs be spelled out in a project agreement between the state, federal and local governments. A copy of that resolution is distributed,

together with a background of the project, proposed by the Alaska State Building Authority. Rieger states the federal government has nearly agreed to contribute $9 million for relocation of tenants of Willow Park if state and local governments provide funds for asbestos abatement and demolition. Housing vouchers will be available for low income housing on a long term commitment worth an additional $7.2 million. The subcommittee considered project costs and included wording regarding "further refinement of the project costs and a specific project agreement of who will pay what costs." The subcommittee recommends the state proceed on the project.

Following discussion, Rep. Gruenberg states the matter will be on the agenda for the meeting on Friday, March 4, and copies of a draft recommendation by the Subcommittee will be distributed 48 hours prior thereto.

Rep. Rieger states that the Subcommittee will meet again to receive further testimony and suggestions.

Rep. Gruenberg asks that the Subcommittees make recommendations on Bills already in process so that Committees may be advised, leadership can make certain the Bills are priorities.

Former Senator Vic Fischer, clarifies that he appears at the invitation of the Committee. Fischer states the report, which is his testimony, was commissioned by the Municipality of Anchorage, however the understanding was that he had total freedom to pursue the analysis of the effects of the economic recession on Anchorage, without constraints by the Municipality. Fischer states he believes suggestions that the legislature do nothing with regard to the economy and recovery are irresponsible and show lack of understanding of the impacts of the recession. Fischer sees impact of the recession on the real estate market, but more so on the housing market, and states the majority of the residents in the area have been effected as businesses close, bankruptcies occur, and banks fail. Fischer states the impact goes far beyond the real estate crisis and describes the situation as akin to cancer, being depressing, with an interrelationship of bankruptcies, lost jobs, lost homes, and a downward spiral of the economy. Fischer states the Anchorage situation requires a comprehensive, broad based approach for recovery. Fischer does not recommend a massive infusion of funds.

Rep. Boucher asks if Fischer is familiar with the Southwest Plan implemented in Texas, Oklahoma and surrounding states. Fischer is not. Boucher recommends that Fischer contact Robert Gillam of Home Savings for information on the plan. Boucher urges that statements be obtained from Alaska's

congressional delegation. Fischer responds that his report does not pretend to set forth a program; that his assignment was to document the problem so that plans might be derived from that information. Boucher asks for Fisher's recommendations. Fischer responds he would be happy to be retained as a consultant to do that.

Sen. Josephson refers to editorials stating rents are down, and are offset by lower wages; Josephson disagrees because his constituents tell him lower wages result in living in lower rent facilities. Fischer concurs and states there is a "silver flecked lining" related to housing and rents. Fischer points out that individuals are moving to better rental facilities at lower rents.

Fischer recites statistics on employment and population in Anchorage. Unemployment does not reflect the real situation in Anchorage because there is considerable underemployment and people have dropped out of the labor market. Fischer points out that since late 1987 families have left Alaska at a higher rate than previously, and that is continuing.

Fischer performed an analysis of homes built since 1980, and found that the average home is now valued at 20% less than when new; since 1985-86 homes have lost 30% of their value. Anyone building or buying a home since 1980 now has a negative equity, sometimes as high as 50%. Vacancies in apartments have risen from 4% in 1980 to 25% in 1987. Fischer states condo owners are in the most depressing situation because they have lost one-half of their values and vacancies exceed 50%. Fischer states the 70% owner-occupancy requirement contributed to the problem, and the situation is critical. Fischer points out that over 7,000 properties have been foreclosed and many more are delinquent.

Fischer discusses communications received by the Housing Market Council. Fischer states the average decrease in assessed value of Anchorage property is $24,000.00, per capita. Lower income level homes have decreased more than the upper level homes. Construction has dropped by 92%.

Fischer points out that when current leases expire there will be a further drop in rentals, again having a spiraling effect.

Regarding foreclosures, Fischer states the number has doubled each year for the past four years, and continues to increase. Fischer emphasizes the critical situation with respect to failure of several banks; the wealthy Alaska banks are doing extremely well. However, those banks do not generally invest within Alaska, and small banks invest entirely in Alaska.

TAPE ONE, SIDE TWO

Fischer continues with statistics on bankruptcies, reorganizations and liquidations. Fischer states that as existing bankruptcies close, there will be a continuing downward spiral on the economy. Fisher's report contains an analysis of the economic forecast of the Institute of Social Economic and Government Research (ISER). Rep. Gruenberg proposes that Fischer respond to questions.

Rep. Boucher states he has many comments with regard to bank activities and the impossibility of obtaining loans. Boucher believes the banking community has a social responsibility to Alaska. Fischer responds that banks feel their primary responsibility is to their shareholders. Boucher asks if there is a panic mentality, especially with regard to consumer spending. Fischer responds he is uncertain if anyone has reviewed consumer spending; savings have not gone down in the past two years. Fischer believes "the worst thing we could do is believe those who say the cancer will cure itself."

Rep. Miller asks how Fischer would "stop the leak" in the market. Fischer states he would concentrate on jobs as the best means of building the economy, especially those for the unemployed and underemployed, spreading the money as far as possible rather than creating a limited number of high paying positions. Fischer recommends "CCC type programs" and points out that the Alaska Conservation Corps is on the books now and would not require legislation. These would serve both urban and rural areas and provide many benefits. Fischer would eliminate substandard housing, improve neighborhoods, and eliminate 1,000 mobile homes. Fischer points out that University and senior housing needs could be met. Fischer suggests using Mental Health Trust Funds for housing for mentally ill. Fischer points out that ASHA has long lists of applicants for low-income housing. He encourages AHFC consolidate condo projects, and the legislature could establish programs to provide low-interest loans for housing. Fischer states there are numerous methods of taking action.

Fischer believes AIDEA can assist in the situation. Fischer suggests capital infusion into the Alaska banks which would help small businesses.

Rep. Miller comments concerning creation of temporary jobs. Miller asks if extra rental units being removed from the market will stabilize the rent market, creating a "double whammy" on renters. Fischer responds the housing and commercial markets are not close to being stabilized and cites examples of use of vacant units. Regarding temporary vs. full time jobs, Fischer states that will fill the gap, but will not retard recovery.

Rep. Ulmer states she is struck by the contrast between testimony from Lee Gorsuch and others and that of Senator Fischer. Ulmer asks how long it will be before permanent jobs would replace temporary jobs, and for which kind of workers. Ulmer believes part of what we are experiencing is a necessary shrinkage, however painful. Fischer responds he believes Lee Gorsuch would argue that you should spend $100 million to create 1,000 jobs; Fischer believes if leakage at the bottom is not stopped, there will be a continuing loss. Fischer again urges use of the Conservation Corps, especially in rural Alaska.

Sen. Josephson notes some recommendations are not in his report. Josephson expresses concern that there might be loss of more businesses, thus less competition, and result in increase in Consumer Price Index (CPI). Fischer responds that CPI is biased by housing and is not accurate. Fischer believes taxes would increase on those remaining, and quality of community services would decrease, requiring many adjustments.

Rep. Boucher refers to regionalization and phrases used. Boucher asks if we should consider protecting the state's credit line, and if there is a positive approach to this. Fischer responds he believes it can be done.

Rep. Rieger refers to testimony heard by the Housing & Banking Subcommittee and states the problem cannot be solved until there is growth outside of government. He suggests more emphasis in that regard. Fischer responds it is necessary to expand the economic base; that the report is not an economic plan. Rieger states economic recovery should be stressed.

Rep. Springer believes that there must be money from the private sector. Fischer gives figures for jobs created by CCC, stating $1 million will create 200 seasonal jobs. Springer questions how this would impact the housing market.

TAPE TWO, SIDE ONE

Rep. Gruenberg discusses differences in the opinions of Vic Fischer and the testimony of Gregg Erickson that the unemployment rate was a good indicator of the economy. Gregg Erickson is invited to join the Committee. Gruenberg clarifies that there was a fundamental difference, and from that difference they diverged in their conclusions. Erickson responds there is a difference in the analysis, but the unemployment rate is not the measure of the economy he used. Gruenberg asks if unemployment is the obverse of employment. Erickson responds negatively; that there can be rising employment and rising unemployment at the same time, which is often the situation in Alaska during a boom. Gruenberg asks

to explore the differences in the opinions of the two learned economists. Fischer states he believes the basic difference is the employment, describing ISER as an indicator and how it functions in studying employment. Fischer cites the problem as there being more in the economy than merely employment, including bankruptcies, foreclosures, etc., which are not considered. Fischer believes the ISER analysis is correct, but does not go deep.

Erickson states he read the Fischer report, and Gruenberg asks that he focus on areas of disagreement, of agreement, and then take questions. Erickson describes the report as summed up in the statement that the fabric of the economy is wearing thin so that individuals and businesses are losing their capacity to absorb further losses (p. 69, Fischer report). Erickson states the figures he has seen do not show the downward spiral occurring. Erickson cites demographer reports as not seeing a mass exodus. Also, there is always a decline in Alaska employment during certain seasons. Erickson states he does not see in the report an explanation of how the bank failures and financial distress creates the loss of jobs, or an analysis of what type of jobs are being lost, or the "leak in the bottom of the glass." Erickson does agree with many of the features of the report. Erickson concurs with Fischer that large sums of general fund money would not be necessary or desirable.

Rep. Gruenberg states a graph is being copied for the Committee, and offers Fischer an opportunity to comment on statements by Erickson. Fischer responds that many points raised are valid, i.e., documentation, and states the time constraints made information gathering very difficult. Fischer states the interrelationship between bankruptcies and business failures and job losses and housing are matters of logic. Fischer states the report is a result of actual communication, and that statistics are not the only factors for consideration.

Rep. Boucher refers to page 5 of the Commonwealth North Report: "Using the Permanent Fund as a positive counter-cyclical force in the Alaska Economy" and cites need to develop a yardstick or an Alaska Economic Index that reflects Alaska's economy. Boucher suggests the economists could accomplish that to enable the Legislature to determine the performance of the economy. Erickson states he is in favor of giving thought to the economic issues, and agrees with Rep. Boucher. Erickson states economists are inclined to consider primarily jobs and income. Erickson states any index would be a subjective way of analyzing the situation. He states that income drives consumption, pointing out difficulties in obtaining some information are the reason

Joint Committee on Economic Recovery
House

March 9, 1988

Present: Representative Max Gruenberg, Chair
Representative Niilo Koponen
Representative Mike Navarre
Representative Fran Ulmer
Representative Red Boucher
Representative Mike Miller

Witnesses:

Malcolm Roberts and Loren Lounsbury of
Commonwealth North

TAPE ONE, SIDE ONE

Rep. Gruenberg calls the meeting to order and states the committee will hear from Loren Lounsbury and Malcolm Roberts of Commonwealth North. Gruenberg states the subject of the meeting is using the permanent fund as a positive counter-cyclical force in the Alaska economy. Gruenberg points out that the Committee is considering legislation for recommendation to the full Committee.

Loren Lounsbury describes Commonwealth North (CN) which was formed 10 years ago to study issues affecting Alaska, the Nation and the world. CN was founded by former governors Hickle and Egan. The report presented was not intended to be a short term solution to the current financial problems and concerns, but rather as a long term situation to avert the present short term problems. Lounsbury states the report is not intended to convey that it is set in concrete and the only solution available; it is a means to set down ideas and thoughts on how earnings of the permanent fund might be used to benefit the entire state. Lounsbury is not aware of any other organized plan on how to use those earnings, although there have been numerous other proposals for portions of the funds. This report addresses the entire earnings without touching the corpus of the fund.

Malcolm Roberts refers to meeting with David Chatfield and the Anchorage Caucus on February 18 when some elements of the study were outlined, and reviews the recommendations. Roberts extends regrets of Mr. Chatfield that he is out of the city

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1583 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1380

nd unable to attend the meeting today. A team of volunteers, ommunity leaders, have met to consider the Alaska economy. he initial conclusions were that the framers of the Permanent und and the administrators have taken a conservative, wise ourse. It is an element of pride which Alaskans can have uring difficult times. Roberts notes that a board member ommented that if the $7 billion had not been set aside, the isaster we have now in some areas would be catastrophic.

n September 1987, the Committee reviewed the earning trategies, and suggestions for use of the fund in light of urrent economic situations. The Report of CN has been istributed. At page 3 are 8 recommendations, which Roberts eviews, as follows.

arnings of the fund can and should be used as a positive, ounter-cyclical force in the Alaska economy. CN recommends reation of an economic index to serve as a barometer to etermine when earnings left over after dividends are istributed should be injected into the economy to level out aks and valleys of the Alaska economic cycle. The Federal serve Board was used as a model. Alaska does not have the onetary tool the Federal Reserve Board does, but it has the rmanent fund earnings. The index should be used to make rnings available when times are tough, but "the spigot" also enched down when times are better. CN believes if the rnings are used in difficult economic times, and not when ere is improvement in the economy, there will be reduction the ups and downs of the economy.

p. Navarre asks if restraint could be exercised once rnings are touched. Roberts expresses a hope that there be barometer written in the statute to indicate when the onomy needs assistance, and when it should be turned off. commendation 8 suggests it not be put in the constitution, there is no protection from it being raided. CN believes the earnings are utilized and works, it will build a nstituency just as the dividends have.

p. Koponen refers to discussions when the permanent fund was rst suggested, and the long term projections. Koponen ates the permanent fund was "sold as a source of income for e state government so taxes would not have to be increased en the economy went down." Koponen notes that commendation 2 provides money be appropriated to nicipalities, and recommendation 7 that it not be used for ate government except in dire emergencies. Koponen states vernment grew relatively little during the oil boom, and ch of the money went to the municipalities and even rrently municipalities are being overfunded. Koponen states

municipal governments went heavily for programs and projects, and asks if the proposal is really the logical way to go. Roberts responds that the issue was debated at great length, and points out that the fund is held in trust for all Alaskans, current and future, and the dividend program is credible because it is "one person, one dollar" and when there is a distribution it is equal to everyone. CN believes the way to retain that equitable distribution of earnings, rather than to one program or area of the state, is to use a per capita formula, retaining the distribution which has been used in the past. CN believes when indicators drop there is no one closer to the heat of the problem than the local governments in terms of quick response. Roberts notes that the economy is spotty and that some areas do well, while others do not, so flexibility is needed. Rep. Koponen describes suggestions to increase the dividend share, allowing individuals to vote to pass it through to local government or the agency of their choice. Roberts agrees it is an alternative to be considered. CN's view is that local government should be a real player in deciding how funds should be spent, i.e., reduction of taxes, distribution, etc.

Rep. Boucher commends CN for putting together solid recommendations, and expresses concern over the forum by which decision is made. Boucher describes HB 160, which he introduced, to establish a commission on the permanent fund for a one year period because the key factor is that the majority of people need input. Boucher believes that any adjustment to the permanent fund needs public presentation. Boucher states the goal of the permanent fund must be defined. He supports the recommendation to establish a broad based economic index. Boucher believes the single most important thing to do is establish an Alaska economic index because consumer spending must be known.

Roberts states he has a copy of HB 160 and is happy to participate in any statewide dialogue on the subject. Roberts hopes a result of today's presentation will be drafting of legislation as a permanent reference in the future.

Roberts states recommendations 3 and 4 consider the missing factor in the state's spending and investment strategies over the last decade; spending lavishly to build capital projects and improve the quality of life, however they have required "feeding and watering" and have no capacity to generate the revenue to maintain and operate the facilities. Roberts states the missing piece of the equation is the investment in revenue generating projects that can diversify the economy. The graph on page 6 shows the need for such diversification. Oil revenues are described, and must be addressed.

Roberts states page 7 illustrates the type of projects urgently needed: docks, rails, causeways, electrical generating units. The infrastructure needed to attract Navy vessels to home port in Alaska is an example because the Navy rents facilities over long term periods. Roberts states the port in Anchorage is an example of generating jobs and providing a service with a ripple effect throughout the area. "It does not cost money, it makes money." CN does not believe Alaska should go in business for itself, but supports the role of providing transportation and power infrastructure to open new areas, reach new resources and develop foundations for new economies. An Alaska Development Board is recommended to research feasibility of such projects and present proposals to the legislature and the governor for approval and appropriation. The legislature would determine whether or not the projects would proceed. Roberts points out the projects would have been thoroughly examined, environmental needs addressed, and the economic feasibility considered before presentation to the Legislature. The 4th recommendation urges the Legislature to establish an Alaska Development Fund to provide a basis for funding such projects. Roberts describes the previous proposal for the Capital Investment Fund, and states "an enormous fund is not needed for the type of revenue generating capital projects" being considered -- bonding of Red Dog is an example of why large sums of money are not needed. CN believes a modest fund would be a demonstration of the Legislature's intent to diversify the economy.

Roberts points out the recommendation that proposals be written in statute rather than as constitutional amendments because oil revenues are too volatile to incorporate state spending policies into the Constitution. CN believes that if the proposals are adopted by the Legislature, then public support will keep them intact. If poorly managed, or fail, they can and should be changed by future legislation, without a constitutional amendment process.

Rep. Gruenberg clarifies that CN has presented proposed legislation, suggesting concepts embodied in three bills which the Committee members have in front of them. Gruenberg asks CN to comment on the legislation.

Roberts states the first is Amendment to Current Statute Pertaining to use of Permanent Fund Earnings, to allow for a counter-cyclical use of undistributed permanent fund earnings to be distributed to local municipalities on a per capita basis. Article 1 would establish the economic index. Article 2, using the index on an annual basis, the Department of Revenue or a council of economic advisers, shall publish the Alaska Economic Index to determine if permanent fund earnings

in excess of dividends should be added to or withdrawn from the economy. This could be written in the statute, and is recommended by CN. Recipients of the earnings, when the index calls for adding earnings to the economy, will be designated on a per capita basis to local governments. Community and Regional Affairs would receive and distribute to unorganized boroughs as was done in the 1982 per capita distribution. Each local government would be encouraged to make its own judgments as to the best use of monies received. Roberts states the statutes might include restrictions to prevent ballooning of municipal governments; the private sector might be called on.

The second suggested piece of legislation involves the Alaska Development Board. The need is to help diversify the economy. Article 2 addresses membership of the Development Board, with a recommendation that there be 6 members; Article 3 is qualifications. CN urges the Board have people with experience in creating major revenue generating projects. Article 4 is the method of operation, urging the Board to address major projects recommended by the legislature and others, maintaining a statewide perspective. Roberts points out that sometimes the statewide perspective is not considered as legislators look out for their own districts, and urges the board have a statewide perspective. Staff should be minimal much like the Permanent Fund, drawing when necessary on other departments.

The third suggested piece of legislation is the Alaska Development Fund. No specific amount of money is identified because it would be appropriate for the legislature to make that determination. Article 2 concerns management of the funds by Permanent Fund Trustees until they are deemed needed by the Legislature. Only the Legislature, with concurrence of the governor, may appropriate monies from the Development Fund. The decision, as mandated by the constitution, rests with the Legislature. Roberts points out this is a revolving fund, for projects which will return investments to the fund. Notice to the public if the Legislature or the Governor contemplate using the funds for any other purpose than as described, is required.

Rep. Boucher refers to Article 2 of the second proposal, Membership. Boucher suggests that membership be structured so that it does not create a political imbalance. Boucher discusses the recent Jobs Bill and membership qualifications. Roberts clarifies that it refers to the Development Board, not distribution of funds. Proposed legislation 2 is strictly for "bricks and mortar and projects that are revenue producing."

Rep. Koponen supports the proposal for an Economic Index, and points out that it is a complex question of indicators and public information, lag time, and other concerns. CN states indicators referred to are readily available Alaska indicators.

TAPE ONE, SIDE TWO

Rep. Ulmer refers to returns for money spent in various industries and suggests that CN analyze the concern, and make suggestions for targeting money more efficiently. Ulmer is concerned that distribution generally to municipalities may or may not produce the returns to the economy that are anticipated. Regarding municipalities, Ulmer states bureaucracy at the local level has grown, and points out that no municipality in Alaska has had a 32% reduction rate, as the State government has, in operating budgets. Ulmer questions the wisdom of per capita pass-through with municipalities because she is not certain it results in efficient use of funds.

Rep. Gruenberg notes that a need to start looking at what the Permanent Fund will ultimately be used for, and the proposal addresses this. Also, the proposal to use the Permanent Fund not only for potential funding for state government, but also as a damper on the boom and bust nature of the economy, is considered. Gruenberg supports this leveling of the economy. The mechanism proposed to determine the trigger is the Alaska Economic Index, drawn from an unstated premise of "it should not be a political decision." Gruenberg describes other methods to make it difficult to turn on the spigot, i.e., requiring a "super majority, or 3/4 vote of the Legislature." Gruenberg agrees with Rep. Ulmer that passing monies through the municipalities may increase the politicism.

Rep. Boucher states he has areas of concern because there is no feedback on the approaches. He commends CN for their efforts and presentation. Boucher believes a resolution establishing an Alaska Economic Indicator can come from this Committee.

Rep. Gruenberg points out that work to date has been done almost exclusive through the subcommittee process. Their reports will be considered on Friday. Committee members are urged, if they have legislation which they wish introduced through the Committee, to bring it to the Committee at any time.

Rep. Boucher asks for assistance in drafting proposed legislation to establish an Alaska Economic Index. CN

suggests contact with ISER, and Rep. Gruenberg states staff will assist.

Rep. Koponen asks for comments regarding a "leaky economy" in Alaska, investments "outside", safety of investments for the passive investor, and continuity in management and business. Koponen points out it is outside the immediate problem, but he believes it is a major, continuing problem, and where the Legislature can make a major contribution to the private sector without dipping into a particular fund or creating a bureaucracy. Lounsbury responds that perhaps Alaska has created a climate where it is not conducive for businesses to remain in Alaska after reaching a size; the market is inadequate to absorb their product. Lounsbury concurs that communication and transportation costs are a contributing factor. Koponen asks how to create a stable economy with a small population. Lounsbury points out that when a proposal is made to touch the Permanent Fund, the Legislature is attacked. CN made the proposal as a non-political entity because it makes sense, and can be done without "raiding the fund." Lounsbury states he was not originally supportive of municipal distribution, but has been convinced it builds a constituency for using the earnings, while retaining the "one person, one dollar" provision. Roberts points out that the Legislature can put conditions on the use of the funds, such as increasing their staff.

Rep. Gruenberg adjourns the meeting at 5:10.

tr no. 12

Joint Committee on Economic Recovery
House
March 16, 1988

Present: Representative Max Gruenberg (Chair)
Representative Niilo Kopenen
Representative Red Boucher
Representative Steve Reiger
Representative Mike Miller

Resource Subcommittee report given by Rep. Miller, highlighting subject of fish farming. Report approved as amended.

Small Business Subcommittee report given by Rep. Boucher. The recommendation was made for a business information networking system, i.e., Small Business Assistance Center. Another recommendation was establishing an economic index indicator, to evaluate our economy in a more consistent manner. Report approved. Economic index resolution approved.

Federal Home Loan Bank Bd. Southwest Plan resolution discussed. Resolution put on next day's agenda to amend.

Housing and Banking Subcommittee report, by Rep. Reiger.

Addendum prepared by Rep. Ulmer to Southeast Report, on fish farming.

Final item, Interior Subcommittee oral report by Rep. Koponen.

Rep. Gruenberg adjourned the meeting.

Trans 8

Joint Committee on Economic Recovery
House
March 18-88

Present: Representative Max Gruenberg
Representative Steve Reiger
Representative Kay Brown
Representative Mike Miller
Representative Fran Ulmer

Agenda: Discussion of progress of Housing and Banking Subcommittee
Discussion of Interior Subcommittees Addendum re: Recycled Products
Consideration of the amended version of the Southwest Plan Resolution
Senate Recommendations

Rep. Reiger: A draft report on the H&B Subcommittee report has been released, we met yesterday to put together hopefully a final version. There were a sufficient number of changes. It should be ready soon by the next meeting. We had some discussion on some items for discussion, re: consequences of the Supreme Court decision regarding foreclosures, and what kind of actions are appropriate under deed of trust; recommendations on the bridge bank ideas; etc. A few proposed ideas we hadn't acted on, we will have completed and reviewed in the next report.

Rep. Gruenberg: We'll schedule subcommittee reports as they are ready, that way nothing will be held up.

Discussion on scheduling arrangements followed.

Pg. 2, line 7-10 of the Southwest plan resolution was discussed.

Rep. Reiger: When Sen. Stevens was here and addressed the Joint session it was brought up that they already had looked at this and a Congressional Delegation had concluded it wasn't really applicable to AK. What I know about the Southwest Plan was that there was 2 elements to it, one was an infusion of outside, Federal dollars, and the other was a consolidation program of institutions. When this was brought to the committee last time my concern was on the consolidation side, because in the state we're down to about only 4 s&l's left as it is, and I didn't see a compelling reason to be on record favoring consolidation. The purpose of the amendment is to take that side of it out and focus more on bringing federal dollars inside.

Rep. Gruenberg: Unless anyone objects, I would entertain a motion that we would adopt the amendment, put it in and ask the Rules committee to introduce it by request of our House side; unless Rep. Boucher has a objection, in which case we'll bring it back.

Rep. Brown: I'm looking at the language on P. 2 line 17, and it doesn't seem appropriate to me to extend the Southwest Plan to Alaska, because I

think the situation is completely different, they had alot of small institutions and they were getting their efficiencies by consolidating.

Rep. Gruenberg: Since we now have 2 amendments we'll set this on the next meeting. Prepare an amendment in writing and check with Rep. Boucher, then we'll dispose of this.

I would propose we go back up to the Interior Subcommittee addendum, note the presence of Rep. Koponen.

Rep. Koponen: Since the Resource Comm. did mention the legislation, I didn't repeat that here. Enclosed to the addendum is a memo that tells some of the activities the Economic Development office of Fairbanks North Star Borough now in process. This addendum follows the original P. 4. The recommendations of the people at the Conference Saturday included the 4 items on P. 5:

1. The Dept. of Comm. and Economic Dev. in Cooperation with the AK Manufacturers Assn and the Interior Manufacturers Assn. should develop a professionally done marketing directory and brochure listing Alaskan manufacturers by name and product and distribute them...
2. Establish a state clearinghouse for business information. This was not as clearly defined. This information is available on state computer, but not everyone has access to those.
3. Procurement ombudsman to handle complaints.
4. Assist in developing a cooperative for small businesses, where the cooperative would own the facility, and provide not only space but management and bookkeeping services, technical expertise, and a central place for entrepreneurs looking for capital.
5. A complaint that came up is that they find that in dealing with state loan examiners, they do not comprehend the type of business many of them are in, and it was extended to a criticism also of bank lenders as well, oriented towards short term loans, real estate, retail, etc. Part of this problem is due to the cyclical nature of our economy.

I suggest we invite the Dept of Commerce venture capital specialist to address us on this problem sometime.

Rep. Gruenberg entertained a motion to accept the addendum as part of the Interior Delegation report. So done.

Considerations of Senate recommendations. Referred to subcommittees:
SCR30 to Housing and Banking Subcommittee
SB333 to Housing and Banking Subcommittee
Act relating to AID and export to Resources Subcommittee
SB471 to Resources Subcommittee

Rep. Gruenberg adjourned the meeting at 11:12.

Trans19

Joint Committee on Economic Recovery
House
March 23, 1988

Present: Representative Max Gruenberg (chair)
Representative Al Adams
Representative Mike Navarre
Representative Steve Reiger
Representative Kay Brown

Rep. Gruenberg: We have handed out the memo dated Mar. 21 from Sen. Sturgulewski to the Senate members of the Joint Committee. Apparently they did not get through all these bills, including the HB's. The next thing on the agenda is the interim report on the Housing and Banking subcommittee.

Rep. Brown: We do have a lengthy agenda for tomorrow where we will be considering some of the legislation referenced in the report. Specifically, the mobile home resolution, where we believe more direction is needed for AHFC, to take immediate action to resolve the situation that has gone on for more than 2 years. We'll also take up discussion of HAD loans. The working group Rep. Pourchot and I have been assigned to is to look at the issue of some of the surplus condos for public housing purposes, and we have a specific strategy for that. We'll also be taking up the Senate recommendations, and HB 430-431. We've decided to postpone the discussion of the foreclosure issues until the following week. That's about where we are.

Rep. Gruenberg: Is there a motion to approve the report of the subcommittee on Housing and Banking?

So moved by Rep. Navarre. No objection.

Rep. Gruenberg: We have already discussed the House Joint bills before the Senate committee.

Discussion on SB 409 changes the senate committee made, as well as other changes they made during their meeting. Tom Begich's statement were inaudible.

Rep. Adams: What was their understanding as far as the appropriation under the Bridge Bank or ?

Tom Begich: They did not adopt 409. (Additional comments inaudible)

Rep. Reiger made a brief, partially inaudible statement.

Rep. Gruenberg: The final thing on the agenda is an executive summary. What we are doing is putting together all the reports and the executive summary in the front, and we will distributing it to all legislators and

the press and the executive branch. Since the Senate did not get to the various resolutions we have approved, we are going to be talking to the Chairman of the Rules committee, asking him to introduce them at our request.

Rep. Gruenberg: I'd like a motion to approve the executive summary and we will send it around for signatures.

Rep. Brown moved, no objections.

No other business, meeting adjourned.

trans16

Joint Committee on Economic Recovery
House
March 25, 1988

Present: Representative Kay Brown (Chair)
Representative Steve Reiger
Representative Fran Ulmer
Representative Mike Navarre
Representative Red Boucher
(Reps. Gruenberg, Koponen and Miller are excused.)

Agenda: Old Business
Subcommittee reports

Rep. Brown: The Housing and Banking Subcomm. has issued a report, with the action of the subcomm. yesterday in conceptually endorsing SCR32 and CSSB333 (L&C), which were referred to the Housing and Banking Subcomm.

Rep. Reiger recommended those go forward to the full committee.

Rep. Navarre recommended the committee endorse SB392.

Rep. Reiger asked that they hold HB 402 until Housing and Banking Subcommittee has a chance to review it further.

Rep. Navarre recommended the committee consider SB471 (inaudible).

Rep. Brown found that acceptable.

Rep. Brown: Next we want to present Senate 3 bills, one is a resolution that were adopted yesterday by the Housing and Banking Subcomm. The 1st relates to management of mobile homes (Resolution). See pg 2, line 7. I would move that the full committee support and endorse introduction of this bill by the Rules Committee at the request of the House members of the J.C.E.R..

Rep. Navarre had a brief question, to which Rep. Brown responded. Rep. Navarre had no problem with the explanation. His remarks were partially inaudible.

Rep. Brown: If there's no objection, we would ask the Rules Chairman to introduce this at the request of the House members of the J.C.E.R. The next one would be and act relating to notice requirements on the use of a deed of trust and providing for an effective date.

Rep. Reiger: What this bill does is it tries to address a problem we received in testimony where a number of people indicated that they weren't aware that when they signed a note that was secured by a deed of trust that they were also personally liable as well as liable for losing their property. This bill requires the remedies to the lender be spelled out in the note, and if it's not spelled out, it's not there.

Rep. Brown: With respect to the other issues regarding foreclosure that are still on the table, we'll be taking those up next Thursday. We may consider additional proposals then, but this was one the subcomm. felt was good to help in the future. Without objection we'd ask the Rules Chairman to introduce this bill by request of the House members of the J.C.E.R. Moving on to the H.A.D. loans bill, this was recommended by the subcommittee.

Rep. Reiger: This bill is a result of some legal research Rep. Frank has done on whether the various corporations had the ability to restructure a loan in cases where it was the most prudent thing to do. The gist of the bill is that it has to be a restructuring that would have been considered prudent by private lending standards; it's a case where you have the choice between a loss or a reduced income for a period of time.

Rep. Navarre made an inaudible statement.

Rep. Boucher: If nothing else has come out of this, just AHFC adjusting it's attitude to help solve the problem has been one of the major benefits. We've just got to keep pushing on them. I have letters all the time, that there seems to be a lack of communication, so we've just got to keep pushing to get it.

Rep. Brown: If no further discussion, we'd ask the Rules chair to introduce this bill by request of the House members of the Joint Committee. Before we leave the Housing and Banking Subcommittee, I'd like to call your attention to this supplemental report. We came up with the strategy and recommendations on using surplus housing for public purposes, and recommended that specifically we establish a mental health pilot program and that over the interim further work be done to determine the feasibility of additional programs of this type, or expansion to other areas, i.e., DD, elderly, students, handicapped, etc. Rep. Pourchot did alot of work on this area, and found this would be a suitable area to select for a pilot. We also reviewed HB429, 430 and 431. We conceptually endorse those proposals. I would move the full committee accept the recommendations of this supplemental report dated Mar. 25, 1988. No discussion or objection followed.

Rep. Boucher: Regarding the Southwest Plan, we have seen assistance, but there's just been a vacuum as far as Washington is concerned as far as this entire economic problem. If there is some assistance in whatever form it may be, we ought to look at it instead of trying to solve all the problem in Juneau. It's obvious alot of money has flowed into Texas by FDIC, FSLIC, etc. I think as the leading resource producing state suffering much the same problems, this should at least call Washington's attention to it. I think you, Rep. Brown, recommended we change it to the Alaska Plan. The only reason I left it as is, is so they'd have no problem identifying it.

Rep. Brown: Looking at pg. 2, line 16, the resolve could be reworded to " to consider extention of assistance to financial institutions in Alaska similar to the Southwest Plan. Any objection? See pg. 2, line 16. The motion is adopted. On the full resolution, without objection we'll add "a copy to the Federal Home Loan Bank Board." Without

objection, we'll ask the chairman of the Rules Committee to introduce this bill on behalf of the House members of the Joint Committee. I understand from Mr. Begich the Senate committee did not meet yesterday and therefor there is no report at this time. Apparently they plan to meet Monday.

No further business, the meeting was adjourned.

trans 30

Joint Committee on Economic Recovery
House
March 30, 1988

Present: Representative Max Gruenberg (Chair)
Representative Steve Reiger

Tape begins after Senate report.

Rep. Reiger made inaudible remarks, as if he wasn't pushing his microphone button down all the time while he was talking.

Rep. Gruenberg: I would encourage you to invite members of the Senate to your subcommittee meetings to speed things along. It seems like you're both working in a parallel manner. The final item is discussion of future House committee meetings. we have a hearing scheduled for April 9, Saturday, at the Anchorage LIO. TR's will be provided for any of you who want to go. We are also dealing with the insurance crisis, as this has had a major effect on some of the small businesses, especially. What you've done with your reports is formed the backbone of this report, along with the executive summary. I'd also like you to think about whether you'd like to continue during the interim.

Rep. Gruenberg adjourned the meeting.

trans

Joint Committee on Economic Recovery
House
April 7, 1988

Present: Representative Max Gruenberg (chair)
Representative Red Boucher
Representative Niilo Kopenen
Representative Steve Reiger
Representative Kay Brown

First item on the agenda is a Committee Report from the Housing and Banking Subcommittee.

Rep. Gruenberg: One of the aspects that all of us are concerned about is the effect of the unavailability of insurance on the economics of this state, particularly the small business community, industry, etc. This is something that has not been examined from the point of view of the economics of this state. Specifically in recent weeks there has been a national focus in this because some 9 states have formed 3 lawsuits, one lawsuit involving 8 states, one lawsuit involving Texas, and these charge various insurers with collusion in violation of federal and state law to provide certain requirements in policies that have made insurance of various types either very expensive or unavailable altogether. What we are doing today is starting several hearings on this issue with several goals in mind. I would like the committee to consider several potential suggestions:
Suggestion #1: Whether this state would be well advised to join one of these lawsuits. This is the lawsuit that specifically that has been commenced by 8 states in Federal District Court in San Francisco, led by California; or indeed possibly commence it's own lawsuit here. The reason that is a suggestion I'd like to throw out is there maybe a possibility of the availability of Rule 82 attorneys fees, which might make a significant difference on whether or not we would recover if we were a prevailing party.
Suggestion #2: Whether it is in the best interest of the state to seek a repeal of the McCarran- Ferguson Act. The House, last year, passed out HJR 25, urging the repeal of that act, and that bill is presently in the Senate Labor and Commerce Committee.
Suggestion #3: Whether we should amend AK statutes to end the exemption from the state's little anti-trust act for insurance activities.

Rep. Koponen made some suggestions on how to deal with these issues.

Tom Dove: Just by way of background what we do have at the present are 8 separate lawsuits by the 8 states which have chosen to file Federal actions, for violation of the anti-trust laws of the U.S. We also anticipate that there will be additional states joining us here in San Francisco in the very near future, I would firmly recommend that possibility for the state of Alaska. This office received throughout 1985 a series of communications from business groups, citizens, non-profit organizations, and others because of the increasing

availability and affordability of liability insurance. Although we do not normally involve ourselves in day to day operations of the insurance department, the severity and the frequency of these complaints became an increasingly significant factor in this office's determination that something might be appropriate. Finally we were contacted by the mayor of a small community whose community is one of 18 cities who jointly purchased general liability insurance, and had been doing so successfully for quite a few years. However, as of the first part of 1986, despite the fact they were using professional brokerage services, and had approached by Jan. of 86 over 80 different property casualty firms who do offer general liability coverage in California, they couldn't get any insurance from any firm for any price. Our investigation took on an availability point of view analysis. We did not emphasize affordability, per se, I think you should realize that from an anti-trust point of view, the insurance industry can literally fix their own prices, and as such, for us to have spent much of any time on the question of pricing would have been difficult. We began informal activities Jan of 86, by May of 86 we discovered Texas, likewise in response to allegations concerning potential collusive activity within the industry had been undertaken beginning in March 86. As we joined forces by June 86. Throughout the summer of 86 this office and Texas issued subpoenas and conducted examinations under oath of executives, agents, brokers, etc., from the industry. By the fall of 86 we had reason to believe there was at least the possibility for collusive activity, particularly on the re-insurance side of the equation. By fall, 86, we asked other states if they were interested in joining our efforts. At that point, Massachusetts, Minnesota and New York joined in the effort. We had a 5 person team in London Mar., and April 87, and the information we obtained as a result of an earlier investigation we have completed many interviews and reviewed much material, and picked up 4 additional states along the way, regarding to claims of collusion, cooperation and conspiracy within the property casualty industry, specifically with regard to the terms and conditions under which commercial general liability insurance is available in this country. That's a quick summary of how we got to where we are.

Rep. Reiger asked why these lawsuits aren't a number of plaintiffs under one lawsuit, instead of each state individually.

Dove: Each state is trying to pursue their own state law claims, secondly with regards to the way in which lawsuits are structured, 7 of the 8 in San Francisco are class action for damages, there are minor differences between the different lawsuits, all of which led to the decision to file independent suits, but for purposes of the pre-trial proceedings, all the suits have been ordered to related and coordinated before one judge. In effect, it's going to be tried as if it was one suit. Most of the cities and counties down here who were able to buy commercial insurance at all (I.E. in California, less than 10% of any cities were able to buy any form of commercial insurance) were forced into what is known as the surplus ??? markets, where the quality of the product is significantly reduced from that which is normally available. So you have damages measures based upon increased premium and reduced product for your dollar. There are various ways to approach the question of damages.

(Some of the statements here are inaudible.)

Our suit concerns itself with quality of product. Under the anti-trust law, insurance companies can, and do regularly set premium rates and, ultimately, consumer prices. However the anti-trust laws, do apply to agreements to boycott, coerce or intimidate, including the consuming public. We have evidence of an effort by the main defendant to bring about a reduced quality product in the commercial general liability field which product was made available to the public, and it is in regard to product of the ? price that we are bringing our lawsuit.

Rep. Gruenberg asked if it would be beneficial for there to be a change in the McCarran-Ferguson Act eliminating the exemption from the Federal anti-trust act for insurance companies.

Dove: The AG, of California, went on record of repealing the McCarran-Ferguson Act exemption. All 50 A.G's have spoken to that subject. As a practical matter, you don't need the McCarran Act, it was put in place in the late 1940's when the anti-trust law was nowhere as developed as it presently is. The day to day exemptions and interpretations of the anti-trust law are such that all of the historical actuarial data that is necessary for an insurance company to have available to it to take advantage of the law of large numbers to do the kind of underwriting that needs to be done to adequately assess risk and price of the product, are all available within the 4 quarters of the Sherman Act, you do not need McCarran-Ferguson in order to run an insurance company. The industry has taken what is an exemption and treated it to be an immunity, and used it as a shield for alot of activity for which I'm sure Congress never anticipated. This act has impeded the prosecution of anti-trust cases against the insurance industry. We've seen repeated evidence of collusion and price-fixing activity and product fixing activity that in any other industry would probably include a criminal indictment.

Rep. Gruenberg: It has been suggested to replace the ISO with public directors or alternatively to seek the establishment of a federal statistical agency in place of ISO, would you care to comment on that?

Dove: One of the things we do ask for in the lawsuits that have been filed here in San Francisco, is that we put a little sunlight into the process of ISO, and have public members appointed to the board of Directors. If you break up ISO as proposed and strip out some of it's forms probably many accounting firms would have an additional side-line business they could offer to small and moderate size insurance companies. If McCaran-Ferguson were repealed on the federal level that the inevitable result would be that ISO would have many of it's functions stripped away, in recognition of the anti-trust violations associated with those functions. On a state level, we are considering doing away with the exemption under state law. There is no reason why Alaska could not take it upon themselves to effectively regulate under state anti-trust laws the activities of ISO. However I'm hopeful that Congress will act to repeal the McCaran-Ferguson Act. I don't think it's necessary for the federal government to be involved, let's let the private industry do what it does best.

Rep. Gruenberg: Is ISO regulated by any level of government?

Dove: ISO is regulated in one form or another by all 50 states, it is recognized as a rating bureau by 49 of the 50. Your insurance commissioner could speak to the Alaska situation. The actuality of regulation of the insurance industry varies quite dramatically, there are approx. 14 states, of which California is one, where the insurance commissioner's regulation is very minor, and at the other end of the spectrum, are states where there is a very "hands on" approach. It is statutorically recognized in all 50 states and in that sense in one level or another is subject to regulation.

Rep. Gruenberg: Looking at the various lists, the 8 states involved in your series of lawsuits and Texas, the only small state is W. Virginia, I see no representative of the small, mountain western states. Do you feel it would help to have that class of state in the lawsuit?

Dove: I think so, there are about 22 states which have contacted this office and indicated a strong concern in the possibility of filing here in San Francisco. We are cooperating with any and all states which have expressed such an interest, and would welcome the filing of any state. Assuming we are successful, it would be nice to get some monies back for your cities and counties, and without a filing that's difficult. Under the state statutes pursuant to which each one of the present actions is filed,the A.G's of the respective states only have the authority to bring the the anti-trust suits that have been brought on behalf of the public entities. That doesn't mean that private actions will not be filed and in fact are being filed right now. I'm aware of at least 5 class actions which have been filed subsequent to the filing of our suit, which represents small businesses, not-for-profit organizations, etc., so there are private industry actions being filed, but the public entity actions are normally brought by the A.G. on behalf of the public of the respective state.

Rep. Gruenberg: Do you believe it would be helpful to establish whether the situation in AK is any different as far as the liability or the activities of the defendant than in the other states?

Dove: we are interested in obtaining information from any state with regard to what we believe to be nationwide. The state of VA did a survey on availability and affordability of general liability business in VA and it matches up to California, Texas and New York. The industry constantly has stated that availability is a direct reflection of jury experience, high jury awards, increasing number of lawsuits, decreased availability, and reduced capacity companies decide to go elsewhere to do their business. When you have a state which is 60% below the national average having the exact same problems as California and the other states, so this kind of data is intriguing to all of us. Your A.G.'s office has to choose which cases are critical for them to deal with, dependent on if there's the staff and resources to be able to do so. I don't have a final figure on how much it would cost to participate, we are conducting the suit from March 1st onward on a basis of a cost sharing amongst all of the states filing, the original expenditures are almost close to $2 mil. amongst the 5 original states.

Alaska's population being what it is and given the number of states filing, it would probably depend, it will probably be under $50,000, plus additional expenses for travel, staffing, etc.

No further questions for Mr. Dove were raised. The committee stood at ease for a few minutes. Came back to order at 9:25 a.m. Present for questions were Mr. Paul Rohler, Dir., Div. of Insurance, Mr. Richard Monkman, Ass't. Attorney General.

Rep. Gruenberg clarified the reason for a cost to be involved in the lawsuit.

Mr. Monkman estimated the cost to be involved in the lawsuit for the remainder of 1988 would be approximately $10,000, $40,000 additional for 1989. If the Govenor's budget passes, existing personnel would be sufficient.

Mr. Rohler stated that the lawsuit has a very sound basis from the materials reviewed thus far. On April 19 there is a briefing where California and New York will be going over the case information, so a decision as to whether to participate or not would be made by the end of the month.

Mr. Monkman: The state has been following this investigation since it began in 1986. From those briefings my personal observation is that the lawsuit has a very sound factual basis, and the legal theories on which it's based are also very sound. It's a very complicated and expensive investigation, in general the states that have participated are assigning 2-3 full time attorney generals to this case for the past 2 years. As Mr. Dove mentioned, there have been literally hundreds of witnesses that have been subpoened and have testified over ½ mil. documents have been reviewed in England, they've done a very thorough job in this investigation. The A.G."s office wants us to review the materials gathered very carefully, to attend the briefing on the 19th of April, and then after that discuss the matter in depth with Gov. Cowper and go from there. A.G. Schaible does not want to rush into this decision. As to filing a lawsuit here in AK, that would be a mistake for a number of reasons. The form of lawsuit is designed to avoid getting into the multi-district litigation laws, for that reason all of the litigants have agreed to file a lawsuit if they're going to, in San Francisco. The advantages to doing that would greatly outweight the advantages to doing it in AK. Also, as part of the multi-state team, we would have the advantage of (undecipherable), whereas if we filed in the state we'd be basically on our own, and it would be horrendously expensive.

Rep. Gruenberg: If the lawsuit were filed in the District of AK, could you, in your pleadings, ask for Rule 82 attorneys fees?

Monkman: We could ask for them, I'm not sure we would get them.

Rep. Gruenberg was wondering whether it would be helpful to file in AK. and then seek to remove and consolidate, so you'd have the advantage of the initial (undecipherable) and you could ask for Rule 82? and then get it back where it belongs?

Monkman: Each of the individual state lawsuits are alleging not only violations of the Sherman anti-trust act, but violations of specific state acts, which come in ansillary to main action. Our intention, if we were to join this lawsuit would be to defer to the team of attorneys that have been working in it who will be presenting the case, and aiding them as best we can.

Rep. Reiger: If these other states win, can't we just go in and say, Me too...what's the reason to be part of the initial group?

Roller: The main reason is to solidify the cause of action for damages early on. The liability part of the lawsuit is important, getting injunctive relief to prevent those companies from carrying on the same sort of activity in the future, and that is going to have a national impact. By being a party to the lawsuit, as it's progressing, we can establish the factual basis for liability for Alaska. The A.G. of AK can sue for damages on behalf of public entities under the Anti-Trust act and ultimately consumers under the Consumer Protection Act. A violation of the anti-trust act is unfair trade practice. What we can't do is obtain damages for some classes of businesses, etc. If we get a judgement, that can be used as evidence of liability by any other party that comes in. If the state of AK gets a judgement against these companies in Federal Court, then any private entity that's been damaged can come forward and have a case. By participating in the first part of the lawsuit, we will open the doors for injured AK businesses to get damages later on.

The fixing of the prices aspect is not a direct part of the lawsuit, but availability of types of insurance coverage that you can get is.

Rep. Gruenberg reiterated some points made earlier. He adjourned the meeting at 9:50.

trans 17

Joint Committee on Economic Recovery
House
April 8, 1988

Present: Representative Max Gruenberg (Chair)
Representative Kay Brown
Representative Steve Reiger
Representative Niilo Koponen
Representative Red Boucher (Juneau)

Testifying: General Public

Rep. Gruenberg: We would like to take up several proposed pieces of legislation from AEDC, which Rep.'s Reiger and Brown have had drafted into bills. For the purpose of discussion, we have one, one page bill, labeled, An act relating to an exemption from municipal taxation for economic development property and providing for an effective date. The second is entitled, An act relating to reduced utility rates, fees and charges for qualified economic development projects, and providing for an effective date. We would like to take these up because we need to have a quorum of the committee to recommend they be introduced. Then, Rep. Boucher will need to leave and we will start taking public testimony.

Rep. Reiger; The first bill was essentially crafted by the AEDC. I looked at it and I believe it is certainly worth discussion. What the bill does is allow a local option for municipalities and that local option would be to foster economic development through a different tax for that package. The net result of the bill would be to allow a municipality to undertake such an enterprise without mandating it. After the committee processes it I think it will be a good idea.

Rep. Gruenberg: For the record, Assemblyman Jim Kubitz was on the plane with me this morning, and we discussed these bill and he said they have been reviewed by the Anchorage Municipal assembly and unanimously have been supported with a resolution to that effect.

Rep. Brown: My staff person informed me there were some changes made in the Cook Draft, line 28, sec. 2. It was the drafters suggestion we change the effective date of the act to Jan. 1, 1989, to have it conform with the beginning of a tax year. The draft submitted by AEDC has an immediate effective date. The 2nd change is the definition of economic development property, on lines 21-27.

Rep. Gruenberg: It looks like a language change. Contrasting it to the language on lines 23 and following.

Rep. Koponen: The definition extended to personal property, machinery, etc., this also extends to real property, I was wondering if that meant real estate or what, we need a tighter definition of economic development property.

Rep. Reiger: I understand Rep. Koponen's concern. My response is I could see cases where the tax incentive may apply to real property just as well as the instrument production, part of the production can be an improvement to the real estate rather than an actual piece of machinery.

Brief discussion followed. Rep. Brown mentioned the subcommittee has not formally discussed these bills.

No objection was raised, the bill will be introduced at the request of the House members of the J.C.E.R. The second bill is the utility bill.

Rep. Boucher had to leave early, so he had a brief question. Rep. Gruenberg mentioned that APUC has not discussed this bill yet, but only now will it be introduced, and the APUC will have a chance to discuss it at that time. Rep. Gruenberg suggested that because of the number of questions, the bill be held on the calendar until the next day when Scott Hawkins will be testifying and can answer questions.

Rep. Koponen suggested making an amendment to the first bill by deleting the phrase "real or" on line 22. Motion to reconsider motion to pass the bill out. Brief discussion of wording. Rep. Reiger recommended leaving the wording in to encourage discussion of that point in the full committee. Rep. Boucher agreed with Rep. Reiger, as well as Rep. Gruenberg. The amendment didn't pass, the bill will be introduced as is.

Public testimony began.

Jerry McCutcheon: Extension of Lake Hood, Anchorage is in need of float plane parking, there was a list of 1,300 people waiting. After they started charging, the list dropped down to 583. Now the list is only 58 years long. It's winter jobs in AK. There are at least 2 aircraft manufacturers, 2 potential float plane manufacturers, 4 manufacturers of aircraft skis, and 4 engine and wing cover mfgrs. in the local area. It would add 1,000 new pilots, $2 mil to the economy. The utilization of the extra spaces would add $15 mil to the tax base, etc.. Therefore, I would like someone to move on the completion of the expansion of Lake Hood, with a completion date of summer of 1989. Second, there is a need for the military to go out on glaciers, not necessarily Eklutna, but the military does have ? Lake near Ft. Richardson. Access is needed to that lake for float plane parking. I object to the housing trades, it should be a level playing field, they shouldn't be giving their money away. The proposed ski area: I don't think the state is playing it very straight either with the legislature or with the public on the Rogner-Eagle River ski area. We have had good weather for 3 weekends in a row, and I have flown in many other times. No one ever used the area even though it's adjacent to the Arctic Valley. I don't think it's ever going to make it. There's just no snow there, I don't think it'll make it.

Rep. Reiger: There is a DOT plan for the expansion of Lake Hood. On the housing trades, my thought on that is that it would be equal year values (1988 for 1988).

Rep. Brown and Rep. Gruenberg concurred with Rep. Reiger.

Rep. Gruenberg had a question about there being no snow in the proposed ski area. Mr. McCutcheon mentioned it was more times than he could remember. He favors a road through that area through to Crow Creek Pass. Mr. McCutcheon spoke of another idea he had, on developing coal, shale, etc.

Belle Dawson: I feel we need to develop our tourism industry further, and if we open coal mines, etc., they'll only give us a few jobs, and in the long run destroy our unique features that attract people to Alaska. I really wanted to talk about small businesses. When I go to a bank for $15-20 K, they don't even want to talk to me, it's not feasible for them. SBA won't help, they say there's no money available for small business ($500,000 or less). One of the real needs of this session is to invest in loans for small businesses, so they can get started, provide employment and help circulate money. There are more of us than you probably realize, and we just fall through the cracks.

Rep. Gruenberg mentioned HB471. Rep. Reiger mentioned the possibility of calling it a personal loan and using it for the business.

Norman Roper: There's a number of points I'd like to raise. One of my concerns is the commercial real estate market, I've been a personal broker for 15 years, and I've been involved in giving ideas to the municipal administration. This is a very difficult problem. The biggest difficulty is putting our hands on legislation to deal with this. It seems we need to be able to form some kind of R & D group to be working on this problem. A potential idea might be some kind of joint operation between AHFC and AIDEA, and drawing on their funds for this. The AIDA has impacted the Anchorage economy with oversupply of office space. Mr. Wagman and myself agree on what's happening now and what direction AIDEA should go for in the future. One specific recommendation I'd like to make upon consultation with Mr. Wagman is to look at increasing the number on the Board of Directors of AIDEA, from 5 to at least 7 members. One reason is due to recent appointments by the Governor, there's no one from the Southcentral area on the Board now, other than Comm. Smith. There's also a limited amount of banking expertise on that Board as well. This is a small thing that could be done immediately. The idea of using the wealth in the retained earnings(AHFC reserves), it's an extraordinary source of funds we can utilize to help us get through the coming difficult years. I agree with almost every potential solution of the Housing and Banking Subcommittee.

Rep. Brown: We do recognize use of the reserves might be appropriate, we had a bill I hope that was introduced today that would authorize AHFC to use up to $10 mil. of it's reserves for projects of this type, Willow Park one on the front burner.

Rep. Reiger: On the subcommittee report where it says, "Cost to the state: little or none.", there's a theory behind that, it means recognize what would have happened anyway, a loss which would have occurred anyway if no action had been taken. As far as the AHFC earnings reserve, it's really not earnings, but there is capital there.

Mr. Roper: One suggestion for the legislature this year is to pass a resolution directing AIDEA to be prohibited from lending or participating in the lending of any new development of office space, taxable or non-taxable, forever!

Brief comments on various ideas followed.

Rep. Reiger mentioned one of the bills Housing and Banking Subcommittee introduced requires the note to specify the remedies of the lender and the securities behind the lender.

Rep. Brown asked Mr. Roper on his impressions of the Bridge Bank ideas.

Mr. Roper hadn't viewed the legislation, but knew of some of the ideas. He voiced his opinions on some of the various ideas. The AEDC proposal was the only one he thought had good merit, because of operating as a non-profit type operation, which wouldn't have to seek a large amount of state funds.

Alan Fuller made some brief remarks. Rep. Brown volunteered to make an update on bill numbers, etc., for organizational purposes to move issues along. Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House
April 9, 1988
Anchorage

Present: Representative Max Gruenberg (Chair)
Representative Kay Brown
Representative Red Boucher (Juneau)

Testifying: Scott Hawkins, AIDC
General Public

Rep. Gruenberg: For the record, we took action on the one page bill which had been distributed yesterday recommending it be introduced. Mr. Ted Moninski is here to speak on the utility bill. Mr. Hawkins will explain the purpose of the bill.

Mr. Hawkins: I represent the AEDC, approved by the municipality a year ago in June, to go out and promote economic development. I took this spot 6 months ago to head the corporation. We have very quickly found that compared to other states and cities we had very little to offer in terms of economic incentives. With regard to the utility bill, it is enabling legislation. It gives the APUC clear guidelines that if the utility proposes an economic development incentive rate that under state law this does not violate any section of that law. The APUC can then go through the public process, see if at the local level there is support for that kind of a rate filing, and rule on it. They wouldn't have to be concerned then if it violated state law. It's very similar to the property tax bill, it just enables localities to make that choice.

Rep. Boucher was wondering if in the process of drafting if AEDC had coordinated with APUC. Mr. Hawkins said no, all they wanted to do was make this permissible rather than requiring anything of any local area. Rep. Gruenberg explained that the only action this committee would take is to have the bill introduced.

Mr. Moninski: This morning is the 1st time I've had a chance to see a draft of the bill. I was personally involved in the drafting of the language in the lifeline legislation that proceeded through the House last year. One concern of that was a provision of Title 42, 05.391. (Partially inaudible) We had to determine that there might be certain instances when some form of rate discrimination might be appropriate and permissible under the statute. I don't see any reference in the proposed legislation to Sec. 391, that's an area I might make some suggestions to Mr. Hawkins about. Some other concerns, again referring back to the lifeline legislation, was if you have a utility whose ability to earn is subject to the APUC's jurisdiction, the process we go through in our proceeding is the utility demonstrates it should be allowed to earn and cover certain cost expenses, including a reasonable profit. We refer to that process as the termination of the revenue requirement for that utility. Once the revenue requirement has been

determined the utility has a legal right to earn that revenue requirement. If during the course of setting rates we shift some of that recovery process from one customer class to another, the utility still has a right to be made whole (?). The implication is that other customer classes must somehow make up the difference. I'm sure that's essentially the logic that's behind the anti-discriminatory provision of the statutes, and certainly something we look at closely. What's unclear to me as I read the proposed change to pp. M of Sec. 381 is how that process would take place. The only other item, there's some reference here to the political subdivision in which the project is being developed. Having some responsibility for determining whether or not this is one of the projects that might be eligible for these special utility rates. Clearly that seems to be an appropriate thing to do where a political subdivision actually owns and operates the utilities and providing the services. Where you might have other corporate entities, utilities provide the service within the boundaries of the municipality, it's confusing as to what authority or responsibility the political subdivision would have for these other entities, i.e., Chugach Electric providing services within the boundaries of the municipality of ANchorage, it's not clear to me what the relationship would be between those involved.

Rep. Gruenberg: Given the fact that we have just less than a month left, do you think you'll have enough time to review this thing, if the bill is introduced?

Mr. Moninski: I don't think there'll be a problem.

Brief discussion followed.

Mr. Hawkins: Inserting a time limit into the bill is a good suggestion. Our intention is to provide capital recovery, not to provide a perpetual subsidy. We have coordinated with a couple of major utilities, Chugach and MLMP. We want to make sure that whoever gets this incentive will bring new economic activity and expand the economic base. Also, in response to Rep. Brown's question, as the economy contracts, the amount of revenue the utilities makes contracts. The result is higher utility rates and lower income for the utility. They have a great deal of incentive to promote a stable economy, to expand the economic base, etc., that gives them a more stable environment. At this point in our economic cycle, increased economic activity could actually lower rates for utilities and higher earnings for the utility. The question will be what kinds of businesses it could apply to. There will be clear cases where there is no competition, i.e., if a manufacturing plant comes in to produce a product that's not currently being produced here, or air transportation company would provide service that's not currently offered. The assembly or whoever would have to waive whatever competitive effects it would have with the worth of the expanded economic base. Under the bill we submitted, that group would be the assembly. Once the rate was filed and approved, the project would have to go to the assembly to be approved at a reduced rate. One way to cap this would be a maximum load demand. Those projects under that cap might not have to go before a board for consideration.

Rep. Gruenberg: If you have any changes to make in the draft, see Tom Begich of my staff, then we will bring this before the committee for a motion on whether or not it will be introduced. It sounds like Rep. Brown has some ideas as well. We have another bill: An act relating to exemption from municipal taxation, for economic development property. I would appreciate it if you would explain to the committee what the bill does. There was one amendment, line 22, delete phrase, "real, or". Mr. Hawkins.

Mr. Hawkins: This bill is similar to the one we just saw. It's enabling legislation that gives localities the flexibility to offer property tax incentives as a tool for economic development. We did propose a 5 year limit, and we proposed it be approved by the local governing body on a case by case basis. It's a taxation and revenue matter. We don't feel a blanket program would be appropriate because of the inherent level of concern on such matters. The inclusion of real property is key to this bill.

Rep. Gruenberg: Would it be helpful to state "exempt or defer" from taxation, because a municipality may not choose to exempt somebody from taxation. The committee has already voted on this, but I didn't think of this at the time.

Mr. Hawkins: That's an excellent suggestion. When we drafted it, the terms "in full or in part" I thought might include deferring, but if that's not the case, I think that change should be included.

End OF TAPE 1, SIDE 1.

Rep. Boucher thinks the utility piece of legislation needs alot of work. Mr. Hawkins is smiling and nodding his head.

Rep. Gruenberg: On the one page bill, would there be any objection to amending line 12 to "exempt or defer from taxation"? I'll walk that around to see if anyone has a problem with that.

Charles Konigsberg: You want suggestions for economic stability, and given the way our system works, as Mr. Hawkins has just demonstrated, stability is impossible in our system. We never have developed this here. We know enough to prevent boom-bust but we didn't do it. What do you gain by allowing marginal operations to come into being and then under certain conditions which are inevitable, they fail? The only sensible thing in my view for the legislature to do at this time is to let the economy sift itself out, so then it demonstrates what it's capable of maintaining and sustaining on a stable long term basis. Nothing that has been said is any different than in our economic boom. You use the same language, people are coming to you for the same kind of subsidies, even when there were millions available. Isn't there something wrong with a system which, in it's decline, as well as in it's descent, you talk about things in exactly the same way? That's what I mean with the issue of stability is absurd. People are not trying for stability, they are just trying for more, more, more. So let's be honest about it. I'm not pointing fingers at anybody. Don't get to close to it, you'll get confused. Why is it necessary for public funds

to be used in the manner in which was recently suggested, exempting public utility rates, taxation, etc.? Where are the millions and billions that were made by people here in the boom? Why hasn't that money been put to work? Why is it only public money that must be addressed? Is there any guarantee that we will benefit from what you're proposing in these bills, anymore than we did then? That money's probably in Hawaii or somewhere. One would have thought that with the advantage of hindsight Anchorage could develop a socio-economic system from the lessons of the states below. If you're in Alaska you get a little more, it's get...get...get. My suggestion is do as little as possible. You don't know what is going to be good, I don't think you should be helping groups out, individuals, O.K. If you want to help people in depressed conditions, find out what people were doing traditionally, that worked, and help them do that a little better. The only reason I moved to speak is we try to keep people unsatisfied so they want more.

Rep. Brown mentioned helping the tourism industry would be a good industry to enhance and help support to keep and bring money into the state.

Mr. Konigsberg made brief additional comments.

Jack Keene: The philosophy of where are we going and what do we want to achieve is a good one at this time. One thing I don't see in here is the possibility of building up our university system. Regarding the economic problem, one thing we need is new money, not only from tourists, but also from students, loans, grants, etc.. Some of the talk about excess housing being used by students is an excellent idea; taking the idea one step further to making an introductory offer to advertise and draw additional students here. If we looked at that as some help for the economy and a social benefit, we might find some good in it.

Rep. Gruenberg: Anyone else who wants to testify? Thank you, this meeting is adjourned.

trans 13

Joint Committee on Economic Recovery
House
April 11, 1988

Present: Representative Max Gruenberg (chair)
Representative Mike Navarre
Representative Steve Reiger
Representative Kay Brown
Representative Niilo Kopenen
Testifying:
Mr. Rohler (Dir of Div. of Insurance)
Mr. Craig Berrington (Gen. Council to the Amer. Insurance Assoc.)

Mr. Rohler: I'd like to speak on the exemption of the McCarran-Ferguson Act from the anti-trust statutes. In 1946 when McCarran-Ferguson was passed, that anti-trust exemption applied to the business of insurance, and specifically to the insurance companies themselves. Since then there have been a number of court cases which have narrowed this exemption, and now the exemption on that act is exactly equal to the state anti-trust exemption. There'll be disagreement on this point, but I honestly believe this. Under Title 21, 36 080, theres a specific exclusion under state law regarding this act. I would very carefully look into the issue of whether you want to repeal any anti-trust protections, because in my opinion those belong to the state. I am against repealing the McCarran-Ferguson because as I stated earlier the allegations and complaints that have been filed recently by 8 states are true, McCarran-Ferguson is not going to act as a shield, I can assure you today that the insurance companies will raise McCarran-Ferguson as a defense, and I feel equally sure it isn't going to be a valid defense, because if the insurance companies were acting outside the scope of the regulatory authority of the states, they are going to be held liable. The second point, is the factual allegations of the complaint. I spoke with someone from the ass't A.G.'s office, and he advised me he has a confidential, factual report from the various A.G.'s offices investigating this matter, he told me I could not look at that report. Right now I can't state whether a valid cause of actions exists, but I can say under the rules of pleading in a federal court, when the attorneys bringing this action file, they are going to have to attest to this good faith belief that they can sustain their burden of proof in this action. If those allegations are true, then they should be redressed in the courts.

Rep. Reiger asked a question? Partially inaudible.

The London market is a very powerful market, and it may very well have been the case that the foreign offices, with much less control than that here, may have had something to do with these actions.

Rep. Gruenberg voiced the possibility of clarifying the statute in this action and make certain to eliminate some costly and lengthy litigation

and let the citizens of the state know they can bring a private cause of action. Mr. Rohler said he thought the Div. of Insurance would support such an amendment to the statute making it clear that a citizen could use this for a cause of action.

Mr. Barrington: I'd like to comment on the McCarran-Ferguson Act, the relationship between the insurance code in AK to the AK anti-trust law. I noticed a discussion about repealing the state McCarran with the assumption that there is such a law exempting insurance from the AK anti-trust laws. But my reading of the statutes indicates there is no such Ak law, therefor there's nothing to repeal. Under AK law, it is unregulated industries which are generally the subject of the states general purpose anti-trust laws, Title 45, Art. 5. That law has a list of exemptions, sec. 572, including labor, agricultural and horticultural organizations, certain fishing associations, public utilities and the arrangements necessary to carry out the AK Native Claims Settlement Act. There is also a general purpose regulated industries exemption that pertains to activities required or permitted by state regulatory agencies, but there is no exemption for the insurance industry, so there would appear to be nothing to repeal. I should add however, that the general principle of statutory ? requires that the specific provisions of one statute must be followed rather than the general provisions of another(?), thus it is well settled law that no act undertaken by regulated parties under statutory regulation could be held to violate the general provisions of an anti-trust law. That is true in regard to insurance but it would be true in governing any other regulating industry as well. This insurance is regulated in AK. I'd like to describe some provisions of the AK insurance code, because I don't think you can adequately discuss the claim between the insurance code and the anti-trust law unless it's well understood what the insurance code does, and what it allows and prohibits. The AK insurance code is really a plenary statute, it covers the entire insurance business, i.e., in a separate chapter (39), which creates the procedure for establishing rates and autho. ing the operations of rating organizations by the organization, the nsurance commissioner has very broad authority. Chap. 39, cooperation among insurors and rating organizations is specifically authorized, but that cooperation is subject to the authority of the insurance director, who has the absolute authority to disapprove any cooperative practice, the insurance commissioner also has the absolute authority to approve or disapprove any insurance rate that's proposed or the use of any insurance form in the state. Moreover, when we get into the question of trade practices, it's important to note that the insurance code has an entire chapter (36) devoted to that issue, and in that chapter there's a long list of enumerated unfair practices. In addition to those unfair practices, the insurance director is authorized to determine that "undefined practices constitute an unfair method of competition or unfair or deceptive act of practice", and when he is so determined, if necessary he can authorize the A.G. to enjoy that practice in court. Therefore, under the specific language of the insurance code, any activity that would be considered an anti-trust violation and if not specifically authorized and regulated by the insurance commissioner may not lawfully be undertaken. AK today ? protection to it's insurance code, prohibiting the anti-competitive practices. With regard to McCarran-Ferguson, such a resolution coming

from a state legislature like AK seems particularly interesting because if McCarran were repealed it would be up to to AK to decide how it wants to regulate the insurance industry in AK would also be repealed. It's the McCarran Act that allows you to decide the terms of AK regulation. McCarran is often misdescribed as an insurance anti-trust exemption, that's not really the story. McCarran says that certain anti-trust laws not be enforceable in any state that decides to regulate the business of insurance. If the state decides not to regulate insurance, all federal anti-trust laws will apply. If McCarran were repealed, Ak insurance regulations, other state insurance regulations would be in trouble, because the legality of those regulations last along ? subject to a just made doctrine in the anti-trust field which is known as the state Action Doctrine. Under the state action Doctrine, only state law that is absolutely safe from being overturned under the anti-trust laws is state law and regulation that is designed to be up to the courts to displace competition, and that is actively enforced, actively supervised by the state (?) Regulation like the AK insurance regulation is designed to foster competition, not to displace competition in a regulatory structure would be immediately open to challenge. Even if the regulatory statute survived that initial litigation attack, it would be constantly open to additional expensive litigation on the grounds that any on instance by any one individual that if the code or the issue was not being actively supervised by the state. The McCarran Act was enacted to give the states the widest latitude of forming their own insurance policy. Modification or repeal of McCarran would eliminate that state authority. That's not just my view, but also that of the Nat'l. Conf. of State Legislatures, rejected last year a resolution to support repeal of the McCarran Act, also respected by the Nat'l. Conference of Insurance Commissioners, also by AR. Governor, as well as many others. With that background, let me say a few words about the court case itself. The case was announced to the press before it was announced to the defendants, with a great deal of political rhetoric. The Governor stated that these defendants have sucked the blood of our nations economic well being. That type of political rhetoric gets headlines, but it has no place in the lawsuit at all. The suit focuses on a narrow point of law, on the development of a new commercial insurance policy....I'd like to respond to the unpredictability of coverage under the old insurance policy. Basically the old policy was being interpreted by courts in ways the insurors never expected when the policies were written. It required pay outs for which appropriate premiums had never been charged. Problems raised the need to develop new forms to eliminate the uncertainties, the responsibility for managing that process was in insurance services office that operates under state law in AK and elsewhere and is subject to the absolute control of insurance commissioners. Under any such procedures, 2 new policy forms are publically proposed, debated, presented to insurance commissioners, along with a current policy form and a claims paid form. Commissioners required changes before accepting the forms, and some rejected the claims paid form outright. Far from being private collusion, development of the forms was a public process, insurers carrying out their responsibility. I might add a response to the question this morning with regards to directors and officers ... in medical malpractice insurance hasn't changed, and any allegation with regard to those activities, no allegations with regard to auto insurance, and despite

the political rhetoric used, the case is very narrowly drawn. If insurers they were fighting state insurance ?, what was the law suit about? The attorney generals don't like the ISO mandate, the mandate ? laws which pertain to advisory organizations and rating organizations and they don't like insurance regulation under current law, such as the AK law, and have said so publicly. Therefore it is their privilege with having failed to enact statutory changes in the state legislatures they're now trying to get their changes through litigation. I think the insurance companies and the insurance services office actually caused the liability crisis by developing the claims made form, but the charge just won't wash. Start by looking at the times trade (?) during which the policy form was about. Although the suit alleged that the use of this form caused the liability crisis, the form was not even approved by the states until 1986. Substantially after the liability insurance crisis had it started and in many cases peaked. How then could this activity which is really the guts of the lawsuit, have caused the crisis? I asked A.G. John VandeCamp of California that question twice, on the McNeil-Lehrer news Hour, and twice he couldn't respond? Why? I believe because there is no good response. Let's look next at the ? coverage I was asked by the A.G. Indeed if you look at the guts of the lawsuit, which you have to go 42-44 pages into it to find, in the claims, you'll find it deals with London reinsurers, and the rest of the lawsuit deals with pollution coverage(?) So the A.G. claims that this new policy form caused availability problems and ? coverage. But that charge is not only unfounded it's hokey. Commercial insurance policies started with a 1984 court decision which is generally referred to the Jackson Township case. In that case, the court ruled that a 20 year seepage from a landfill in New Jersey was a .....and thus was covered under the old insurance policy. Insurers reacted to that decision and to similar decisions by making individual business decisions that pollution coverage would be too expensive and unpredictable to provide under those circumstances. The 1986 change on the ISO form on pollution therefore noted the changes that had already occurred on the market after Jackson Township. And now the A.G. has brought the suit, it'll probably be years before the case is resolved and as some have speculated the case is thrown out of federal court in the near future. While it's not possible to litigate the case outside of the courtroom, one fact is clear even now, that is that the political rhetoric of the A.G. used to promote this suit is simply untrue. The insurance companies didn't create the liability crisis through some scheme to establish a new policy form, and to boycott an old one. There are 3,500 insurance companies in the U.S. ? has more than 8.6% of the market. Competition, as filed by every study, flourishes in the market. There has been no evidence of coercion. Should this committee recommend that AK join the lawsuit? Ultimately that's your decision. You might also be interested in the Wall Street Journal's article, that says the judge will probably dismiss the claim. It will be an expensive and drawn out affair, and ultimately I believe it will prove to be wrong.

Rep. Gruenberg: In reference to the McNeil Lehrer appearance, from March 23, 1988, you stated on page 7 (quotes from transcript) Mr. Van de Camp did answer your question, did he not?

Mr. Barrington: His first paragraph, those who control the forms control the coverage, assumes that the approach to decision making resulted in there being no occurrence form left. That is untrue, there was always an occurrence form as well as the new claims paid form.

END OF TAPE 1, SIDE 1

Until an insurance form is approved by the insurance commissioner, a policy cannot be used, and while that differs in some states, in AK it is absolutely clear under the assurance code that the insurance commissioner has the final authority, with regard to approval of the forms. The second point with regards to the 43 reinsurers, I thought that that was an interesting comment. Those 43 reinsurers were all London reinsurers operating in Britain under British law, and there's nothing which begins to deal with the question of whether there's any jurisdiction over foreign corporations acting under their own state law, which may be different from American law. I don't believe he answered the question very well.

Rep. Reiger: What percentage of commercial general liability insurance goes to the overseas reinsurance market?

Mr. Barrington: Insurers need to have reinsurance, as everyone understands, reinsurance is basically insurance for insurance companies, they sell a policy and then ? buy a particular piece of the liability and the more reinsurance you're able to obtain the greater capacity you have for selling insurance, primary insurance, so in the U.S. in order to provide the insurance necessary for an expanding economy, you need to have a great amount of reinsurance. It also makes sure the individual claimants will get their claims covered in a large claim, so it will not be an extraordinary demand on any one company. I can't give you the exact figures. Generally, primary insurers will engage in contractual relationships from which reinsurers call treaties under which those reinsurers agree to provide reinsurance for particular type of risk. The insurance company writes those types of risks, and they become covered through the reinsurance treaty. A primary insurer is absolutely obligated to the policy holder, and there have been instances when reinsurers have not paid when obligations have come due, but that has not relieved primary insurers of their obligation to the policy holder.

Rep. Reiger: In liability insurance is there a rule of thumb as to the cut off where a company will stop solely primary insuring?

Mr. Barrington: It differs by company and line of insurance. Insurance commissioners have a great deal of interest in making certain that an insurance company's solvency is maintained, and so alot of reinsurance is done with an eye to that.

Rep. Koponen: What was the general percentage of losses not made up 3-4 years ago when the reinsurers didn't pay up?

Barrington: I don't know that. Whenever a reinsurer does not pay what it is obligated to pay it does negatively effect the capacity of an insurance company to write additional insurance, because the capital

that would have been available to write that new insurance is then required to provide coverage on the claim. The court system at that time was yielding out decisions on perpetations of policy forms that had been written years and years ago, that resulted in large claims...when those kinds of decisions come about, the asbestos decision being a good example, they impacted capacity, impact as to how policies will be written in the future, and they impact the type of insurance you're going to write in the future. Another area had to do with the dislocations caused by the mass of changes in interest rate, occurring in the late 70's and early 80's. You'll recall we had interest rates in the 19-20% level, highest since the civil war, and those rate increases, alot of the prices of insurance were caused to go down, because insurance companies get their money through premiums and through investment income off of that premium that's used until claims are made. So when investment income is high, premium costs can be lowered and the consumer gets a better break. Those policy holder costs went below what an actuarial estimate of losses would show to be prudent. There was no way to predict how far down interest rates would come after they had peaked, and moreover insurance commissioners looking out for the interest of consumers would have been quite unhappy if insurance companies were making substantial profits on investments and not passing along those profits to consumers through lower premium rates. Then interest rates came down, there was not the investment income to offset the loss that was taken on the writing of premiums, then premiums went up as well.

Rep. Gruenberg: Only one of our interests is this lawsuit, the legislative interest is the public policy involved. Should the main focus of the public interest be to insure that there be a certain income to the insurance companies, or should it be that there be relative stability from the consuming point of view. Just because interest rates fall, etc, should that play any part at all from the cost of the policy, isn't that totally separate from the public's point of view?

Berrington: I don't think those aspects have any thing to do with the coverage of the policy. The policy changes came about because of the unpredictable court decision. This lawsuit isn't about the cost of insurance. You can't have assurance of predictability for policy holders if you have companies that are going out of business and leaving policy holders. Every state has protection for individuals for claims with companies that go out of business. A guarantee fund is financed by assessments of existing insurance companies remaining. So, the insurance commissioner has an obligation to insurance stability by making sure insurance companies are operating soundly and appropriately and also from the standpoint of protection of policy holders. No rate goes into effect without the insurance commissioners permission. With regard to physicians and workers comp, the problems is people fail to understand that those rates reflect what's happening in society. The insurance rates have to reflect the payout. (example of medical malpractice.)
We could decide to have a workers comp system which allows an ever increasing type and amount of payout, but we couldn't also have lower rates.

Rep. Koponen: Does the ISO collect data available for legislators so we can make public policy based on hard data?

Barrington: ISO does have info which it provides to insurance commissioners, it also has done some studies regarding tort reform, but there is no perfect information re: lawsuit issues.

Rep. Koponen had a question about restricting the market to domestic insurers, and what the McCarran-Ferguson Act would allow the state to do.

Barrington: The question of whether you can restrict the market to domestic insurers is not a McCarran question, but it's an important constitutional question, about restriction on commerce, it's a constitutional issue. The authority under McCarran is for the states to enact whatever insurance regulation they like which passes constitutional mustard. I'm not sure a state could pass legislation restricting the business of insurance in the state to companies that are domicile in the state, under the U.S. Constitutions commerce clause, but that should be examined carefully. From a policy standpoint you might be denying citizens competition in rates by denying some from competing in the AK market.

Rep. Koponen stated he isn't interested in doing that, but just determining the limitations of power under the McCarran Act.

Rep. Gruenberg: Do any states have any say in how the insurance company invests it's money?

Mr. Barrington: I'm not aware they do, except that insurance commissioners are authorized to examine the insurance companies for solvency purposes.

Rep. Gruenberg: So, to review, there have been gradual evolution of tort theories, that have changed as technology increased and the complexity of life became greater, and as people began to do this, the courts have responded to those expansions. Now we're looking at that in the so-called tort reform area. And that has increased the exposure of insurance companies for such things as pollution. The other thing you've mentioned, however, is something entirely unrelated, and that is due to the change of the yield of the stock market portfolio invested by most of these companies, as inflation went down, so did their return. Now, if we look at this as a see-saw, and we try to maintain equilibrium in the see-saw, and we have a public body, board, etc., that regulates only one end of the see-saw and the other end of the see-saw is fluctuating wildly, with no control, don't you think we should be examining the other end of the see-saw as well?

Mr. Barrington: I would challenge the notion that it's fluctuating wildly. Given that assumption, in the late 70's early 80's it caused disruption of every major industry in the U.S., including the insurance industry. There's nothing the insurance industry can do about those kinds of fluctuations.

Rep. Gruenberg: Don't you think we should regulate the insurance industry like we regulate the banking industry?

Barrington: You're wrong with regards to regulation. Regulation is very, very strong. I would not hold up regulation of the banking industry as a model for anything, there have been more failures in the banking industry in the last several years than any time since the great depression. During the high interest rate period, banks provided all kinds of loans to third world countries, and most are going unpaid and the banksa are writing them off, as are loans that went into the oil business, so banking regulations aren't a model for anything. The stability of the insurance market and primary insurers has been really extraordinary. The one thing you want to avoid in the insurance industry is the lack of competition, so it's not regulation of a monopoly, but regulation of a business to assure public protection but try to get as much responsible competition as you can possibly get. The insurance code has formal procedures with regard to rate determination, and they are there for the insurance commissioner to exercise in an appropriate way. It also provides for hearings and provides for individuals to file complaints with the insurance commissioner. The commissioner has the responsibility of protecting the interests of the people of the state.

Rep. Gruenberg: Are you aware of any other states where there is an office charged with protecting the consumers interest?

Barrington: I don't believe so, there was some discussion in California, but no legislation has been enacted. It's important to examine the authority the insurance commissioner has. We believe in strong and appropriate regulation of the industry. It doesn't serve any of my member companies well to have a regulatory system which allows some companies to act improperly and then go out of business, because everybody left picks up the pieces of that. In alot of states it's true that the insurance industry through fees finances the regulatory process, and we have always been willing to pay those fees to get solid regulation for the public interest.

Rep. Gruenberg: It has been alleged by a number of different sources that the insurance commissioners (and I'm not referring to Alaska, I want that understood) are hand in glove with the industry are really pretty toothless, comment?

END OF TAPE 1 SIDE 2.

TAPE 2, SIDE 1

Barrington: The insurance industry has never opposed increasing the amount of insurance fees necessary to have an effective enforcement program. I want to emphasize that; I don't know the financing mechanism in AK. As the your argument, we have no formal position. While you do not want either the appearance of impropriety, or impropriety itself, you do want regulators to know the industry well enough to regulate it well. Can you find people who have that knowledge who don't come from the industry? Sometimes, academics, lawyers, economists, etc. With regard to people leaving regulation and going back to the industry, I

know, for example there are rules of conduct for individuals leaving positions in the federal gov't and returning to private industry. I could understand the desire of the public to see rules pertaining to that.

Rep. Koponen: As far as the laws and regulations, we do have a fairly stringent set of laws in AK, but the fund we receive from premium tax go into the general fund where it's constitutionally limited, we do not have any dedicated funds other than the Permanent Fund and certain pre-statehood funds, so our Division of Insurance is fairly small, and as problems arise the find themselves behind in gathering data or attempting to enforce law so that compounds the problem. One of the questions people have raised is if you know if insurance employees are involved in the tort reform efforts?

Barrington: There has been insurance industry participation , yes. We have participated strongly in those efforts, as have many groups. The tort reform movement is broader than just the insurance industry.

Rep. Gruenberg thanked the testifying individuals and adjourned the meeting.

trans 14

Joint Committee on Economic Recovery
House
April 15,1988

Present: Representative Max Gruenberg (chair)
Representative Steve Reiger
Representative Niilo Koponen
Representative Kay Brown
Representative Mike Navarre

Testifying: Doug Mertz, Dept. of Law
Mr. Knudson (Exec. Dir., Health Assoc. of Alaska)

Mr. Mertz: Comm. Kelso of DEC asked me to come here and relate to you a couple of episodes that department had with the insurance industry in 1981-82. These arose out of the requirement in the then fairly new law regarding oil spills requiring oil terminal facilities and tank vessels to have proof of financial responsibility to respond to damages in oil spills, both clean up and damages in the legal sense to any damaged parties. That law requires either insurance, surety bond guarantee or self insurance. We discovered very early on in the process that after the initial spurt of availability of insurance policies that suddenly insurers were declining to write policies. In fact, we got outright refusals from the Water Quality Insurance Syndicate, the largest domestic group of pollution insurers, and underwriters of Lloyds and the P and I clubs, protection and indemnity clubs, which provide insurance or reinsurance for major tank vessels. We went through a long series of meetings with representatives of these organizations, both here and outside, trying to find out exactly what the problem was and why insurance was not being written, and they were being quite frank about it: it was not so much a matter of the inherent risks, as they wanted us to change our law, either by statute or regulation change to make certain provisions less onerous on them and they were also insistent they were not going to cooperate with any state liability schemes that exceeded or differed from federal pollution law, in fact the P and I clubs were insisting they were not going to cooperate with any scheme of pollution liability that did not conform to international standards. AK, they were determined, was with 5-6 other states out in front in applying it's own standards and that was not going to be allowed as far as they were concerned. Shortly after that we began to get similar protests and positions from insurers of tug and barge lines, also carrying oil to AK, where they were refusing to pull out of the market whatsoever and basically starve those communities here that are dependent on tug and barge oil, which basically means all of your coastal communities along AK's entire coast, unless we rewrote some of our critical regulations and indeed some of the statutes. In one of those cases we actually did end up in effect rewriting the law, through an A.G.'s opinion and giving them part of what they wanted. In the other case we simply declined to withdraw from the field altogether, which is what the water quality insurance syndicate and the british organizations, the P and I clubs and the underwriters of Lloyds wanted. What we

did eventually was to take on a major effort of trying to find insurers on our own, going out there and beating the bushes of the market, tho we finally found one or 2 small insurers willing to write policies. Once that happened the dam burst and all the others started writing them again. But, we had an attempt that was partially successful by these groups to change AK's law and interpretation of it's law, for financial responsibility for oil spills.

Rep. Reiger asked what a P and I club is.

Mr. Mertz: It stands for protecting and indemnity; ancient British institutions who are large scale insurers or large scale reinsurers who specialize in insuring large vessels, there are 15-16 of them; almost all based in England or British possessions. They are pretty much the major players in maritime insurance. This report came out with the conclusion that there was nothing we could do about this refusal to write policies and that if they wanted our law changed we better change it. This information was never forwarded to the municipalities because they didn't think they (the insurance companies) would be able to keep holding off until the end, to a point where it would effect the municipalities.

Rep. Koponen requested copies of this report.

Rep. Gruenberg asked that Mr. Mertz discuss this situation with Mr. Monkman, that it is most important, and that the information he is providing would be helpful to the attorneys interested in the insurance lawsuit. He stated having this additional evidence would assist in that lawsuit and would be a reason why we should participate as opposed to simply filing a friend of the court brief.

Rep. Reiger: In these transactions, is that a domestic or international transaction?

Mr. Mertz: It is normally carried out from the point of view of the entity being insured, as a domestic one through a domestic broker, they don't actually make contact with a P and I club or the underwriters of Lloyds, they work through an American broker. I suspect here that we have a situation where if there is some sort of joint collusion or joint communications, whatever by the British based entities, it probably happens in Britain, whereas the water quality insurance syndicate and the other domestic insurance companies are very much domestic companies. At the time we were dealing with the domestic insurers they pointed out as part of their show of their ability to put us in an uncomfortable position, that Florida had had a very far-reaching pollution ? law, they made similar threats to Florida that they would basically dry up the availability of oil on the market, and they said that Florida caved in and changed, I don't know what.

Rep. Gruenberg: Do you anticipate that any such threats would occur as a result of these 2 new laws which a number of us strongly support?

Mertz: It depends on how we enforce them. My opinion has been all along that most of the things we would be able to do under the strengthened

liability law, HB 459, we could probably do under the common law anyway, altho we would have to wade through a lot of defenses to get a court judgement that way. Insurance carriers are well aware of that and well aware of the problems of writing that kind of insurance and the pitfalls. Whether they should be concerned or not, really comes down to how we enforce it, so I suspect they will be looking at that, rather than at the actual terms of the statute itself.

Mr. Knudson (Health Assoc. of AK) The health assoc. of AK represents nursing homes, and I want to make 3 points: 1. I wish we could tell you the suit is correct, but we wish you well in this effort. 2. The captive position and hospital captive insurance companies have also gone through the dilemna of what's going on, and I would urge you to involve those folks in your deliberations. 3. This problem has been with us a long time, and during the past 2 years we've seen a 2 mil. increase in liability premiums for hospitals and long term care facilities. We share the frustration with you on these issues.

Rep. Navarre: I want to comment on the charts here, there is a liklihood that some of the numbers on the increasing costs are misleading, because in alot of cases, the numbers have gone down or remained about the same, or only seen small increases. It is also due to a reduction of the coverage. I think the numbers are misleadingly low.

Rep. Gruenberg: I would be grateful if it would be possible for you to make any adjustment or indicate in footnotes or something on this sheet whether the policy payments went down, but the coverage also went down, in some of these cases. I think Rep. Navarre's point is a crucial one and for us to be able to make any valid comparison we would have to see the other side of the coin, what are you buying for the same amount of money?

Mr. Knudson: We'd be delighted to provide the premium with the coverage, and share it back with you.

Mr. Monkman (Dept. of Law): Rep. Navarre had a question about coverages and availability, which leads to the heart of the anti-trust lawsuit, that it's not so much that premiums have gone up, but that availability has gone down, with less coverage, and the time coverages of the policies have been limited. If you compared what costs would have been that hospitals were getting a couple years ago, the figures might be different. Mr. Mertz's comments certainly seem to be right along with what seems to have been common practice during that time around the country.

Brief discussion on scheduling and bill status followed.

Rep. Gruenberg adjourned the meeting.

Joint Committee on Economic Recovery
House
April 22, 1988

Present: Representative Max Gruenberg (chair)
Representative Kay Brown
Representative Niilo Koponen
Representative Fran Ulmer
Representative Red Boucher
Representative Steve Reiger

Rep. Gruenberg: We have an addendum from the Interior Region Subcommittee of the House side of the Joint Committee.

Rep. Koponen: This is a notice of some of the areas we have been looking at. The university plays an important role in the Fairbanks economy. I'd like to just add this addendum on the university and the role of the university in economic recovery.

Hearing no objection, this addendum was added to the Interior subcommittee report.

Tom Begich: HB 549 has passed it's first committee of referral and is scheduled in the Judiciary committee for Monday. HB550 is scheduled in Finance for Monday. HB555 is currently in State Affairs (substandard housing). HB 557 passed C&RA Committee, that will hopefully be scheduled in Finance next week. HCR52 is up today in Finance. HCR54 is up Tuesday in Finance. HJR 72 is in Rules, waiting to get on the Calendar. HJR 37 is the same status as 72. The other sheet you have, these are the various subcommittee recommended or supported bills. This sheet is self-explanatory. The last sheet is Senate bills. Three of them remain in the Senate, the rest of them are in the House in their first committee of referral. SB392, SB471 and SCR32 all scheduled next week in HL&C committee. SB322 has been the subject of intensive hearings.

Rep. Gruenberg: Now we want to see what we can do to assist in the passage of these bills.

Rep. Brown: In Finance now we have HB432, and it is my proposal we move forward as rapidly as possible, and hold a work session this weekend. I'm having a new draft prepared in the State Affairs committee. I understand from Rep. Donley that he has removed his objection to the passage of that legislation. My proposal would be to take HB 432 and incorporate all the changes that have been proposed to date and bring that to Finance ASAP, perhaps by Monday.

Rep. Gruenberg: Does HB555 have a relationship to 432?

Rep. Brown: HB555 started out as a backstop for Willow Park, to allow AHFC to expand reserves for demolition of public housing. The

administration was not in favor of that approach, and asked the administration to develop another concept, and the material they came back with is what's pending in the proposed State Affairs CS for 555. The administration has worked it's way through that issue and has come up with a package of material that will address not only trade up-trade down, but the condo problem in general. It's a more comprehensive package of the legal authorities that the AG advises them they need. I also support it. The material could have been inserted on either bill.
I would propose to expedite the process that we have one bill, that would be HB432.

Rep. Reiger: On HB555, I hear the governor has some hangup with the dollar figure, the $10 mil. I think his concern that that would automatically take that money out of AHFC reserves and use it for some other purpose. I'd like to work with the governors office on that, my concern is the reverse of that. I'm going to oppose throwing the 2 bill together. I think they treat different subjects, and 555 treats a whole array of different subjects.

Rep. Brown: I would agree if HB555 had started out as the comprehensive package. HB555 started out addressing just Willow Park, or the demolition fund. Part of what the subcommittee has dealt with has been the trade issue. I guess in my view the administration could have suggested that material be added on to HB432 as easily as HB555, since they both started out as bills to address a particular part of the problem.. My interest is in seeing this work accomplished, we've done alot of positive work in the Housing and Banking subcommittee. It seems to me that the timing is a very critical thing. If we hold up and wait for 555 to come out, and to come up to Finance and get referred to a subcommittee, we've lost at least several days. Recently I received correspondence from Barbara Morse Quinn, indicating she is still in need of a direct appropriation, and the Governor has still not come forward with that. I'm wondering if there's a potential for us to include that as a direct appropriation, if we'd receive support from the other members of the JERC committee. Even if that bill does pass, we're going to have the administration of the program by the agency, and it's going to take them some time to deal with that. I ask for your support on that.

Brief discussion followed.

Rep. Gruenberg: We are having a joint meeting with the Senate side on Tuesday. We are having Dean Lester Thoreau, from the School of Business at MIT. He is one of the countries leading economists.
To bring you un to date on the insurance lawsuit; Dick Monkman from the AG's office spent the last few days meeting with the AG's office in California. We met with him this morning. He is going to be presenting his recommendations to our AG and some other commissioners, and they will make a joint recommendation to the Governor. The preliminary indications are that there is merit in the lawsuit. This meeting should take place next week, and towards the end of next week they'll be making their official recommendation to the Governor. I think we should make a draft proposal to participate in this. The next item on the agenda: we are starting to work on the final wrap up of the committees reports of our work this session. We should get this together next week. We

should consider whether we want to keep the House side of this committee going during the interim.

Rep. Boucher thought it would be a good idea to keep it active, and shared some ideas on how it should be continued.

Rep. Koponen supported the positive approach to creating new ideas as a major part of the committee purpose.

Rep. Gruenberg said he'd contact each member individually and get an idea as to whether or not to continue. With that, the meeting was adjourned.

Joint Committee on Economic Recovery
House
Interior Subcommittee

March 12, 1988

Present: Representative Niilo Koponen
Representative Mike Davis

Witnesses:

Al Seeliger
910 Galena
Fairbanks, Alaska

Buzz Otis
P.O. Box 2441
Fairbanks, Alaska

Bert Sampson
611 Cowles Street
Fairbanks, Alaska

Dick Farris
Fairbanks, Alaska

Mary Hamilton
303 Badger Street
Fairbanks, Alaska

Royal Bidwell
P. O. Box 2589
Fairbanks, Alaska 99707

Charles Deer
P. O. Box 61252
Fairbanks, Alaska 99706

Roger Burggraf
830 Sheep Creek Road
Fairbanks, Alaska 99709

Leslye A. Korvola
Fairbanks, Alaska

Mayor Juanita Helms
Fairbanks, Alaska

Elstun Lauesen

Fairbanks, Alaska

Carl S. Benson
Arctic Institute
Fairbanks, Alaska

Robert Keller
Fairbanks Native Association
Fairbanks, Alaska

TAPE ONE, SIDE ONE

Rep. Koponen calls the meeting to order at 10:00 o'clock. Koponen states the purpose of the meeting is take testimony, distribute a preliminary draft report, and share a research paper on the economic impact of the University of Alaska on the Fairbanks economy. Rep. Koponen points out this is very preliminary and incomplete.

Koponen states there are two views, (1) short term -- are there acts of legislation needed to help the economic situation, and (2) what are people doing on their own to recover. Koponen states giving people information on what is being done, market developments, etc. have assisted people in the recovery. Koponen points out there is limited money available, and from the construction viewpoint, the economy may have a boom problem if outside firms are hired rather than local firms.

Rep. Davis states legislators from the Northwest Territory are in town as part of an economic recovery team, and will join the subcommittee to learn what the Interior is doing for recovery.

Rep. Davis refers to recent newspaper articles concerning Economic Limit Factor (ELF) stating it will be more substantial a tax break than was anticipated, and the impact on the treasury is approximately $15 million. Decrease in the price of oil also creates difficult decisionmaking processes for the Legislature.

Rep. Koponen explains the "posted" price as opposed to "market price" for oil, stating the oil companies tell Alaska what they will pay for the oil. Davis states events in Panama have a direct impact on Alaska because Alaska oil is transported via the Panama Canal.

Al Seeliger joins the committee. Seeliger does not have testimony prepared. He states the Interior economy is very fragile, and during his nearly 50 years in the area the only economic development he has seen has been government spending, which is not economic development, but is subsistence. Seeliger discusses tourism activities and use of the Highway for tourism purposes. Seeliger states mining is depressed,

but tourism is expandable. Seeliger points out that Prudhoe Bay is an enormous asset to Alaska, but there is no free access to the market. Seeliger believes it is essential to get into that market -- the Highway -- for recovery and development of tourism, to produce jobs and business.

Rep. Davis states Rep. Brown has introduced legislation which will identify areas of the state which require expansion of tourism, including the Interior. Davis refers to arctic research being done in Florida, which could be done in the Interior. Seeliger points out that what people want is primary dollars, paid by the oil companies, and tourism dollars.

Rep. Koponen states the Premier of British Columbia and government leaders of the Yukon are meeting with Governor Cowper to discuss these matters. Interparliamentary visits with the Yukon have been occurring during the past several years, and Rep. Koponen describes cooperative efforts between Alaska and its Canadian neighbors.

Buzz Otis addresses the Committee. Otis serves on the local Main Street Steering Committee (Main Street) and describes positive events which are taking place in the area. Otis describes Main Street as a three year program, currently gathering letters of support to be presented to the Legislature. Otis states Main Street participants have agreed on a 50-50 match with local funds for state funds. Main Street is based on a 4-point program of organization, design, promotion and economic restructuring. Rep. Koponen advises Otis that there is a Historic District Loan Program in statute, but all funds have been loaned out at this time, through Alaska Industrial Development Authority.

Representatives from Canada have now joined the Committee. They are pleased to be present and thank the Committee for the invitation to join them. One member suggests a slogan of "Think North, Buy North First, and Manufacture North First."

Buzz Otis continues his description of Main Street, which is similar to the successful program at Whitehorse. Main Street is a partnership of private businesses and the Borough, striving to improve the tax base and provide economic development to the community. Otis describes a successful project in New Mexico where the State spent $200,000. and created 75 new jobs, with rehabilitation of 60 existing structures, and $3.9 million private money was reinvested by the community, and 25 new businesses started. Otis believes Main Street is a win-win situation.

Burt Sampson, owner of Elongated Advertising of Alaska, and second vice president of Interior Alaskan Adventurers, joins the Committee. Sampson's business is elongating coins and putting advertising messages on them, mostly for collectors

nationwide, and manufactures pins, for the fastest growing "collector" item in the nation today. Sampson describes events for which elongated cents have been made and points out the advantages of his pins, which are designed and manufactured locally. Sampson describes his goal of becoming a master engraver and to make Fairbanks the hub of die engraving for the United States, which will result in hiring and training new personnel and expansion of the business. Sampson belongs to Interior Alaska Manufactures, and believes it is the best way to support local businesses and local hire. Sampson states there are many positive things to consider when working on pending legislation, including SB 363, HB 403, SB 67, HB 404, all relating to mandatory insurance. Sampson states 75% of the members of local business organizations oppose these bills, believing that the coverage should be optional and the business can purchase insurance if they can afford it, but if it is mandatory the cost of policies will be increased, and prohibit local industry and manufacturing. Sampson states the cost to Alaska businessmen if these bills are passed will be detrimental and prohibitive.

Rep. Koponen refers to figures from Blue Cross which indicates that spreading cost over a substantial number will reduce costs. Koponen states the insurance industry is not an open market.

Dick Farris, 38 year resident of Fairbanks, addresses the Committee. Farris supports the slogan of "Think Alaska, Buy Alaska" and describes efforts to increase tourism, especially Japanese tourists, and cites the difficulties, such as lack of a bus system and drivers, etc.

TAPE ONE, SIDE TWO

Farris discusses the proposed insurance legislation and states health insurance coverage is essential because it means jobs for Alaskans. Farris describes a local folk festival association which is attempting to have the 1989 Folk Festival in Fairbanks. No public funds will be sought, but efforts will be made to bring people to Alaska for the project. Farris states a tourism representative has suggested that if an extensive bus system were available, there would be more tourists. Farris suggests a special project coordinator to get more Alaskans hired in the tourism industry. Farris also suggests there be a permanent economic recovery committee, with volunteers, to have an on-going dialogue.

Rep. Davis points out that Alaska has tourism offices in Japan and Korea, and there are plans to increase the number of tourists from Japan to Alaska.

Mary Hamilton joins the Committee. She is a member of the Borough Transit Commission and is present to address the issue of transportation in the community. Hamilton states it is

important economically to retain the transit system, and believes it could and should tie in with the Main Street proposal to develop the downtown area. Hamilton points out the importance of the transit system for tourists and those coming from villages, attending conventions, the elderly, children and others who do not drive. Hamilton states that historically the transit system has been controversial, and local residents are not bus riders; thus the system needs to be promoted locally to encourage ridership.

Rep. Koponen states there are concerns about a statewide program for transit systems with matching funds. The question is an equitable distribution and support, and asks if the system has studied routes, and other data. Hamilton responds that the system has recently been cut back to two routes, between downtown and the University. Revenue sharing has been considered. Koponen states revenue sharing was originally intended to cover such programs, and give the community flexibility as to where and how it would be used, but it was not given with the thought there would be no programs supported by the monies.

Royal Bidwell addresses the Committee and states economic hard times have some distinct advantages: (1) we do things we probably should have been doing anyway, and (2) we now have more time to do those things. Bidwell states his plumbing and heating business is active. However, in 20 years in the area, he has always been upset at the amount of business which goes to Seattle. Bidwell's business opened in 1983, and since that time they have aggressively sought business which was previously sent to Seattle and outside companies. Capturing more business that goes outside could make a significant impact on the local economy. Bidwell is uncertain how the State can assist in that respect. Bidwell believes the bill which has been introduced is an "overkill", it is a good thing to give locals an equal footing, but too large a competitive advantage will be costly to the state. With regard to long term plans, Bidwell states there is no early childhood program in place currently, although nationally there are. Bidwell urges that Alaska strive to be a leader in the area of early childhood. Bidwell describes the concept of "business incubator" -- a facility to allow several new business to join together to obtain services in a pool. Rep. Koponen confirms it is a process similar to a farmers' co-op. Bidwell suggests the state might be involved via small business loans, making available management and consulting services from the University, and start-up services.

Rep. Davis states there is a new draft of the Alaska preference bill, and his concern is that attorneys have warned it can be thrown out in court.

Charles Deer of Alaska Window Company addresses the Committee. Deer speaks on behalf of the Interior Manufacturers

Association (IMA) and outlines the history of IMA, which addresses needs of cold weather product manufacturing. Deer states there has been considerable support in the Fairbanks area, which has attributed to the success of IMA. Objectives of IMA include providing service to people in the Interior, to gather information about organization members for distribution in a useable form for members of the public and potential customers. IMA recommends establishment of a clearing house to address unjust transactions, similar to the ombudsman's office. Rep. Koponen states the delegation is attempting to have the ombudsman's office reopened. Deer describes the difficulties of the ombudsman's office to function because "politics water down the decision maker." Deer cites a need for promotion of use of Alaska made products. Deer believes it is important that the cities of Fairbanks and Anchorage must have less animosity because manufacturers suffer from it.

Roger Burggraf joins the Committee. Burggraf states that loss of many government jobs has hurt the private sector. Burggraf is a self-employed hard rock miner who was "regulated out of business". Burggraf states the Canadians are leading the way in hard rock mining development. He states that the placer mining industry has also been regulated out of business, and miners are moving to Canada where placer mining is active. Burggraf discusses the increase in the price of gold and precious metals. Burggraf states one mine, small by Canadian standards, pumps $250,000.00 into the Fairbanks economy every month. Burggraf believes that with the right economic, political and regulatory atmosphere, mining could provide a bright future for Fairbanks. No federal or state funding is provided for mine development although they create jobs and contribute to a healthy economy. Burggraf believes tourism and recreation should also be encouraged to improve the economy. Burggraf discusses placer mining, the development of technology, the environmental pressures on miners, and the lack of meaningful legislation to provide relief to placer miners. Burggraf states Canada has excellent policies for development of the resources, while Alaska has no policies. Burggraf states legislation must be passed to allow placer mining operations because current regulations make it impossible for successful placer mining.

Leslye Korvola is involved in an economic analysis of the Fairbanks community, and speaks on behalf of the Tanana Valley State Fair Association. Korvola explains the state fair process in Alaska.

TAPE TWO, SIDE ONE

Korvola states the fair is a $1 million business which provides employment for scores of individuals, including many young people. The facilities are used on a year around basis. Korvola states stabilization of the economy of the interior through diversification has been a long term goal of the

community, and realistically energies must be focused to develop those activities through which the interior has a competitive advantage in order to succeed. Korvola states a need to review the historical record of successful enterprises, the military, tourism, and state participation. Korvola states the fair is a showplace of the achievements, opportunities and products of the Interior and is a popular tourist attraction. Korvola states that support of the fair is support for local jobs and businesses. Funding for the state fair has been cut from the state budget, and Korvola urges financial support for all fairs. Korvola points out that the fairs bring in new money to the area and is a healthy economic enterprise. Korvola points out that the military participates via ex officio seats on the fair board.

Mayor Juanita Helms thanks the Committee for the opportunity to speak to them. Helms expresses concern about economic recovery and cautions that actions not be taken that will burn bridges. Helms states there are potential for development in the Borough, but new capital is needed to accomplish that development, and describes fabricating at the North Slope is an example, either through joint venture or other process. Helms states a product to be considered is the human resource, inventive, capable people, who encounter considerable obstacles in their endeavors. Helms refers to testimony concerning transit needs and expresses belief that local municipalities have some responsibilities to address, although the state has responsibilities for other transportation methods and facilities. Regarding animosity between Fairbanks and Anchorage, Helms states there is competitiveness, but she is not aware of animosity. Helms is aware of an Anchorage resolution to have the light infantry division moved from the Fairbanks area, but considers that competitiveness.

Elstun Lauesen joins the Committee. Lauesen appears as a private citizen about economic development and issues relating to community enterprise. Lauesen describes past experience as an employee of the Gas Pipeline Office, including visits by a Swedish delegation, and resource laws and regulations. Lauesen points out that in the past many products were manufactured locally, and the area exported agricultural products, describing the area as the "bread basket" of Alaska. The area now is dependent upon imports and has become a service based economy. Venturing Back to the Future is a group looking into development of a self-sufficient economy, and Lauesen urges support for this group. Lauesen states finance is a major obstacle to development of small businesses in the area, and points out that failure of banks compiles the problem. Insurance expense is cited as an additional hurdle to business development. Lauesen believes the legislature can address that problem. Lauesen states marketing is an important issue because there is no financing and assistance available for the necessary marketing. Rep. Koponen suggests the Alaska Industrial Development Authority as a source of

aid. Lauesen points out there is need for research and marketing support to aid local businesses because they provide jobs and a stable future. Rep. Koponen states the Commissioner for economic development will be present on Monday to discuss the local situation.

Carl Benson joins the Committee as a private citizen and on behalf of the Arctic Institute which headquarters in Alberta, Canada, and in Fairbanks. Benson states his main theme of discussion is that the testimony has focused on the local community, and not statewide. Benson states research is the best single industry in Fairbanks today, yet it is ignored in planning and government activities. Research contributed $40 million to the Fairbanks economy in the last year, but it is not supported locally. Benson states 20% of the federal funds spent in the United States goes to arctic and sub-arctic research. Reduction would eliminate stable jobs. Benson describes funding for research as very complex, coming primarily from federal sources, and done through universities. Benson urges expansion of research activities. Benson recites the history of research in Alaska, and describes the reasons for a strong research university. Benson states much of the oil development research is done in Alaska, and there is need for research of the humanities and related issues in Alaska. Benson describes earthquake and seismic research done in Alaska. Benson states the federal government is asking states to absorb more of the cost of research. Benson urges support for the natural sciences building at the University because the entire State of Alaska will suffer from delay. Rep. Davis asks Benson to put his testimony in writing for presentation to the Legislature, and urges Benson to share his recommendations with the Administration.

TAPE TWO, SIDE TWO

Robert Keller of Fairbanks Native Association (FNA) addresses the Committee. Keller states FNA has operated an economic development program since 1982, and notes concurrence with statements of Mr. Lauesen concerning needs of small business enterprises. Keller describes a need for assistance in marketing, believing that marketing assistance is more beneficial use of monies than actual business loans. Keller proposes a northern Alaska marketing institute to serve the Interior and Northern areas to develop marketing plans. Keller describes a conference conducted by Elstun Lauesen as an innovative and far reaching aid and urges support for future similar events. Keller advises that incentives by the State is essential to induce industries to Alaska. Keller supports the Main Street project because it has input from communities across the nation. Keller suggests an Alaska Highway museum as an attraction tourists and visitors at Tok. Keller discusses consideration of use of permanent fund earnings to establish a small business investment company. Keller notes that CHAUDRAY is operating in the Department of

Commerce for minority and small businesses, being a federally and state, 50-50 funded 5-year grant program, and urges that Alaska continue the program, and that the federal funds should be provided as originally agreed.

Rep. Koponen asks the delegates from the Northwest Territories to comment. A representative comments on remarks of the businessmen and representatives of Fairbanks, and states the needs are a reflection of the issues in all of the Northwest Territories are experiencing. The concept of Thinking North, Buying North, and Building the North should apply to <u>all</u> of the North, and that is why the delegates from Canada are in Alaska at this time -- to develop Alaskan economy as well as the Canadian. Many issues of economic recovery are similar -- transportation, tourism, renewable resource development, non-renewable resource development, mining, oil and gas -- all are essential to Alaska and the Canadians, as well as cultural and social issues. The representative states that many students from Canada have attended the University of Alaska through an arrangement for northern students, and there is room for development of education relationships. Research on cold weather construction, scientific research, mining technology and other issues are a common interest. Canada has a preferential arrangement program of matching funds to assist entrepreneurs. Canadians are interested in manufacture and marketing of products for the north, and urges consideration of joint venture relationships. It is pointed out that arctic char is a product which many countries in the far East desire. Transportation in Alaska is an attraction to Canadians -- there are numerous other examples which we must consider.

The meeting is adjourned.

Drafts, Reports, of Subcommittees, Executive Summary, Alerts Final Report, Memos

State of Alaska

House Majority Leader

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Representative Max F. Gruenberg, Jr.
District 11
Spenard, Upper Midtown Anchorage

MEMORANDUM

TO: COMMITTEE MEMBERS AND ALL REPRESENTATIVES

FROM: MAX F. GRUENBERG, JR., HOUSE CHAIR,
JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: JANUARY 18, 1988

RE: JOINT COMMITTEE ON ECONOMIC RECOVERY

Because we have time constraints, I have set out an outline of committee activities below.

Today we will establish eight House subcommittees. These subcommittees are: Housing, Banking, Small Business, Employment and Industry, Resource Development, Rural Alaska, Interior Alaska, and Southeast Alaska. House subcommittee chairs will be: Representative Kay Brown - Housing, Representative Steve Rieger - Banking, Representative Red Boucher - Small Business, Representative Mike Miller - Employment and Industry, Representative Mike Navarre - Resource Development, Representative Al Adams - Rural Alaska, Representative Niilo Koponen - Interior Alaska, and Representative Fran Ulmer - Southeast Alaska. Members will sign up for subcommittees through noon Wednesday. By the close of business Wednesday House subcommittee memberships should be finalized and preliminary subcommittee work can begin. Next week the full committee will undertake an economic overview, followed by a series of statewide teleconferences in each of the eight subcommittee topic areas, to be conducted by the subcommittees.

HAS BEEN REVISED SEE ATTACHED

There are three main areas of focus the full committee and the subcommittees should address within these eight subjects. First the committee or subcommittee should identify and prioritize existing legislation relating to economic recovery. Second, the committee should identify areas which should be addressed in new legislation. That legislation should be prepared. Finally, the committee and subcommittees should develop a series of long-term issues and viable solutions for use by the sixteenth legislature and other governmental entities (eg. federal or municipal.) As well as

making interim reports and introducing legislation, the full committee will prepare a report near the end of the session.

In the first area, identifying existing legislation that should be prioritized or "fast tracked", each subcommittee will identify relevant legislation relating to its particular subject area. The subcommittees will report back within two weeks of their formation. Subcommittee recommendations will be brought to the full committee. At the end of the first thirty days the full committee will publicly present a list of priority legislation drawn from the subcommittee reports and approved by the full committee. These are the bills that will be pushed through the legislative process.

Second, simultaneously with the first area but, continuing for a longer period of time, the subcommittees will identify proposals for economic recovery to be enacted this session that are not covered in existing legislation. These proposals will be drafted, introduced by the full committee, and added to the list of "fast tracked" priorities developed in the first thirty days.

The third area, ongoing throughout the earlier processes, will identify non-legislative solutions, long term proposals and ideas which could not be fully addressed during this Legislature. These may be in the form of legislation to be considered by future legislatures and other branches of government (federal and local). These will also be developed in each subcommittee, then brought to the full committee.

Critical to the success of this effort is a strict timetable that must be followed by all subcommittees. This will require minimum partisanship and maximum cooperation for both houses -- a worthwhile achievement in itself. Below I have outlined a tentative schedule contingent on passage of HCR 31 and 32 by the Senate this week.

week	full committee	subcommittees
1 - 3	Full committee begins meeting. Overview is held in second week. The subcommittees begin to identify needed legislation. The full committee establishes the calendar in the first meeting.	
3	At the end of the third week the full committee meets to debate and formulate the priority list.	Subcommittees hold hearings weekly, or more often, to develop priority lists.

Meanwhile, as each subcommittee completes its initial bill identification during this time, they report back to the full committee. Full committee meetings are held 2 to 3 times weekly, preferably near the end of the week, and, if on schedule, should address two of the subjects each time.

3	Priority list is publicly announced by the full committee.	Subcommittees begin debate and markup on legislation.
3 - 6	At the end of the sixth week the full committee meets to debate legislation, marks up bills, and determines additions to priority lists.	Subcommittees report findings to the full committee.

During this time the subcommittees continue to report back to the full committee much as they did in the first phase.

6	Needed legislation is introduced and pursued.	Subcommittees begin developing comprehensive proposals within each of their subject areas for inclusion in the final report.

8 WEEKS

6 - 17 Extensive public testimony is taken by both the full committee and the subcommittees as ideas are generated for the last phase of the committee (the proposals for the future and other branches of government.) At the conclusion of the public hearings, the full committee meets to address the various proposals. A summary of committee conclusions are prepared and presented. This precedes the final report to appear two weeks later.

17 The final report is presented to the public.

It will be necessary to keep up the pressure in all subcommittees to ensure that the work gets done. Because most of the concrete proposals, that is to say those that can be directly undertaken by this Legislature, are addressed early in the process, this should ensure active and fruitful participation by many members.

Thanks for your consideration of this outline. We'd welcome your comments, criticisms and suggestions. Please contact Tom Begich, my staff assistant for this committee, or myself at 3718, 4968, or 4986.

SUBCOMMITTEE MEMBERSHIP

HOUSING AND BANKING: REPRESENTATIVE BROWN (CO-CHAIR)
REPRESENTATIVE REIGER (CO-CHAIR)

REPRESENTATIVE COLLINS
REPRESENTATIVE SPRINGER
REPRESENTATIVE DAVIS
REPRESENTATIVE DONLEY
REPRESENTATIVE ULMER
REPRESENTATIVE PHILLIPS

RESOURCE DEVELOPMENT, TRANSPORTATION, EMPLOYMENT AND INDUSTRY:

REPRESENTATIVE NAVARRE (CO-CHAIR)
REPRESENTATIVE MILLER (CO-CHAIR)

REPRESENTATIVE DAVIDSON
REPRESENTATIVE LARSON
REPRESENTATIVE PEARCE
REPRESENTATIVE SUND
REPRESENTATIVE PETTYJOHN
REPRESENTATIVE CATO
(REPRESENTATIVE ELLIS)
(REPRESENTATIVE ULMER)

SMALL BUSINESS:
REPRESENTATIVE BOUCHER, CHAIR
REPRESENTATIVE ELLIS
REPRESENTATIVE HERRMAN

RURAL:
REPRESENTATIVE ADAMS, CHAIR
REPRESENTATIVE CATO
REPRESENTATIVE WALLIS

INTERIOR:
REPRESENTATIVE KOPONEN, CHAIR
REPRESENTATIVE DAVIS

SOUTHEAST:
REPRESENTATIVE ULMER, CHAIR
REPRESENTATIVE SUND

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January 18, 1988

TO: ALL REPRESENTATIVES

FROM: MAX F. GRUENBERG, JR., HOUSE CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY

RE: MEMBERSHIP AND SUBCOMMITTEE CHAIRS

LISTED BELOW ARE THE HOUSE MEMBERS ON THE NEW COMMITTEE ON ECONOMIC RECOVERY AND THE SUBCOMMITTEES THEY CHAIR.

THE SENATE MEMBERS WILL BE APPOINTED AFTER THE BILL PASSES THE SENATE FLOOR.

REP. MAX GRUENBERG - CHAIR OF THE COMMITTEE
REP. KAY BROWN - CHAIR, HOUSING SUBCOMMITTEE
REP. AL ADAMS - CHAIR, RURAL SUBCOMMITTEE
REP. NIILO KOPONEN - CHAIR, INTERIOR SUBCOMMITTEE
REP. MIKE NAVARRE - CHAIR, RESOURCE DEVELOPMENT SUBCOMMITTEE
REP. RED BOUCHER - CHAIR, SMALL BUSINESS SUBCOMMITTEE
REP. FRAN ULMER - CHAIR, SOUTHEAST SUBCOMMITTEE
REP. MIKE MILLER - CHAIR, EMPLOYMENT AND INDUSTRY SUBCOMMITTEE
REP. STEVE RIEGER - CHAIR, BANKING SUBCOMMITTEE

Max: January 18, 1988

Steve Rieger's suggestion was to add a target date at eight weeks for passage of legislation. This I will do on the final document.

Navarre, Brown and Boucher talked about merging the subcommittees. My suggestion remains conducting Joint subcommittee hearings on subjects (Niilo's wholistic approach) and concentration in individual areas. Perhaps ask chairs to develop more accurately descriptive names. All seem to agree that the overviews sometime next week will flush out the areas that the subcommittees should address.

I will set up Wednesday afternoon appointments for you with the members to discuss the subcommittee assignments.

- Tom

Tape # 1, A

Joint Committee on Economic Reform 1/18/88
Organizational Meeting

4:18 PM, Meeting called to order.
All members present.

tape #'s

26 -- subcommittees discussed

80 - subcommittee membership, methods

110 -- proposed three phases of the committee process described

143 -- Rep. Brown: Wishes to focus on Commercial and residential real estate market.

168 -- Rep. Koponen: Discusses a need to go beyond just a return to "where we were". Take advantage of the decline of the dollar and realize the benefits to tourism.

215 -- Senate involvement discussed.

240 -- Rep. Ulmer: Asks why there is no Southcentral Regional Committee. General Discussion ensues regarding the committee structure.

275 -- Rep. Rieger: Describes the necessary overlaps that will occur wit.. the subcommittees.

380 -- Boucher wishes to discuss successful small businesses as opposed to failures.

General discussion of subcommittees, overlapping and merging. Rep. Rieger asks if there might be a deadline or date for the "passage" of legislation added to the list.

Meeting is adjourned at 4:50 PM

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MEMORANDUM

TO: ALL REPRESENTATIVES AND SENATORS

FROM: MAX F. GRUENBERG, JR., HOUSE CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: MARCH 23, 1988

RE: EXECUTIVE SUMMARY AND SUBCOMMITTEE REPORTS

Attached please find a copy of the reports of each of the subcommittees of the House side of the Joint Committee on Economic Recovery. The cover document is an executive summary of those reports.

These subcommittee reports include items the House members of the Committee recommend for consideration by this legislature and their general policy recommendations.

The work of the House Committee continues. We will keep you updated.

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 9981

EXECUTIVE SUMMARY OF LEGISLATIVE ACTIONS
HOUSE JOINT COMMITTEE ON ECONOMIC RECOVERY

When the Joint Committee on Economic Recovery was established by resolution this past January, the House side of the committee adopted a subcommittee framework within which three phases of action would be undertaken. The first phase was to examine the overall Alaska economic picture and identify existing legislation that should be promoted or addressed by the legislature. The second phase was to determine what new legislative proposals might be implemented to address these problems. The final phase of the House effort was to promote long term solutions at the state, federal and local level which might better prepare Alaskans to deal with similar economic situations. At this time we present the attached reports addressing the first two phases of our efforts.

In these reports each subcommittee has endeavored to present, where necessary, those pieces of legislation they believe might contribute most to the economic recovery of the state. Though initially focused on short-term proposals, the final lists of legislation also represent a number of ideas that will have significant long-term implications if adopted by the legislature. Some examples of these latter proposals include HB 492 (the Alaska Bottomfish Development Plan), and HB 430 and HB 431 (Neighborhood Business Development Initiative).

The subjects covered by these reports range from resource development to the housing market and include both Senate and House legislative proposals. While the Resource Development, Transportation, Employment and Industry subcommittee report focuses mainly on specific legislative proposals, other reports, such as the Interior and Southeast subcommittees, address the broader economies encompassed within their purview. The remaining subcommittees, Small Business, Housing and Banking and Rural, discuss broad policy questions and legislative actions.

In identifying new proposals not already introduced, the main emphasis and effort fell upon the Housing and Banking subcommittee. The members of this subcommittee found themselves immersed in the economic problems foremost in the public eye: the collapse of the residential housing and commercial real estate markets and the apparent deterioration of Alaska's banking industry, all areas which few legislative proposals initially addressed.

Other subcommittees, notably Small Business, recommended enhancement of existing programs to fill gaps not covered by legislative proposals.

Following a brief description of the Full Committee's meetings a short review of the activities of each subcommittee shall be presented.

The Full Committee

The Full House Committee has met consistently -- at times jointly with the Senate Committee -- since January 29 of this year. The initial meetings provided an overview of the Alaska Economy from a public, private and regional perspective. These meetings were followed by presentations generated outside of the legislature on plans and proposals to improve the economy. These were in turn followed by preliminary presentations of the subcommittee reports and actions which, after full committee review and amendment, were presented in final form. At present the House Committee is addressing legislative proposals passed from the Senate Committee and has submitted their reports and actions to that committee for review.

Housing and Banking

The Housing and Banking subcommittee, Co-chaired by Representatives Kay Brown and Steve Rieger, held extensive hearings and identified two broad policy recommendations for the state to pursue. The first of these was the improvement of the residential housing market. The second was to maximize the ability of the market to solve commercial real estate and loan problems while minimizing State intervention. Within the first area, specific strategies proposed included directing state agencies with institutionally-owned properties (REO's) to cooperate in demolishing unsafe and substandard housing, providing funding support for the demolition of the Willow Park Apartments, exploring the use of surplus housing for public purposes, directing AHFC to exercise prudent judgement and take prompt action in the management of its REO portfolio (including multi-family and mobile homes), and providing aid to distressed homeowners in the form of workouts, potential trades of property and flexible policies, through AHFC and other state agencies involved in the residential housing market. Other strategies under consideration include the revision of state lending programs -- both commercial and residential -- and the clarification of rules regarding foreclosure.

Within the second area, the subcommittee recommended relaxing limitations on the Alaska Industrial Development Export Authority (AIDEA) enabling them to better respond to current economic conditions.

As legislation was introduced in both the House and the Senate on issues affecting their purview, the subcommittee also considered those bills and made recommendations on many of them, often incorporating them into their strategies.

At this time the Housing and Banking subcommittee still has issues and proposals before them, and will hear them in the near future. These issues may lead to further recommendations of policy or legislation.

Small Business

This subcommittee, chaired by Representative Red Boucher, held public hearings to determine and help develop the level of communication between small Alaskan businesses.

Specifically, the subcommittee recommended that the Small Business Development Center for Alaska, the Alaska Center for International Business the Alaska Business Assistance Center (for rural Alaska) and the Made in Alaska program coordinate their activities -- potentially through the University of Alaska -- to allow greater access by Alaska small businesses to information and assistance presently provided by the state.

Along with support of a number of existing bills, the subcommittee also recommended the State pursue the development of a regulatory clearing house, establish an Alaska Economic Index, and improve the competitiveness of Alaska products.

Resource Development, Transportation, Employment and Industry

Chaired by Representatives Mike Navarre and Mike Miller, this subcommittee report concentrated on the three topic areas in their title. Their task was particularly difficult as it carried over into a number of sensitive areas presently under consideration in standing committees.

In Part One of their report particular emphasis was given to the Alaska Bottomfish Development Plan, HB 492. This was also the subject of a specific hearing of the subcommittee. Other bills the subcommittee believed merited consideration included legislation relating to fishing, tourism and resource agency funding. The controversial mariculture and forest management issues were also dealt with in this section through general policy statements that recognized present legislative activities in regard to these issues.

Part two of the report discussed a number of issues relating to employment and industry. Continued support for the Alaska Center for International Business, the subject of another hearing of the committee, was one of these issues supported by the subcommittee. Other areas the subcommittee believed would encourage economic recovery included the development of port authorities, bidder preference for state goods and recycled products, and both legislation and a general policy statement regarding local hire.

The third part of the report provided a brief overview of transportation measures, and recommended support of one measure, HB 479, relating to an appropriation to the Alaska Marine Highways system.

Interior

Through public hearings and solicited responses the Interior subcommittee, chaired by Representative Niilo Koponen, developed a report that merged legislative proposals with policy recommendations -- both long-term and short-term.

After a brief overall policy overview the report dealt extensively with the 11 pieces of legislation they recommend for passage. Among these were the Alaska Research Policy (HB 253), the Alaska Science and Technology Foundation (HB 390 and HB 391), the Neighborhood Business Development Initiative (HB 430 and HB 431), and the Alaska Energy Efficient Home Equity bill (HB 318 and SB 308). Specific emphasis was also devoted to HB 523, regarding recycled Alaska products, which would have direct impact on a local business within the Interior region. The subcommittee also referred to the activities of the non-regional subcommittees and supported proposals identified in those reports.

Besides legislation their report also addressed recommendations for administrative action, including information and market development services for Alaska manufacturers, centralized procurement practices, and the development of an import substitution strategy with State efforts to develop a resource export strategy.

The report concluded with a number of suggestions proposing broader long-term policy goals for the State and strategies to meet those goals.

Rural

The Rural subcommittee, chaired by Representative Al Adams, submitted a short, comprehensive, and well-documented list of recommendations to the Full Committee. Taking into account the large geographical area encompassed within the subcommittee purview, the members recommended proposals that would apply in the broadest possible manner with the maximum beneficial effect.

The subcommittee supported the passage of HB 439, with the accompanying $3.6 million fiscal note, an act which would raise the minimum entitlement under the state revenue sharing program from $25,000 to $50,000 per year -- a number that has not been increased since 1981. The subcommittee also supported greater funding in the operating budget for the village public safety officer program and public health nursing, and increased capital budget funding for village safe water facilities, educational facilities, and waste heat and other appropriate power projects. These and other programs described in the report were deemed important to the social and economic well being of rural Alaska.

Southeast

The Southeast subcommittee report presented a generally optimistic overview of the economy of that region and specifically focused on topical issues effecting Southeast rather than on particular pieces of legislation.

Areas of importance stressed in this report included adequate funding of resource management in natural resource agencies, the development of export industries and markets for Southeast resources -- including tourism, support of the Alaska Marine Highways System at adequate levels, support for fisheries and mariculture development -- though excluding salmon and continuing the moratorium on pen reared salmon, and strong support for local hire and training initiatives.

The report concluded by stressing the need for stable public sector funding policies and emphasizing the interrelationship of the economy through each of the described subject areas.

Each of these reports is attached. It is the intent of the House members of the Joint Committee on Economic Recovery to include these in a final report addressing the need for long-term focus and direction for Alaska's economy.

BY: Max F. Gruenberg, Jr., House Chair

Al Adams

Red Boucher

Kay Brown

Niilo Koponen

Mike Miller

Mike Navarre

Steve Rieger

Fran Ulmer

Report of the Subcommittee on Small Business

Joint Committee on Economic Recovery

members

Rep. Red Boucher, Chair
Rep. Bill Hudson, Vice-chair
Rep. Johnny Ellis
Rep. Adelheid Herrmann
Rep. Lyman Hoffman
Rep. Steve Frank

Background

The Small Business Subcommittee held seven teleconferences between February 4 - 16, 1988. The teleconference sites included Anchorage, Juneau, Fairbanks, Mat-Su, Homer, Bethel, Sand Point, Kodiak and Dillingham. The Small Business Subcommittee's agenda was to listen to, identify the needs of, and network small businesses with the agencies and services currently available.

Discussion

The participants most frequently said they lacked information about what funding, services and agencies are available to help them.

Small business has long been touted as the backbone of the American economy. A recent study indicates that the formation and expansion of firms that employ fewer than twenty people have generated virtually all of America's net employment gains since 1981.

The strength of Alaska's economy rests on a vigorous and diverse small business community. Small business produces more new jobs, ideas and technology than any other sector. As they prosper, new enterprises account for significant government revenues, and their innovative entrepreneurial policies stimulate industries to greater productivity.

Policies favoring economic diversification, import substitution, and value-added exports are an unqualified call-to-action for Alaska's small businesses and manufacturers. As other states with similar policies have discovered, direct investments in the development of marketable products is the most cost effective and expedient means of establishing a stable employment base.

The Subcommittee on Small Business has reviewed the following programs and services already established in the state and believes that the efforts of business assistance should be focused through a delivery system that utilizes these programs and services.

The Small Business Development Center of Alaska (SBDC) represents a unique partnership between the Alaska Department of Commerce and Economic Development, the Small Business Administration, and the statewide University of Alaska System. SBDC has offices in Juneau, Fairbanks, Anchorage, Kenai, Kodiak, Valdez, Bethel, Kotzebue, Nome and Ketchikan.

The Small Business Development Center is funded by the State of Alaska and the Federal Small Business Administration. Because of its association with a federal agency and the state University system, SBDC can access national, state and local procurement systems, international trade networks and various databases.

The Small Business Development Center provides instruction in the areas of development of new ideas for products and services, financial management, marketing, export and importing financing information, export and import trends and potential of a region. Additionally, it offers courses, seminars and workshops on current business topics. SBDC has a natural tie with the Alaska Center for International Business which, like SBDC, is a part of the University system.

The Alaska Center for International Business conducts research, including research on market information and market strategies, relating to trade by businesses in the state with foreign nations, and, in particular, Asian nations.

Additionally, the Center for International Business assesses the potential of various markets for the state's natural resources and technical and informational resources. It identifies and analyzes the import requirements of and trade barriers to commodity sales in other nations. It also identifies the state's trade competitors and assesses the public policy and programs used by the competitors to foster trade with potential markets for the state's goods and services.

Another program that has been invaluable for its hands-on technical assistance and training to small businesses in rural Alaska is the Alaska Business Assistance Center. The Business Assistance Center helps rural Alaskans through the myriad requirements of establishing and running a small business in the state. The Business Assistance Center has helped many people regarding loan foreclosures. Foreclosing on loans is cumbersome and confusing to rural Alaskans, and the Assistance Center has prevented many people from losing their loans and their livelihood. Through the efforts of the Assistance Center, many loans have been saved before they got to the point of foreclosure.

The three-year-old Made In Alaska program of the Department of Commerce and Economic Development remains the most substantive state effort to stimulate manufacturing jobs in Alaska to date. However, this program remains unfunded.

The problem, as previously discussed, deals with informing and offering instructional assistance to small business persons. The Small Business Subcommittee believes that networking and instruction can be implemented very easily. The University of Alaska Anchorage Department of Instructional Television Service has the equipment and facilities to produce and edit the courses, seminars and workshops that are being planned by the Small Business Center, the Alaska Business Assistance Center, the Center for International Business and the Made in Alaska Program.

These tapes can then be distributed and aired on the public access channel on the

local cable television systems. Currently there are twenty-four cable systems in the state. Under this plan, interested persons will be able to view these instructional and informational programs in their homes. Additionally, Public Service Announcements over the RATNET system can be utilized to make areas of the state not served by cable television aware of what is available and who to contact for more information, etc.

In Anchorage, these programs can be viewed by those who do not currently have cable television. The Anchorage schools, with the exception of Bartlett, are cabled. Interested business persons can go to their neighborhood schools to view the various taped programs on the public access channel.

Another way for interested business persons to utilize these programs will be through the municipal library systems. Tapes could be checked out, just like a book, and viewed on a VCR.

The implementation of this plan will further the intent of CSHB 40 which was enacted to develop and implement a cost-effective policy for managing the state's information and information technology resources so that state government may better serve the people.

The Small Business Subcommittee believes the small business person will also benefit from the Alaska Neighborhood Business Initiative. This would be a valuable referral tool for small businesses and manufacturers.

Conclusions

If the state is going to work towards stabilization and expansion of our economy, then we should be doing everything possible to establish a climate conducive to the development and communication of ideas of small business.

Small business in Alaska is concerned with the proliferation of regulations and other expensive permitting processes on both the local and state level, all of which increase the costs of doing business.

There is a need for a regulatory clearing house to receive the complaints and constructive proposals of small business. The clearing house would work to reduce the costs of doing business.

The budget efforts for this business assistance system should involve all departments and agencies that are concerned with small business.

In addition to improving the business climate, the State needs to find new ways to improve the competitiveness of Alaska manufactured products.

Recommendations

The Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the University of Alaska, the Division of Tourism, etc. to identify a few, should jointly budget and develop a comprehensive program to promote royalty-based product development investments that create permanent jobs at the least cost.

The Legislature should establish a broad-based economic index, written in law, which will enable the Legislature and the Governor to determine objectively the performance of the economy and its outlook and which will become the basis for formulating the state's fiscal policy.

This Alaska Economic Index should include indicators such as:

> Consumer spending, savings and investments, public and private sector employment, wage and salary rates, housing starts, retail and wholesale sales, value on contract construction, personal income, gross state products and state revenues.

The Legislature should also:

Support passage of **HB 45** - Alaska Bidder Preference

Support passage of **HB 430** - Neighborhood Business Development Fund

Support passage of **HB 431** - Appropriation: Neighborhood Business Development Fund.

Support passage of **SB 166** - Regulations that Affect Small Businesses and Municipalities.

Support passage of **SB 219** - Creating AK Center/International Business

Support passage of **SB 220** - Appropriation: AK Center/International Business

Support passage of **SB 322** - Revision of Worker's Comp Laws

REPORT BY THE RESOURCE DEVELOPMENT, TRANSPORTATION, EMPLOYMENT AND INDUSTRY SUBCOMMITTEE JOINT COMMITTEE ON ECONOMIC RECOVERY

MARCH 16, 1988

Since the initial March 2 draft report, many bills previously under consideration by this subcommittee are no longer under review, though some are certainly still under consideration by full standing committees. Further deliberation on these bills revealed that either broad based policy questions needed to be addressed before those bills were passed, or that they simply had little or no effective positive impact on our economy.

PART ONE: RESOURCE DEVELOPMENT MEASURES

FISHERIES AND TOURISM

As stated in the subcommittee's March 2 report, Alaska's two foremost renewable resource industries are Commercial Fishing and Tourism. Though they must be considered an integral part of any overall economic recovery and stabilization effort, Fishing and Tourism can have such a positive short term effect, with such strong potential for long range economic stability, that the subcommittee feels they should be given primary consideration.

* **HB 492** - Appropriation: Alaska Bottomfish Development Plan. Sponsors: Herrmann, Gruenberg, Sund & Ellis.

This measure proposes appropriations totaling $6,828,000 to implement an Alaskan bottomfish development plan. The specifics of this bill will be the subject of debate, as there are serious questions as to the availability of the funding necessary to implement this (or any) plan.

On March 14, the subcommittee heard a presentation by Mary Gross, City Manager, and Gary Daly, Port Manager, City of Unalaska. The spoke in favor of the legislation. HB 492 incorporates several million dollars in capital improvements for Unalaska, necessary to adequately service the rapidly growing bottomfish industry. Last year, some 1.2 million metric tons of processed product was transshipped through Dutch Harbor. With the grants, the City of Unalaska would upgrade their water, sewer, and dock facilities in order to better serve the industry. This is part of implementation of the development plan.

Development of Alaska's bottomfish industry is fundamental. It can result in increased seasonal and year-round jobs, and a greater tax base for both the state and municipalities. This adds another stabilizing factor to Alaska's economy. HB 492 is legislation that can accomplish that end.

RESOURCE DEVELOPMENT MEASURES (cont'd.)

* HJR 64 - Alaska fishing in exclusive economic zone.
Original Sponsors: Herrmann, Sund & Ellis.

This measure is a logical companion to HB 492, and relates to state participation in the bottomfish industry.

* HB 408 - Fisheries business tax - 'outside' processing
Sponsor: Davidson et al.

This measure would levy a tax on fisheries resources (primarily bottomfish) that are processed outside of the state by a floating processor and are brought into the state for transshipment. The bill would generate substantial additional state revenue (estimated at some $44 million), which is currently "leaking" from the Alaskan economy. Just as the current distribution system works, the tax would be shared with the borough or municipality into which the resources were first brought. Revenues generated to the municipality through this mechanism would be an economic boon to the local areas, providing an incentive for expansion of fishery support projects and services. The measure would also increase the Alaska Seafood Marketing Institute's operating budget, through the .03% value of processed goods paid by processors to the Dept. of Revenue (for appropriation to ASMI).

* SB 410 - Operation of state hatcheries by contract.
Original sponsors: Eliason, Jones & Kerttula.

This measure would allow the state to contract the operation of hatcheries, providing a preference to regional aquaculture associations. The measure can assist in keeping hatcheries open that otherwise would close, thus keeping certain fisheries enhancement programs (and their related fisheries) active.

MARICULTURE/AQUATIC FARMING ISSUES

The issue of mariculture is a complicated one. Through debate conducted on this subject during the previous and current session, one thing has become clear: **The state needs to develop some overall policies on mariculture.**

Fish farming has been a controversial subject in Alaska. It offers the potential of new economic development of our natural resources. It also poses questions about resource allocation and management conflicts, as well as economic impacts on established industries.

The salmon farming industry in British Columbia, Canada, which was initiated and developed rather rapidly, has brought with it a multitude of problems. Insufficient gathering and analysis of information prior to permitting salmon farming seems to have contributed significantly to this situation. We must make sure not to duplicate the mistakes of others.

The committee believes that mariculture has promise in Alaska. However, given the uncertainty of the biological impacts that salt water pen rearing of salmon could have on one of Alaska's largest industries, we believe that the moratorium which applies to salt water pen rearing of salmon should be continued. At the same time, the State should undertake additional research and analysis without delay to obtain the answers needed to allow all possible but biologically compatible, uses of our ocean resources.

In the area of Shellfish Mariculture: Shellfish farming, while not a major industry, is scarcely new. There are many shellfish farming operations in existence, with other options available for research and development. The subcommittee feels that this could add to the stability of Alaska's economy, and it appears Alaska can move forward with more assurance in this area. The subcommittee supports this, as long as it is done in a biologically and ecologically sound manner. Another area that merits investigation is the farming and marketing of aquatic plant life.

* HB 423 - Appropriation: Tourism and recreation projects. Sponsors: Brown, Ellis, Reiger et al.

This bill proposes appropriations totaling $9,920,925, funding some 40 different projects around the state. The projects would have a twofold impact: immediate employment during development and construction, and a long term economic impact to both the local areas and the state as a whole. While the availability of funds to accomplish this program is in question at this time, the subcommittee strongly believes that this is the type of legislation that clearly aids the goals of economic recovery and stability.

* HJR 49 - South Denali visitor's center. Sponsors: Pearce, Springer, Pettyjohn, et al. (identical to SJR 49, by Sturgulewski, Josephson, Rodey, et al.)

This measure supports the development of a visitor's center and related facilities on the south side of the Alaska Range.

OTHER RESOURCE DEVELOPMENT MEASURES & ISSUES:

* HCR 48 - Natural resource agency funding. Sponsors: Sund, Ellis and Ulmer.

This measure calls for a $14,000,000 increase in Resource agencies operating budgets for fiscal year '89, with subsequent increases over the next two fiscal years, to insure that by FY 1991, resource agency operating budgets total 10% of the total state operating budget.

The subcommittee supports the concept of HCR 48. Additionally, the subcommittee feels establishing a comprehensive resource management and development policy for Alaska is essential. State agencies, though they may be dealing with the same resources, often have different missions. This is understandable. Better dialog between departments is a first step. This will help to initiate a coordinated effort for resource management. With such an effort, we believe an overall resource development policy can be achieved, without compromising the expressed goal of any department.

HCR 48 has yet to be debated. It seems clear, however, that a critical review of resource agency operating budgets (with an eye toward increasing those budgets) is justified. Along with any budget increase, both the legislature and administration have an obligation to provide some clear policy direction to the agencies.

It is our understanding that the standing House Resources Committee has undertaken these tasks, and the subcommittee strongly supports those efforts.

* HJR 13 - Foreign export of Alaska crude oil. Sponsors: Davis, Martin, Brown, Adams, et al.

Requests the U.S. Congress to enact laws providing for the export of Alaska crude oil, regardless of the oil's production point within the state.

FOREST MANAGEMENT ISSUES

The March 2 subcommittee report identified SB 112 and HB 141 as potential vehicles to advance discussion of this topic. The House Resources Committee is currently working on consensus language for SB 112; however, the language is not available for distribution at this time.

The subcommittee believes the issue of comprehensive, long term management of timber resources on a statewide level should be addressed as a policy question by the legislature. For this reason, we support further efforts

to identify committee substitute language for SB 112 which will be acceptable to all parties interested in this issue.

PART TWO: EMPLOYMENT & INDUSTRY MEASURES

* SB 220 - Appropriation: Alaska Center for International Business. Sponsor: Rules by request of the Governor.

This measure appropriates $5,400,00 as a grant to the

University of Alaska as an endowment for the Alaska Center for International Business. At their February 26 meeting, the subcommittee listened to a presentation by Dr. John

Choon K. Kim, Executive Director of the Alaska Center for International Business. During the course of his presentation, Dr. Kim discussed ongoing projects of the center.

Dr. Kim's presentation pointed out that immense economic potential exists for Alaskan businesses to participate in the Pacific rim market.

The Alaska Center for International Business has laid a substantial amount of groundwork in this area, and appears to be a viable mechanism to aid Alaskan resource related industries in identifying and/or establishing markets and taking advantage of foreign trade opportunities.

Obviously, the question of continued funding for the Alaska Center for International Business, and the level of that funding, is something that requires debate and a decision by the full legislature.

The subcommittee feels that continued funding is justified, to help the Alaskan business community capture a larger share of the Pacific Rim markets. This will add to diversification of our state's economy, and to long term stability.

* HB 45 - Alaska bidder preference.
Sponsors: Donley, et al.

This measure establishes a sliding scale percentage preference (based on the amount of the contract) for Alaskan firms bidding on state contracts.

* HB 209 - Port authority for municipalities.
Sponsor: Larson, et al.

This bill creates a framework by which municipalities can establish & operate port authorities, and defines port

authority powers. The concept is to further development of Alaskan ports, adding another stabilizing factor to the Alaskan economy.

* HB 450 - Out of state solicitation for state contracts & employees. Sponsor: Pearce, et al.

This measure prohibits state agencies from procuring or contracting outside the state unless it has been determined in writing that no responsible bidder or supplier exists within the state, prevents state agencies

from hiring outside the state without a determination in writing, of the agency's inability, within a six month period, to find a qualified person for the vacant position.

* SB 135 - Limiting hire of nonresident teachers. Sponsor: Josephson, Kelly.

Prohibits hire of non-resident teachers by school districts or state agencies without a diligent and reasonable effort to secure qualified people in the state.

* SCR 42 - In-state fabrication of mini-modules.
Sponsor: Faiks

This measure urges the administration to work with private industry to foster development of fabrication of oil drilling production modules within Alaska, rather than outside Alaska, thus employing skilled Alaskan workers.

* HB 162 - Work in underground mines
Sponsor: Ulmer

This measure would increase the amount of time that may be worked in a 24 hour period in an underground mine from 8 hours to 10. This change would allow miners who must travel sizable distances to a mine site to put in a longer work day. The measure would also change the current declaration by the legislature that work "in underground mines IS injurious to health and dangerous to life and limb" to " MAY BE injurious ....."

* HB 523 - Recycled Alaska Products
Sponsor: Frank

Under HB 523, recycled products would be eligible for the existing Alaska bidder preference and Alaska product preference, as are other Alaskan produced goods. The current version of this legislation CS HB 523 (State Affairs) does not propose any additional subsidy for

recycled products. However, it would require the State to purchase recycled products from Alaskan companies if those products are priced competitively, appropriate for the intended use, and are of comparable quality to products found elsewhere.

OTHER EMPLOYMENT MEASURES:

There are a number of resolutions and bills that urge hiring and training of Alaskan workers for private and federal construction projects. These all have the same basic thrust, so are not individually described here.

The subcommittee supports legislation promoting the hiring of qualified Alaskans (to the fullest extent possible) by both the private and public sector.

PART THREE: TRANSPORTATION MEASURES

As stated in the March 2 report, the operating and capital budgets are the major means of causing a meaningful impact on the economy. The ongoing operating and capital budget programs initiated by DOT/PF for state transportation are basically sound, and tend to help accomplish the goals of employment and economic stability, with the emphasis on long term impact. However, periodic review of these programs to address regional iniquities or imbalances is required. One recommended measure, addressing the Marine Highway System's operating budget, follows.

* HB 479 - Appropriation: Alaska Marine Highway System. Sponsor: Goll.

This bill would appropriate $3,797,100 in program receipts and $1,100,000 from the general fund, for the Marine Highway System for FY 89.

REPORT BY THE INTERIOR REGION SUBCOMMITTEE
OF THE
JOINT COMMITTEE ON ECONOMIC RECOVERY
MARCH 8, 1988

Over the past few months, the Interior Region Subcommittee members have discussed, both amongst themselves and with individuals who reside in the Interior, their thoughts and ideas concerning economic recovery for our region. Our Committee felt that a major responsibility for the legislative session was to solicit opinions from individuals in Fairbanks whose occupations fill the economic spectrum: business, transport, clergy, labor, manufacture, finance, property management and education. Both Representative Davis and myself have met with Fairbanks North Star Borough employees whose responsibilities involve working with community groups to create the conditions for economic recovery. Brad Pierce from House Research has also written an excellent report for our Committee concerning the "Economic Impact of University of Alaska, Fairbanks on the Fairbanks Economy." The Subcommittee plans on presenting this and other information in a more complete format by the end of the legislative session.

You have asked our Committee to prepare a report on identifying legislation that will aid in Alaska's economic recovery. Being a geographically defined Subcommittee, it is difficult to focus on specific pieces of legislation that more specialized committees were created to examine. We feel that the legislation chosen by Subcommittees such as Resource Development, Transportation, Employment and Industry Committee, Housing and Banking and Small Business can and will have a valuable impact for the Interior Region.

We also believe that legislation alone cannot solve the difficult problems the Alaskan economy is facing at this time. The Committee feels legislation can provide a framework within which individuals and groups can organize and act to create their own economic destiny. We do not endorse the concept of a political "command economy." Many of the concepts developed in the various pieces of proposed legislation and the background information/research received on that legislation are useful but laws and resolutions are not the only answers for economic recovery. Finally, the following list of proposals for legislation is not in a specific order, it is merely a list of bills that should be considered for passage.

HB 430 - HB 431 - "An Act Relating to the neighborhood business development program," HB 430 and the companion appropriation bill HB 431 is a program modeled after an existing program run by a non-profit corporation in

Anchorage. The concept of the program is to leverage state money with secondary financial markets to redevelop commercial business zones. A statute enacted during the first session allows non profit organizations to borrow from AIDEA. This can benefit programs of this nature proposed in HB 430. The goals and objectives of this program will benefit Fairbanks in the areas of:

1) creating new short term and long term jobs
2) creating incentive mechanisms for attracting new businesses to defined business zones such as downtown Fairbanks
3) helping make existing business more viable, attractive, and stable
4) leveraging business loans made with conventional financing.

This bill will offer an opportunity to develop an expanded public/private partnership in Fairbanks, North Pole, Nenana and other Interior communities.

HB 253 - "An Act relating to the Alaska Research Policy Act and the science and engineering advisory commission."

HB 390, HB 391 - "An Act establishing the Alaska Science and Technology Foundation; relating to the membership of the science and engineering advisory commission; and it's companion HB 391, "An Act making an appropriation to the Alaska Permanent Fund Corporation to establish the Alaska Science and Technology Endowment."

All three bills together establish a research grant program which will act to spur economic development. The foundation will promote and enhance Alaska's economic development, technical innovation and capability, and public health by encouraging and supporting basic and applied research. The foundation would fund research proposals for work in the scientific and engineering fields dealing with Alaska and the Arctic. Preference would be given to Alaskan Scientists and engineers whose proposals meet the criteria. This bill would benefit the University of Alaska and private research and engineering establishments, create new jobs and will lead to economic diversification for the state.

HB 202 - "A Revision of the Cooperative Codes Revision Act." This bill would modernize and improve the current law, bringing the cooperative corporation code into parallel form with other areas of the Code Revision Commission's updates of Alaska corporation law. The result of improved Alaska cooperative corporation law will be to expand the practical range of economic options open to Alaskan producers and consumers in organizing the form of business most suitable for their particular enterprise. This bill is another tool for economic development in Alaska.

HB 394 - "An Act relating to electric and telephone cooperatives." This bill expands the capabilities of Alaska's electric and telephone co-operations and provides safeguard from 'takeovers' by Outside capital.

If this bill becomes law, cooperatives will be able to make donations for the public welfare or for charitable, scientific, or educational purposes. This will allow more businesses, cooperatives and corporations in the State to offer programs or internships for university students to participate in either research or hands on experience in business. Co-operatives would also be able to consolidate operations for economies of scale or offer other services, such as district heating through use of waste heat from power plants. Should the Municipality of Fairbanks wish to divest itself of its utilities, Fairbanks consumers could own the utility directly through membership in a successor co-operative; a matter of some importance to Interior businesses and homeowners.

SB 166 - "An Act relating to regulations that affect small businesses and small municipalities." This legislation requires state agencies to make an economic analysis of the effects of new regulations on small businesses or small municipalities. This will provide a salutary reminder to agencies that they must assess all positive and negative aspects of regulations before they are promulgated, rather than focusing only on technical details.

HJR 66 - " Relating to the Headquarters of the Sixth Infantry Division." This resolution supports the full deployment of the Division into Fairbanks, Alaska. The federal funding of this measure must be secured in order to protect Fairbanks and the State from further fiscal impact. Transfer of the Headquarters Company will not only provide the Light Infantry Unit with needed leadership, but brings in ranking personnel who should have a positive impact on the local economy.

SB 308 and HB 318 - "An Act establishing the Alaska energy efficient home equity fund." This measure would create an Alaska Energy Efficient Home Equity Fund governed by the Department of Community and Regional Affairs. It would be state policy to encourage the building of homes to the energy efficient standards of the Alaska Craftsman Home Program. The bill states, "State money now being spent to subsidize energy bills, to weatherize and repair poorly constructed homes, and to improve the health of people affected by poor indoor air quality would be reduced or eliminated as existing homes are replaced by homes that are built to Alaska Craftsman Home Program standards." This program is beneficial in all areas of economic recovery for the state, but is particularly important in the Interior, where long winters and persistent below zero temperatures are a severe economic hardship on residents and local business.

The following are ideas suggested by Fairbanksans during our first meeting in that community. The proposal to develop winter tourism in the Interior, whether through greater co-operation between existing ski lodges or through development of new ski - areas has merit, although development of new areas is bound to be controversial.

Development of a 'science-park' in proximity to the University would provide not only a site for private research, engineering or technological firms, but a location for local manufacture and assembly of high technology components that have been and will continue to be designed locally.

The local manufacturing scene has been a striking contrast to the other wise depressed economic picture. Increasingly high transportation costs have served as a spur to import substitution for all manner of items - even mattresses! Many locally made items in Fairbanks, such as the arctic windows made by Alaska Window and the vehicle batteries made by Alaska Battery Inc. (ABI) are superior to similar items made elsewhere. The current 'import substitution' strategy initiated by the State Government must be pursued vigorously and with real continuity.

The Borough dump is the raw material source for K & K Recycling a local firm which has pushed the state of the art to new heights. K & K operates the Borough landfill on contract, employs three times the workers the borough did (sorting is labor intensive) and makes money. Not only does K & K sort and sell metals and similar valuables, they also manufacture fuel pellets which are mixed with Healy coal to produce a clearer burning, high BTU fuel. Another product from K & K is insect and rot proof planks and fence posts from scrap plastic. Passage of HB 523 will allow use of materials made from recycled materials in Alaska by state agencies.

The Borough Economic Development Office has been engaged in an intense organizing and informational exchange effort focussing on positive economic development, both on-going and potential. This focus on positive, rather than negative aspects of the economic picture, is stimulating and in sharp contrast to approaches found else where. It is having a real impact in fostering and entrepreneurial activity, but does uncover areas where state legislative or administrative action may be required. A memorandum, appended to this report, illustrates the broad scope of activities covered during a briefing by the Borough office for Department Commerce and Economic Development Commissioner Tony Smith.

While the Borough meeting with Commissioner Smith was in process, the Interior subcommittee held a public meeting at the Legislative Information Office jointly chaired by Representative Koponen and Representative Mike Davis, with the participation of the delegation from the Northwest Territories Legislative Assembly. Nineteen members of the public, representing groups such as the Interior Manufactures Association (an affiliate of the Alaska Manufacturers Association) the Chamber of Commerce, Arctic Institute of North America, Job Services, Tanana Valley State Fair Association, Main Street Project, Alaska Miners Association etc, attended. Testimony covered a broad range and included proposals stimulating highway tourism by opening the Haul Road and maintaining guiding and trapping by keeping it closed; support for a state health insurance pool and early

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1584 SCOMM 59 • JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1381

childhood services (from a member of the IMA), support for local transit, the Fair, improved mining technology, Alaska bidder preference, a local job coordinator for North Slope employment, and more.

After the presentations the N.W. Territories legislators expressed an interest in joint ventures with Alaska Window and Alascan composting toilets and planned a tour of the Alaska Window plant at Gold Hill.

Innovative suggestions that could be pursued by the legislature and/or the administration include:

1) Department of Commerce and Economic Development, in co-operation with the Alaska Manufacturers Association and the Interior Manufacturers Association, should develop a professionally done marketing directory and brochure listing Alaskan manufacturers by name and product and distribute it to purchasing agents in all state agencies, municipal governments and school districts, as well as making it available to the public.

2) establish a state clearing house for business information. This could be a refunded Alaska Administrative Journal or a similar document focussing principally on contracts, RFP's bid offers, proposed purchases and other procurement activities to be a part of the Department of Administration within which state procurement is currently centralized.

3) establish a "procurement ombudsman" and/or amend the State Procurement code to require an explanation of why an available and competitively priced local product was not used.

4) Pass the amended co-operative code HB 202 and provide technical assistance for a new type of business organization: a joint, co-operative business facility providing space, management and book-keeping services, start-up expertise, access to capital and technical expertise to member entrepreneurs and their small businesses.

The major task for the state government, as seen by these entrepreneurs in the Interior is to provide technical assistance, access to existing markets, development of new markets, research and information services, and maintenance of a level of social and governmental services needed to maintain a stable economy and a stable community.

A complaint that crops up in a variety of contexts is that both state loan examiners and private bank loan officers are oriented to real estate, retail and construction trade, and automobile loans and do not understand or support manufacturing, agriculture, scientific or technical production or other activities. This results in a scarcity of in-state venture capital and in a failure to provide continuity of support needed for well-managed, potentially profitable ventures to reach a real "take-off" point. It is

characterized as "short-term" rather than "long-term" thinking or as a profit taking rather than an investment approach. To the extent this exists it is probably due to Alaska's boom and bust history and needs to be recognized and dealt with through better education and training of our fiscal managers. No legislative action for this session is proposed.

The intellectual capital created by the presence of the University must also be drawn upon and adequately supported. Until recently two local business firms served a prime example of what can be accomplished - and as a warning of what can happen. Alaskan geologists and mining engineers, organized as 'Research Associates' developed a nationally recognized capacity in the field of mineral exploration and development. Outside capital brought RAI into NERCO Minerals, which constructed a multi-story building in Fairbanks from which to operate. However, the desire to centralize operations in the Pacific Northwest led those same capital interests to mover NERCO to the State of Washington, with the loss of some 60 - 100 jobs.

Local capital provided mostly by local physicians and technical talent provided by University related computer personnel led to the incorporation of Systronics Inc. This was a Fairbanks based computer software company which developed nationally competitive software. At it's peak, Systronics employed some 40 people. Competing successfully in Outside markets brought it additional capital, but also diffused it's local ownership. Control passed to a larger Outside competitor which moved key personnel Outside and shut down operations in Alaska.

These two examples show that creative, entrepreneurial, Alaskans can and do create viable high tech businesses that can compete successfully in the United States and world market. They also show that our corporation codes are probably obsolete and fail to provide adequate protection for the Alaskan entrepreneur or for the Alaskan investor. The committee, however, is not prepared to suggest any piece of legislation currently available, as a solution to this problem.

A related problem stems from the inability of the University to maintain market competitive salaries in a variety of fields, including computer sciences, math, engineering and business for the last four to five years. Alaskan scientists, engineers and technical engineers are retiring or are taking better paid positions Outside. Replacements often cannot be hired. Without these trained people the successful start-up of new high tech firms like Systronics or Research Associates before it, will probably never occur.

There are a number of other pieces of legislation that will have a strong impact on economic recovery. Workable legislation mandating or encouraging local hire is extremely important. As stated earlier in this report, the Subcommittee feels that many of the proposals of the more specialized Subcommittees can assist economic recovery. Others, however, can result in

a misallocation of scarce capital; give an unfair economic advantage to an individual or small group; result in a misappropriation of public interest. For this reason, careful examination of all proposals is needed, before adopting or recommending them in order that the public interest be served and our responsibilities, as legislators, are properly discharged.

SUMMARY

The Interior Subcommittee on Economic Recovery supports the following legislation: HB 253: Alaska Research Policy, HB 202: Cooperative Code Revision, HB 390/391: Establishing the Alaska Science and Technology Foundation, HB 318/SB 308: Alaska Energy Efficient Home Equity, HB 430/431 Neighborhood Business Development Program, SB 166: Regulations effecting small business and small communities, HJR 66: Headquarters of Sixth Infantry, HB 523: Recycled Materials. Adequate funding must be provided for the Universities teaching and research functions. The erosion of our "intellectual capital" can abort any long term economic growth.

There are a number of other resolutions, and bills that will have a strong and viable impact on economic recovery. Legislation in the area of local hire is extremely important. As stated earlier in this report, the Subcommittee feels that many of the choices picked in the more specialized Subcommittees can aid in the area of economic recovery.

The Interior Subcommittee recommends the following administrative action: developed information and market development services for Alaskan manufacturers, technical assistance for valued added Alaska industry, pursuit of an import substitution strategy in addition to the resource export strategy, use of the current centralized procurement procedures to aggressively support the preceding policies.

Further study and analysis is needed to develop long term investment strategies and procedures in both public and private capital markets; how to obtain accessibility to venture capital; innovative new concepts in the structure and organization of economic activity (what are the most productive ways to organize an Alaskan firm in a given line of business?); how to protect the Alaskan investor and secure their participation and investment in the Alaskan economy.

March 3, 1988

TO: Rep. Max Gruenberg, House Chairman
Joint Committee on Economic Recovery

FROM: Rep. Al Adams, Chairman
Rural Subcommittee

Attached is a report by the rural subcommittee which puts forth our recommendations for new legislation, operating issues that need to be addressed and capital projects which deserve consideration by the full committee.

I appreciate your comments and assistance on these issues. If you have any questions about any of these recommendations, please contact my office.

Approve by

Al Adams

Lyn Hefner

Bette Cato

Kay Wallis

House Rural Subcommittee Report
Joint Committee on Economic Recovery

The House Rural Subcommittee of the Joint Economic Recovery Committee has held both formal and informal committee meetings in our efforts to identify legislation and improvements to existing programs, both capital and operating that would aid rural Alaska in these continuing difficult economic times.

Attached to our recommendations are some recent reports which address the basic problems facing the citizens of rural Alaska. The problems facing our people are very diverse and there are no simple solutions. We believe that these recommendations will address some of the most basic problems facing our small communities across the state today. By taking care of some of these basic problems today we hope to avoid serious prob'ems tomorrow.

Short Summary of Recommendations:

<u>New Legislation</u>

Passage of HB 439: An Act relating to entitlements for municipalities and unincoporated communities; and providing for an effective date. This bill raises the minimum entitlement for municipalities and unincorporated communities from $25,000 to $50,000.

<u>Operating Budget Priorities</u>

Increase funding for Village Public Safety Officer Program
Increase Funding for Public Health Nursing

<u>Capital Budget Priorities</u>

Village Safe Water Facilities
Educational Facilities
Waste Heat and Other Appropriate Power Projects

There are certain state programs that are extremely valuable and popular in rural Alaska and we are recommending that those programs be funded. Included in this category are programs such as the Permanent Fund Dividend, Power Cost Equalization, and Revenue Sharing and Municipal Assistance.

All of the recommendations by the rural subcommittee of the Joint Committee on Economic Recovery focus on very basic needs of rural Alaskans. Following is brief explanation of our recommendations.

New Legislation:

HB 439: An Act Relating to entitlements for municipalities and unincorporated communities; and providing an effective date.

This bill would raise the minimum entitlement under the state revenue sharing program for incorporated and unincorporated communities from $25,000 to $50,000 per year.

Both incorporated and unincorporated communities rely on state funding to provide basic services to their people. The large reductions in municipal assistance, revenue sharing and capital construction funds the past several years have had an adverse impact on all communities in the state--but naturally those hardest hit are those with the least assets. This bill would affect approximately 83 incorporated municipalities and over 70 unincorporated communities---the cash poorest---across the state.

The minimum entitlement has not increased since its inception in 1981. Increasing the basic level of support will allow communities to continue to provide at least minimal levels of service to their residents. Increasing the minimum should not be at the expense of our other communities who are also faced with substantial needs. Therefore, we recommend that a $3.6 million fiscal note be approved as this will essentially hold harmless all other communities in the state who are currently receiving more than the minimum entitlement.

Operating Budget:

The subcommittee reviewed many programs that are very worthwhile and have a positive impact on local communities throughout the state. We reviewed many programs where increased funding would be beneficial .....but we are limiting our recommendations to providing basic public services to communities where these services are not currently available.

Our highest priority for increased funding in the operating budget are 1) Increasing the number of Village Public Safety Officers. Currently 112 villages have VPSO's. State troopers in the field have recommended the addition of 20 more VPSO's, all to communities where currently there is no law enforcement personnel but significant law enforcement problems. We support this request for basic law enforcement services. The average first year cost of a VPSO, including training costs, is roughly $45,000 per VPSO.

Our next priority for increased funding is the Public Health Nursing program. There is a severe lack of professional health care services in rural Alaska. The public health nursing program is ideally suited to address some of our major needs. We have not added any positions to the public health nursing program since 1978, although the population in rural Alaska has greatly increased since that time. Attached is a paper from the Department of Health and Social Services outlining their recommendations on increased funding.

Capital Budget

Our priorities in the area of the capital budget are funding for water, sewer, and solid waste projects, educational facilities, and waste heat and other appropriate energy projects. Attached are lists of projects for consideration under Village Safe Water, DEC's 50% construction grant program and educational facilities. The energy related project supported by the rural subcommittee are limited at this time to the requests in the Governor's proposed capital budget for FY 89. These projects are not listed in priority order, and although there is no way that all of these needs can be addressed in one year, it is our intention that we do address as many of these projects as funding allows.

Alaska State Legislature

Committees:
Chair-State Affairs
V. Chair-Judiciary
Telecommunications
Special Ethics
Legislative Council
Finance Subcommittee
for the University of Alaska
Joint Committee
on Economic Recovery



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REPRESENTATIVE FRAN ULMER

MEMORANDUM

March 17, 1988

TO: Joint Committee on Economic Recovery

FROM: Southeast Subcommittee
for Committee on Economic Recovery

SUBJECT: Southeast Priorities

The economy of Southeast Alaska is primarily based on development of Alaska's natural resources. Fish, timber, mining, and tourism have historically been the mainstay of our economy and continue to do so. There is an increasing amount of private sector development in the natural resource arena and the long term economic outlook is a positive one. Although we have experienced declines in economic activity and in population, as a result of cycles in the international pricing of our exported natural resources which periodically reduce the economic prosperity of the region, overall the outlook is good.

This region's economy is also dependent upon government spending--state, local and federal. The Coast Guard, Forest Service, Bureau of Indian Affairs and many others, provide both jobs and services for our residents. Although Juneau as the Capital City is the most dependent upon state funding for its economic stability, most other communities are also reliant upon a variety of public sector program funding, including municipal assistance, revenue sharing, school funding, troopers, public health nurses and the like.

There are many things which the State of Alaska does and can do to improve our resource development economy:

-- adequate funding for resource management is a critical element of future successes in fisheries, tourism, timber and mining. Unless the agencies which have the responsibility for managing these resources and assisting their development are funded, it is impossible for the private sector to be able to do its job. We support proposals which increase the funding of natural resource agencies.

-- The Alaska Seafood Marketing Institute and its efforts to promote Alaska seafood is an important element in the success of the marketing and sale of Alaska seafood. These efforts should also include value added products which have the largest return to Alaskans.

-- The Alaska Division of Tourism's successful efforts to advertise Alaska are of tremendous benefit to the region. Cooperative regional entities like the Southeast Alaska Tourism Council, made up of communities and private companies in the tourism industry, have focused independent travelers' interest on Southeast. The region has already begun to feel the increase as a result of this effort. We support specific capital projects targeted to increasing tourist activities, continued funding for advertising, and assistance to regional entities like the Southeast Tourism Council.

-- Transportation is a critical element of any economy; but in Southeast, where we do not have a continuous road system and where we must rely on ferries and other water-based and air based transportation, the continued growth of the economy is very dependent upon the State's willingness to provide the necessary infrastructure. The Alaska Marine Highways System plays an important role in economic development in Southeast, and we support efforts to bring the service delivery back in line with previous years.

-- Export financing proposals that assist smaller entities in obtaining some export financing will help not only the fish business in Southeast, but also new business development. Improved cash flow for these small businesses can make the difference between success and failure.

-- Timber harvest in Southeast is largely controlled by entities beyond the State's control. Many of the decisions which should be made here in Alaska are made in Washington, D.C., with regard to both timber management practices, overall harvest levels and the balancing of uses of land and resources. We support careful deliberation over land allocation and efforts to bring more of these decisions back home to Alaska.

-- There is no doubt that mining activity is on the rise in Southeast. Many of the projects have become viable as a result of private sector activity, international pricing and other factors beyond the control of state or local government. Most of these projects are self-sufficient and are not asking for any kind of State loans or infrastructure development. They do ask for a cooperative attitude and, in some instances, for assistance in State laws and regulations to make it possible for them to do business in a cost-effective way, which we support.

We are very concerned about local development and local hire and believe that efforts should be made by the Legislature and the Administration to encourage local hire. The efforts by the University of Alaska Southeast in providing targeted training for the mining industry is a model which we believe should be used elsewhere in the State of Alaska so that those individuals who are within the community and the region can be trained appropriately for the job which they are seeking with the private development. The quick start funds that have been requested by the University of Alaska to do this kind of vocational training should be supported.

-- Fish farming has been a controversial subject this year. It is the feeling of the committee that mariculture has promise in Alaska; however, given the uncertainty of the biological and economic impacts of this activity, we feel that it should be restricted to things which do not directly endanger the species of fish that have been highly productive for the state of Alaska, such as salmon. We suggest that the moratorium continue on the pen rearing of salmon. With this exception, we believe mariculture should proceed in a cautious, well-regulated manner.

-- Hatchery programs have been very successful in increasing the overall harvest levels for both commercial and sport fishing in Southeast. Every $1.00 invested in fisheries enhancement programs results in $1.80 in resident Alaska income. Both public and private hatcheries should be encouraged and receive additional support as this will provide a significant economic return to the fishing industry throughout the state of Alaska.

The Alaska economy is made up of many parts from both the private and public sector. By stabilizing public sector funding, both operating and capital, Alaskans can look forward to a more certain and positive future. With wise natural resource management and promotion of our products, and adequate transportation and communication systems, the public and private sectors can jointly assist the economy of our region and our state.

Final Report of the Subcommittee on Housing and Banking

Joint Committee on Economic Recovery

May 5, 1988

Members

Rep. Kay Brown, Co-Chair
Rep. Steve Rieger, Co-Chair

Rep. Pat Pourchot
Rep. Steve Frank
Rep. Henry Springer
Rep. Fran Ulmer
Rep. Virginia Collins
Rep. Mike Davis
Rep. Mark Boyer
Rep. Randy Phillips
Rep. Mike Navarre
Rep. Dave Donley

Housing and Banking Subcommittee

Report to

Joint Committee on Economic Recovery

The Housing and Banking Subcommittee recommends that the legislature pursue the following policies and take the following actions to address the state's economic problems:

Policy: Improve distressed housing market.

Strategy: Reduce housing supply.

Develop and initiate plans to demolish institutionally-owned residential properties (REO's) which are unsafe, substandard in quality, and for which demand does not exist.

1. Direct state agencies and encourage other agencies owning REO to cooperate in demolishing unsafe and substandard housing.

Action needed by legislature: Pass subcommittee's resolution, HJR 72 am, on residential housing market.

Cost to State: Theoretically, none.

2. Authorize Alaska Housing Finance Corporation (AHFC) to use a portion of its reserves to participate in the demolition of publicly-owned substandard housing, including multi-family housing projects, where such action is supported by local communities and where such action makes long-term economic sense to AHFC.

Action needed by legislature: Pass CSHB 555 (FIN).

Cost to State: Depends on number and cost of projects.

3. Fund demolition of the state-owned Willow Park Apartments in Anchorage.

Action needed by legislature: Pass CSHB 555 (FIN) to authorize use of AHFC reserves.

Cost to State: Demolition of Willow Park is expected to cost up to $4.7 million, including asbestos abatement; the Alaska State Building Authority (ASBA) has proposed that the state and Anchorage municipal governments share these costs. The federal government has been asked to contribute approximately $9 million to purchase or subsidize alternate housing and to cover the residents' moving costs.

Direct AHFC to exercise prudent business judgment in managing its vacant REO mobile homes.

4. Direct AHFC to develop an analysis comparing the costs and benefits of alternative ways of managing REO mobile homes, including demolition, sales, and short-term storage in storage lots and mobile home parks. Authorize AHFC to write off and dispose of vacant and unsalable mobile homes, as part of a cooperative arrangement with other institutional REO owners, wherever it makes economic sense to do so. Direct AHFC to take immediate action to lower holding costs.

Action needed by Legislature: Pass subcommittee resolution, CSHCR 54 (FIN), on management of surplus mobile homes owned by AHFC.

Cost to State: The current foreclosed inventory of 1200 mobile homes could increase by an additional 800-1200 units if economic conditions persist. Because most AHFC mobile home loans do not carry mortgage insurance, foreclosed units involve substantial costs to AHFC whether sold, destroyed, or maintained. The Subcommittee's directive acknowledges the losses and costs to the state that could accrue through various actions by AHFC, but strongly encourages the development of a consistent strategy that minimizes losses or maintenance costs and acts in the long-term best interests of AHFC.

Strategy: Use surplus housing for public purposes.

5. Establish a mental health **pilot program** for the acquisition of excess residential properties to meet critical housing needs identified by the Alaska Mental Health Board.

During the interim, investigate feasibility of expansion of the program to address other public housing needs such as elderly, developmentally disabled, physically handicapped, homeless, low-income, transitional units for ex-offenders and substance abusers, emergency shelters for abused or runaway children and women's shelters.

Conduct a survey of all statewide public housing needs, and recommend financial and management options to the Sixteenth Legislature when it convenes in 1989.

Action needed by legislature: Fund mental health pilot program as part of the capital budget request of the Mental Health Board to meet the state's obligations under the Mental Health Trust Lands Settlement.

Direct House Research Agency to conduct an interim survey of public housing needs and to analyze options for expanding the program.

Cost to State: $2.35 million for pilot program.

Strategy: Increase demand for housing.

6. Support pending legislation identified by other subcommittees of the Joint Committee on Economic Recovery that will improve the economy generally and create jobs.

Strategy: Provide aid to distressed homeowners.

7. Revise law to allow restructuring of rural housing loans by the Department of Community and Regional Affairs, where appropriate.

Action needed by legislature: Pass subcommittee legislation, HB 550.

Cost to State: Theoretically, none.

8. Direct AHFC to relax current owner-occupancy ratios for condominium mortgage loans to the extent possible, and to take actions to raise owner occupancy in condominium developments.

Action needed by legislature: Pass subcommittee legislation CS HB 555(FIN).

Cost to State:

9. Direct AHFC to take whatever action is necessary to provide timely responses to the public on pending matters. Provide adequate funding to hire personnel trained and qualified in market problem areas, such as property management, workouts, and borrower counseling.

Action needed by legislature: Approve Governor's amended budget to provide funding of 25 new positions for AHFC.

Cost to State: $1.788 million (Program Receipt dollars included in Governor's FY 89 budget request)

10. Authorize AHFC to utilize trades of property where feasible in order to increase liquidity in the housing market and to assist Alaskans whose circumstances now require a larger or smaller home, or a home in a different community. Direct AHFC to make establishment of such a program a priority.

Action needed by legislature: Pass CS HB 432 (JUD) and CS HB 555 (FIN).

Cost to State: The Housing and Banking Subcommittee believes that any use of state money for these purposes must be fair to Alaskans generally, and recommends that this issue be explored by standing committees in hearings on the bill.

11. Encourage investors to provide more flexibility in, and to increase the use of, modification, refinance, and forebearance plans.

Action needed by the legislature: Pass subcommittee resolution, HJR 72 am, expressing legislative support for concepts to be implemented by agencies.

Cost to State: Theoretically, none.

12. Provide trained, centralized staffing to assist borrowers in danger of default or delinquency, and offer statewide mortgage counseling.

Action needed by legislature: Fund and expand existing services operated by the Alaska Housing Market Council, including the Mortage and Information Referral Hotline.

Cost to State: FY 88 supplemental appropriation of $100,000 and FY 89 appropriation of $400,000 ($100,000 each from ASBA, AHFC, AIDEA and the Alaska Permanent Fund Corporation included in Governor's budget).

Strategy: Revise state lending programs.

13. Investigate changes to the AHFC HOF and Mobile Home Loan programs.

Action needed by legislature: Reflect on how, or whether, state loan programs have contributed to the current economic difficulties for the economy or for individual Alaskans, and make recommendations for changes.

Cost to State: None.

Strategy: Clarify rules regarding foreclosure.

14. Increase the required disclosure of remedies available to lenders upon default. Investigate the effects of the recent Supreme Court decisions on the default and foreclosure process, and consider action if appropriate.

Action needed by legislature: Pass subcommittee legislation, CSHB 549 (JUD).

Cost to State: None.

Strategy: Improve financing opportunities for neigborhood development.

15. Maximize available private funds for redevelopment of targeted business zones throughout Alaska, community revitalization, neighborhood housing services and economic development projects.

Action needed by legislature: Pass legislation, possibly a version of CSHB 430 (FIN) and CSHB431 (FIN) am funded at some appropriate level.

Cost to State: Up to $3 million.

Policy: Maximize ability of market to solve commercial real estate and loan problems, minimize state intervention.

16. Decrease limitations on AIDEA's ability to respond to current economic conditions.

Action needed by legislature: Passage of CSHB 402 (FIN).

Cost to State: None.

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 10½ percent; the department advertises that the rate is 10½ 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 correspondingly 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 nonlapsing 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

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
wkb3/047

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);

-- 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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HOUSING AND BANKING SUBCOMMITTEE MATERIALS

INDEX

A. SUBCOMMITTEE INFORMATION

-Subcommittee members
-Schedule of subcommittee meetings
**Report by the Housing and Banking Subcommittee 3/21/88
**Supplement to the Housing/Banking Subcommittee report 3/25/88

B. LEGISLATION PENDING

-House JERC recommendations 3/25/88 (SB 333,471,392,SCR 32)
-OVERVIEW by Commissioner Tony Smith re:SB 392,471; HB 402, 422, 429, 430-431, 432, 433; Bridge Bank; Hallwood Group
HB 402 - Ak. Industrial Development and Export Authority
- OVERVIEW of HB 429, HB 430, HB 431, HB 432
HB 429 - Optional exemptions from municipal property taxation.
HB 430 - Neighborhood business development program.
HB 431 - Appropriation to neighborhood business development.
HB 432 - Authorizing AHFC to accept trades.
HB 433 - Moratorium on judicial and nonjudicial foreclosures.
-"Condominium Foreclosures and the moratorium" -William McNall
-"Judicial vs. Nonjudicial foreclosures" - Richard Bradley
-Supreme Court cases w/letter from William McNall - 2/26/88
-Suggested revisions to foreclosure statutes - McNall 3/3/88
HB 434 - Municipal development and redevelopment w/overview
HB 457 - Alaska Stabilization Assistance Program
HB 458 - Alaska Stabilization Assistance Program - Approp.
**HB 549 - Notice Requirements
**HB 550 - HAD Loan Program
**HCR 54 - Mobile Home Resolution
**HRJ 72 - Residential Real Estate Resolution
SB 333 - Bank Liquidations; wages and benefits of employees
SB 338 - Relating to Uniform Common Interest Ownership Act
SB 392 - AIDEA
SB 471 - AIDEA Business Loans
SCR 32 - Urging State financial institutions to adopt more flexible lending and collection policies.

C. LOW INCOME HOUSING

-HOAP program information and application
-HOAP program Summary
-Willow Park relocation program
-Willow Park Financing Proposal
-Heritage Land Bank - Letter from Mayor Fink dated 2/26/88
**Willow Park Joint Committee Resolution - 3/2/88
-Willow Park/Hollywood Vista - 3/8/88 - Lehr to AHFC Board
-Mobile Home marketing program - 3/9/88 - Lehr to AHFC Board
-Repossessed Mobile Home Marketing Program 3/9/88 - Lehr to AHFC

D. CONDOMINIUMS

-Community Associations Institute Report
-Alaska Housing Market Council on Condos Task Force

E. AHFC; Residential Real Estate

-ISER report of AHFC properties in foreclosure
-AHFC FY89 Budget Amendment Narrative
-"Authority to Restructure Mortgage Loans" - 2/29/88
-"AHFC Chief encourages holding properties" ADN 3/22/88

F. COMMERCIAL REAL ESTATE

-OMB Commercial Real Estate Background Report

G. OVERVIEWS

-ISER report on housing market and policy options
-Anchorage Chamber Economic Recovery Task Force Recommendation
-Anchorage Daily News Yoshimura article 2/13/88 "Issue is Quality"
-Connie Yoshimura - Report to the Alaska Permanent Fund Corp. dated 2/10/88 with graphs re:Anchorage Real Estate Market
-Gregg Erickson - OMB - "Recession, Real Estate Crash and Alaska Economic Prospects" 2/18/88
-Commissioner Hugh Malone, Dept. of Revenue - Summary of statements 2/18/88 meeting re:Social Responsibilities -AHFA - SBA loans - 3/10/88 - Bert Wagnon to Kay Brown
-"Alaska Housing and the Recession" - ISER Report 2/88

H. PROPOSALS

AEDC Proposal:

-Anchorage Economic Development Corporation - FDIC Offer
-Summary of AEDC Proposal for purchase and management of FDIC assets - Wohlforth, Flith & Gruening
-"Loan Buy-Up Plan Touted in Juneau"- Anchorage Times (2/3/88))
**Report to Joint Committee on Economic Recovery 2/22/88
-AEDC "Thank you" letter dated 2/26/88

Bridge Bank Proposal:

-Bridge Bank - Overview by Senator Kelly -"Conceptual Plan for Alaska Stabilization Assistance Program 1/88 - Presented by Dave Rose, Ak. Permanent Fund Corp.
-Memorandum dated 2/12/88 - "Commercial Real Estate Subsidy" (Alfred G. Zangri, Economist to Milt Barker, Dept. of Revenue)
-Hallwood Group Proposal
-Hallwood Group Proposal amended 3/19/88

Sealaska Proposal:

-"Sealaska Eyes FDIC Properties" Anchorage Times, 2/28/88
-"Development Venture Company" by Peter McDowell, 6/87
-"Alaska Investment Bank and Trust" by John M. Bashaw, Jr.

Southwest Plan:

-Southwest Plan Fact Sheet - Federal Home Loan Bank Board Resolution re: Texas Thrift Institutions

AIDEA

-"A Suggested Plan for AIDEA to Acquire and Lease Properties" as suggested by Alaska Continental Bank dated 1/6/88

I. MINUTES

-Senate Joint Committee Minutes 1/29/88 - Commissioner Smith, Lee Gorsuch, Dave Rose
-Senate Joint Committee Minutes 1/29/88
-Senate Joint Committee Minutes 2/01/88 - Commissioner Smith
-Senate Joint Committee Minutes 2/09/88 - FDIC testimony
-Housing and Banking Subcommittee Minutes 2/13/88 - Teleconference re: Housing Problems and AHFC
-House Joint Committee - 2/15/88 - McDowell, Keller, Korvola
-Housing and Banking Subcommittee Minutes 2/18/88 - Morse-Quinn/Lehr testimony
-Housing and Banking Subcommittee Minutes 2/18/88 - Erickson, Rose, Yoshimura, Hoffman
-House Joint Committee Minutes - 2/22/88 - Malone, Faiks, Kettle, Florerchinger re: SB 401 - Revision of Tax Laws
-Senate Joint Committee Minutes 2/24/88 - Jan Siebertz, NBA, Bert Wagnon, AIDEA
-Housing and Banking Committee Minutes - 2/25/88 - Bert Wagnon, Barry Hulin
-House Joint Committee - 2/29/88 - Fischer, Erickson

-Senate Joint Committee - 3/1/88 - FDIC; Bernie Karl, K & K Recycling
-Senate Joint Committee Minutes 3/3/88 - Jim Barnette, AEDC, Remington Low, B M Behrends Bank
-Housing and Banking Subcommittee Minutes 3/3/88 - William McNall; Hayden Green
-House Joint Committee Minutes 3/7/88 - Dr. Amacher
-House Joint Committee 3/9/88 - Roberts, Lounsbury
-Housing and Banking Subcommittee Minute 3/16/88 - Lehr, Stewart, Marsh, Barrier, (Mobile Homes)
-Senate Joint Committee 3/16/88 - Hallwood, Unalaska, SBA
-Executive Summary - House JERC Committee 3/18/88
-Senate Joint Committee - Overview/recommendations 3/22/88

** Denotes Subcommittee action

3/29/88

Report of the Subcommittee on Housing and Banking

Joint Committee on Economic Recovery

March 21, 1988

Members

Rep. Kay Brown, Co-Chair
Rep. Steve Rieger, Co-Chair

Rep. Pat Pourchot
Rep. Steve Frank
Rep. Henry Springer
Rep. Fran Ulmer
Rep. Virginia Collins
Rep. Mike Davis
Rep. Mark Boyer
Rep. Randy Phillips
Rep. Mike Navarre
Rep. Dave Donley

Housing and Banking Subcommittee

Report to

Joint Committee on Economic Recovery

The Housing and Banking Subcommittee recommends that the legislature pursue the following policies and take the following actions to address the state's economic problems:

Policy: Improve distressed housing market.

Strategy: Reduce housing supply.

Develop and initiate plans to demolish institutionally-owned residential properties (REO's) which are unsafe, substandard in quality, and for which demand does not exist.

1. Direct state agencies and encourage other agencies owning REO to cooperate in demolishing unsafe and substandard housing.

Action needed by legislature: Pass subcommittee's resolution on residential housing market.

Cost to State: Theoretically, none.

2. Authorize Alaska Housing Finance Corporation (AHFC) to use a portion of its reserves to participate in the demolition of publicly-owned substandard housing, including multi-family housing projects, where such

action is supported by local communities and where such action makes long-term economic sense to AHFC.

Action needed by legislature: Presumably, enabling legislation.

Cost to State:

3. Fund demolition of the state-owned Willow Park Apartments in Anchorage.

Action needed by legislature: Budget amendment or enabling legislation to authorize use of AHFC reserves.

Cost to State: Demolition of Willow Park is expected to cost $4.7 million, including asbestos abatement; the Alaska State Building Authority (ASBA) has proposed that the state and Anchorage municipal governments share these costs. The federal government has been asked to contribute $9 million to purchase or subsidize alternate housing and to cover the residents' moving costs.

Direct AHFC to exercise prudent business judgment in managing its vacant REO mobile homes.

4. Direct AHFC to develop an analysis comparing the costs and benefits of alternative ways of managing REO mobile homes, including demolition, sales, and short-term storage in storage lots and mobile home parks. Authorize AHFC to write off and dispose of vacant and unsalable mobile homes, as part of a cooperative arrangement with other institutional REO owners, wherever it makes

economic sense to do so. Direct AHFC to take immediate action to lower holding costs.

Action needed by Legislature: Pass subcommittee resolution on management of surplus mobile homes owned by AHFC (resolution is being revised by Subcommittee).

Cost to State: The current foreclosed inventory of 1200 mobile homes could increase by an additional 800-1200 units if economic conditions persist. Because most AHFC mobile home loans do not carry mortgage insurance, foreclosed units involve substantial costs to AHFC whether sold, destroyed, or maintained and stored in today's economic climate. The Subcommittee's directive acknowledges the losses and costs to the state that could accrue through various actions by AHFC, but strongly encourages the development of a consistent strategy that minimizes losses or maintenance costs and acts in the long-term best interests of AHFC.

Strategy: Use surplus housing for public purposes.

5. Make institutionally-owned housing available for public interest uses, such as student, elderly, low-income, developmentally disabled, mental health, and transitional housing.

Action needed by legislature: Through the budget process, identify, review, and possibly fund projects proposed by state and local government agencies, and non-profit groups.

Cost to State:

6. Authorize ASBA or other entities, in cooperation with AHFC, to exercise broader powers to help the state achieve public purposes and to implement housing projects funded by the legislature. The agencies could facilitate consolidation of condominium owners to allow for the sale of other condominium projects for other uses.

Action needed by legislature: Develop and pass enabling legislation.

Cost to State:

Strategy: Increase demand for housing.

7. Support pending legislation identified by other subcommittees that will improve the economy generally and create jobs.

Strategy: Provide aid to distressed homeowners.

8. Revise law to allow restructuring of rural housing loans by the Department of Community and Regional Affairs, where appropriate.

Action needed by legislature: Pass subcommittee legislation.

Cost to State: Theoretically, none.

9. Direct AHFC to relax current owner-occupancy ratios for condominium mortgage loans to the extent possible, and to

take actions to raise owner occupancy in condominium developments.

Action needed by legislature:

Cost to State:

10. Direct AHFC to take whatever action is necessary to provide timely responses to the public on pending matters. Provide adequate funding to hire personnel trained and qualified in market problem areas, such as property management, workouts, and borrower counseling.

Action needed by legislature: Amend FY 88 supplemental budget to provide early funding of 25 new positions for AHFC.

Cost to State: $ 1.788 million (Program Receipt dollars included in Governor's FY 89 budget request)

11. Authorize AHFC to utilize trades of property where feasible in order to increase liquidity in the housing market and to assist Alaskans whose circumstances now require a larger or smaller home, or a home in a different community. Direct AHFC to make establishment of such a program a priority.

Action needed by legislature: Pass legislation, possibly a version of HB 432.

Cost to State: The Housing and Banking Subcommittee believes that any use of state money for these purposes must be fair to Alaskans generally, and recommends that

this issue be explored by standing committees in hearings on the bill.

12. Encourage investors to provide more flexibility in, and to increase the use of, modification, refinance, and forebearance plans.

Action needed by the legislature: Pass subcommittee resolution expressing legislative support for concepts to be implemented by agencies.

Cost to State: Theoretically, none.

13. Provide trained, centralized staffing to assist borrowers in danger of default or delinquency, and offer statewide mortgage counseling.

Action needed by legislature: Fund and expand existing services operated by the Alaska Housing Market Council, including the Mortage and Information Referral Hotline.

Cost to State: FY 88 supplemental appropriation of $100,000 and FY 89 appropriation of $400,000 ($100,000 each from ASBA, AHFC, AIDEA and the Alaska Permanent Fund Corporation included in Governor's budget).

Strategy: Revise state lending programs.

14. Investigate changes to the AHFC HOF and Mobile Home Loan programs.

Action needed by legislature: Reflect on how, or whether, state loan programs have contributed to the current

economic difficulties for the economy or for individual Alaskans, and make recommendations for changes.

Cost to State: None.

Strategy: Clarify rules regarding foreclosure.

15. Increase the required disclosure of remedies available to lenders upon default. Investigate the effects of the recent Supreme Court decisions on the default and foreclosure process, and consider action if appropriate.

Action needed by legislature: Pass subcommittee legislation.

Cost to State: None.

Policy: Maximize ability of market to solve commercial real estate and loan problems, minimize state intervention.

16. Decrease limitations on AIDEA's ability to respond to current economic conditions.

Action needed by legislature: Passage of parts or all of HB 402 and SB 392.

Cost to State: None.

(Note: This report represents the status of the Subcommittee's work as of March 21. Additional issues and legislation are under review and may be added later to the report.)

Housing and Banking Subcommittee

Supplemental Report to

Joint Committee on Economic Recovery

March 25, 1988

The Housing and Banking Subcommittee met on March 24 and adopted the following additional recommendations to address the state's economic problems:

Strategy: Use surplus housing for public purpose.

Establish a mental health **pilot program** for the acquisition of excess residential properties to meet critical housing needs identified by the Alaska Mental Health Board.

During the interim, **investigate feasibility of expansion** of the program to address other public housing needs such as elderly, developmentally disabled, physically handicapped, homeless, low-income, transitional units for ex-offenders and substance abusers, emergency shelters for abused or runaway children and women's shelters. Conduct a survey of all statewide public housing needs, and recommend financial and management options to the Sixteenth Legislature when it convenes in 1989.

The attached memo provides background on this proposal.

Action needed by legislature: Fund mental health pilot program as part of capital budget request of the Mental Health Board to meet the state's obligations under the Mental Health Trust Lands Settlement.

Determine an entity to conduct the interim survey of public housing needs and to analyze options for expanding the program.

Cost to state: Up to $5 million for pilot program, as recommended in the Mental Health Board report (3/14/88).

The cost of an interim survey of housing needs has not yet been determined.

Strategy: Reduce excess supply of residential and commercial buildings.

Allow local governments to give limited property tax exemptions as an incentive for the demolition of obsolete residential and commercial buildings.

Action needed by legislature: Pass legislation, possibly a version of HB 429.

Cost to state: Cost is optional to local governments.

Strategy: Improve financing opportunities for neighborhood development.

Maximize available private funds for redevelopment of targeted business zones throughout Alaska, community revitalization, neighborhood housing services and economic development projects.

Action needed by legislature: Pass legislation, possibly a version of HB 430 and 431, funded at some appropriate level.

Cost to state: Up to $3 million.

Other

At the request of the House Chairman of the Joint Committee on Economic Recovery, the Subcommittee reviewed SCR 32 and CSSB 333 (L&C) and conceptually endorsed these proposals.

Attachment

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: Rep. Max Gruenberg, Chair, House Joint Committee on Economic Recovery

FROM: Reps. Kay Brown and Steve Rieger, Co-Chairs, Housing and Banking Subcommittee

RE: Use of surplus housing for public purposes: A Mental Health Housing Pilot Program

DATE: March 24, 1988

EXECUTIVE SUMMARY

This report details a statewide pilot program for the acquisition of excess or foreclosed residential properties to meet the critical housing needs of disadvantaged or displaced Alaskans. While there is a wide variety of service providers -- including federal, state and local agencies and a broad spectrum of nonprofit entities -- there is a very limited supply of housing units to meet the needs identified by those service providers.

The Housing and Banking Subcommittee recommends that the Legislature implement the pilot program outlined below, conduct a survey during the interim of needs statewide, and expand the program to meet additional care and service needs in the next fiscal year.

PUBLIC PURPOSES

Acquisition of surplus housing for public purposes could accomplish three goals: 1) remove a portion of the excess housing from a distressed real estate market; 2) reduce the inventory of foreclosed property that state entities must maintain in marketable condition (it can cost up to $7,000/year/unit for condominiums); and 3) meet the needs of Alaskans in special circumstances who need permanent or temporary housing.

REAL ESTATE MARKETS

At the end of 1984, the Alaska Housing Finance Corporation held 129 foreclosed pieces of property. At the end of 1987, the corporation held 3,701 pieces of foreclosed property. In Anchorage alone there are 14,000 vacant housing units including mobile homes, zero lot lines, condos, tri and four plexes, apartments and single family residences.

Realtors do not expect a quick recovery from the real estate crash which has seen the number of mortgages written per year drop from a high of 16,500 in 1983 to 3,000 in 1987. Anchorage realtors (surveyed by the Real Estate Services Corp.) see further price erosion this year, ranging from 5.6 percent for single family dwellings to 13.3 percent for condos. The glut in condos, realtors predict, will not ease until 1993.

While the housing market has not yet bottomed out, according to responsible realtors and economists, the unmet housing needs of disadvantaged or displaced Alaskans are growing. Acquiring vacant residential property to meet public needs, while the housing inventory is excessively high and costs are depressed, is cost effective for health and social service care providers. At the same time, acquisition of this excess property for well-defined public purposes will reduce the stock of excess properties and provide an incremental boost to the real estate industry and owners of price-depressed residential properties.

Condos and four plexes may best fit the housing needs of the disadvantaged or displaced. This dovetails with current market conditions because these units comprise the most distressed portion of the real estate market. Even though condos comprise just 15 percent of AHFC's $4 billion loan portfolio, they account for one-third of that corporation's foreclosed properties.

PUBLIC HOUSING NEEDS

Identified housing needs include units for the elderly, developmentally disabled, physically handicapped, mentally ill, homeless, low income, transitional units for ex-offenders and substance abusers, emergency shelters for abused or runaway children and women's shelters. These needs are statewide.

As an illustration of the variety of needs and the diversity of service providers, a recent survey in Anchorage revealed more than a dozen providers of housing services. They include but are not limited to:

Abused Women's Aid in Crisis (sheltering 1,025 in '86-'87);
Access Alaska (eight handicapped in four ASBA apartments);
Alaska Youth and Parent Foundation (eight-bed shelter serving 161 in '86-'87);
Alaskan Self Help (a homeless nonprofit organization);
Anchorage Community Mental Health Services (20-bed facility serving 202 in transitional status in '86-'87);
Anchorage Rescue Mission (47 beds);

Association for Stranded Rural Alaskans (no shelters but 412 referrals in '86-'87);
Bean's Cafe (two sleepoff rooms and cafe serves 200/meal);
Brother Francis Shelter (sleeps 60,000/year or 1,290 clients);
Clare House (Catholic Social Services shelter for women and their children, 38 beds serving 695 in '86-'87);
Covenant House (converting downtown YMCA as shelter for runaway and homeless youth);
Eagle Crest ("dry" hotel for 83 serving over 1,000 in '86-'87);
Hope Cottages (23 group homes, and an apartment complex serving 174 clients); and
McKinnell Emergency Shelter (Salvation Army shelter sleeps 45 serving 905 in '86-'87).

The survey revealed the housing needs for the mentally ill population in Anchorage are the most dramatic. Deinstitutionalized mentally ill require 220 beds in Anchorage and there are now 12 available; 18 beds are needed for crisis respite care and eight are available; about 350 permanent beds are needed for semi-independent living and only 130 will be available by this spring. Total additional units needed for the mentally ill population in Anchorage are 438.

While the needs in Anchorage are dramatic, the same types of housing needs remain unfulfilled in most Alaska communities, though on a lesser scale. The residential Services Task Force Report for the Alaska's Governor's Council for the Handicapped and Gifted, for example, has found that there are 89 developmentally disabled Alaskans institutionalized who could live in less restrictive community settings and an additional 133, statewide, waiting for residential and vocational services.

PILOT PROGRAM

A comprehensive program to acquire housing for all of these needs, and others not yet identified, could take several months to develop and a large infusion of state money. However, a legislative strategy that establishes a well-focused pilot program this year can lay the foundation for future acquisitions of excess residential property to meet public needs.

The defined needs of the chronically mentally ill can provide the basis for a pilot program. The Alaska Mental Health Board has identified specific housing needs in communities ranging from Aniak to Anchorage to Angoon. These identified mental health housing needs range from facilities for crisis care to respite care to day treatment and to group homes for adults and children.

A pilot program targeting some of the statewide mentally ill housing needs would involve three entities -- the Alaska State Building Authority (ASBA), the Alaska Mental Health Board and the Department of Health and Social Services.

The ASBA is a public agency that maintains and manages public housing. The authority has experience in joint efforts with two community mental health centers in the management of Section 8 subsidy programs for severely mentally ill Alaskans. The agency has expertise in property management.

The functions of the Mental Health Board include needs assessment, budget review and mental health program oversight. The board has both state and private representatives and was created by the legislature in response to the Mental Health Trust Lands Settlement.

MANAGEMENT STRUCTURE

Responsibilities of the Mental Health Board, in conjunction with the Department of Health and Social Services, would include:

1) a needs assessment of the projects outlined by community mental health care providers;
2) prioritization of those needs;
3) an outline of property requirements (number of units and beds, staff support needs, parking, fire control, access, local concerns and others);
4) appointment of designees to work with ASBA while "shopping for housing";
5) after ASBA has purchased and renovated the property, accept the property and hold in trust for the purpose of serving needs of Alaska's mentally ill population; and
6) contract with community or nonprofit entities for the program/facility management and maintenance.

Responsibilities of ASBA:

1) accept the appropriated funds for the purchase of excess housing;
2) accept the prioritized shopping list from the Mental Health Board;
3) in conjunction with the board's designated representatives, review available properties (foreclosed and other);
4) negotiate the purchase of approved housing;
5) purchase appropriate property under the provisions of AS 18.55.310;
6) establish renovation and rehabilitation costs;
6) oversee the renovation and rehabilitation;
7) transfer the property to an appropriate state, local or nonprofit entity under the provisions of AS 18.55.320(b).

ACTION NEEDED BY LEGISLATURE

Initial discussion of this pilot program with ASBA officials has not yet indicated a need for any statutory changes. Intent language may be needed. This pilot program structure helps meet the legislative commitment to the mentally ill that was incurred with the trust land settlement.

The Housing and Banking Subcommittee recommends that a survey of all statewide public housing needs be conducted during the interim and that recommendations for expanding the pilot program to address additional public housing shortages be presented to the Sixteenth Legislature when it convenes in 1989.

COST TO STATE

The Mental Health Board has identified FY 89 capital costs of $5 million for the acquisition and renovation of housing units for the mentally ill. A pilot program based on prioritized needs could cost less than that amount.

For each housing element added in the pilot program, there will be continuing operational and maintenance costs as well as expanded program costs. These on-going maintenance and operating expenses and increased program expenses may not begin accruing until late in FY 89 or in FY 90.

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

MEMORANDUM

TO: REPRESENTATIVE BEN GRUSSENDORF, SPEAKER OF THE HOUSE

SENATOR ARLISS STURGULEWSKI, SENATE CO-CHAIR
SENATOR LLOYD JONES, SENATE CO-CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY

FROM: REPRESENTATIVE KAY BROWN, HOUSE CHAIR PRO TEM,
JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: MARCH 2[illegible] 1988

RE: ACTIONS OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

The House members of the Joint Committee on Economic Recovery have met and considered the following Senate legislation and offer the following recommendations:

1.) SCR 32 "Urging the state's financial institutions to adopt more flexible lending and collection policies."

The members of the House Committee conceptually endorse this resolution and recommend consideration by the standing committees.

2.) CS 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; and providing for an effective date."

The members of the House Committee conceptually endorse this legislation and recommend consideration by the standing committees.

3.) SB 471 "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."

The members of the House Committee recognize there is

interest in this issue and urge the standing committees to consider the concepts in this legislation.

4.) CS SB 392 (RULES) "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

The members of the House Committee conceptually endorse this legislation and recommend that both Houses consider the additional language included in HB 402, the House companion legislation.

The House Committee also reviewed legislation recommended by its subcommittees and recommends the following for introduction by the House Rules Committee, on behalf of the House Committee members:

1.) "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

2.) "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

3.) A resolution "Relating to the management of mobile homes owned by the Alaska Housing Finance Corporation."

4.) A resolution "Urging extension of the Federal Home Loan Bank Board's 'Southwest Plan' to Alaska."

This legislation will be submitted to the Senate members of the Joint Committee on Economic Recovery for their consideration.

The Housing and Banking Subcommittee's March 25 supplemental report was also adopted by the House members and will be submitted to all members of the House, and the Senate committee members.

MEMORANDUM

State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various Economic Recovery Proposals

FROM: J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.

2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

   The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate $25 million if we are to do $100 million in guarantees for the program to have the impact desired. We recommend a $100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.

4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.

5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential $3 million item. Hence, a threshold question is identifying a source of funding.

   In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

   There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of $75-80,000, with an interest rate of 10-12%. Consider the following figures:

Loan Amount	Interest Rate	Payment
$ 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 nonjudicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

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, Lesislative Liaison, Office of the Governor
The Honorable Jan Faiks
The Honorable Max Gruenberg
The Honorable David Donley
Gregg Erickson, Office of Management & Budget,

JAS/sh5144M
3488c

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr RL
Executive Director

DATE: March 8, 1988

RE: Attached Memo from Representative Brown to Commissioner Malone

Commissioner Malone has requested that I comment on the attached memo from Representative Brown regarding funds for demolition costs for Willow Park and Hollywood Vista. As Representative Brown notes in her cover letter, a total of $4.75 million additional is needed, and she believes these funds should come from AHFC reserves.

It seems there are two separate issues raised by this letter. First, is the demolition of these projects an issue that should involve AHFC (and its resources)? Second, assuming AHFC will be financially involved in assisting this demolition, what is the most appropriate form of involvement?

The first question is largely a policy decision. However, it is perhaps appropriate to note that even though both these projects are multifamily rental projects, and hence not normally the province of AHFC, any action that involves 500 units of housing is likely to have some effect on the housing market in general.

The second question raises certain sensitive issues regarding legislative appropriation of AHFC resources. As has been discussed, there is a great deal of concern in the financial community regarding just how secure AHFC's assets are. Any use of AHFC resources for other than standard programs is bound to raise the question again, and we should be prepared to deal with it.

With regard to the specific subject of $4.75 million for the two projects, clearly AHFC has adequate resources to actually provide funding. Furthermore, an appropriation to fund these projects would appear to be simple. However, it would certainly raise the questions cited above, as well as legal questions about the legislature's ability to appropriate AHFC funds. Furthermore, it would seem to

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encourage additional appropriations of AHFC resources for other real-estate related projects.

I believe that the Board should at least consider another approach. Willow Park and Hollywood Vista are merely representatives of a much bigger problem, that being a large excess supply of housing, particularly in the lower end of the quality range. It may be appropriate to devote a significant amount of AHFC resources toward dealing with this overall problem, rather than simply funding requests for these two projects.

Specifically, I think the Board should consider a program whereby, say, $20 million of AHFC resources are to be used as a "stabilization and upgrade fund." This fund could be used for grants to other state agencies or local governments. The purpose of the fund would be to upgrade the overall supply and availability of adequate housing. In operation the fund would be used for two purposes. First, it could make grants to destroy substandard housing. Second, it could be used as grants to allow applicable governmental bodies to purchase AHFC-owned property that would be used for qualified purposes. Examples of qualified purposes could be low income housing, student housing, senior citizen housing, etc. This would include, for instance, the sale of mobile homes to rural areas to make more housing available. I believe that all grants should be matching grants, since there is a natural screening process done when an applicant needs to put some of their own resources into a project. Furthermore, I believe it would be best to limit the eligible recipients to state and local governments. This will limit the number of applications which AHFC will have to contend with and avoid AHFC having to establish a significant grants bureaucracy.

The costs of this program are clearly greater than simply an appropriation of $4.75 million. However, I believe the concept does have certain advantages that may justify the additional costs. First, it is a more broad based approach, so should provide more overall help. Second, I believe that such an approach could be more easily explained to the financial community. It should not be surprising to the financial community that AHFC would be engaging in programs that not only help individual housing needs, but also help contribute to improving the overall situation in the housing market in a planned and coordinated fashion.

su

Attachment

Kay Brown

Alaska State Legislature
House of Representatives

RECEIVED
ALASKA DEPARTMENT OF REVENUE
FEB 25 1988
OFFICE OF THE COMMISSIONER

Rec'd FYI

TO: Commissioner Hugh Malone
Department of Revenue

FROM: Representative Kay Brown

RE: Willow Park and Hollywood Vista Apartments

DATE: February 25, 1988

As we discussed yesterday, please find attached background information on the Willow Park and Hollywood Vista demolition costs. A total state appropriation of $4.75 million is needed, and I believe it would be appropriate to fund this work from AHFC reserves.

If you need further information or have questions on this material, please contact me or Katy McHugh of my office.

P. O. Box 20-2661
Anchorage, AK 99520-2661
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During Session:
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Juneau, AK 99811
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WILLOW PARK AND HOLLYWOOD VISTA SITE DEMOLITION AND RESIDENT RELOCATION PLANS

WILLOW PARK

The $13.8 million proposal is a comprehensive plan to remove Willow Park, a 35-year old, 150-unit low rent multifamily housing project, from the Anchorage rental inventory. The funding for this project would be obtained from three sources: federal, state and municipal government.

$2.6 million state funds (asbestos abatement)
$2.2 million municipal funds (demolition and site restoration costs)
$9 million federal funds (relocation and administration costs)

=$13.8 million

Municipal officials have indicated that the municipality will make a commitment on its $2.2 million share in the next few days. The Alaska State Building Authority cannot obtain the $9 million of federal funds until both the state and municipality have committed to funding their portions of the project.

HOLLYWOOD VISTA APARTMENTS

The Hollywood Vista Apartment Complex consists of 347 units of which 51 are currently occupied. The municipality of Anchorage purchased the project from the United States Department of Housing and Urban Development for the sum of $1.00 in February 1988. This sale is contingent on the Municpality's agreement to raze the complex within two years of title acquisition. The Municpality has proposed demolition of this property due to its substandard condition and the current abundance of multi-family rental units available in Anchorage.

The proposed costs of the demolition and relocation are approximately $2.15 million.

$650,000 (asbestos abatement)
$1.5 million (demolition, site restoration and relocation)

=$2.15 million

The Alaska State Building Authority has agreed to issue vouchers or certificates (through HUD) for Hollywood Vista residents that qualify for public housing assistance. (30 to 40 tenants out of the 61 remaining.)

A total appropriation of $4,750,000 in state funds is sought for the purpose of demolition of Willow Park and Hollywood Vista Apartments in Anchorage. This decision is based on several determining factors including:

- Existing buildings are old and in need of extensive renovation to remedy safety code violations. Renovation would cost more than structures are worth.
- Removing substandard units and replacing them with available public and privately owned housing units will help to stabilize the current housing market.
- Relocation would provide improved quality of life and upgraded housing for Willow Park and Hollywood Vista residents.
- The complexes are functionally obsolete and no longer meet the needs of the community.

Prepared by:
Rep. Kay Brown
2/25/88

Work Session

Free Form Discussion

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr RL
Executive Director

DATE: March 9, 1988

RE: Mobile Home Marketing Program

Approximately a year ago the Board and staff undertook a number of actions involving the Corporation's mobile home loan program. A summary of these actions, and progress to date is provided in the attached memo (Attachment C).

As is clear from that memo, a number of things have been accomplished in the past year. However, given the ever increasing number of AHFC owned mobile homes, much more needs to be done. The intent of this memo is twofold: first, to provide a summary of current marketing plans; and second, to solicit input from the Board on some proposed efforts.

Currently the Corporation owns approximately 1200 mobile homes statewide, with the bulk of these (90%) in Anchorage. We have about 1050 in various mobile home parks, and this memo will focus on those units. Attachment A provides a breakdown of these Corporation-owned homes.

The major change to date in the Corporation's marketing effort took place when we went to our current system which utilizes three property managers (Anchorage/Fairbanks/Juneau) and incorporates open listing. This system has provided improved inventory information, more control over the quality and condition of units offered for sale, and a more energetic and coordinated sales effort. All this is reflected in Attachment B, a graph which shows monthly mobile home unit sales during the past two years. We adopted the new marketing system in the summer of 1987, and its impact has been dramatic (February 1987 sales - 4; February 1988 sales - 33).

Still, the 1050 units currently owned represent well over two years worth of sales at present rates, even if no new units were added to

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our inventory, which is unlikely. Furthermore, we have had a preliminary study done by the Institute of Social and Economic Research regarding future trends in the demand for mobile homes. Their projections indicate that it is unlikely that we will experience any significant increase in demand for mobile homes in the next few years.

Given these factors, staff believes that additional changes are necessary. The areas in which changes are felt necessary are detailed below. We believe it is important to clarify program objectives and tailor our approach to achieve these ends recognizing that we have three (sometimes competing) goals: 1) to obtain the maximum return from units; 2) to minimize the carrying costs on units prior to their sale; and 3) to cause as little disruption as possible to the remainder of the marketplace.

This latter goal is particularly important, both because of our status as a state owned corporation and because it is clearly in everyone's best interests to refrain from actions that could cause our current loans (over 3,000) to become repossessions.

We believe that our future marketing plans should be comprised of a number of efforts. The first consideration relates to the number of units we need to sell. Many of the repossessed units are in poor shape. This has become more clear with the additional information available under our new property management system. As a result, we have sold for parts or simply disposed of a number of units in the past few months. However, we believe that a specific Board policy would be appropriate with regard to disposals since other important factors are also involved.

Unit Disposals

Currently, virtually all involved agree there is an excess supply of housing, particularly in the least expensive segments of the Anchorage market. A number of suggestions have been made to demolish certain low quality housing units, such as the Willow Park project. If demolition of excess low end units becomes an accepted policy, destruction of inexpensive mobile homes is clearly an efficient approach. In any case, trying to market very low value units probably does not make economic sense because of the transaction and carrying costs involved, and because these units often times may not satisfy the Corporation's mandate regarding "safe and sanitary housing".

Therefore, we believe it is appropriate to establish a policy under which repossessed units below a certain value would automatically be either destroyed or sold for parts. If the Board agrees, staff will

prepare a series of alternatives. First the basis for valuation, either as-is value or net repaired value, must be determined. Second, the threshold value itself must be established. For instance, a reasonable first approximation would be to set the threshold as-is value at $5,000. This value can be contrasted against an average annual carrying cost of approximately $3700, plus a 10% sales cost ($500 in this case), plus $300 in closing cost, or about $4500 if such a unit sold in one year. Hence, were the unit to be held over one year, AHFC would begin actually losing money on such a unit when compared to the option of destroying it.

Open Listing Sales Program

Second, we believe that our current sales efforts and procedures should continue. These efforts have been moderately successful, resulting in sales of about 32 units per month. We may want to enhance these efforts with certain sales agent incentives such as provided by MGIC in their recent condo sales program. Given the potential sensitivity toward AHFC giving free trips for sales, though, we will check with the Board prior to initiating any major programs.

Targeted Park Marketing Program

The third group of recommendations entails the involvement of the mobile home park owners. Clearly, it is in their best interest to have an owner occupied unit (paying space rent) in their parks. The intent of this group of suggestions is to use that incentive to aid the Corporation. Option one involves entering into an agreement with the park owners whereby they select a few units (5 - 10) in their park for this program. The park owner would receive a percentage of the price (say 5%) when the unit sells, and the sales agent the standard 10%. AHFC would pay no space rent on those units. Option two involves entering into an agreement with park owners for a fixed number of selected units (say 5 - 10) for a set time period (say one year). The park owners would have the exclusive right to sell the units. We would make the units available to the park owners at list minus one year's holding cost. The park owners would keep any sales amount above this as profit, and would be responsible for any sales commission. AHFC would pay no space rent. Option three would involve mini-bulk sales. Although these sales could not be restricted to park owners, they clearly would be a target group and likely would be the most interested in the units. In this case, AHFC would simply have small groups of units (10-20) that would be sold to the highest cash bidder. No restrictions would be placed upon where these units could be located. Restrictions could be imposed regarding whether these could be resold or had to be rented, or whether AHFC would provide financing to eventual owners if they were resold.

Creative Marketing Approaches

This group of ideas involves increasing the sales visibility of our units. This could be done in a variety of ways, including more extensive use of our sales/storage lot in Anchorage. The other main idea would involve establishing one or more sales lots for drive-bys. These lots (or this lot) would be in prominent locations, and would have model units on display and would be covered by our sales agents. We could contract for these lots by paying a per unit fee per month, or perhaps by paying no monthly charge but rather allowing for a sales commission to the lot owner.

Additional ideas along the same lines involve a more active marketing effort to attract an expanded group of buyers. For instance, we need to encourage the use of mobile homes as second homes, lake cabins, and similar uses. We also need to target possible institutional/business buyers, such as the military, mining, and timber companies both within and outside the State.

Carrying Cost Control

Next, the Corporation needs to make continued efforts to decrease carrying costs while units are being marketed. We have tried to get park owners to lower their space rent for vacant AHFC owned units, with limited success. The Corporation also contracted for a sales/storage lot in Anchorage to decrease space rents. There has been considerable opposition from park owners to the Corporation moving units to the sales/storage lot. However, unless park owners lower their space rents (significantly in many cases) staff strongly believes that units should promptly be moved to the sales/storage lot. If we are not able to get reduced rents from park owners and/or sell existing and future inventory more quickly, consideration will need to be given to contracting for another such lot.

Multi-unit Offerings

All of the above are predominantly variations on a theme, that being to sell units individually or in small groups within a geographic area while at the same time attempting to lower carrying costs while these sales are taking place. Although we believe these are all valid efforts, it must be admitted that it is rather unlikely that these efforts will be adequate to deal with our excess inventory in a reasonable length of time.

Hence, our final staff recommendation is to do some bulk sales, with the specific requirement that the units so sold cannot be used for residential purposes in the Anchorage, Fairbanks, or Juneau areas.

The advantages of an out-of-area bulk sale are obvious - a large number of units are permanently removed from the market, decreasing both the excess supply and the downward price pressure on remaining units. Of course, carrying costs for these units are also ended. The disadvantages are also apparent. A bulk sale is likely to bring in a much lower price for a given unit than a more standard sale would bring. There is likely to be considerable opposition from park owners, since these out-of-area bulk sales will result in fewer units in their parks, and hence less revenue.

Given the large inventory of units, and the length of time the Corporation is likely to have a large inventory using conventional sales techniques, we believe the advantages of a bulk sale outweigh the disadvantages. As such, staff would like Board approval to initiate a moderately sized (50 - 100 units) out-of-area bulk sale. As we learn from this experience, we can then make adjustments for future such sales, or perhaps forego further sales if our experience is negative. We also need to be prepared to respond to bulk offers from potential buyers. For instance, how should the Corporation respond to an offer to, say, buy all of our "double-wides", given that any such offer will be at prices well below list. Should we turn the offer back around as a bulk sale bid? Should we provide any financing on bulk sales (staff recommends against it)? At this time, staff would like Board approval to continue with the development of a bulk sale, with the understanding that subsequent Board approval would be required before any sale was actually conducted.

In closing, we would like to make two final observations. First, some of the AHFC owned mobile homes have insurance on them, and actions involving these units may require approval from the relevant company. Second, although we believe the efforts described above represent a significant sales program, it should always be kept in mind that the best actions are those that prevent repossession in the first place, e.g., the Home Owners Assistance Program, Simplified Refinance, other workouts, and so forth.

su

Attachments: Attachment A - Mobile Home Inventory Statewide
Attachment B - Graph of Mobile Home Sales
Attachment C - Memo to AHFC Board of Directors with attachment (Resolution 87-3)
Attachment D - Mobile Home Parks

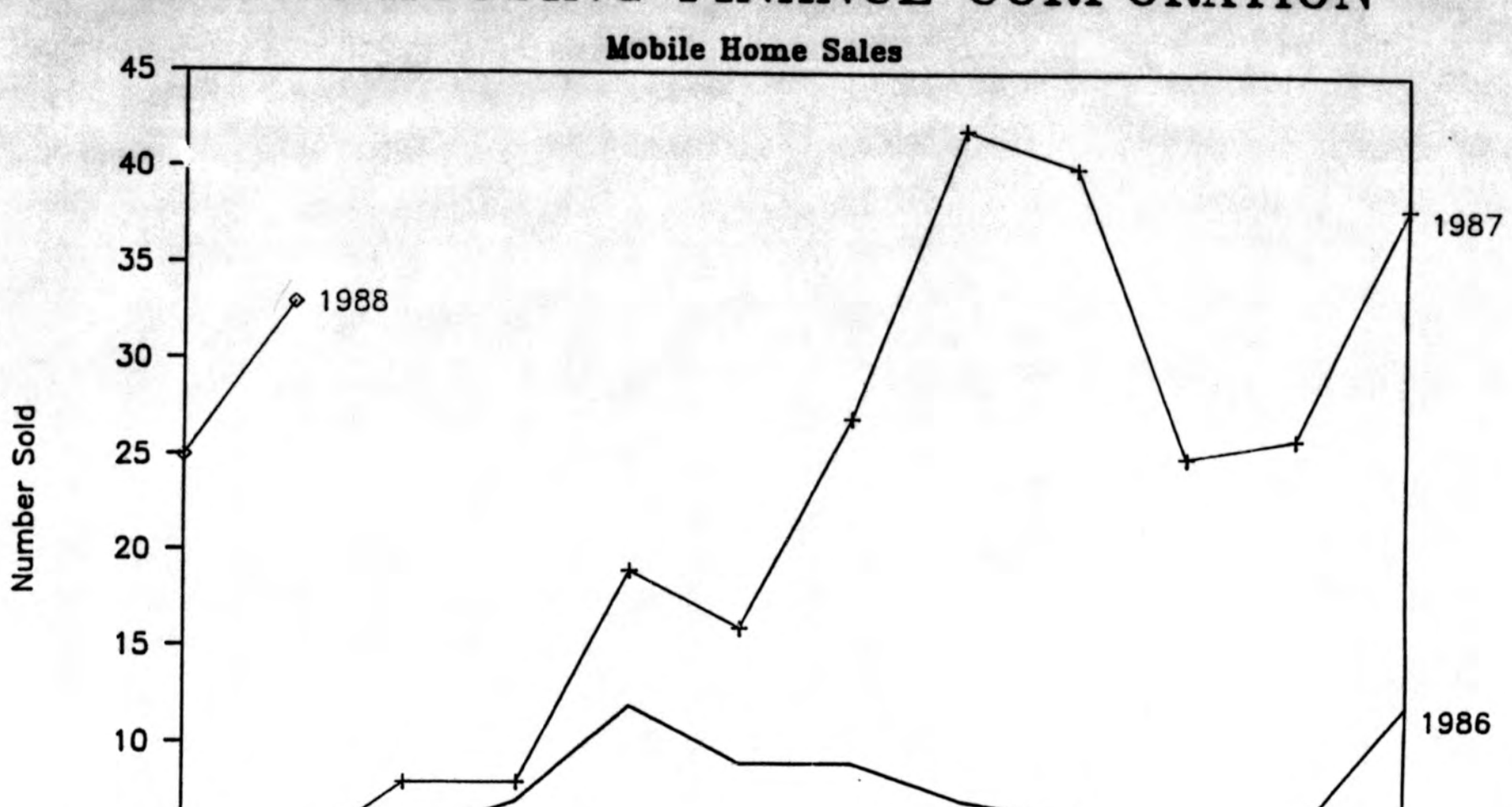
Mobile Home Inventory Statewide
Under Management
as of 2/29/88

Type/Age	Anchorage/ Mat-Valley/Kenai	Fairbanks North Pole	Juneau	Total
Singlewide 0 - 1972	183	13	11	207
Singlewide 1973-1978	422	53	13	488
Singlewide 1979-new	200	49	9	258
Doublewide	97	2	2	101
TOTAL	902	117	35	1054

Average Sales Price

Type/Age	Anchorage/ Mat-Valley/Kenai	Fairbanks North Pole	Juneau	Statewide Average
Singlewide 0 - 1972	5,000	4,000	4,000	4,300
Singlewide 1973-1978	10,000	7,800	7,900	8,500
Singlewide 1979-new	20,000	18,000	12,200	16,700
Doublewide	25,000	28,700	16,000	23,200

ALASKA HOUSING FINANCE CORPORATION



Attachment B

Attachment C

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr
Executive Director

DATE: March 9, 1988

RE: Progress to date on AHFC's Repossessed Mobile Home Program and Mobile Homes

Attached is a copy of Board Resolution No. 87-3 which was approved May 4, 1987, giving direction to AHFC regarding AHFC's mobile home program and the marketing and sale of repossessed mobile homes.

What follows are short explanations of what AHFC has done in response to those directions:

1. "AHFC shall conduct a survey of delinquent mobile home loans to determine what steps the Corporation can take to reduce those delinquencies and foreclosures."

AHFC is working on this survey with the Institute of Social and Economic Research. Although our survey has not yet been completed, many steps have been taken to reduce delinquencies and foreclosures. A major effort is the Home Owners' Assistance Program, which was recently instituted to help distressed borrowers make their payments. Mobile home borrowers are eligible for this program.

Even prior to Home Owners' Assistance Program (HOAP), a number of workout and forbearance programs have been conducted. At least partially because of these efforts, delinquencies of the mobile home portfolio have declined from a high of 25.39% in June '87 to 20.65% in January '88.

2. "AHFC shall implement an aggressive and inclusive sales strategy for AHFC mobile homes owned. That strategy shall include:

   a. that the mobile home marketing activities will be concentrated within the Special Credits Department;

Telephone (907) 276-5599
235 East 8th Avenue
Third Floor
P.O. Box 101020
Anchorage, Alaska 99510

b. that AHFC will go to a select broker system for property management and sale of AHFC mobile home REOs;

c. that AHFC will contract with a single servicing agent to service all sales of AHFC mobile home REOs that have AHFC financing; and

d. that AHFC will offer 95%, 10-year financing for AHFC mobile home REOs.

AHFC has made great strides in implementing this directive. A mobile home marketing specialist position was created within the Special Credits Department to coordinate all mobile home activities within the Corporation. To date, four sales seminars have been held in Anchorage, Fairbanks, and Juneau, to educate real estate agents about AHFC's marketing program. Sixty-five agents are now approved to sell AHFC mobile homes. In calendar year 1987, AHFC sold 256 units.

AHFC recently added another position to work specifically on sales strategy, particularly bulk sales.

On June 6, AHFC issued a Request for Proposal for three contractors, one each in Anchorage, Juneau and Fairbanks, to handle mobile home inventory and management. The selection has since been completed and contracts have been signed with Summit Logistics in Fairbanks, Coldwell Banker/Joe Shaw Realty in Juneau, and Western Enterprises in Anchorage.

3. "AHFC shall negotiate with park owners to obtain significantly lower space rents for vacant AHFC mobile home REOs located in those parks, and, if unsuccessful, AHFC shall obtain off-site sales and storage lots."

As suggested in this directive, AHFC contacted park owners. The results of that contact are in Attachment D. Based upon these figures, AHFC believed it was cost effective to obtain sales/storage lots. On August 24, AHFC issued an Invitation to Bid and selected a sales/storage lot in Anchorage in November. The space rent in this lot is over $100/month less than in the average space rent from all other parks. AHFC once again contacted park owners to see if they would be willing to lower their rent to match the cost of our sales/storage lot. The results to date are also summarized in Attachment D. I should note that although some of the park owners have characterized the sales/storage lot as a "boneyard" from which we will never sell a mobile home, we do not agree. Others knowledgeable in the industry believe we will have a better sales performance off the lot since it makes it easier for a buyer to "comparison shop."

Furthermore, many of our recent sales have been of units that have been subsequently moved off their current lot, so again, we do not believe that moving these units to a storage lot will cripple our sales efforts.

At this point I would like to digress and state AHFC is not arbitrarily selecting mobile homes to move. AHFC staff have developed a matrix to determine which homes should be moved. The matrix takes into account such factors as the number of units, cost, location, repairs necessary, ability to move, among others.

4. "AHFC will solicit offers for bulk purchases of AHFC mobile home REOs. Before accepting offers for bulk purchases of AHFC mobile home REOs, AHFC must ascertain that these offers are:

   a. financially beneficial to AHFC, and

   b. that they take into consideration the need to stabilize the market by reducing excess supply."

Western Enterprises has been pursuing this, however, most of the offers have not been realistic. With a new staff person on board, more emphasis will be devoted to this subject in the near future.

5. "AHFC shall select a broker to manage the sales and storage lots described in number 3."

This is accomplished through use of the master agents.

6. "AHFC shall offer, on a trial basis, 95%, 10-year loans on all mobile home financing, in addition to AHFC's standard financing."

Same as 2(d), this has been accomplished.

7. "The AHFC Board of Directors will consider adopting a policy that mobile home loan amounts may not exceed the greater of the outstanding loan balance currently financed by AHFC, or the N.A.D.A. "blue book" value adjusted for transportation costs for the mobile homes. AHFC staff is to prepare a recommendation for the Board's consideration at its next meeting."

This was accomplished under regulation changes listed in 2(d).

8. "For mobile homes brought into the state after April 1, 1987, the minimum downpayment for an AHFC loan will be 10% and the maximum loan term will be 12 years."

This was accomplished under regulation changes cited in 2(d).

9. "Effective May 1, 1987, AHFC will no longer be responsible for back space rent on units not owned by AHFC."

10. "Space rents accumulated prior to May 1, 1987, on units in the process of being repossessed will be reimbursed."

11. "As of June 1, 1987, AHFC will pay space rent due on AHFC's mobile home REOs directly to park owners."

Nine, 10 and 11 were implemented immediately by staff.

12. "If the AHFC Board of Directors considers adopting a program for rental of AHFC mobile home REOs managed by park owners, AHFC will immediately hold public hearings for that purpose."

The Board has not give any further direction on the possible rental of AHFC mobile homes.

su

Attachment

RESOLUTION NUMBER 87-3

RESOLUTION OF THE ALASKA HOUSING FINANCE CORPORATION CONCERNING THE CORPORATION'S REAL ESTATE OWNED MOBILE HOMES

1) AHFC shall conduct a survey of delinquent mobile home loans to determine what steps the Corporation can take to reduce those delinquencies and foreclosures.

2) AHFC shall implement an aggressive and inclusive sales strategy for AHFC mobile homes owned. That strategy shall include:

   a. that the mobile home marketing activities will be concentrated within the Special Credits Department;

   b. that AHFC will go to a select broker system for property management and sale of AHFC mobile home REOs;

   c. that AHFC will contract with a single servicing agent to service all sales of AHFC mobile home REOs that have AHFC financing; and

   d. that AHFC will offer 95%, 10-year financing for AHFC mobile home REOs.

3) AHFC shall negotiate with park owners to obtain significantly lower space rents for vacant AHFC mobile home REOs located in those parks, and, if unsuccessful, AHFC shall obtain off-site sales and storage lots.

4) AHFC will solicit offers for bulk purchases of AHFC mobile home REOs. Before accepting offers for bulk purchases of AHFC mobile home REOs, AHFC must ascertain that these offers are:

   a. financially beneficial to AHFC; and

   b. that they take into consideration the need to stabilize the market by reducing excess supply.

5) AHFC shall select a broker to manage the sales and storage lots described in number 3.

6) AHFC shall offer, on a trial basis, 95%, 10-year loans for all mobile home financing, in addition to AHFC's standard financing.

7) The AHFC Board of Directors will consider adopting a policy that mobile home loan amounts may not exceed the greater of the outstanding loan balance currently financed by AHFC, or the N.A.D.A. "blue book" value adjusted for transportation costs for the mobile homes. AHFC staff is to prepare a recommendation for the Board's consideration at its next meeting.

8) For mobile homes brought into the state after April 1, 1987, the minimum down payment for an AHFC loan will be 10% and the maximum loan term will be 12 years.

9) Effective May 1, 1987, AHFC will no longer be responsible for back space rent on units not owned by AHFC.

10) Space rents accumulated prior to May 1, 1987, on units in the process of being repossessed will be reimbursed.

11) As of June 1, 1987, AHFC will pay space rent due on AHFC's mobile home REO's directly to park owners.

12) If the AHFC Board of Directors considers adopting a program for rental of AHFC mobile home REOs managed by park owners, AHFC will immediately hold public hearings for that purpose.

This Resolution shall take effect immediately.

May 4, 1987

There are approximately 130 mobile home parks in Anchorage. Alaska Housing Finance Corporation has received 18 responses, with 11 reductions regarding space rent. Only 6 parks in Anchorage are offering $125 or less in space rent to AHFC.

Park	Original Space Rent	Proposed Rent Request Letter 7/87	"Meet or Beat" Letter of 1/88
Alaskan Village	$285	$130	$105
Four Seasons	285	130	105
Dimond Estates	225	218	Responded Requesting Meeting
Glencaren Court	230	200	Effective May 1,88 Verbal - $170
Glen Muldoon	250	Reduced 200	-
Malaspina	265	Responded No reduction offered	-
Glacier Terrace	265	Responded No reduction offered	-
Manoogs Isle	250	Reduced 125	-
Mayflower	225-250	Responded No reduction offered	Responded No reduction indicated
Penland Park	260	Responded No reduction offered	180
Plaza 36	265	Responded No reduction offered	-
Rangeview	215	110	-
Riviera Terrace	250	Withdrawn 150	-
Southwood Manor	290	Reduced 228	-
Idle Wheels	280	-	Responded No reduction offered
Sunset M/H Park	230	Reduced 125	-
Brookside Manor	240	Reduced 190	-
Trails End	225	Reduced 125	-

Schools get funds for much-needed repairs

LARRY CAMPBELL
News reporter

he people at Clark Junior
n School won't have to risk
ing skewered when they sit on
gymnasium's wooden bleach-
next year. And Williwaw Ele-
tary, just down Bragaw Street
Clark, will finally get some
ceiling tiles and a coat of
t.

he Anchorage School District
money to spend this summer,
t $10.4 million granted by the
ka Legislature in the so-called
s bill" passed earlier this ses-
and signed by Gov. Steve
per.

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.

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AHFC chief encourages holding properties

LARRY PERSILY
Associated Press

UNEAU — The executive director of
Alaska Housing Finance Corp. has
ussed with federal mortgage insurers
possibility of holding some foreclosed
perty off the market until prices
ver.

uch a proposal to balance supply and
and — and avoid further erosion of
ing prices — has been suggested by
legislative economic recovery com-
ee.

o legislative approval or funding
ld be required for AHFC to take
closed property off the market, said
Lehr, executive director of the state
e loan agency.

greement from other investors, pri-
ily mortgage insurers, would be
ded, Lehr said.

"You need to be able to convince
estment partners that it will have the
ct you say it will have," he said.

"I need their cooperation ... we can't
t all by ourselves," Lehr said.

AHFC is working with the Federal 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.

> *"I need their cooperation ... we can't do it all by ourselves."*
> — AHFC director Ron Lehr

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 fu... applications

■ INTERNATIONAL VENTU...
foreign investments for the perm...

The Associated Press

JUNEAU — Alaskans w...
nent fund dividend applica...
urging people to make su...
numbers to avoid having ...
from the oil money paymen...

State revenue officials s...
tions will be distributed ...
Applications also will be a...
tion offices after April 11.

Generally, people who fi...
early receive their dividen...
issued beginning in October ...

The IRS requires 20 perc...
than $600 to be withheld u...
social security number. The ...
$813.

Applicants who provide ...
receive the full dividend am...

Anchorage Daily News 3/22/88

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

March 10, 1988

Honorable Kay Brown
State of Alaska
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Representative Brown:

Below is the additional information I promised to forward to you which explains the Small Business Administration (SBA) charts sent to you on March 7, 1988. (Those same charts are attached for your convenience.)

First of all, the chart, MARS 526, illustrates SBA's loan performance measurement system. This chart accounts not only for SBA loan guarantees, but also for SBA direct loans. Thus, on the chart , there is no distinction made between the direct loans or the guarantees which SBA has made over the last few years. However, you should be aware that SBA direct loans are minimal. The majority of business SBA sees is for loan guarantees.

The terms used in MARS 526 mean:

Cases Disbursed - means the number of direct and guaranteed loans made in that year by SBA.

Failures (#'s) - means the number of direct or guaranteed loans originated in that year which have failed. E.G. of 227 direct or guaranteed loans originated in 1986, 11 of those loans failed, not necessarily in 1986.

Percentage (by #'s) - equals failures divided by cases disbursed, within the State of Alaska.

Region 10 Average - refers to the SBA's Region 10 which includes Boise, Idaho; Portland, Oregon; Seattle and Spokane, Washington; and Alaska.

National Average - refers to the average using the nation as a whole.

Cases Charged Off - means actual number of loans that have been charged off as losses.

Dollars Disbursed - means number of dollars for SBA's direct or

guaranteed loans originated for the particular year.

Dollars Charged Off - means number of dollars that have been charged off as a loss.

Percent (by $'s) - equals dollars charged off divided by dollars disbursed, within the State of Alaska.

Region 10 Average - refers to the SBA's Region 10 which includes Boise, Idaho; Portland, Oregon; Seattle and Spokane, Washington; and Alaska.

National Average - refers to the average using the nation as a whole.

The second chart, MARS 515, illustrates the number of direct loans and guaranteed loans extended by SBA during the years 1978 through 1987. This chart refers to Region 10 and the numbers you will see on the left hand side under the word "Office" correspond to each locale within Region 10. "1040" refers to Fairbanks; and "1084" refers to Anchorage. Here again, the chart is easier to understand when you consider that:

Disbursed in Dollars - means that direct loans or loan guarantees were extended by SBA in the amount of dollars shown for each corresponding year.

Purchase in Dollars - means that the SBA has had to disburse funds to honor guarantees. "purchase in dollars" does not necessarily mean that SBA is seeing a loss. E.G., the loan may have been rewritten.

Purchase Rate in Dollars - equals purchase in dollars (i.e. buy backs) divided by the total dollar amount of disbursed dollars to show the rate in dollars bought back by SBA.

I hope that this information helps you to more fully understand the SBA charts. I believe that this information is helpful in that it shows that AIDEA should approach any loan guarantee program with caution. This is because loans guarantees are not a profitable business. In reality, the Authority is lending its balance sheet and taking on a future liability.

If you have any questions, please feel free to call me in Anchorage at 274-1651.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/ga

Attachments

DATE RUN 10/16/87

SMALL BUSINESS ADMINISTRATION
LOAN PERFORMANCE MEASUREMENT SYSTEM
AS OF 09/30/87
(DOLLARS IN THOUSANDS)

All LOANS, INCLUDING DIRECT

ANCHORAGE, ALASKA

	YEAR OF APPROVAL										FIVE-YEAR SUMMARY		
	YR-1 1986	YR-2 1985	YR-3 1984	YR-4 1983	YR-5 1982	YR-6 1981	YR-7 1980	YR-8 1979	YR-9 1978	YR-10 1977	YEARS 86-82	YEARS 81-77	YEARS 76-72
FAILURE RATES (LOANS IN LIQUIDATION OR CHARGED OFF)													
CASES DISBURSED	227	298	466	342	283	125	107	181	133	132	1616	678	760
FAILURES (#'S)	11	40	82	51	33	17	20	18	22	18	217	95	81
PERCENTAGE (BY #'S)	4.8	13.4	17.6	14.9	11.7	13.6	18.7	9.9	16.5	13.6	13.4	14.0	10.7
REGION 10 AVERAGE	3.5	11.5	16.6	15.5	21.0	26.8	26.7	23.0	16.7	15.3	14.0	21.8	13.7
NATIONAL AVERAGE	3.1	10.2	16.1	16.8	21.7	26.2	29.7	26.5	23.7	21.9	13.6	26.0	22.7
CHARGE-OFF RATES													
CASES CHARGED OFF	1	12	24	14	11	6	12	13	17	13	62	61	72
DOLLARS DISBURSED	55623	67353	98401	73656	56502	20149	15540	19253	17140	18596	351536	90680	72035
DOLLARS CHARGED OFF	39	1231	1844	1389	1055	1264	1112	617	1250	445	5561	4690	1753
PERCENT (BY $'S)	0.1	1.8	1.9	1.9	1.9	6.3	7.2	3.2	7.3	2.4	1.6	5.2	2.4
REGION 10 AVERAGE	0.3	1.4	2.8	3.1	6.9	14.5	12.7	10.1	6.3	4.4	2.8	9.9	4.9
NATIONAL AVERAGE	0.1	1.1	3.2	4.3	8.0	13.5	14.6	11.7	10.5	9.7	3.0	12.1	11.4

REGION 10

PERIOD ENDING FY 87

(S IN THOUSANDS)

DISBURSED IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0	39,257	46,846	44,084	21,199	21,867	34,313	39,429	26,237	14,681
F 1040 > Anchorage	0	1,303	1,229	1,955	1,397	380	0	0	0	0
A 1084 > & Fairbanks	0	17,624	17,462	17,056	54,487	71,215	90,442	63,752	54,258	17,715
1086	0	34,480	55,600	42,277	21,891	24,888	21,222	18,530	14,985	13,345
1087	0	22,466	24,367	20,604	18,424	25,985	22,050	16,237	16,752	11,574
1094	0	18,608	19,128	16,335	6,367	10,377	13,995	12,155	17,598	10,788
TOTAL	0	133,739	164,633	142,311	123,764	154,712	182,022	150,104	129,850	68,103

PURCHASE IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0	2,121	5,513	5,684	2,061	1,363	2,592	4,035	485	0
F 1040 > Fairbanks	0	0	0	0	0	0	0	0	0	0
A 1084 > & Anchorage	0	1,050	677	1,552	4,536	6,421	9,793	5,161	2,642	0
1086	0	2,696	3,869	1,801	2,545	3,008	982	2,079	282	157
1087	0	932	1,952	659	1,759	2,468	1,648	1,607	800	24
1094	0	614	1,313	338	449	745	640	345	199	0
TOTAL	0	7,413	13,324	10,034	11,350	14,006	15,655	13,228	4,409	181

PURCHASE RATE IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0.0	5.4	11.8	12.9	9.7	6.2	7.6	10.2	1.9	0.0
F 1040 > Fairbanks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A 1084 > & Anchorage	0.0	6.0	3.9	9.1	8.3	9.0	10.8	8.1	4.9	0.0
1086	0.0	7.8	7.0	4.3	11.6	12.1	4.6	11.2	1.9	1.2
1087	0.0	4.2	8.0	3.2	9.5	9.5	7.5	9.9	4.8	0.2
1094	0.0	3.3	6.9	2.1	7.1	7.2	4.6	2.8	1.1	0.0
TOTAL	0.0	5.5	8.1	7.1	9.2	9.1	8.6	8.8	3.4	0.3

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ALASKA
REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

University of Alaska Anchorage, Institute of Social and Economic Research February 1988, Vol. XXV, No. 1

Alaska Housing and the Recession

The recession that started at the end of 1985 turned the Alaska housing market on its head. Prices of houses, condominiums, and mobile homes—especially the last two—have come down so far that Alaskans have been left queasy and disbelieving. Recent ISER economic projections are for the recession to end in 1988, and a *gradual* economy recovery to begin—*if* oil prices remain stable in the $16- to $20-per-barrel range. Oil prices are the crucial element in ISER's projections. But if the Alaska economy does begin to recover in 1988, the effects of the recession on the housing market will not disappear overnight.

Since the end of 1985 Alaska has lost jobs, population, and income.[1] We now have much more housing than there is demand for. In Anchorage alone in 1987 nearly 14,000 housing units—including both owner-occupied and rental units—were vacant.[2] Thousands of Alaska houses, condominiums, and mobile homes have been foreclosed on over the past two years. Even after the economy bottoms out, the housing market will be slow in recovering. This is particularly true of the market for condominiums and mobile homes in Anchorage.

Recent ISER work indicates that it will likely be well into the 1990s before real—adjusted for inflation—condominium prices in Anchorage regain their 1985 levels. There are hundreds more mobile homes in Anchorage right now than are likely to be occupied by 1992. Very few condominiums or apartments will be built in Anchorage over the next few years: the units that already exist will more than meet the projected demand.

Single-family houses should fare better—because most buyers prefer houses when they can afford them. Lower prices in the past two years have put single-family houses within the reach of some buyers who in the early 1980s might have bought condominiums or mobile homes.

Economic conditions will of course be crucial in determining the future health of the Alaska housing market. But after economic conditions, how the major lenders handle their big inventory of foreclosed properties will make the most difference to the stability of the Anchorage housing market in the next few years. If they try to quickly sell large numbers of those properties, they will further depress prices and increase loan defaults.

Depressed prices and large numbers of loan defaults are serious problems for all Alaska homeowners and mortgage lenders—but particularly for AHFC, which holds more than 60 percent of the outstanding residential mortgages in the state.

This publication has two main parts. The first part describes conditions in the Alaska housing market in 1987, and contrasts them with conditions during the economic boom of the early 1980s. Those descriptions set the stage for the second part, which

This **Review** *is the second of two publications based on* **Alaska's Economy and Housing Market**, *a report ISER recently prepared for the Alaska Housing Finance Corporation (AHFC). AHFC commissioned the report to help the corporation in its efforts to stabilize the Alaska housing market. The first publication summarized the economic forecasts in the ISER report; this one discusses the report's findings on the housing market.*

[1] See "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions*, December 1987, Vol. XXIV, No. 2, University of Alaska Anchorage, Institute of Social and Economic Research.

[2] Vacancies as of July 1987, as reported by the Municipality of Anchorage's Community Planning Department in *1987 Anchorage Population Profile*, December 1987.



Winter scene in a residential area of south Anchorage. *Photo: Bob Hallinen/Anchorage Daily News*

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Alaska Housing and the Recession

This publication is based on several chapters of *Alaska's Economy and Housing Market*, an October 1987 report by O. Scott Goldsmith, Matthew Berman, Lee Huskey, Linda Leask, and Teresa Hull. All the authors except Huskey are ISER faculty and staff members. Huskey is associate professor of economics with UAA's School of Economics and Public Policy.

reports on how various policies available to AHFC and other lenders might affect the housing market.

ALASKA MORTGAGES AND FORECLOSURES

National Secondary Lenders

Alaskans planning to buy houses generally apply for mortgage loans at banks or savings and loans or mortgage companies. These institutions—known as primary lenders—process the applications, approve or disapprove the loans, and collect the monthly mortgage payments. But very rarely do the banks themselves actually hold the mortgages: they sell almost all of them on the secondary market. In fact, primary lenders as a rule won't make a mortgage loan without first determining that a secondary lender will buy it. This system greatly reduces the risks for primary lenders in making long-term loans and frees their money for other uses.

The biggest secondary lenders nationally were created by the federal government to help increase the amount of home mortgage money available—on the grounds that a healthy housing industry is important to the U.S. economy. Of these, by far the biggest is the Federal National Mortgage Association (FNMA) —widely known as Fannie Mae—which holds about $100 billion in mortgage loans. Another—much smaller—secondary lender is the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac).

The Federal Housing Administration (FHA) and the Veterans Administration (VA) are federal agencies that do not actually buy mortgage loans but rather insure or guarantee them. Loans insured by FHA or guaranteed by the VA sell easily on the secondary market because they carry government backing. Most FHA-insured or VA-guaranteed loans go onto the secondary market through mortgage-backed securities that are issued by yet another federal organization—the Government National Mortgage Association (Ginnie Mae)—and are sold to investors. FHA and VA are often thought of as secondary lenders, because their backing for a loan generally insures its marketability.

The Farmers Home Administration is another federal agency that makes home loans, but only to farmers and to low-income Americans living in rural areas. This agency holds its own mortgages.

Alaska Housing Finance Corporation

The national lenders and insurers described above all operate in Alaska, but here the state government has also created several secondary lenders. The biggest is of course the Alaska Housing Finance Corporation, which holds more than $4 billion in Alaska residential mortgages, or about 60 percent of the outstanding home mortgage debt in Alaska in 1987.

AHFC is a public corporation created by the

Alaska Legislature in 1971. As a public corporation, AHFC is under the control of the state government, but it has more autonomy than traditional state agencies, and it can sell bonds to raise mortgage money.

The state legislature originally established AHFC to help Alaskans with low or moderate incomes get housing at reasonable costs. Alaska officials said that the high cost of housing in the state, the lack of mortgage money in many rural areas, and other factors was making it hard for many Alaskans to buy houses.

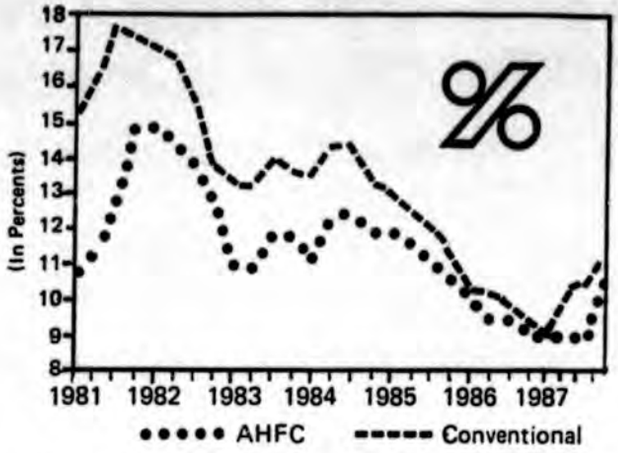
At the start of the 1980s the state legislature made several decisions that quickly transformed AHFC into the dominant mortgage lender in Alaska. National mortgage interest rates were at all-time highs, peaking above 17 percent. The legislature decided to begin subsidizing home mortgage interest rates. As Figure 1 shows, in 1981 Alaska borrowers could get a $135,000 loan from AHFC for less than 11 percent—or they could go to a national lender and pay more than 15 percent. AHFC's interest rate advantage narrowed in later years as the legislature tied AHFC's rates closer to its costs of borrowing money, but through 1985 AHFC loaned money at significantly lower rates than the national lenders.

The legislature also decided to open AHFC's lending programs to virtually all Alaskans by removing the income ceilings for borrowers, and to establish special new programs that would make it easier for more Alaskans to buy houses. Examples of those programs are the mobile home program that makes long-term mortgages available for mobile homes in trailer parks, and the Home Ownership Assistance (HOF) program that pays part of monthly mortgage payments for borrowers whose incomes aren't high enough to qualify them for conventional loans.

AHFC's lower interest rates and special programs drew 80 percent of Alaska borrowers to AHFC in the first half of the 1980s. In the past several years AHFC's share of Alaska mortgages has declined steadily. Market interest rates began dropping off sharply in 1985, and in 1987 they reached their lowest point since the 1970s. At one point in 1987 rates under AHFC's biggest loan program were the same as those of other lenders (see Figure 1).

As national interest rat fell, special conditions and restrictions on AHFC loans prompted more borrowers to look to other lenders. For example, most AHFC loans written before 1985 couldn't be assumed, and before 1986 AHFC didn't have the authority to refinance loans. Also, in 1982 the corporation had adopted the Alaska Building Equity (ABE) payment system that increases mortgage payments five percent a year from the fourth through the ninth year of the loans. Still, in 1987 AHFC remained the biggest single buyer of mortgages written for home sales.

Figure 1. Home Mortgage Interest Rates, AHFC Taxable Program and Conventional,* 1981-1987



*Mortgage rates for a $135,000 loan under AHFC's taxable program and under FNMA's 30-year, fixed-rate mortgages.

Since 1980 AHFC has raised several billion dollars in mortgage money by selling bonds. The legislature appropriated about $1 billion for AHFC mortgage subsidies between fiscal years 1981 and 1984. For the past several years, AHFC has had a revolving loan fund and received no subsidies.

Other Sources of Mortgage Money

The Alaska Department of Community and Regional Affairs also acts as a secondary lender, but it buys loans only in the most remote areas of Alaska. Its operations are small as compared with AHFC's, and it gets its loan money not through bond sales but through state appropriations.

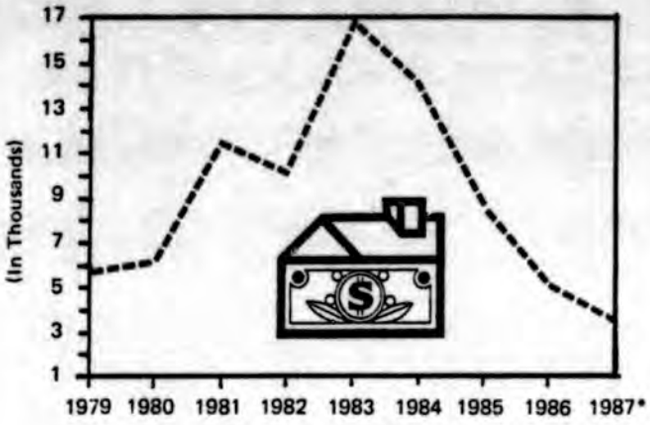
The managers of the Alaska Permanent Fund and the state pension funds (the Public Employees Retirement System and the Teachers Retirement System) also buy some residential mortgage loans—but not many as compared with the other secondary lenders, and frequently those that exceed the loan limits of other lenders. In recent times, however, those agencies have bought very few loans.

There are a variety of others who hold some Alaska mortgage loans. Credit unions hold rather than sell some mortgages. Individuals sometimes finance the sale of their own houses. Figures on mortgages held by those and others are not available, but they are few compared with those held by the big lenders.

Mortgage Activity, 1979-1987

Figure 2 marks the ups and downs of housing sales in Alaska from 1979 through 1987: it shows the numbers of mortgages written for home sales. (The figure excludes mortgages for refinancing, which are shown in Figure 3.)

Figure 2. Alaska Mortgages Written for Home Sales, 1979-1987*



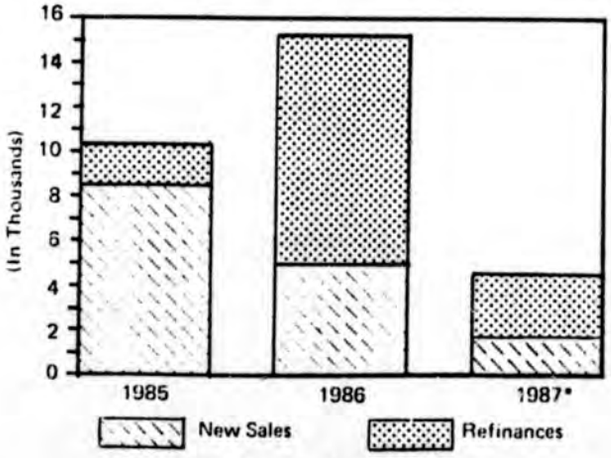
*1987 figure is an estimate based on numbers for the first six months of the year.

About 5,500 mortgages worth $380 million were written in Alaska in 1979. That was a slow year as compared with what was to come. The economic boom created by construction of the trans-Alaska pipeline was over; some people were leaving the state; and mortgage interest rates were on their way up. Mortgage activity in 1980 was not much higher, but the stage was set for the next boom. High oil prices were fattening the Alaska treasury. The state government began spending its oil revenues in many ways that sparked unprecedented economic growth. At the same time, the legislature also voted to subsidize mortgage interest rates.

The economic boom created by state spending drew tens of thousands of people into the state. The combination of a burgeoning population, growing incomes, and special programs tripled numbers of new mortgages between 1979 and 1983, when more than 16,500 mortgages for home sales were written. Numbers of new mortgages began dropping in 1984, but it was in 1985 that the really sharp decline started.

The recession began toward the end of 1985, as state spending declined. In 1986 the recession worsened as oil prices plummeted. Fewer than 5,000 mortgages for home sales in Alaska were written in 1986—fewer than had been written in 1979. And in 1987 an estimated 3,000 mortgages were created for home sales in Alaska.

Figure 3. Alaska Mortgages Written for Home Sales and Refinancing, 1985-1987*



*The 1987 figure is just the first six months.

Home Refinancing

In 1985 national interest rates began dropping sharply, and many Alaskans who held home loans at much higher rates refinanced their houses. As Figure 1 shows, AHFC's subsidized rates in 1982 were as high as 14 percent; by late 1985 conventional and AHFC rates were below 11 percent. And in 1986 and early 1987 rates were near 9 percent.

Firm figures on how many mortgages are written for Alaskans refinancing their homes are hard to get. Figure 3 shows our estimates of how many mortgages written in Alaska in 1985, 1986, and the first half of 1987 were for refinances and how many for sales. Presumably there was very little refinancing before 1985, when interest rates were much higher.

The figure shows that in 1985 less than 20 percent of the 10,000 mortgages created in Alaska were for refinancing. In 1986, 15,000 mortgages were written—but more than 10,000 of those, or 70 percent, were for refinancing. In the first half of 1987, more than 60 percent of new Alaska mortgages were for refinancing.

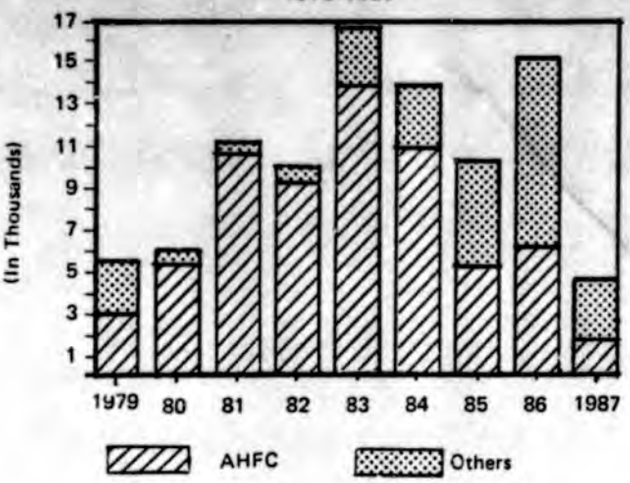
AHFC's Market Share

Figure 4 clearly shows why AHFC is the biggest mortgage holder in Alaska: it identifies shares of total mortgages (including those for sales and for refinances) AHFC and other lenders bought each year from 1979 through the first half of 1987. From 1980 through 1982, when AHFC's rates were several percentage points below those of other lenders, AHFC bought 90 percent or more of new mortgages. Through 1984 AHFC still had 80 percent of the market. In the past several years interest rates and terms of other lenders became more competitive. AHFC's share dropped from about 50 percent in 1985 to less than 40 percent in the first half of 1987.

1987 Mortgage Holdings of Major Alaska Lenders

What is at stake in the Alaska housing market? How much home mortgage debt is there in the state? Table 1 shows the mortgage holdings of major Alaska lenders as of mid-1987.

Figure 4. AHFC's Share of New Alaska Mortgages,[a] 1979-1987[b]



[a]Includes mortgages for sales and for refinances.

[b]Figures for just the first six months of 1987.

In 1987 the major lenders in Alaska held more than 84,000 home mortgage loans worth $7 billion dollars. The biggest mortgage holder is AHFC, which as of June held more than 52,000 home mortgages with an outstanding balance of about $4.3 billion. Other state government entities held another 3,000 loans with a balance of $230 million.

National lenders and insurers are also carrying tens of thousands of loans. AHFC holds some FHA-insured and VA-guaranteed loans; to avoid double-counting, those are included in AHFC's holdings and excluded from FHA's and VA's. In addition to those held by AHFC, there were nearly 8,500 FHA-insured loans and 8,600 VA-guaranteed loans in Alaska in 1987, with a combined unpaid balance of $1.6 billion. FNMA and FHLMC were each carrying more than 5,000 mortgage loans with a combined balance of nearly $900 million.

Table 1

Residential Mortgage Holdings of Major Alaska Lenders, June 1987[a]

	Number of Loans Outstanding	Unpaid Principal Balance ($ millions)
AHFC		
Mobile Homes	4,760	$ 151
AHFC/FNMA[b]	10,722	1,170
AHFC/Other	36,686	2,967
Total	52,168	$4,288
FNMA[c]	5,471	$400
FHLMC[d]	5,152	479
FHA-Insured[e]	8,437	844
VA-Guaranteed[f]	8,602	763
Alaska Dept. of CRA[g]	1,194	123
Farmers Home Admin.[h]	1,322	106
Alaska Permanent Fund	300	42
Alaska Pension Funds[i]	NA	NA
AIDA & Div. of Invest.[j]	1,565	68
Total	84,211	$7,113

[a]As of June 1987, unless otherwise noted.

[b]These are loans financed with FNMA money from early 1984 through 1986; AHFC makes principal and interest payments to FNMA on collateralized notes. FNMA is, however, liable for any losses not covered by private mortgage insurance if borrowers default.

[c]Excluding loans cited in note b; these are loans purchased from banks and other primary Alaska lenders.

[d]Figures are for FHLMC loans serviced by Alaska lenders as of June 1987; they may include some loans on homes outside the state but serviced by Alaska lenders and exclude some loans on Alaska homes that are serviced by lenders outside the state.

[e]Outstanding loans as of December 31, 1986, excluding AHFC loans insured by FHA. The unpaid principal balance is an estimate, based on average size of outstanding loan. Although FHA is an insurer rather than a lender, FHA-insured loans are included here because most of those loans go to lenders other than those listed in this table. Most FHA-insured loans go into mortgage-backed securities (MBSs) issued by the Government National Mortgage Association (GNMA) and sold to various investors.

[f]Figures as of March 31, 1987, excluding VA-guaranteed loans held by AHFC. A very large share of new VA-guaranteed loans in Alaska in the first half of the 1980s were purchased by AHFC. Most VA-guaranteed loans not purchased by AHFC go into MBSs issued by GNMA and sold to various investors.

[g]As of March 1987.

[h]Outstanding loans as of May 1987. Unpaid principal balance is an estimate based on average size of outstanding loan.

Good estimates of cumulative Alaska residential mortgage holdings of the pension funds are not available because figures on such holdings are combined with figures on other mortgage holdings of the funds.

[i]These are mortgage loans made under a state veterans' loan program that no longer exists; it was replaced in the early 1980s by the state veterans' program administered by AHFC. Most of these loans are now held by the Alaska Industrial Development Authority (AIDA); the Division of Investments in the Alaska Department of Commerce and Economic Development holds a few and services those held by AIDA.

Source: *Alaska's Economy and Housing Market*, ISER Report, October 1987, Tables 3.1 and 3.3.

Mortgage Liabilities

The current recession has pushed thousands of Alaska homeowners into default and foreclosure. Before we look at 1987 figures on properties in foreclosure, we'll broadly outline liability on mortgage loans when borrowers default. When we say "mortgage liabilities," we mean just losses lenders and borrowers take when individual borrowers default. There are of course other kinds of liabilities—for instance, AHFC is liable for payment on the billions of dollars in bonds it sold to finance mortgage loans. We don't discuss that or other potential liabilities here.

Table 2 summarizes insurance requirements and liabilities of home buyers and major lenders. When agreeing to make a mortgage loan, lenders generally require two kinds of protection against default. The first step is requiring a down payment, generally 5 to 10 percent of the sales price. The chief exception is the Veterans Administration program, under which qualified veterans can borrow up to a specific amount with no money down.

Second, lenders typically require borrowers to carry private mortgage insurance (PMI) on loan amounts above 70 to 80 percent of the purchase price. If the borrower defaults, the private mortgage insurer pays the lender any losses on the insured portion of the loan. Loans in remote areas of Alaska generally don't carry private insurance because it usually isn't available in those areas. Loans held by the Alaska Department of Community and Regional Affairs and the Farmers Home Administration are uninsured. Also, some loans made before 1980 under various state loan programs are uninsured.

So what happens when a borrower defaults and his property goes into foreclosure? First, borrowers who default lose their down payments and any additional amount they've paid on the loan principal.

Another liability borrowers face is that lenders may institute what is known as a judicial foreclosure. If a lender believes that a borrower who defaulted could have continued to make his payments but chose not to, he may go to court to try to make the borrower liable for any losses when the property is re-sold. In a non-judicial foreclosure, the lender accepts that the borrower has neither the income nor the assets to meet his payments and does not press for any further liability. (Damage that defaulting does to a borrower's future credit is also certainly a loss, but a less measurable one.)

The losses that lenders and insurers face when properties go into foreclosure are complicated to calculate. The biggest factor is the condition of the housing market. If prices are rising, insurers and particularly lenders don't generally lose money—because they can expect to re-sell the relatively few properties that go into foreclosure for enough to cover the outstanding mortgage and foreclosure costs. But when prices are falling—as they have been in Alaska over the past two years—it's a different story: there are thousands of foreclosed properties and they frequently sell for less than the outstanding mortgage, especially if the mortgage was written when prices were at their peak.

In Alaska's housing market today, insurers face the first losses when properties with private mortgage insurance go into foreclosure. They try of course to keep those losses to a minimum, and they have two broad choices. The insurer can take a foreclosed property and re-sell it, or the insurer can let the lender re-sell it and pay the lender a claim up to the maximum insured amount.

Say for example that a property with a $100,000 outstanding mortgage goes into foreclosure, and that private mortgage insurance covers $20,000 of that mortgage.[3] Estimate the foreclosure costs at $5,000. Suppose the insurer thinks the property will be hard to re-sell (which means that there will also be substantial interest and other holding costs) and that it might command only $70,000 when it does sell. If the insurer took the property, held it, and re-sold it at a depressed price, his costs could easily exceed $35,000. On the other hand, if the insurer let the lender take the property and simply paid the maximum insurance claim, he would limit his costs to $20,000. Only in cases where the insurer thinks he can keep his costs below the maximum insurance claim will he be likely to try to re-sell it himself.

What about lenders? What losses do they take in foreclosures? Again, in a market where prices are rising, lenders who require down payments and mortgage insurance don't generally take any losses. But in the Alaska market today, values of many properties are so much lower than the outstanding mortgages that insurance doesn't cover all the losses. And on loans not covered by insurance, lenders take all the losses.

AHFC's liability on mortgage loans varies considerably among loans made at different times and under different programs, as Table 3 shows. But AHFC has better protection than most lenders on the majority of loans it made between 1981 and 1986. Most AHFC loans made during that period carry private mortgage insurance and additional features that limit AHFC's liability.

Most AHFC loans made between 1981 and early

[3]These figures are simplified to make the example straightforward. To show precisely how much private insurance covered of any given loan we would have to know original purchase price, size of down payment, subsequent payments on principal, and amount of insurance the lender required.

Table 2

Liability* in Home Foreclosures

Lender	Insurance Requirements	Liability of Borrowers in Foreclosure	Liability of Lenders in Foreclosure
FNMA/FHLMC	Borrowers required to carry private mortgage insurance (PMI) on loan amounts above 80% of the house price.	*Borrowers in all cases lose their down payments, which can be as low as 0-5% but are generally 10% or more of the purchase price. Also forfeited is any amount subsequently paid on the loan principal. And, in some cases, lenders will undertake judicial foreclosures, in which they go to court to try to make borrowers who default liable for losses on resale of the properties.*	Lender liable for any losses not covered by PMI.
FHA-Insured Loans	Borrowers pay premium for government insurance, either in lump sum or as part of monthly payments.		FHA liable for all losses.
VA-Guaranteed Loans	The federal Veterans Administration guarantees up to $27,500 on mortgage loans to veterans as a benefit of military service; this guarantee takes the place of private mortgage insurance.		VA liable for losses up to $27,500 on each loan; additional liability falls on primary or secondary lender.
Farmers Home Administration	This federal agency makes loans to low-income households in rural areas; no private mortgage insurance.		Farmers Home Administration liable for all losses.
State of Alaska			
AHFC	Most borrowers required to carry private mortgage insurance on loan amounts above 75% to 80% of the house price; on mobile home loans, borrowers must carry private credit insurance on 40% of the loan amount.		Varies substantially among different types of loans; see Table 3.
DCRA	Loans in rural areas; no private mortgage insurance required (because it is not available in many cases).		DCRA takes all losses.
Ak Permanent Fund	Borrowers required to carry private mortgage insurance on loan amounts over 70% of the house price.		Permanent Fund bears any losses not covered by PMI.
Division of Investments and AIDA	These loans were made to veterans before 1981 through the former Division of Veterans Affairs; no private mortgage insurance required.		Losses accrue either to Veterans' Revolving Loan Fund or AIDA.

*Includes just losses the various parties may be liable for when individual loans go into foreclosure; does not include AHFC's liability for repayment of bonds and notes financing the loans, or other kinds of liabilities.

1984 carry pool insurance—insurance that covers any losses not covered by private mortgage insurance. Mortgage Guarantee Insurance Company (MGIC) provided that pool insurance as a provision of bonds AHFC sold to finance loans during that period. So AHFC has virtually no liability when borrowers default on those particular loans.[4]

From 1984 through 1986, the national lender FNMA financed a large share of AHFC loans—and on those particular loans, FNMA rather than AHFC is liable for any losses not covered by private insurance. (AHFC is, of course, liable to re-pay principal and interest to FNMA on the notes that financed the loans.)

AHFC's liability on other loans varies, as Table 3 shows. Some loans it took over from earlier state loan programs carry no insurance. Mobile home loans made before 1983 carry no insurance; loans made after that time carry private credit insurance on 40 percent of the value of the loan. AHFC takes losses beyond what private credit insurance covers.

[4]However, the pool insurance is in effect only until the bonds financing the loans have been paid off—when the bonds are paid off, AHFC becomes liable for losses not covered by private mortgage insurance.

Homes in Foreclosure

We've seen the mortgage holdings of major lenders and how the losses are divided up when borrowers default. Now we turn to the grim evidence of Alaska's battered housing market: properties in foreclosure.

Table 4 shows foreclosed properties held by the major lenders and insurers as of mid-1987. In June 1987, lenders and insurers were holding more than 4,200 foreclosed properties. During the preceding 18 months, they had sold an additional 1,600 properties that had been foreclosed on. Taken together, the foreclosed properties still in inventory and those re-sold during the preceding year and a half totaled nearly 5,900—or 7 percent of outstanding residential mortgages in Alaska in mid-1987. And there were doubtless other foreclosures not recorded on Table 4—properties held by individual banks and private mortgage insurers other than MGIC, for instance. Reliable figures on such foreclosures are hard to get.

Table 3

AHFC's Liability* in Foreclosures

All Loans Except Mobile Homes	AHFC Liability
Loans with private mortgage insurance and pool insurance; include most loans made from 1981 to early 1984.	None, until bonds carrying pool insurance provision are paid off; then AHFC liable for any losses not covered by PMI.
Loans with private mortgage insurance that were financed by FNMA, 1984-1986; include most loans made during that period.	None. FNMA is liable for any losses not covered by PMI on loans it financed for AHFC during this period.
Loans with just private mortgage insurance; include some loans made throughout AHFC history and almost all loans made since January 1987.	AHFC is liable for any losses not covered by PMI.
Loans with no insurance; include loans made under several special programs that no longer exist.	AHFC liable for all losses.
Loans with federal government insurance or guarantee; include loans made throughout most of AHFC's history.	FHA takes all losses on FHA-insured loans. VA takes liability only up to $27,500 on each VA-guaranteed loan; AHFC liable for additional losses.
Mobile Home Loans	
Loans before 1983 with no insurance.	AHFC liable for all losses.
Loans since 1983 with private credit insurance.	AHFC liable for losses not covered by PCI.

*Includes just losses AHFC is liable for when individual borrowers default.

It's no surprise that AHFC held about 65 percent of foreclosed properties in mid-1987. AHFC bought most of the new mortgages written in Alaska in the 1980s and in particular most of those written when prices were at their peak. Also, from 1980 on, AHFC bought almost all the mortgage loans on mobile homes—which have seen tremendous losses in value during the recession.

FNMA, FHA, and VA were also holding several hundred properties each in the middle of the year. Other lenders held fewer. The 100 properties that the insurer MGIC was holding at that time were just properties it had actually taken title to; remember that MGIC carries substantial liability on properties that are in AHFC's inventory.

We don't have foreclosure figures more recent than mid-1987 for most individual lenders, but we do have them for AHFC through the end of 1987. We know that, like AHFC, other lenders continued to add to their inventory of foreclosures in the second half of the year.

Table 5 and Figure 5 document the relentless climb in AHFC's inventory of foreclosures from 1984 —before the start of the recession—through 1987. At year-end in 1984, AHFC held just 129 properties. By the end of 1985 that had grown to more than 500, and in 1986 to more than 1,600. At the end of 1987 AHFC held 3,700 properties. If we compare those figures with the mid-1987 figures in Table 4, we see that at the end of 1987 AHFC held 1,000 more properties than it had six months earlier.

Table 6 shows a more detailed breakdown of properties in AHFC's inventory as of the end of 1987: 1,325 single-family houses and duplexes, 1,171 condominiums and townhouses; 1,192 mobile homes; and 13 triplexes and fourplexes.

It's easy to see why the problems in the condominium and mobile home markets are more severe than in the market for single-family houses: there are a great many more single-family houses in Alaska

Table 4

Inventory of Foreclosed Properties Held by[a] Major Alaska Lenders and Insurers, June 1987

	Held in Inventory June 1987	Foreclosed Properties Sold 1986-June 1987
AHFC		
Mobile Home	965	143
Other	1,793	1,075
Total	2,758	1,218
FNMA	394	160[e]
FHLMC[b]	78	–
FHA-Insured	385	87
VA-Guaranteed[c]	366	80
MGIC	105	25[f]
Alaska Dept. of CRA	40	1
Farmers Home Admin.	100	30
Alaska Permanent Fund	23	11
AIDA and Div. of Invest.	5	6
Others[d]	NA	NA
Total	4,254	1,618

[a]Properties "held by" each lender or insurer include just those to which each already held title or was in the process of acquiring title as of June 1987.

[b]Includes both completed and nearly completed foreclosures.

[c]Includes both properties the VA had already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

[d]Some foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies other than MGIC. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

[e]Properties sold 1986–May 1, 1987.

[f]Estimated sales from November 1986–June 1987.

Sources: See Sources, Table 3.1, *Alaska's Economy and Housing Market.*

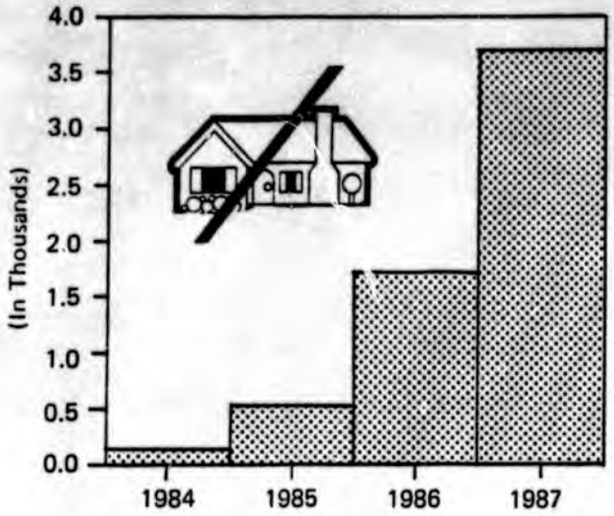
Table 5

AHFC Cumulative Inventory* of Foreclosed Properties, Year-End, 1984-1987

	1984	1985	1986	1987	% of 1987 Total
Mobile Homes	38	186	610	1,192	32%
Other	91	322	1,061	2,509	68%
All	129	508	1,671	3,701	100%

*The year-end inventories are total properties foreclosed on minus those resold. These figures are AHFC's statewide inventory.

Figure 5. AHFC Year-End Inventory of Foreclosed Properties, 1984-1987



than there are either condominiums or mobile homes, but there are just about as many mobile homes and condominiums in foreclosure as there are single-family houses.

As the last column of the table shows, houses and duplexes made up more than 75 percent of active AHFC loans in 1987, but just 36 percent of foreclosures. By comparison, condominiums and townhouses made up 15 percent of total loans but 32 percent of foreclosures. Mobile homes, while making up just 7 percent of active AHFC loans, accounted for 32 percent of foreclosures.

Table 6

AHFC Inventory of Foreclosed Properties, Year-End 1987

	Number of Foreclosures	Percent of Total Foreclosures	Active AHFC Loans by Type
Single-Family Houses & Duplexes	1,325	36%	77%
Condominiums & Townhouses	1,171	32	15
Mobile Homes	1,192	32	7
Triplexes & Fourplexes*	13	1	1
Total	3,701	100%	100%

Source: AHFC.

*Although AHFC loans by type give us a good idea of the composition of housing stock in general, this is not true of triplexes and fourplexes, of which AHFC finances few. Most are financed by other lenders.

POLICY OPTIONS

Future economic conditions will be the biggest force in the recovery of the Alaska housing market. But the next biggest force will be the mortgage lenders and insurers with big inventories of foreclosed properties. They can help stabilize the market by selling their holdings at a moderate pace rather than selling large numbers quickly—which would further depress prices and put more homeowners at risk of default.

What is the Problem?

The problem in the Alaska housing market today is that we have more housing than we have households: too many condominiums, mobile homes, houses, and apartments. Having too big a supply and too little demand has created an unstable market, where prices have already fallen dramatically and there is great anxiety about the future.

Thousands of homeowners have defaulted on their mortgages over the past two years. Some lost their jobs and were unable to keep up the payments; some had to move and were unable to sell the houses for what they still owed on them. Still others simply walked away from their properties because they had lost value. Many thousands more Alaskans are still making their payments but have negative equity—that is, their homes are worth less than their outstanding mortgages.

The big lenders and insurers are holding depressingly large inventories of foreclosed properties. They have already taken tens of millions of dollars in losses.

The worst thing for the housing market right now would be panic. If the big lenders decided to dump their inventories of housing on the market at any price in an attempt to cut their losses, they could create panic among homeowners with negative equity. Large numbers of homeowners might simply walk away from basically sound properties that will appreciate in value in the future. The result of such panic would be a continuing downward spiral of prices and many more foreclosures.

What would help the housing market most is a move toward stability: a leveling-off of prices and a reduction in defaults. Such a move toward stability would boost confidence among homeowners, and make them more likely to try to stay in their homes. Fewer defaults would ease the pressure on the lenders. Stability would help buy time toward solutions of the housing problems and eventual recovery of the market.

We are not saying that lower prices are bad for everyone and that higher prices are universally good.

Lower prices are obviously good for some Alaskans who might not have been able to buy houses a few years ago. What we are saying is that a *stabilization* of prices would be good. If prices became stable, the stage would be set for the recovery of the market and Alaskans could become more confident that housing is a good investment.

If, on the other hand, prices continue to fall and defaults persist in such disheartening numbers, investors will be reluctant to put money into the Alaska housing market in the future. That reluctance will translate into more expensive mortgage money for Alaskans. AHFC's ability to sell bonds could be hampered. Mortgage insurers might pull out of the Alaska market entirely, or charge much higher premiums for staying in.

So how can the market be stabilized? The biggest factor in the recovery of the housing market will of course be economic conditions. ISER projects that if—a crucial qualifier—oil prices remain stable in the $16-to-$20-per-barrel range, the state economy should bottom out in 1988 and begin a gradual recovery. This is our medium-case projection, and we consider it the most likely, if oil prices stay in that range. The economic recovery would be faster over the next several years if oil prices suddenly rose to around $25 a barrel (our high-case projection) and stayed that high. At the other extreme, if oil prices dropped to $15 a barrel or less and stayed that low for many months, the economy could continue to decline into 1989 and we would see very little growth over the next few years (the low-case projection).[5]

The next biggest factor in stability of the housing market will be—for reasons we describe below—sales of foreclosed properties. In the following pages we assess how rates of foreclosure sales and other factors could affect the Anchorage housing market between now and 1992.[6] We don't have enough information to make such assessments for housing markets in other areas of the state, but movements in the Anchorage market will reflect general trends in housing markets throughout Alaska—with some obvious regional differences.

An important point to keep in mind is that we cannot forecast what is going to happen in the Anchorage housing market. To do that we would have to know how many foreclosed units the institutional sellers are going to put on the market and at what rate. What we can show are effects on the market of various rates of sale.

[5]Those economic projections appear in "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions*, Vol. XXIV, No. 2, December 1987.

[6]Anticipating what may happen is of course complicated by the fact that each lending institution has its own interests in and constraints on holding foreclosed inventory.

Sliding Prices and Rising Defaults: A Vicious Circle

Figure 6



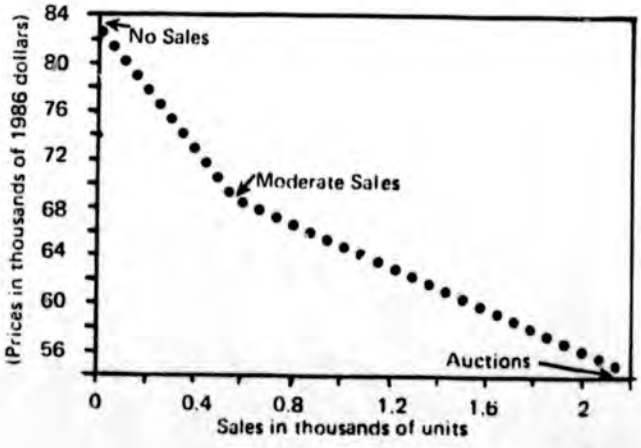
The faster AHFC and other big lenders and insurers put foreclosed properties on the market—at the extreme, through large auctions without bid floors—the more prices will be depressed and defaults persist, as illustrated by Figure 6. More defaults will mean the lenders will end up with even more foreclosed properties.

Flooding the market with housing pushes prices down. As prices go down, more and more homeowners find themselves with negative equity—that is, their mortgages are larger than the market prices of their properties. If owners with negative equity are forced to sell, many will likely default because they are unable or unwilling to make up what can be a very substantial difference between what they owe and what the properties will sell for.

Also, a continuing downward spiral of prices erodes confidence among would-be buyers and existing homeowners. Alaskans who might be attracted by lower housing prices won't buy if they think prices could go much lower. Demand for housing could dry up. Existing owners with negative equity become more likely to walk away from their properties if the value continues to drop and they can see no turnaround in sight.

Figure 7 illustrates how prices of Anchorage condominiums are related to the number of fore-

Figure 7. Relationship Between Real Prices and Sales of Foreclosed Anchorage Condominiums, 1988



ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1585 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

closed units on the market. The prices shown on the vertical axis of the figure are for a particular kind of unit and are *not* intended to represent average prices of all condominiums on the Anchorage market. (We know that in recent months condominiums in Anchorage have sold for as little as $25,000 and as much as $100,000.) What we are showing here is how different rates of sale could affect the price of the same condominium. So it is more important to look at the difference in the prices at various rates of sale than at the dollar figures.

As the figure shows, if all foreclosed condominiums were kept off the market—a very unrealistic scenario—condominium prices could be nearly 50 percent higher than if the market were flooded with condominiums through large auctions. At more moderate rates of sale, prices would be about 25 percent higher than if large auctions were held.

Holding properties off the market is of course very expensive for lenders and insurers: they pay in the neighborhood of $18 to $30 a day for each unit, depending on the size of the outstanding mortgage and the interest rate. We are not suggesting that lenders and insurers should hold onto all their foreclosed units: that simply is not feasible. We are pointing out that lenders should consider the future costs they might face if their selling policies contribute to more defaults.

Sliding property values and rising defaults have already cost Alaska lenders, insurers, and borrowers tens of millions of dollars. The foreclosure process itself is expensive. Costs of judicial foreclosures—under which the lender goes to court to try to make borrowers liable for any losses when the property is re-sold—are particularly high. And falling property values also have other social costs. For example, some homeowners who could find better jobs elsewhere don't move because they can't sell their houses for what they owe on them, and they don't want to default.

What Can Be Done?

We examined a number of policies AHFC and other lenders might try to increase demand, reduce supply, stabilize prices, and reduce defaults. Those include loosening down payment and other loan requirements; easing restrictions on owner-occupancy in AHFC-financed condominium complexes; subsidizing interest rates; removing housing stock; and limiting or transferring mortgage liability in some circumstances.

We made our analysis with a complex computer model that simulates the Anchorage housing market and incorporates ISER's medium-case economic projections. Our findings about how various policies might affect the Anchorage housing market are detailed in ISER's recent report, ***Alaska's Economy and Housing Market.*** Below we summarize our main findings:

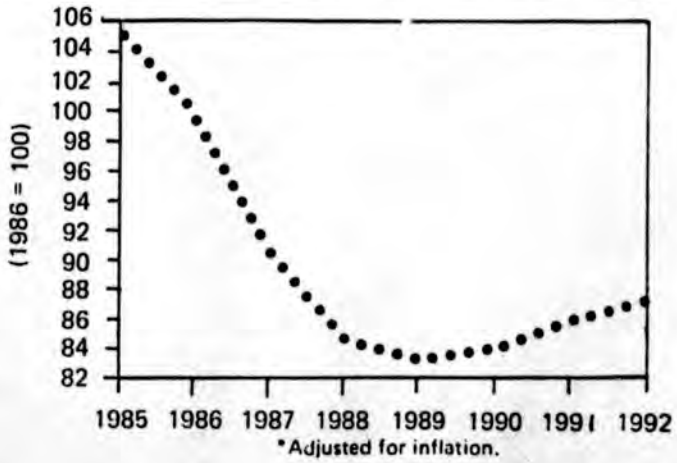
- How the big lenders manage their large inventories of foreclosed properties will be far more important than anything else they do to try to stabilize the market. If they sell those properties very quickly—at the extreme, through big auctions without bid floors—and push prices further down, the housing market will continue to be unstable and defaults will persist.

- The market for single-family houses will recover more quickly than the market for condominiums. Most buyers prefer houses when they can afford them—and today's lower prices mean houses are within the reach of more buyers. Once the economy turns around, the market should be able to absorb the inventory of foreclosed single-family houses relatively quickly. And there will be some construction of single-family houses in Anchorage over the next several years—but the total number of new houses built between now and 1992 will likely be smaller than the number built during the peak construction year of 1983.

- Very few condominiums or apartments will be built in Anchorage between now and 1992, if our medium-case economic projections prove correct. The existing supply will be more than ample to meet demand. Under that same case, real rents—rents adjusted for inflation—in Anchorage in 1992 will still be below 1985 and 1986 levels (see Figure 8).

- Because such a large proportion of Anchorage condominiums are in foreclosure, it will likely take several years beyond 1992 to sell the inventory of

Figure 8. Projected Anchorage Real* Rent Index



foreclosed condominiums without further depressing prices.

- For some Alaskans there is a silver lining in the real estate cloud: lower prices will mean that they can move into better-quality housing than they could afford before. But a big barrier for those who already own homes is that many now owe more on their houses than the houses will sell for. Lenders may want to consider a policy that allows those who want to buy better houses in Alaska to transfer a portion of their current mortgage liability to new homes.

Faster or Slower Economic Recovery

We consider our medium-case economic projections most likely, if oil prices stay in the range of $16- to $20- per barrel. The findings outlined above are based on those medium projections. But it's always possible that the economy could grow faster or slower than we expect: the Alaska economy is often surprising. If oil prices were significantly higher or lower than we assume in the medium case, the housing market would of course be affected. Figures 9 and 10 illustrate the possible range of change in two housing market variables under the low, medium, and high economic cases.

Figure 9. Real Prices, Anchorage Condominiums Under Three Cases, 1985-1992

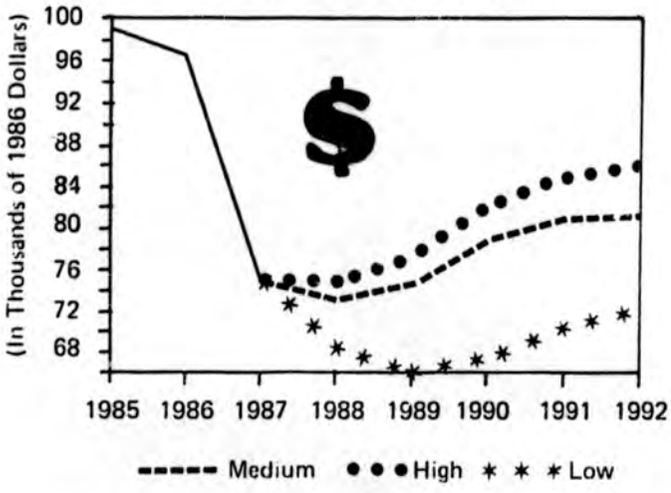
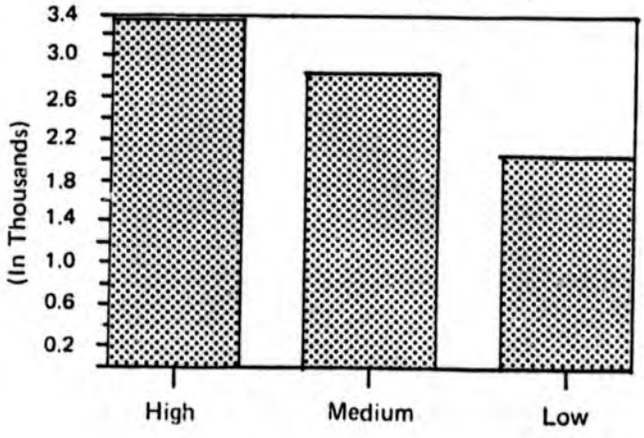


Figure 9 shows how real—adjusted for inflation—prices of Anchorage condominiums would be different under the high, medium, and low economic projections. All three cases assume the same moderate rate of sales of foreclosed properties. If more or fewer foreclosed properties were sold, the projections would change.

In the medium and the high cases, average real prices for a standard condominium would bottom out in 1988 and in the low case in 1989. Prices would then begin a very gradual recovery. But even under the most optimistic case, 1992 average condominium prices when adjusted for inflation would still be far below their 1985 peak of around $100,000.

Real prices of single-family houses should rebound faster, and—unlike the case for condominiums—a number of new houses will likely be built in Anchorage in the next few years. Figure 10 shows projected cumulative numbers of building permits for new single-family houses in Anchorage from 1987 through 1992 under high, medium, and low economic projections. Under any of the cases total construction over the next few years would be modest as compared with the frenzied building of the early 1980s: under the medium case, a total of fewer than 3,000 new houses would be built in Anchorage between now and 1992. By contrast, in 1983 alone 3,500 new houses were built in Anchorage.

Figure 10. Projected Cumulative Building Permits for Anchorage Single-Family Houses, Under Three Cases, 1987-1992



3/12/88

Alaska State Legislature

House of Representatives

Official Business

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State Capitol
Juneau, Alaska 99

EXECUTIVE SUMMARY OF LEGISLATIVE ACTIONS
HOUSE JOINT COMMITTEE ON ECONOMIC RECOVERY

When the Joint Committee on Economic Recovery was established by resolution this past January, the House side of the committee adopted a subcommittee framework within which three phases of action would be undertaken. The first phase was to examine the overall Alaska economic picture and identify existing legislation that should be promoted or addressed by the legislature. The second phase was to determine what new legislative proposals might be implemented to address these problems. The final phase of the House effort was to promote long term solutions at the state, federal and local level which might better prepare Alaskans to deal with similar economic situations. At this time we present the attached reports addressing the first two phases of our efforts.

In these reports each subcommittee has endeavored to present, where necessary, those pieces of legislation they believe might contribute most to the economic recovery of the state. Though initially focused on short-term proposals, the final lists of legislation also represent a number of ideas that will have significant long-term implications if adopted by the legislature. Some examples of these latter proposals include HB 492 (the Alaska Bottomfish Development Plan), and HB 430 and HB 431 (Neighborhood Business Development Initiative).

The subjects covered by these reports range from resource development to the housing market and include both Senate and House legislative proposals. While the Resource Development, Transportation, Employment and Industry subcommittee report focuses mainly on specific legislative proposals, other reports, such as the Interior and Southeast subcommittees, address the broader economies encompassed within their purview. The remaining subcommittees, Small Business, Housing and Banking and Rural, discuss broad policy questions and legislative actions.

In identifying new proposals not already introduced, the main emphasis and effort fell upon the Housing and Banking subcommittee. The members of this subcommittee found themselves immersed in the economic problems foremost in the public eye: the collapse of the residential housing and commercial real estate markets and the apparent deterioration of Alaska's banking industry, all areas which few legislative proposals initially addressed.

Other subcommittees, notably Small Business, recommended enhancement of existing programs to fill gaps not covered by legislative proposals.

Following a brief description of the Full Committee's meetings a short review of the activities of each subcommittee shall be presented.

The Full Committee

The Full House Committee has met consistently -- at times jointly with the Senate Committee -- since January 29 of this year. The initial meetings provided an overview of the Alaska Economy from a public, private and regional perspective. These meetings were followed by presentations generated outside of the legislature on plans and proposals to improve the economy. These were in turn followed by preliminary presentations of the subcommittee reports and actions which, after full committee review and amendment, were presented in final form. At present the House Committee is addressing legislative proposals passed from the Senate Committee and has submitted their reports and actions to that committee for review.

Housing and Banking

The Housing and Banking subcommittee, Co-chaired by Representatives Kay Brown and Steve Rieger, held extensive hearings and identified two broad policy recommendations for the state to pursue. The first of these was the improvement of the residential housing market. The second was to maximize the ability of the market to solve commercial real estate and loan problems while minimizing State intervention. Within the first area, specific strategies proposed included directing state agencies with institutionally-owned properties (REO's) to cooperate in demolishing unsafe and substandard housing, providing funding support for the demolition of the Willow Park Apartments, exploring the use of surplus housing for public purposes, directing AHFC to exercise prudent judgement and take prompt action in the management of its REO portfolio (including multi-family and mobile homes), and providing aid to distressed homeowners in the form of workouts, potential trades of property and flexible policies, through AHFC and other state agencies involved in the residential housing market. Other strategies under consideration include the revision of state lending programs -- both commercial and residential -- and the clarification of rules regarding foreclosure.

Within the second area, the subcommittee recommended relaxing limitations on the Alaska Industrial Development Export Authority (AIDEA) enabling them to better respond to current economic conditions.

As legislation was introduced in both the House and the Senate on issues affecting their purview, the subcommittee also considered those bills and made recommendations on many of them, often incorporating them into their strategies.

At this time the Housing and Banking subcommittee still has issues and proposals before them, and will hear them in the near future. These issues may lead to further recommendations of policy or legislation.

Small Business

This subcommittee, chaired by Representative Red Boucher, held public hearings to determine and help develop the level of communication between small Alaskan businesses.

Specifically, the subcommittee recommended that the Small Business Development Center for Alaska, the Alaska Center for International Business the Alaska Business Assistance Center (for rural Alaska) and the Made in Alaska program coordinate their activities -- potentially through the University of Alaska -- to allow greater access by Alaska small businesses to information and assistance presently provided by the state.

Along with support of a number of existing bills, the subcommittee also recommended the State pursue the development of a regulatory clearing house, establish an Alaska Economic Index, and improve the competitiveness of Alaska products.

Resource Development, Transportation, Employment and Industry

Chaired by Representatives Mike Navarre and Mike Miller, this subcommittee report concentrated on the three topic areas in their title. Their task was particularly difficult as it carried over into a number of sensitive areas presently under consideration in standing committees.

In Part One of their report particular emphasis was given to the Alaska Bottomfish Development Plan, HB 492. This was also the subject of a specific hearing of the subcommittee. Other bills the subcommittee believed merited consideration included legislation relating to fishing, tourism and resource agency funding. The controversial mariculture and forest management issues were also dealt with in this section through general policy statements that recognized present legislative activities in regard to these issues.

Part two of the report discussed a number of issues relating to employment and industry. Continued support for the Alaska Center for International Business, the subject of another hearing of the committee, was one of these issues supported by the subcommittee. Other areas the subcommittee believed would encourage economic recovery included the development of port authorities, bidder preference for state goods and recycled products, and both legislation and a general policy statement regarding local hire.

The third part of the report provided a brief overview of transportation measures, and recommended support of one measure, HB 479, relating to an appropriation to the Alaska Marine Highways system.

Interior

Through public hearings and solicited responses the Interior subcommittee, chaired by Representative Niilo Koponen, developed a report that merged legislative proposals with policy recommendations -- both long-term and short-term.

After a brief overall policy overview the report dealt extensively with the 11 pieces of legislation they recommend for passage. Among these were the Alaska Research Policy (HB 253), the Alaska Science and Technology Foundation (HB 390 and HB 391), the Neighborhood Business Development Initiative (HB 430 and HB 431), and the Alaska Energy Efficient Home Equity bill (HB 318 and SB 308). Specific emphasis was also devoted to HB 523, regarding recycled Alaska products, which would have direct impact on a local business within the Interior region. The subcommittee also referred to the activities of the non-regional subcommittees and supported proposals identified in those reports.

Besides legislation their report also addressed recommendations for administrative action, including information and market development services for Alaska manufacturers, centralized procurement practices, and the development of an import substitution strategy with State efforts to develop a resource export strategy.

The report concluded with a number of suggestions proposing broader long-term policy goals for the State and strategies to meet those goals.

Rural

The Rural subcommittee, chaired by Representative Al Adams, submitted a short, comprehensive, and well-documented list of recommendations to the Full Committee. Taking into account the large geographical area encompassed within the subcommittee purview, the members recommended proposals that would apply in the broadest possible manner with the maximum beneficial effect.

The subcommittee supported the passage of HB 439, with the accompanying $3.6 million fiscal note, an act which would raise the minimum entitlement under the state revenue sharing program from $25,000 to $50,000 per year -- a number that has not been increased since 1981. The subcommittee also supported greater funding in the operating budget for the village public safety officer program and public health nursing, and increased capital budget funding for village safe water facilities, educational facilities, and waste heat and other appropriate power projects. These and other programs described in the report were deemed important to the social and economic well being of rural Alaska.

Southeast

The Southeast subcommittee report presented a generally optimistic overview of the economy of that region and specifically focused on topical issues effecting Southeast rather than on particular pieces of legislation.

Areas of importance stressed in this report included adequate funding of resource management in natural resource agencies, the development of export industries and markets for Southeast resources -- including tourism, support of the Alaska Marine Highways System at adequate levels, support for fisheries and mariculture development -- though excluding salmon and continuing the moratorium on pen reared salmon, and strong support for local hire and training initiatives.

The report concluded by stressing the need for stable public sector funding policies and emphasizing the interrelationship of the economy through each of the described subject areas.

Each of these reports is attached. It is the intent of the House members of the Joint Committee on Economic Recovery to include these in a final report addressing the need for long-term focus and direction for Alaska's economy.

BY: Max F. Gruenberg, Jr., House Chair

Al Adams

Red Boucher

Kay Brown

Mike Kopanen

Mike Miller

Mike Navarre

Steve Rieger

Fran Ulmer

Alaska State Legislature
House of Representatives

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REPRESENTATIVE
JIM ZAWACKI
DISTRICT 7

MEMBER
COMMUNITY & REGIONAL AFFAIRS COMMITTEE
LEGISLATIVE BUDGET & AUDIT COMMITTEE
FINANCE SUBCOMMITTEE

M E M O R A N D U M

February 22, 1988

TO: SENATE LEGISLATORS

FROM: Representative Jim Zawacki
Co-Chair, A.L.E.R.T.

SUBJ: ALERT's Final Report

Please find attached a report done by the Alaska Legislative Economic Recovery Team (A.L.E.R.T.) that was formed by the House Republicans to look at Alaska's economic recovery.

The report focuses on the natural resources, renewable and nonrenewable, in Alaska. The ALERT group is planning to do a sequel to the report on other issues that would further address economic recovery in Alaska.

The ALERT group only looked at pending legislation, we did not recommend new legislation. We felt it was important to deal with and use the information for the report that was available to us. We pulled together information from key organizations and individuals, such as you.

If you have any questions, please feel free to contact me at 465-2719.

Thank you.

Attachment

A.L.E.R.T.

ALASKA LEGISLATIVE ECONOMIC RECOVERY TEAM

REPUBLICAN

HOUSE OF REPRESENTATIVES

REPORT

FEBRUARY 1988

A.L.E.R.T.

ALASKA LEGISLATIVE ECONOMIC RECOVERY TEAM

REPUBLICAN

HOUSE OF REPRESENTATIVES

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Rep. Dick Shultz, Tok

February 1988
Alaska Legislative Economic Recovery Team
A.L.E.R.T.

R E P O R T 1 9 8 8

TABLE OF CONTENTS

Pages

INTRODUCTION - Alaska Economic Recovery 3

PREAMBLE - House Republicans Fifteenth Alaska Legislature 4

NATURAL RESOURCES

Renewable

- Agriculture (Crops/Livestock) 6
- Fisheries 9
- Forestry 13
- Land Ownership and Management 16
- Tourism 23

Non-Renewable

- Minerals 27
- Oil and Gas 33

Acknowledgements 38

INTRODUCTION

The complex problems of the state's economy over the last two years, made it imperative that Alaskans were given some sign that their input, recommendations, and concerns to help Alaska's economy were not being ignored.

To this end the House Republicans realized Alaskans needed to see and hear that the input, recommendations, and concerns "were" being heard and something was being done, or at least steps taken to implement these recommendations to help the economy.

The following report does not claim to have all the answers to every specific problem facing Alaska's economy. What it does cover are areas that can stimulate the economy and create employment immediately, as well as lay the groundwork for future economic stabilization.

We, the A.L.E.R.T. group, did not try to reinvent the wheel. This proposal and its recommended legislation was put together with the help of key individuals, associations, organizations, leaders of the Senate and House and as well as Governor Cowper and his administration. From the makeup of the groups and individuals involved, all geographical areas of the state were represented. We have referred to all of them in the acknowledgement section listed at the end of this report.

The inclusion of specific legislation in this report is meant to indicate support for the goals of the legislation, and should not be construed as a statement that no changes in the legislation should be made. In addition, if a bill which is listed were to be radically altered through amendments or committee substitutes, it might not warrant support by the A.L.E.R.T. group.

PREAMBLE

The House Republicans of the Fifteenth House of Representatives support four fundamental freedoms to ensure the immediate and long-term success of Alaska's economy:

1.) The freedom for an individual to increase one's opportunity for employment.

2.) The freedom to enjoy the fruits of one's employment.

3.) The freedom of an individual to own and manage private land and property.

4.) The freedom to participate in a free market.

The legislature must evaluate where government services can be more effectively rendered in the private sector of the economic market.

The legislature must root out unnecessary restrictions on an individual's pursuit of a livelihood.

The legislature must protect Alaskans from the threat of excessive government spending that leads to new or increased taxation.

The legislature must protect Alaskan's rights to own and manage private lands and property. Placing more land into the hands of Alaska citizens is an important fundamental principle for a strong economy that will last for generations.

The legislature must reform Alaska's welfare system from one of dependency to one of encouraging independence of welfare as full participants in the Alaska economy.

The legislature should promote privatization of a number of functions now carried on by the state government, in order to be less vulnerable to political pressure and operate more efficiently.

The legislature should promote programs that prepare participation in our economy of today and into the future. We must promote programs that assist students with problems to complete their education and to encourage students who dropout to return to school.

The legislature must assist Alaskans and promote Alaska's businesses for full participation in the increasingly complex world of international marketing and trade. We must encourage and assist in training in technological fields appropriate to our natural resources.

The legislature should promote and encourage science and technology by increasing its support for basic research and development.

NATURAL RESOURCES

RENEWABLE

AGRICULTURE

The agricultural industry consists of two major activities: growing crops and raising livestock. Crop production includes several grains, forage, nursery plants and vegetables. Livestock mainly consists of cattle and dairy cows. Agriculture is a small but important sector of our economy. In 1984 Alaskan farm commodities cash receipts totaled $25,411,084.0 and approximately 516 Alaskans were directly employed in the industry.

Costs are comparatively higher than those in other states with transportation of equipment and materials adding to the expense. The small number of operations results in limited demand and increased cost. The following recommendations and legislation are needed to maintain Alaska's present production and employment levels.

RECOMMENDATIONS

* The Department of Natural Resources, in decisions concerning size and location of agriculture parcels to be conveyed, must take into account economic efficiencies and the use of advanced technology.

* Farmers who acquired large agriculture parcels (when the state's emphasis was entering the export market) should be allowed to reduce the size of their agriculture tracts to assure economic viability. This could be accomplished through private sales or by returning portions of tracts to the state.

* The Department of Natural Resources should allow flexibility in agriculture land use to encourage farmers to diversify their productions for commodities to meet market opportunities.

* Agricultural Revolving Loan Fund restrictions on planting should be made more flexible to accommodate productive farming practices; loan applications should be processed to meet planting schedules.

* Legislation should be enacted establishing a production credit program to help relieve farmers' existing debt loads without requiring additional state funding. Farmers, stock growers and dairy farmers would be allowed to deduct a percentage of gross annual production from interest payments on state loans.

* Flexible policies are needed to restructure existing agriculture loans. Under conditions and standards established by the Agricultural Revolving Loan Fund Board, loan repayment should be rescheduled and repayment time increased. This action would enhance the economic viability of existing operations and stimulate expansion.

* All state agencies should assist with promoting Alaska products through its "Grown in Alaska" and the "Made in Alaska" programs.

* Pending legislation should be enacted mandating that state agencies purchase Alaska farm products when of comparable price and quality to imported products.

* State agencies responsible for agriculture development should coordinate establishment of an effective data base and positive marketing programs for the industry.

* University programs must be examined and measured for their adequacy. Information should be made available to encourage high school students to become knowledgeable in the field of agriculture and animal husbandry.

* The governor of Alaska should appoint a person to the University of Alaska Board of Regents to provide the leadership needed to fulfill the University's agriculture obligations as a Land Grant College. This person should serve as an advocate for and be familiar with the science and practices of agriculture and forestry research stations to provide scientific information to farmers, processors and consumers.

AGRICULTURE
LEGISLATION

HB 26 "An Act relating to the sale of certain milk products."

HB 105 "An Act relating to the financing of fish processors and agricultural and timber processors and harvesters by the Commercial Fishing and Agriculture Bank."

HB 400 "An Act relating to the procurement preference for state agricultural and fisheries products."

HB 415 "An Act relating to agricultural industry production credits for dairy products; and providing for an effective date."

HB 456 "An Act relating to agricultural loans and extending the agricultural production credit law; and providing for an effective date."

SB 23 "An Act relating to agricultural rights to land."

SB 105 "An Act relating to the sale of certain milk products."

SB 192 "An Act relating to the membership of the agricultural revolving loan fund board.

SB 340 "An Act relating to moratoriums on agricultural loan payments."

SB 353 "An Act extending the agricultural production credit law."

SB 359 "An Act relating to reorganization of private debt at a Delta Project; and providing for an effective date."

SB 370 "An Act relating to rates and fees of the Alaska marine highway system and providing for preferential vehicle rates for the transportation of agricultural products grown in Alaska."

SB 472 "An Act authorizing the commissioner of natural resources to transfer certain assets formerly owned by Matanuska Maid, Inc."

SJR 5 Proposing amendments to the Constitution of the State of Alaska relating to agricultural rights in state lands.

FISHERIES

Traditionally, Alaska's seafood industry has been one of the state's largest private sector employers, employing persons in the manufacturing, trade, services and transportation sectors. Alaska's seafood industry, based on a well managed renewable resource represents tremendous economic growth potential.

It is anticipated that the greatest gains in the fisheries industry by 1990 will occur in the domestic processing sector, aquaculture and product/market development. Actions which would encourage this growth are discussed herein.

Fisheries development, in addition to biological and technical handling issues, also concerns questions of commerce, taxation, finance, regulation, market enhancement and general business and economic aspects.

The state's vast and varied fisheries resources offer substantial development opportunities to Alaska. More fish and shellfish are harvested off Alaska's coast than in the rest of the United States combined, and management of this resource is vitally important to the long-range future of Alaska residents.

The following recommendations and legislation need to be addressed to maintain Alaska's present production and employment levels, as well as insuring the future success its Fisheries' objectives.

RECOMMENDATIONS

Allocation of our fisheries resources between competing uses must be addressed in a manner that provides the greatest balanced growth to Alaska's fisheries industry. Since the present Board of Fisheries has not adequately addressed all the issues, the legislature should identify and facilitate changes to the present system which will provide for enhanced management and sustained yield of the resource.

Develop in-state fleets through favorable regulation.

* Set harvest quotas that encourage fresh market prices and local home ports.

* Establish biologically based harvest management q' as to lengthen seasons where possible.

* Rebuild the share of Alaskan Native and non-Native permit holders.

  --Study modifications to fishery permit systems
  --Consider state buy back of some permits

Develop in-state, onshore processing through improved competitiveness.

* Identify factors for success that have resulted in processing growth outside Alaska.

* Give first priority to projects that reduce energy and cold storage costs.

* Follow the support-activity preference which is embodied in the Magnuson Act.

Develop adequate harbor and vessel service facilities.

* Use state lands for port development, staging area and bunker fuel storage to increase the capability of ports to fuel and supply vessels.

* Improve dry docks and haul-out rails for in-state vessel maintenance and repairs.

Incentives.

* The brood stock of state hatcheries should be managed to enhance lakes and streams throughout the state for recreational purposes and to provide fry to the aquaculture industry.

* The state should allow funding to qualified aquaculture associations to continue the enhancement of wild stocks, fertilizing lakes, removing barriers in streams and planting fish in sterile or near-sterile streams.

* The state should continue to address and assist in the development of a compatible mariculture/aquaculture/wild stock fisheries by the private sector through private or nonprofit associations.

* The Alaska Seafood Marketing Institute (ASMI) and the Cooperative Extension Service should emphasize and promote the safety, quality and nutritional value of Alaska's seafoods worldwide.

Education and Employment.

* The Department of Education should work in concert with the University system and school districts to develop a comprehensive marine education curriculum for grades K through 12. The marine program should provide balanced coverage of the industry and should receive special focus during part of each school year.

* The state should continue to provide economic support for the Marine Advisory Program so that it can help enhance and continue its adult education program.

* The University of Alaska should develop strong marine programs at existing facilities throughout the state. Sheldon Jackson College should continue development of its fisheries program.

* Fishermen and processors should recognize that, to improve product quality they must avail themselves of the latest educational and technological resources.

FISHERIES LEGISLATION

HB 94 "An Act relating to boat numbering, accidents, and safety, and providing for an effective date."

HB 105 "An Act relating to financing of fish processors and agricultural and timber processors and harvesters by the Commercial Fishing and Agriculture Bank."

HB 226 "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

HB 314/SB 317 "An Act relating to the allocation of fisheries business taxes to municipalities by Department of Community and Regional Affairs; and providing for an effective date."

HB 316 "An Act relating to the leasing of limited entry permits by the elderly."

HB 324 "An Act specifying the circumstances for restricting the number of vessels on which a salmon limited entry permit may be used; and providing for an effective date."

HB 330 "An Act relating to the fisheries business tax revenue refunded to local governments; and providing for an effective date."

HB 364 "An Act relating to commercial fishing violations; and providing for an effective date."

HB 400/SB 356 "An Act relating to the procurement preference for state agricultural and fish products."

HJR 45/SJR 51 Requesting a support service priority for American carriers and bulk fuel suppliers servicing foreign processing vessels in the exclusive economic zone.

SB 14 "An Act relating to the interest rate on commercial fishing loans."

SB 267 "An Act relating to the transfer of limited entry permits upon the death of the permit holder."

SB 309 "An Act relating to the definition of commercial fisherman under statutes regulating commercial fishing."

SJR 14 Relating to the documentation and crews of United States-documented fish processing vessels.

FORESTRY

In Southeast Alaska, stands of virgin western hemlock, Sitka spruce and cedar average 20,000-50,000 board feet to the acre. In Interior Alaska there is vast acreage of white spruce, paper birch, poplar, cottonwood and aspen.

Timber acreage is divided fairly equally among Federal, state, private, and Native land owners. In Southeast Alaska the vast Tongass National Forest is owned by the Federal Government. Federal policy regarding the Tongass mandates a goal of 450 MMBF available for sale each year. Timber from the Tongass is processed into cants to fulfill Federal requirements for primary processing. State forests are located near Fairbanks in the Interior and Haines in Southeast Alaska.

In the Southeast region, Native corporation lands produce round log exports. Timber holdings in the Interior region are largely undeveloped.

The timber industry in Southeast Alaska is vertically integrated with pulp mills, sawmills and a mix of round logs, cants and pulp products for sale. Interior Alaska is in early stages of timber development with no major processing facilities.

The output of Alaska's wood products industry should be more than doubled by 1990. Less than 50% of the state's yearly sustainable yield of timber harvest would be required to reach that goal. Harvesting of timber causes more rapid growth of seedlings, especially when tied to mandatory reforestation, which we recommend. This will accomplish one of the benefits called for by the governor in the State of the State Address, ". . . consider how much we would benefit if we discovered a way to make trees grow faster in Alaska."

By 1990 the federal government should offer at least 600 million board feet from its lands, the state should offer 150 million board feet from its lands and private landowners should be producing 400 million board feet. Offerings at the 1.1 billion board feet level could contribute over one billion dollars annually to the state's economy.

Sixteen percent of the forested lands in the United States are in Alaska. This encompasses more than 28 million acres of potentially economically productive woodlands, publicly and privately owned.

The following recommendations and legislation are needed to maintain Alaska's present production and employment levels as well as the future success of its Forestry Industry.

RECOMMENDATIONS

* Regulations should be based on the use of reasonable performance standards rather than design standards to encourage productivity increases and environmental protection.

* A means of improving and simplifying the process of obtaining permits and eliminating those which are duplicative and unnecessary should immediately be developed.

* Legislation should be enacted requiring an analysis of the economic impacts of proposed regulations and be made available to the public for review prior to adoption.

* The Alaska Legislature should authorize the executive branch to enter into long-term forest management agreements (FMAs) with qualified private parties on state owned land.

* By establishing binding performance standards, private parties would harvest timber, perform reforestation, site improvement and other resource needs.

* A statewide, privately financed forest products association should be established to address issues cooperatively, educate the public, promote the use of Alaska wood products, establish quality standards and lobby for sound, stable forest lands and industry policy.

* Alaska university programs and the Alaska Vocational Technical Training Center's Forestry Program must provide expanded education, research and extension services to meet industry needs.

* Alaskans need to become more familiar with the markets they serve or seek to serve in order to supply the most preferred product (niche marketing) and establish long-term relationships and commitments with those consumers.

FORESTRY
LEGISLATION

HB 105 "An Act relating to financing of fish processors and agricultural and timber processors and harvesters the by Commercial Fishing and Agriculture Bank."

HB 141/SB 112 "An Act relating to forest management agreements."

SJR 35 Relating to maintaining timber industry employment, funding of U.S. Forest Service operations, and the allowable timber harvest level in Southeast Alaska and amendment of sections 703 and 705 of the Alaska National Interest Lands Conservation Act.

LAND OWNERSHIP AND MANAGEMENT

Alaska contains 589,757 square miles or 375 million acres, an area the size of one fifth of the area of the contiguous 48 states. Alaska is the only state bounded by two oceans and three seas. Glaciers carved many large islands from the mainland and when they retreated, uncovered a shoreline with narrow fjords and craggy headlands. Volcanic activity also formed numerous islands. As a result of its vast convoluted coastline, Alaska has approximately 34,000 miles of marine shoreline and 560,000 square miles of Continental Shelf. This is about one third the total marine shoreline of the U.S. and its possessions combined.

The Statehood Act of 1959 granted 104 million acres (28 percent) to the State of Alaska and the Alaska Native Claims Settlement Act of 1971 granted 44 million acres (11.6 percent) of land to Alaska Native Corporations. The remainder of the state (59 percent) remains in federal ownership, with the exception of approximately five million privately owned acres (1.4 percent).

The Department of Natural Resources has the constitutionally mandated responsibility to encourage the settlement of state lands and the development of state resources by making them available for maximum use consistent with the public interest.

Private ownership of land is the basis of Alaska's free enterprise system and should therefore be encouraged. The Department of Natural Resources should accelerate its efforts in making lands available to every Alaskan. The homesteading concept or a similar program which encourages private ownership, while keeping limitations and restrictions at a minimum, should be renewed. To implement these requirements the following recommendations and legislation are needed.

RECOMMENDATIONS

Land Management: Oil and Gas

* The state administration should evaluate its overall land use plans and exert its influence in a strong, positive manner on federal land management plans to assure multiple use and prevent unexplored lands being placed in wilderness classification.

* The state should support opening ANWR to oil and gas leasing, exploration and production. A legislative resolution should be passed and the Governor should convey to Congress the state's position supporting the opening of ANWR which would provide jobs, enhance state and federal revenues and help the nation achieve its goal of energy self-sufficiency.

* The state should permit access to state lands and use its influence to strongly support access to and development of OCS and federal lands which have petroleum potential.

* The Department of Natural Resources should permit utilization of more acreage to facilitate exploratory drilling, improve efficiency and create greater economic incentives.

* The state and federal governments should consult with industry and coordinate with each other on its five year lease schedules. Each should make available all onshore and offshore acreage in an orderly and expeditious manner.

* The legislature should amend the leasing statute (AS 38.05.180) to make it easier for the Commissioner of Natural Resources to add new areas to the five-year schedule.

* Department of Natural Resources should aggressively pursue a more liberal "exempt sale" leasing policy to encourage early and cost-effective exploration in areas where previous leasing has taken place and no further environmental and social studies are required by state law.

* The state should provide stable lease terms, bidding methods and stipulations which will encourage early exploration and development of state lands.

Land Management: Power Development

* State lands having power development resources should be protected from unnecessary or unreasonable classifications or legislative designations which would prevent development of these resources by the private sector.

* Utility corridors across public lands must be kept free of unreasonable statutory constraints to help with development.

* The state and federal government must ensure that long-term contract prices are utilized when valuing royalty oil and natural gas taken in-value from leaseholders.

Land Management: Minerals and Coal

* The Alaska Division of Mining or its proposed successor should provide mineral and geological information, and its staff should be an integral part of the land management process. The staff must work in conjunction with appropriate federal agencies to assure that mineral assessments are made before land withdrawals are approved that prohibit mineral exploration.

* Legislation should be enacted providing that lands in excess of 640 acres may not be closed to mineral entry without direct legislative approval.

* The state should adopt a policy stipulating that economic needs of the state be considered as a critical element of federal land plans. State administration review of land plans must emphasize the protection of economic opportunities for resource development.

* The state must assert its authority over the right-of-way granted under RS 2477.

* The state should work closely and aggressively with federal agencies to protect the mining industry from unreasonable legal and administrative challenges that are detrimental to resource development and production.

* State and federal agencies should encourage the use of land exchanges to facilitate minor boundary changes to address problems not foreseen by Congress.

* Legislative affirmation of coastal zone boundaries as originally defined in 1978 by the Alaska Department of Fish and Game should be required. Limited boundary extensions should be granted only where clear and convincing arguments can be made that activity in the uplands poses a serious impact on coastal resources. The state must identify all mineralized areas as "areas of state concern" in coastal zone districts.

* Public agencies should develop alternative methods such as polls for determining public attitudes to supplement the public hearing process which frequently fails to obtain input from the "silent majority."

* The state must retain the surface ownership of mineralized areas in order to allow access to minerals for appraisal and potential development.

Land Management: Forestry

* Federal, state and municipal land agencies must offer land for sale or lease to increase timber harvest. The desires of industry should be given great weight in these offerings.

* Land management plans being developed for federal, state and borough lands must address timber production goals, and opportunities and stress intensive timber management.

* To comply with the constitutional mandate to encourage settlement of Alaska land, a land disposal system should be initiated that would allow for private acquisition in fee simple forestry lands in acreages large enough to be economic.

* The legislature must fund and initiate a public/private congressional campaign to maintain the timber harvest from the Tongass National Forest and protect federal funding of $40 million for the Tongass Timber Supply Fund, as required by the Alaska National Interest Lands Conservation Act.

* Public and private land managers should allow insect and disease infested timber to be cut promptly through salvage sales to reduce the threat of fire and utilize wood fiber that would otherwise be lost. Land managers should allow immediate harvest of over mature timber stands susceptible to fire, windthrow, and insect and disease epidemics.

Land Management: Agriculture

* The most accessible lands for near-term agriculture development are controlled by the state. The state should maintain agriculture and timber land disposal programs.

* To enable farmers to efficiently and effectively bring their land into production, a 10-year development schedule should be established and applied to those disposals.

Land Management: Fisheries

* Federal agencies should ensure compliance with ANILCA (the Alaska National Interest Lands Conservation Act) by allowing appropriate fisheries enhancement measures and fishery support facilities on all federal lands.

* Land managers should develop long-term leasing procedures for coastal land, and local communities should make available the land needed for docks, processing and storage facilities.

* The state should facilitate industry access to private venture capital for warehouses, refrigerator units, vessels, processing plants and support facilities.

* The state and industry should share the costs of upgrading facilities and maintaining ports and harbors.

Land Management: Tourism

* Section 1301 of ANILCA mandates inclusion of professional studies of the socioeconomic effects of development of a park as a tourist destination point. Options for public use and enjoyment on public lands need to be expanded in the federal management plans now being considered. A complete inventory of statewide destination points should be undertaken and incorporated into the process of developing land management plans. No plan should be released until it is thus in compliance with the law.

* Federal agencies should comply with Section 1306 of ANILCA which encourages establishment of sites for visitor facilities in land planning. Care should be taken to provide a broad spectrum of visitor facilities. Construction of these facilities must be accelerated to keep pace with current demand and address future use.

* Development of lands within national and state parks should be encouraged by promoting cooperative projects on these lands between special use permittees and managing agencies. Such development should emphasize construction of winter recreation facilities.

* The forest service public recreational cabin system should be expanded to accommodate increasing demand for this unique recreational experience. Opportunities for private sector operation, maintenance and development of the system should be explored.

* User fees should be imposed to help fund construction and operation of more interpretive facilities that provide a diversity of visitor use options within national and state parks. Such facilities should include visitor centers, nature trails, exhibits, audiovisuals, guided tours by naturalists and would expand use and enjoyment of our parks.

* Lands adjacent to national or state parks are ideally situated for providing an economic base for tourism development. The state should make this land available for private ownership or, at least, provide complete information regarding site risk factors involved in developing cooperative projects on state lands.

LAND OWNERSHIP AND MANAGEMENT LEGISLATION

HB 141/SB 112 "An Act relating to forest management agreements."

HB 69/SB 71 "An Act relating to management of state sand and gravel."

HB 464/SB 373 "An Act extending the termination date of the Citizens' Advisory Commission on Federal Areas in Alaska; and providing for an effective date."

HCR 5/SCR 4 Relating to management of state sand and gravel resources.

SB 94 "An Act relating to a state mineral policy; and providing for an effective date."

SB 136 "An Act relating to multiple use of state land."

SB 137 "An Act relating to state land withdrawn from mineral location or mining.."

SJR 7 Relating to oil and gas exploration development, and production within the Arctic National Wildlife Refuge, Alaska, and declaring state policy.

TOURISM

One of Alaska's greatest natural resources is unparalleled natural beauty. Hundreds of thousands of visitors are drawn to the Great Land each year by its promise of adventure, scenic splendor, magnificent wildlife and colorful history.

Tourism has been a part of Alaska's economy ever since the first hardy visitors sailed north aboard the steamships which served Alaska's coastal communities before the turn of the century. While sightseeing remains the single most popular activity, increasing number of visitors come to Alaska specifically to participate in sportsfishing and hunting, camping and backpacking, river rafting, skiing, local sports and cultural events. Opportunities abound for investors to develop facilities to accommodate a host of visitor activities.

Today's modern tourism industry, supported by the state's sophisticated marketing program, bears little resemblance to its early origins. Substantial advertising and promotion budgets in recent years, have placed Alaska among the top ten states for tourism promotion. Throughout the 1980's, visitor volume has grown by an annual rate of five to seven percent. In 1986, nearly 800,000 visitors traveled to Alaska, generating expenditures in excess of $1 billion, of which more than one half was spent in Alaska. It is anticipated that one million visitor level will be reached by 1991.

The following recommendations and legislation are needed to maintain, as well as expand, Alaska's tourism markets statewide.

RECOMMENDATIONS

* The Federal Customs and Immigrations law should be revised to allow stopovers in Alaska by international air travelers.

* At present 31% of vacationers in Alaska arrive with a package cruise and most of this business is in the Southeast. State and federal agencies should urge Congress to modify the Jones Act to grant foreign tour ships the opportunity of staying in an Alaskan port for

more than 24 hours. Many foreign built tour ships will not visit Alaska because they are limited to port-of-call of 24 hours or less. In modifying this stringent time limit -- perhaps extending it to 72 hour or longer -- ship passengers can connect with on-land tourist businesses and see the interior of Alaska.

* The state Division of Tourism should increase its marketing of year-round and foreign visitor promotion, and increase promotion of winter sports and off-season cultural events. One way to increase the effectiveness of budgeted dollars is to initiate joint efforts with private operators or local communities for off-season or special events advertising and marketing.

* If Anchorage is successful in being awarded the 1994 Winter Olympic Games, lending institutions should allow loans to people in the visitor industry to be repaid on a seasonal repayment schedule.

* The state Division of Tourism should use Alaska firms as primary contractors for the state's advertising and public relations efforts, allowing them to subcontract with Outside firms only as necessary.

* Road and rail improvements that would enhance recreational opportunities in Prince William Sound and Kenai Peninsula communities should be developed.

* The cooperative planning and development between the State Division of Parks, National Parks Service, and the private sector for the Curry Ridge Visitor Center and appropriate commercial facilities envisioned there should be supported and encouraged to proceed to completion. This complementary planning and development proposal will diversify the impacts on Denali National Park and its wildlife and provide the optimum viewing opportunities of Mt. McKinley from a state park location.

* The Division of Tourism must place more emphasis on points of interest along the road systems leading to Anchorage and Fairbanks. In conjunction with improved facilities, promotional materials should recognize in detail the Wrangell/St. Elias National Park. This area which is twice the size of its Mt. McKinley counterpart, has two access routes, each of which are over 35 miles long. The favorable weather patterns of the Copper River Basin allow unparalleled alpine viewing opportunities, even during the summer months.

* Since 10% of visitors to Alaska travel by car or RV and since road traffic has declined by approximately 23% during the 1986 and 1987 tourist season, it is imperative the Division of Tourism as pointed out by the governor put more emphasis in areas that will help the small businesses along our highway system. It is also imperative the Division of Tourism put more emphasis on promoting access to Alaska via the Alaska Marine Highway and road system. Furthermore, the Division of Tourism needs to emphasize the Alaska Highway is no longer a dusty army trail but a modern all weather highway and easy access to Alaska. It s essential that we develop more well equipped roadside facilities. Future state and federal highway construction projects should consider designs that contribute to scenic driving experiences. Rest areas, turnouts, and parking facilities should be provided.

* To encourage overseas tourists to travel in Alaska, all new and existing visitor facilities should have multilingual signs and interpretive tools.

* The Alaska Marine Highway System should strive for closer coordination with travel agencies and communities concerning reservations, cancellations and package deals for local events. This will increase the volume of passengers, resulting in more efficient operation of AMHS and an expanded visitor industry in local communities.

* Interpretative Visitors Centers must include adequate representation of all Alaska's resource sectors. Development interests such as the timber, fishing, mineral, oil and gas industries should provide interpretive facilities at key locations around the state to help visitors understand their pivotal role in the economy, history, and culture of Alaska.

* Gradually increase state support for Youth Conservation Corps to construct tourism facilities (trails, signs, etc.).

* The governor should create a standing tourism mini-cabinet, comprised of commissioners or designees of resource responsible departments, to develop a statewide tourism plan that returns maximum value added benefits to the state, and ensures sound management of Alaska's natural beauty and resources to achieve full potential for tourism, fisheries, minerals and other economic development.

TOURISM
LEGISLATION

HB 173 "An Act relating to the international airports in Anchorage and Fairbanks and establishing the Alaska International Airport Authority; and providing for an effective date."

HB 423 "An Act making appropriations for tourism and recreation related capital projects, grants, and expenses of state government; and providing for an effective date."

HB 450 "An Act relating to out-of-state solicitation for state contracts and state employees."

HJR 49 Relating to the development of a visitors' center and facilities on the south size of the Alaska Range.

HCR 34 Relating to tourist-oriented directional signs.

NATURAL RESOURCES

NON-RENEWABLE

MINERALS

The minerals industry offers the greatest potential of any Alaska industry for expanding and diversifying the State's economic base; for increasing new wealth to create business and provide revenues for State and local governments.

However, Alaska has a complex pattern of land ownership and management; has overlapping and uncertain regulatory requirements; has unique geographic, geologic and climatic conditions; and has an underdeveloped transportation system.

To attract the capital necessary for the exploration and development of new mines; to ensure that mines can be developed feasibly and in a timely fashion; and to ensure that producing mines remain viable -- constraints on the industry must be mitigated.

The mining industry ranks fourth in the state and employs approximately 3600 Alaskans. Given a cooperative business climate and favorable market conditions, it is projected the industry's value could increase by 200 percent and employ 2,300 additional Alaskans by 1990.

The following recommendations and legislation will not only curb the downward spiral in employment but will help to attain Alaska's potential into the future.

RECOMMENDATIONS

* The Alaska legislature should change the statutory definition of multiple use to accommodate the greatest number of uses on state lands to maximize economic and social opportunities.

* Legislation should be enacted providing that no lands in excess of 640 acres may be closed to mineral entry without direct legislati[illegible] approval.

* The state should adopt a policy stipulating that economic needs of the state be considered as a critical element of federal land plans. State administration review of land plans must emphasize the protection of economic opportunities for resource development.

* The state must assert its authority over the right-of-way granted under RS 2477.

* The state should work closely and aggressively with federal agencies to protect the mining industry from unreasonable legal and administrative challenges that are detrimental to resource development and production.

* Alaska's Congressional Delegation should be active in working with the state administration to urge federal agencies to institute permitting reform. We suggest an arbitration process along with imperative coordination between governmental agencies.

* Legislative affirmation of coastal zone boundaries as originally defined in 1978 by the Alaska Department of Fish and Game should be required. Limited boundary extensions should be granted only where clear and convincing arguments can be made that activity in the uplands poses a serious impact on coastal resources. The state must identify all mineralized areas as "areas of state concern" in coastal zone districts.

* The state must retain the surface ownership of mineralized areas in order to allow access to minerals for appraisal and potential development.

* The state should assume National Pollutant Discharge Elimination System (NPDES) permitting from the federal government under Section 402 of the Clean Water Act. Governments should adopt site-specific limits on turbidity and suspended solids where streams are naturally turbid or where downstream uses, if any, would not be unreasonably impacted. Mixing zones and start up variances should also be adopted to achieve more flexible water quality regulations.

* The state should reclassify Alaska's streams (those not used for fish hatcheries or community drinking water) to reflect a reasonable balance between environmental and industrial concerns, with priority given to those waters within active mining districts.

* Land reclamation programs must be consistent with mining plans for site-specific operations. Several years of mining may be required before a reclamation process is feasible.

* The Division of Mining within the Department of Natural Resources must serve as lead agency in exploration and development permitting.

* State regulatory agencies must be required to balance the needs of concurrent or competing users. Single-interest agency recommendations or stipulations should be carefully examined in this context.

* Regulation of mining should be based on cost-benefit analyses with economic considerations reflected in final regulations.

* The state should adopt tax, regulatory and land policies which are reasonable and stable to promote exploration and development in the mining industry.

* The state should adopt policies which will not cause increased costs to Alaska consumers or hinder product competitiveness in world markets.

* The state should continue efforts of providing tax incentives to companies that start new development projects and/or utilize new technology.

* Through its policies and powers, the state should actively support development of transportation and related systems which enhance economic competitiveness of Alaska's minerals in world markets.

* For maximum economic advantage, the state should allow future coal-fired power plants to be built close to the mine sites and in increments of size which benefit from economics of scale.

* The state must recognize its mineral resources as capital assets in its comprehensive resource development policy.

* The Alaska Department of Education and private industry should expand minerals educational programs (such as the "Alaska Resources Kit: Minerals") in the public school system. Educational programs designed to provide quality supplemental materials to students about the role of minerals and energy resources in society should be encouraged.

* State and private industry should undertake a joint effort to educate the public on the positive attributes of Alaska coal such as low pollution and combustion characteristics and size and availability of the resource.

* The state and federal governments should, in cooperation with state educational systems and private parties, increase their research capabilities regarding coal development in the Arctic and subarctic, specifically the use and possible enhancement of sub-bituminous coal.

* Public and private research institutions should focus attention on new technological approaches to comply with environmental standards.

MINERALS/MINING LEGISLATION

Other then SB 94 listed first, this list is not in any particular order of priority. We feel SB 94 is the most important element to encourage mineral development.

SB 94 "An Act adopting a mineral policy for the state."

This bill would spell out the minerals policy for the State of Alaska. It would require that mineral exploration and development be given fair and equitable consideration with other resource uses in the multiple use management of state land.

Such legislation will help to advance the minerals industry and will give a positive signal to encourage mining companies and investors that Alaska is a good place to do business.

HB 69/SB 71 "An Act relating to the management of sand and gravel resources."

These bills call for a systematic inventory of sand and gravel resources.

HB 109/SB 98 "An Act relating to the use of water."

These bills would not allow DEC to require a higher quality for discharge water than the quality of the water before use. It does allow DEC to require that discharge be compatible with immediate downstream use and would not allow state requirements for the discharge water to be more restrictive than federal standards.

These bills are an important step in protecting the placer mining industry from the arbitrary application of criteria.

HB 162 "An Act relating to work in underground mines and workings."

This bill would allow a work shift of 10 hours at the working face. The 10 hour shift provision is necessary for operation of remote mines in Alaska where the miners home residence is many miles away. Existing law limits the work shift to eight hours at the working face.

HB 212/SB 280 "An Act relating to the issuance of permits and consistency determinations."

These bills would designate DNR as a lead agency for resource development projects on state lands, it would require the coordination between departments on all permits and DNR administration of issued permits.

HB 524 "An Act relating to the application of water quality criteria."

SB 126 "An Act relating to payment of overtime."

This bill would allow work schedules to be adjusted on a site by site basis. This would allow more efficient work schedules and provide more desirable time-off patterns for the employees. This is particularly significant in Alaska where mines are in remote locations and the miners maintain a residence in a community far removed from the mining operation.

SB 136 "An Act relating to multiple use of state land and water."

This bill cleans up the statutes leaving only one good definition of multiple use and putting minerals on a par with other resources.

SB 137 "An Act relating to state land withdrawn from mineral location or mining."

This bill would require DNR to report to the Legislature and the Governor at the start of each legislative session detailing any state lands that were closed to mineral location and mining during the previous calendar year and specify for each closure: the known resource values of the area, reason for the closure, effective date, legal description of the area.

SB 186 "An Act limiting the scope and content of regulations adopted under the Administrative Procedure Act."

This bill will not allow state standards to set regulatory requirements more rigorous than federal standards, in areas where the activity is regulated by both.

SB 200 "An Act amending the mining loan fund law."

This bill allows the same type of extensions allowed for fishing and other types of loans, for the mining loans.

NATURAL RESOURCES

NON-RENEWABLE

OIL & GAS

PRESENT AND FUTURE POTENTIAL
(Excluding ANWR)

Alaska, with a total crude oil production exceeding 1.9 million barrels a day, is a major supplier of oil and natural gas. Yet, with 30% of the proven reserves in the United States, there is still a huge petroleum potential to be tapped. Alaska's offshore potential is enormous. Surveys estimate that in Alaska's Outer Continental Shelf, undiscovered recoverable oil reserves are between 12.2 billion to 27.0 billion barrels. Gas reserves are estimated to be 90 trillion to 167 trillion cubic feet.

Between 1959 and 1987, the state conducted 50 lease sales, issuing a total of 4,022 leases covering nine million acres. 1,205 leases covering over four million acres are presently active. An additional 16 lease sales are planned through 1989.

The anticipated availability of gas liquids from the Prudhoe field bodes well for the development of a viable petrochemical industry in Alaska.

FUTURE (ANWR) POTENTIAL

Even by conservative estimates, ANWR'S coastal plain, situated between the oil and gas rich Canadian Beaufort Sea-McKenzie Delta province and the oil fields of Prudhoe Bay, Kuparuk and Point Thompson, is considered the most promising oil field in North America.

In fact, the ANWR coastal plain shows every indication that it could yield a giant oil field in the same class as those in the Persian Gulf. The region is on trend with the same kinds of regional, structural and stratigraphic elements as other giant oil and gas fields.

The Federal government estimates there is a 19 percent chance that economically recoverable oil is present beneath the ANWR coastal plain. That percentage represents a substantial success ratio for the industry, which routinely explores for oil in far less promising areas, and with much less favorable odds.

If oil is found, experts predict a 5 percent chance of finding between 26.5 and 29.4 billion barrels of oil in place, and a 95 percent chance of finding at least 4.8 billion barrels of oil.

To add perspective to this percentage, industry officials estimated, prior to drilling, there was only a 2 percent probability the Prudhoe Bay area contained 2 billion barrels of oil. Now it is estimated that the Prudhoe Bay complex originally contained 23.5 billion barrels of oil -- more than 10 times -- the highest pre-drilling estimates.

Because of the high potential for a significant oil find, and America's alarming dependence on foreign sources for oil, the State of Alaska must strongly support the exploration and development of oil and gas in the ANWR coastal plain.

To derive the greatest potential in existing and future oil exploration and production the following recommendations and legislation need to be implemented.

RECOMMENDATIONS

The threat to national security posed by greater reliance on imported oil can be mitigated through affirmative action by Congress on ANWR. Congress and the State of Alaska must act in concert to open areas onshore and offshore to explore for oil and gas potential if the future well-being of our state and our nation is to be assured.

The leaders of State government must enact the following:

* Approve a Joint Resolution calling on Congress to authorize exploration in the coastal plain of ANWR.

* The Governor must lead the State's efforts to open ANWR.

* The Legislature should approve additional appropriations and require a plan of action to implement a successful national ANWR educational program.

* An ANWR task force headed by the leaders of Alaska's state government and the private sector to work to achieve these objectives should be created.

The state should permit access to state lands and use its influence to strongly support access to, and development of, OCS and federal lands which have petroleum potential.

The Department of Natural Resources should permit utilization of more acreage to facilitate exploratory drilling, improve efficiency and create greater economic incentives.

The state and federal governments should consult with industry and coordinate with each other on their five-year lease schedules. Each should make available all onshore and offshore acreage in an orderly and expeditious manner.

Government personnel should be instructed, and those instructions enforced, to set clear, reasonable performance standards for industry instead of governments designing the operation through stipulations. Violators of the laws and regulations should be penalized.

Local, state and federal governments should positively commit to an effective regulatory reform program that eliminates duplication and multiple handling of permits, statutory authorities, and "networking." These entities should require their employees to adhere to and stringently enforce that commitment.

The state administration should assure that the resource agency responsible for issuing permits should be the lead agency and be responsible for all provisions of permits. The lead agency should have final authority for recommendations of any agency furnishing advice and should not include stipulations of other agencies not provided for under the law authorizing the permit. The lead agency should establish and enforce reasonable time limits by other agencies. Lead agencies should add stipulations only when there is a proven need, and then only if required by statute.

Regulations should be promulgated only in accordance with Alaska Statute 44.62.030. Prior to adopting any regulation, an agency must evaluate the economic cost of the regulation, both public and private, related to permit processing and administration and to hold hearings and take testimony on costs and benefits. We must revise the Alaska Constitution to streamline the ability of the Legislature to overturn regulations promulgated beyond original legislative intent.

To discourage frivolous lawsuits that delay or stop development, legislation should be enacted to eliminate the "public interest" exception with respect to award of attorney's fees.

Alaska's Congressional delegation should work to remove federal statutory and regulatory prohibitions on the export of crude oil and surplus gas liquids.

In cases of dual jurisdiction between the state and federal governments, the state should request the federal authority to relinquish controls so that the state can assume dominant authority. Otherwise, the state should develop standards consistent with federal regulations.

The state should reinstate the "discovery royalty" to provide incentives for first discovery of a new oil or gas field.

The state should provide for royalty "holidays" for a period of time until investment expenses are recaptured to encourage early exploration, rapid installation of projects and early production.

The legislature and administration should establish and make public a policy of maintaining a stable tax structure.

The state should develop, construct and maintain a public transportation system for the benefit of the public which would also help form a base for realistic resource development and support local economic development.

OIL & GAS LEGISLATION

HB 421 "An Act authorizing and extension of the exemption from the levy and collection of the tax imposed on oil and gas production and pipeline transportation property during the period of pipeline construction; and providing for an effective date."

HJR 13 Relating to export of Alaska oil.

HJR 40 Relating to petroleum research and development in the state.

SB 47 "An Act relating to the sale of royalty oil."

SB 48 "An Act relating to oil recovery and to royalty oil and gas storage and trading; and providing for an effective date."

SB 182 "An Act relating to the written findings required for certain state oil and gas lease sales.

*SJR 7 Relating to oil and gas exploration development, and production within the Arctic National Wildlife Refuge, Alaska, and declaring state policy.

SJR 43 Relating to the shipping of state oil.

* Key Legislation

A C K N O W L E D G E M E N T S

The following individuals, organizations and associations provided the needed material for ALERT's report:

AIDA - Alaska Industrial Development & Export Authority

Alaska Bankers Association - Wes Coyner, Lobbyist; Jerry Weaver, Legislative Chairman, Alaska Bankers Association and Senior Vice-President Loan Administrator, B.M. Behrends Bank

Alaska Department of Fish & Game

Alaska Loggers Association - Jim Clark, Attorney and Jerry Reinwand, Lobbyist

Alaska Minerals Commission

Alaska Miners Association

Alaska Municipal League Policy Statement 1988

Alaska Oil & Gas Association - William Hopkins, Executive Director

Alaska State Building Authority - Bill Miles, Chairman

Alaska State Chamber of Commerce: 1988 Legislative Position Paper; Commission on Strategic Planning 1990

Alaska Support Industry Alliance: 1988 Public Policy Objectives

Alaska Trucking Association: 1988 Position Papers

Alaska Visitors Association

Anchorage Chamber of Commerce: Legislative Priorities 1988; Economic Recovery Task Force - Joseph Heintz

Anchorage Convention Visitor Bureau (ACVB) - Bill Elander, Executive Director

Anchorage School District - Bill Miles, Lobbyist; Mike Malone, Rick Arndt

ARCO, Alaska

Associated General Contractors (AGC) - Bill Schneider, President; Resa Jerrell, Lobbyist

Common Sense for Alaska, Report of the Task Force on the Dept. of Commerce and Economic Development of Alaska

Commonwealth North, Alaska's Budget Crisis Facing the Facts -- Closing the Gaps

Department of Education - Bill Demmert, Commissioner

Department of Health and Social Services - Myra Munson, Commissioner

Department of Natural Resources

Department of Commerce & Economic Development, Division of Business Development: Alaska Focusing on Development and Investment

House Republicans: Economic Stabilization Program

Kenai Peninsula Caucus: 1988 Statement of Legislative Positions

Kenai Peninsula Borough: Legislative Priority List

Matanuska-Susitna Dairy Farmers - H. Ray Hendershot, Joe Cange, Harry Wassink, Karen Lee, and Tom Rogers

Mayor Tom Fink, Anchorage: Legislative Program

National Education Association (NEA), Alaska Chapter - Bob Manners

Office of the Governor: Directory of Projects and Proposals with Direct Economic Impact

Permanent Fund Corporation - Dave Rose, Director

Resource Development Council: New Strategies for Advancing Alaska's Economy 1986 - 1990

Senate, Office of the President: Economic Incentives

Standard Alaska

University of Alaska, Anchorage - Institute of Social and Economic Research

University of Alaska, Southeast - Pat Anderson, Economic Dept.

U.S. Coast Guard - Rear Admiral Ed Nelson, Jr., Commander 17th Coast Guard District

Usibelli Coal - John Sims

Yukon 2000 Report - The Things That Matter

MEMORANDUM

TO: ALL MEMBERS

FROM: REPRESENTATIVE MAX F. GRUENBERG, JR.
HOUSE CHAIR, JOINT COMMITTEE ON ECONOMIC RECOVERY

RE: 1) CHANGES IN HCR 32, 2) SUBCOMMITTEES AND 3) SCHEDULE CHANGES

DATE: JANUARY 25, 1988

I. The Senate passed the Senate Finance committee substitute for HCR 31 today by a vote of 17 -0. Attached are highlighted copies showing the differences between the Senate CS and the House passed bill.

The first change strikes the provision limiting the number of committee members. The second provides that the senate and the house members may meet separately.

We will bring SCS HCR 32(Finance) out of the limbo file this Wednesday and recommend the members concurrence in the Senate amendments. Let me know if you have any problems with the senate bill.

II. Below is a list of subcommittees and chairs. If you have not already done so, please let the subcommittee chair and me know, in writing, on which subcommittees you would be interested to serve. Your requests must be in by noon Tuesday. We'll make the final appointments by the close of business Tuesday.

Housing and Banking: Rep. Brown and Rep. Rieger (co-chairs)

Resource Development, Employment and Industry: Rep. Navarre and Rep. Miller (co-chairs)

Small Business: Rep. Boucher
Interior: Rep. Koponen
Southeast: Rep. Ulmer
Rural: Rep. Adams

III. Attached are some changes to the announced schedule for the House joint committee. The Wednesday meeting has been moved to Friday at 3:30 in the Senate Finance Committee room. Monday's meeting is unchanged.

Offered: 1/22/88
Referred: Rules

5-1586B

Original sponsor: Rules Committee

IN THE HOUSE BY THE FINANCE COMMITTEE

SENATE CS FOR HOUSE CONCURRENT RESOLUTION NO. 32 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to establishing a Joint Committee on Economic Recovery.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS many areas of the state are experiencing a severe economic crisis that has led to bankruptcies, foreclosures, business failures, and the loss of homes, property, and millions of dollars to Alaskans; and

WHEREAS citizens and municipalities from throughout the state have requested immediate legislative assistance to meet this crisis; and

WHEREAS the legislature is determined to provide leadership in solving this problem;

BE IT RESOLVED by the Alaska State Legislature that a Joint Committee on Economic Recovery is established, consisting of members of the Senate appointed by the President of the Senate and members of the House of Representatives appointed by the Speaker of the House, to develop legislative solutions to the current economic crisis; and be it

FURTHER RESOLVED that the House members and the Senate members are authorized to meet separately and may meet jointly from time to time; and be it

FURTHER RESOLVED that the joint committee is authorized to take action only upon majority approval of the Senate members and majority approval of the House members; and be it

FURTHER RESOLVED that the committee is authorized to meet during the Second Regular Session of the Fifteenth Legislature and is terminated on the final day of that session.

State of Alaska

House Majority Leader

COMMITTEES

HOUSE HEALTH, EDUCATION
AND SOCIAL SERVICES
HOUSE JUDICIARY
HOUSE RULES

Representative Max F. Gruenberg, Jr.
District 11
Spenard, Upper Midtown Anchorage

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MEMORANDUM

TO: REPRESENTATIVE BEN GRUSSENDORF, SPEAKER OF THE HOUSE
ALL HOUSE MEMBERS

SENATOR ARLISS STURGULEWSKI, SENATE CO-CHAIR
SENATOR LLOYD JONES, SENATE CO-CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY

FROM: REPRESENTATIVE MAX F. GRUENBERG, JR., HOUSE CHAIR
JOINT COMMITTEE ON ECONOMIC RECOVERY

DATE: MARCH 31, 1988

RE: REPORT OF ACTIONS TAKEN BY THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

Since the creation of the Joint Committee on Economic Recovery the House members have taken a number of actions. A summary of those actions follows.

The House Committee members have reviewed legislation recommended by its subcommittees and has introduced the following bills and resolutions through the House Rules Committee:

1.) HB 549 "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

2.) HB 550 "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

3.) HCR 52 Relating to state economic indices and reports.

4.) HCR 54 Relating to the management of mobile homes owned by the Alaska Housing Finance Corporation.

5.) HJR 72 Relating to the residential real estate market.

6.) HJR 73 Urging extension of the Federal Home Loan Bank Board's "Southwest Plan" to Alaska.

Also, through approval of interim reports of the Housing and Banking subcommittee, the members have endorsed state support of the demolition of the Willow Park Apartments and rejected a proposal by the Anchorage Economic Development Council (AEDC) for a $250,000.00 appropriation to conduct an appraisal of Federal Deposit Insurance Corporation (FDIC) Alaskan held properties.

Other bills and resolutions are under consideration by subcommittees.

The House members of the Joint Committee have also considered four Senate bills and have offered the following recommendations:

1.) SCR 32 "Urging the state's financial institutions to adopt more flexible lending and collection policies."

The members of the House Committee conceptually endorse this resolution and recommend consideration by the standing committees.

2.) CS 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; and providing for an effective date."

The members of the House Committee conceptually endorse this legislation and recommend consideration by the standing committees.

3.) SB 471 "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."

The members of the House Committee recognize there is interest in this issue and urge the standing committees to consider the concepts in this legislation.

4.) CS SB 392 (RULES) "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

The members of the House Committee conceptually endorse this legislation and recommend that both Houses consider the additional language included in HB 402, the House companion legislation.

Each of the six House subcommittees also completed the first two phases of their activities, the identification of existing and needed legislation to spur economic recovery, and produced

committee reports recommending support of various legislative proposals, budget increments and agency improvements. These, under cover of an executive summary, were adopted by the House members and submitted to the House and the Senate.

Through its oversight responsibility, the Committee, meeting jointly with the Senate and as a House body, reviewed economic recovery proposals offered by the Private sector, reports on the Anchorage and state economies, overviews of regional economic areas and overviews by public and private sector economists on Alaska long-term economic direction and short-term prospects. The committee also held special hearings with the F.D.I.C. to address the dual questions of surplus properties held by them and the impact of bank failures on the state's economy.

Future work of the House members of the Joint Committee will focus on Insurance issues and the development of long-term recommendations to improve Alaska's economic prospects. Also, the work of some of the subcommittees, in particular the Subcommittee on Housing and Banking, will continue and it is expected that a number of additional legislative proposals will be generated.

Introduced: 3/28/88
Referred: Labor & Commerce
and Judiciary

5-2066A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO. 549

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 34.20 is amended by adding a new section to read:

Sec. 34.20.132. NOTICE OF OTHER REMEDIES. When a lender uses a note as evidence of an obligation secured by a deed of trust, the note must affirmatively advise the trustor and any other party bound by the note, in writing within the note, of the security, recourse, and other remedies, if any, available to the beneficiary. If it is intended to permit the beneficiary to bring suit to collect an amount owing on the obligation without foreclosing the deed of trust, this intent must be stated in writing in the note. A beneficiary may not use a remedy not specifically and clearly stated on a note executed after the effective date of this Act. If a note executed after the effective date of this Act fails to contain the notice required by this section, the debt secured by the deed of trust may be foreclosed only under AS 34.20.-070 - 34.20.135, a deficiency judgment may not be entered, and no other action may be taken nor judgment entered against the trustor, surety, or guarantor on the obligation secured by the note.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 3/28/88
Referred: Community & Regional Affairs, Labor & Commerce and Finance

5-2052X

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO. 550

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Department of Community and Regional Affairs to modify the terms of its mortgage loans; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. FINDINGS. The legislature finds that

(1) some residents of the state who have obtained mortgage loans from the Department of Community and Regional Affairs have mortgages with payment obligations that exceed their present ability to make the required payments;

(2) the Department of Community and Regional Affairs does not have statutory authority to reduce interest rates;

(3) the costs of foreclosure and resale, including legal expenses, publication costs, maintenance costs, repair and renovation costs, sales expenses, closing costs, and costs due to sale in a distressed market, may be very substantial;

(4) it may be in the department's and state's best direct financial interest to avoid foreclosure by modifying loan terms including rescheduling principal payments, reducing interest rates and payment amounts, and adjusting maturity dates to induce existing owners to remain in title to the property and maintain active management of the property.

* Sec. 2. AS 44.47 is amended by adding a new section to read:

Sec. 44.47.525. MODIFICATION OF LOANS. (a) Notwithstanding AS 44.47.410(a) and (b) and 44.47.520(b), on mortgages that it has financed under AS 44.47.360 - 44.47.560 the department may, by loan

modification, reschedule principal payments or reduce interest rates, or both, if the department finds that

(1) a loan modification would result in the likelihood that the loan would pay to maturity and induce the borrower to remain in active management and ownership of the property; and

(2) the loan modification would be

(A) in the best financial interest of the department and the state; and

(B) considered prudent by private lending standards taking into account the financial circumstances of the borrower and other costly alternatives such as foreclosure.

(b) Rescheduling of the borrower's repayment of principal under (a) of this section provides an interim payment adjustment and is not intended to affect the obligation of the borrower to repay the principal amount on the mortgage loan.

(c) The department may reduce the interest rate payable on a mortgage under (a) of this section only if the modification contains an interest rate reopener clause. The interest rate reopener clause must

(1) require that, if the interest rate is reduced, the borrower and the department shall renegotiate the rate of interest on the mortgage within five years of the date of an interest rate reduction approved by the department under this section;

(2) specify the date by which the borrower and the department are to renegotiate the rate of interest under (1) of this subsection;

(3) incorporate a call feature reserving to the department the right to demand repayment of the entire principal amount due if the borrower and the department are unable to conclude renegotiation

of the rate of interest under (1) of this subsection; the department may not use the call feature incorporated under this paragraph to demand repayment of the entire principal amount due before the date determined under (2) of this subsection.

(d) An interest rate reduction approved by the department under this section cancels the borrower's obligation to pay the amount due that is attributable to the difference between the original interest rate and the interest rate reduction for the period of the rate reduction.

(e) When an interest rate is renegotiated under (c) of this section, the renegotiated rate may not exceed the interest rate originally charged on the loan.

(f) The department shall adopt regulations prescribing the terms and conditions of and the procedures applicable to loan modifications made under this section.

* Sec. 3. This Act takes effect July 1, 1988.

Introduced: 3/24/88
Referred: Labor & Commerce
and Finance

5-2086A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE CONCURRENT RESOLUTION NO. 52

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to state economic indices and reports.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS promoting the economic well-being of Alaska citizens is a responsibility of the Alaska State Legislature; and

WHEREAS the state's economy is subject to periodic cycles of economic growth and contraction; and

WHEREAS the current economic contraction has continued for a long time and is harming the economic well-being of many Alaskans; and

WHEREAS state spending and saving decisions have a major effect on both the short-term and long-term growth or contraction of the state's economy; and

WHEREAS accurate and complete information on the condition of and outlook for the state's economy is critical to legislative spending and saving decisions; and

WHEREAS needed economic information and analysis are not now available on a timely basis;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Governor to direct the Department of Commerce and Economic Development to arrange for the University of Alaska's Institute of Social and Economic Research to

(1) prepare quarterly economic indices for the state and an annual report on the condition of and outlook for the state's economy; and

(2) gather and analyze on a continuing basis the data needed to produce the indices and reports; and be it

FURTHER RESOLVED that the Alaska State Legislature respectfully requests the Governor to direct the Department of Commerce and Economic Development to distribute to the Alaska State Legislature and to the public the state economic indices and reports prepared by the University of Alaska's Institute of Social and Economic Research under the first resolve of this resolution.

Introduced: 3/28/88
Referred: Labor & Commerce
and Finance

5-2057A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE CONCURRENT RESOLUTION NO. 54

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the management of mobile homes owned by the Alaska Housing Finance Corporation.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the legislature finds that some portions of the state are undergoing a substantial financial crisis in the residential housing market; and

WHEREAS the financial crisis has resulted in financial institutions, various mortgage insurers, nonstate institutional lenders, and state agencies becoming owners of excess mobile homes; and

WHEREAS a portion of the vacant and unsaleable housing on the market is substandard and should, if possible, be removed from the market; and

WHEREAS it has been noted that to some extent the financial institutions and state agencies have not yet developed a coherent policy that addresses this crisis; and

WHEREAS the state is currently paying in excess of $373,000 a month in carrying costs for foreclosed-upon mobile homes; and

WHEREAS removing mobile homes from the market could save the state considerable money, as well as strengthen the housing market by eliminating some of the excess supply; and

WHEREAS attempts to sell excess properties can unreasonably depress the remainder of the housing market, endangering the strength of the remainder of the portfolio of properties; and

WHEREAS removing such excess properties will strengthen the remainder of the portfolio and would be in the best financial interest of the Alaska

Housing Finance Corporation; and

WHEREAS a program of removing excess housing can be best achieved if the various participants work cooperatively, each sharing in the effort and expense;

BE IT RESOLVED by the Alaska State Legislature that the Alaska Housing Finance Corporation should

(1) exercise prudent business judgment in managing its vacant and excess mobile homes;

(2) take immediate action to lower holding costs associated with its excess mobile homes;

(3) consider removing excess mobile homes from the market, if possible in concert with other institutional owners of foreclosed residential properties; and

(4) analyze and implement alternative ways of managing its excess mobile homes, including demolition, sales, storage in storage lots and mobile home parks, and sales out of the market within and outside of the state.

COPIES of this resolution shall be sent to the Honorable Steve Cowper, Governor; and to Ron Lehr, executive director, and the members of the Board of Directors of the Alaska Housing Finance Corporation.

Introduced: 3/24/88
Referred: Labor & Commerce
and Finance

5-2015A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE JOINT RESOLUTION NO. 72

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Relating to the residential real estate market.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS some areas of the state are experiencing a severe economic crisis as evidenced by bankruptcies, foreclosures, business failures, and the loss of homes and property values; and

WHEREAS the state is experiencing a difficult economic period, especially in the residential real estate market, and many persons are finding it difficult to meet their financial obligations during these times; and

WHEREAS keeping people in their homes and facilitating the purchase and sale of homes serves an important public purpose and is financially beneficial to both the borrower and the lender; and

WHEREAS borrowers are anxious to continue to meet their financial obligations, but there is a significant number of individuals who are under severe risk of being unable to do so; and

WHEREAS many borrowers would be able to meet their financial obligations if various forms of debt restructuring were made possible; and

WHEREAS debt restructuring requires the cooperation of the various parties to each real estate loan, including the borrower, the loan originator, the Alaska Housing Finance Corporation or other loan packager, the secondary purchasers of the loans, and the various loan insurers; and

WHEREAS the state's economy would be greatly helped if the financial institutions of the state would adjust their lending and collection policies to the present needs and abilities of their customers by using more flexible approaches to stabilize and improve the economy of the state; and

WHEREAS present financing packages available to residential real estate borrowers do not provide adequate market liquidity or ability to buy, sell, or trade properties in today's economic circumstances in which debt balances on the properties are nearly equal to or greater than the values of the property; and

WHEREAS, in order for residents of the state to meet their financial obligations, the parties to residential loans in the state must be willing to negotiate more creative financing terms and conditions for the benefit of all concerned; and

WHEREAS to some extent state agencies and the financial institutions in the state have not yet developed a coherent policy that addresses the current economic crises; and

WHEREAS the likelihood of loss or default is lessened if a market is made more liquid, something that will benefit all participants in real estate loans; and

WHEREAS the ability to buy, sell, and trade properties in a market that has very high loan-to-value ratios can only be accomplished through innovation and cooperation of the various parties to a real estate loan; and

WHEREAS the Alaska Housing Finance Corporation is presently working with the legislature, lending institutions, federal governmental agencies, and private mortgage insurers to find creative ways of refinancing existing mortgages and managing recent acquisitions in the residential real estate market;

BE IT RESOLVED by the Alaska State Legislature that the various financial participants in the Alaska real estate market, including the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, the Alaska Permanent Fund Corporation, and the various loan

servicers, guarantors, and insurers are urged to cooperate in developing innovative ways to restructure debt and to buy, sell, and trade properties for their collective benefit; and be it

FURTHER RESOLVED that economic stabilization of the residential real estate market be accomplished with the joint cooperation of the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, and the Alaska Permanent Fund Corporation and other agencies of the state and of lending institutions in the state as well as the Federal Housing Administration, the U.S. Department of Housing and Urban Development, the Veterans Administration, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and private mortgage insurers; and be it

FURTHER RESOLVED that the legislature fully supports efforts on the part of the Alaska Housing Finance Corporation, the Department of Commerce and Economic Development, the Department of Community and Regional Affairs, the Department of Revenue, and the Alaska Permanent Fund Corporation to hold foreclosed-upon residential properties off the market in instances where such action makes long-term economic sense.

COPIES of this resolution shall be sent to the Honorable Steve Cowper, Governor; the Honorable J. Anthony Smith, commissioner of commerce and economic development; the Honorable David Hoffman, commissioner of community and regional affairs; the Honorable Hugh Malone, commissioner of revenue; Ron Lehr, executive director, Alaska Housing Finance Corporation; Dave Rose, executive director, Alaska Permanent Fund Corporation; the Federal Housing Administration; the U.S. Department of Housing and Urban Development; the Veterans Administration; the Federal National Mortgage Administration; the Government National Mortgage Association; the Federal Home Loan Mortgage Corporation; and to the Honorable Ted Stevens and the

Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

Introduced: 3/28/88
Referred: Labor & Commerce

5-2038A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE JOINT RESOLUTION NO. 73

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Urging the Federal Home Loan Bank Board to consider extension of assistance to Alaska financial institutions similar to the board's "Southwest Plan."

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS some areas of the state are experiencing a severe economic crisis, as evidenced by bankruptcies, foreclosures, business failures, and the loss of homes and property values; and

WHEREAS the state's financial system has been severely strained by the extraordinary economic events precipitated by the collapse of world oil prices; and

WHEREAS several banks have closed, to the disadvantage of the families and businesses that banked and borrowed at those banks; and

WHEREAS further erosion of the state's banking system is not in the best interests of the state's businesses, homeowners, and a competitive banking system; and

WHEREAS the economic distress because of the unprecedented economic contraction within the state is not unlike the economic distress that has been experienced by other petroleum-producing states, notably those in the South and Southwest; and

WHEREAS, among other responses to the economic downturn in the South and Southwest, the Federal Home Loan Bank Board, the federal agency that regulates and supervises the federal home loan banks that provide a flexible credit reserve for member savings institutions as a principal financing source for lending institutions, has determined that the region, comprising

the states of Arkansas, Louisiana, Mississippi, New Mexico, and Texas, warrants special assistance due to its economic difficulties; and

WHEREAS the board has fashioned and implemented a "Southwest Plan" that has provided economic and noneconomic assistance to thrift institutions in that region, partially offsetting the effects of the economic slump; and

WHEREAS one of the principal purposes of the "Southwest Plan" is to lower costs for both the Federal Home Loan Bank Board and the lending institutions through an infusion of capital, while preserving adequate services, competition, and basic structure; and

WHEREAS the reforms proposed within the "Southwest Plan" should assist thrift institutions in that region to reduce operating costs while maintaining a competitive environment, and improve public confidence in those institutions during a period of economic difficulty;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Alaska delegation in Congress to request the Federal Home Loan Bank Board to consider extension of assistance to financial institutions in Alaska similar to the "Southwest Plan."

COPIES of this resolution shall be sent to M. Danny Wall, chairman, and Roger F. Martin and Lawrence J. White, members, Federal Home Loan Bank Board; and to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

Introduced: 1/11/88
Referred: Finance

5-1571A

BY FISCHER, HALFORD, FAIKS, JONES, STURGULEWSKI, UEHLING, KERTTULA, KELLY

IN THE SENATE

SENATE CONCURRENT RESOLUTION NO. 32

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Urging the state's financial institutions to adopt more flexible lending and collection policies.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the state is experiencing a difficult economic period, and many persons are finding it difficult to meet their financial obligations and to improve their economic conditions; and

WHEREAS it would greatly help the state's economy if the state's financial institutions would adjust their lending and collection policies to the present abilities and needs of their customers by using more flexible approaches, such as collection moratoriums and flexible payment schedules;

BE IT RESOLVED that the Alaska State Legislature urges the financial institutions of the state to adopt more flexible lending and collection policies in order to help improve the economy of the state.

Offered: 2/4/88
Referred: Rules

5-1512B

Original sponsors: Halford, Kelly, Uehling, et al.

BY THE LABOR AND COMMERCE COMMITTEE

IN THE SENATE

CS FOR SENATE BILL NO. 333 (L&C)(efd add)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to wage, salary, and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 06.05.045(a) is amended to read:

(a) Each [EVERY] state bank shall make at least four reports of condition each year to the department on days designated by it, and on forms prescribed by it. The report shall be verified by an oath of the president, vice president, or cashier and by at least three directors, certifying and subscribing under oath that they and each of them have personal knowledge of the facts stated in the report and that the facts are true. The reports shall exhibit in detail and under appropriate heads the resources and liabilities of the bank, and each report shall be transmitted or mailed to the department no later than 30 [WITHIN 10] days after the date designated for the report [OF THE RECEIPT OF THE REQUEST FROM THE DEPARTMENT].

* Sec. 2. AS 06.05.470(t) is amended to read:

(t) The following claims have priority in liquidation proceedings, in the order listed:

(1) obligations incurred by the department;

(2) wages, [AND] salaries, and benefits of officers and employees earned during the 12-month [THREE-MONTH] period preceding

the department's possession in an amount not exceeding $12,000 [$3,000] for each person;

(3) fees and assessments due to the department;

(4) deposits.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Introduced: 2/16/88
Referred: Finance

5-1796B

BY HALFORD, FAIKS, UEHLING, JOSEPHSON, STURGULEWSKI AND ABOOD

IN THE SENATE

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

(1) to guarantee loans to businesses that qualify under AS 44.88.510(a) and apply under AS 44.88.520(a); and

(2) to refinance the debt of businesses that qualify under AS 44.88.510(b) and apply under AS 44.88.520(b).

Sec. 44.88.510. APPLICANT QUALIFICATIONS. (a) 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.

(b) A business enterprise may apply under AS 44.88.500 - 44.88.599 to refinance existing debt. The authority may approve a refinancing of existing debt if the authority finds that

(1) the refinancing involves a viable project; and

(2) the refinancing will save existing jobs.

Sec. 44.88.520. APPLICATION. (a) An applicant for a loan guarantee shall provide an economic benefit analysis prepared by a person acceptable to the authority together with other information that the authority may require by regulation.

(b) An applicant for refinancing of existing debt shall provide the information that the authority may require by regulation.

Sec. 44.88.530. POWERS OF THE AUTHORITY. 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 and refinancing agreements 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, secured by adequate collateral, and 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 44.88.550 - 44.88.560. The ratio of the guarantee to the outstanding principal of the loan shall remain the same 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. CONDITIONS OF DEBT REFINANCING. The authority may not refinance debt unless the refinancing

(1) is necessary to extend substantial debt payments over a longer period of time, thereby improving the applicant's net cash flow and working capital position consistent with the useful life of the assets being refinanced;

(2) assists with short-term debt or cash expenditures when lenders will not extend reasonable longer terms to the applicant; or

(3) is necessary to place a permanent loan subsequent to an interim loan for financing construction of the project.

Sec. 44.88.560. INTEREST. The maximum interest rate on a loan guaranteed by the authority is

(1) for a loan guarantee that equals or exceeds 80 percent of the loan, one and one-half percentage points above the prime rate on the day the loan guarantee is made; and

(2) for a loan guarantee that is less than 80 percent of the loan, two and three-quarters percentage points above the prime rate on the day the loan guarantee is made.

Sec. 44.88.570. DEFAULT OR FORECLOSURE. (a) Payments received toward satisfaction of a default on a loan guaranteed under AS 44.88.-500 - 44.88.599 shall be allocated between the lender and the fund according to the guaranteed percentage of the loan until the principal balance has been repaid.

(b) The authority shall dispose of property acquired through default or foreclosure of a loan guaranteed or refinanced 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. 44.88.580. SPECIAL ACCOUNT ESTABLISHED. (a) There is established as a special account within the fund the foreclosure expense account. The account is established as a reserve from fund equity.

(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. 44.88.590. PREREQUISITE FOR OTHER LOANS. Notwithstanding other provisions of law, a business enterprise that qualifies under AS 44.88.510(a) to apply for a loan guarantee under AS 44.88.500 - 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 - 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).

Original sponsors: Halford, Faiks, Kelly, et al.

IN THE SENATE BY THE RULES COMMITTEE

CS FOR SENATE BILL NO. 392 (Rules)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the Alaska Industrial Development and Export Authority; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 44.88.165 is repealed and reenacted to read:

Sec. 44.88.165. DELINQUENT LOANS. (a) The authority shall adopt regulations to describe the circumstances under which it will discontinue purchasing loans from a financial institution because of excessive delinquencies among the loans previously purchased from the financial institution. In adopting the regulations, the authority shall take into consideration its delinquency experience with loans it has purchased from all financial institutions.

(b) The authority may include in the regulations other remedies it considers appropriate as alternatives to the discontinuance of purchasing loans from the financial institution.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Members of the House State Affairs Committee

FROM: Representative Steve Rieger, Co-Chair SR
Representative Kay Brown, Co-Chair KB
Subcommittee on Housing and Banking of the
House Joint Economic Recovery Committee

DATE: April 18, 1988

RE: HB 555 - Authorizing AHFC to stabilize the market price of and the demand for residential housing in the state.

The following is an overview of the above referenced bill. Suggested amendments are noted below and comments to each section are included in boldfaced type for your review. These changes were recommended by Alaska Housing Finance Corporation after their April 11, 1988 board meeting, and most changes have also been discussed by the Subcommittee on Housing and Banking.

Sec. 1 AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210 MARKET STABILIZATION POWERS. (a) If the board of directors determines that it is in the [state's] corporation's best interest, the corporation may take appropriate action to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may:

Pg. 1 line 13

(1) make and execute necessary agreements and conveyances under which a borrower may exchange residential housing securing a mortgage loan owned, held or sold by the corporation for other residential housing owned by the corporation;

(SPECIFICALLY AHFC LOANS ON LOW QUALITY TRADE UP TO HIGHER QUALITY AHFC HELD CONDOS: WOULD NOT PRE-EMPT CONDO TO HOUSE TRADE UNDER THIS LANGUAGE)

(2) repurchase a mortgage loan sold or pledged by the corporation for the purpose of exercising a power conferred by this section;

(I.E. TRADE UP/DOWN, REFINANCING ABE, EXISTING AHFC MORTGAGES)

(3) for the purpose of qualifying residential housing situated in a condominium project for the best available financing for mortgage loans, make and execute agreements, contracts and other agreements necessary to encourage all owners who occupy units in a condominium project that is not eligible for financing under this chapter to exchange their ownership interest for a condominium unit owned by the corporation in another project;

(ADDRESSES CURRENT "OWNER-OCCUPANCY" FINANCING PROBLEM IN CONDO PROJECTS AND MAY ALSO AFFECT TRADE-UP PROGRAM)

(4) make and execute appropriate agreements with insurers, investors, and guarantors concerning the temporary removal of residential housing owned by the corporation from the resale market;

(AS PER HJR 72 - HOLD FORECLOSED-UPON PROPERTIES OFF THE MARKET IN INSTANCES WHERE SUCH ACTION MAKES LONG-TERM ECONOMIC SENSE)

(5) demolish residential housing owned by the corporation if the corporation determines that the housing is substandard compared to housing available on the open market, cannot be converted to a public or charitable use, and for which there is a substantial oversupply of similar housing on the open market;

(DEMOLISH LOW QUALITY SUBSTANDARD CONDO UNITS)

(6) convert residential housing owned by the corporation which is designed and constructed for owner - occupancy to another beneficial use;

(INCLUDES MENTAL HEALTH HOUSING, SENIOR CITIZEN HOUSING, ASBA LOW INCOME HOUSING, UNIVERSITY DORM HOUSING, ETC.)

(7) make bulk sales of property owned by the corporation under procedures and terms the corporation determines are in the best interests of the corporation;

(ADDRESSES AHFC EXCESS MOBILE HOME PROBLEM (HCR 54); COULD ALSO ADDRESS OVERSUPPLY OF CONDOS)

(8) provide financing under terms established by the board, to promote the sale of residential housing owned by the corporation, <u>if the board of directors determines that the terms of financing do not work an excessive hardship on competing individual sellers of residential housing;</u>

Pg. 2 line 21

(ALLOWS AHFC TO COMPETE WITH HUD, FNMA LOW FINANCING TERMS IN THE CURRENT MARKET) (NEW LANGUAGE ADDED WOULD ALSO ADDRESS CURRENT OWNER FINANCING PROBLEMS, I.E. THOSE INDIVIDUALS WHO ARE

ATTEMPTING TO SELL THEIR PROPERTY BUT ARE COMPETING WITH AHFC LOWER FINANCING/OWNER-OCCUPANCY REQUIREMENTS)

(9) invest funds of the corporation in publicly-owned projects involving the destruction of substandard residential housing if the board of directors determines that the investment is prudent, properly secured, and in the long-term best interests of the corporation;

(COULD MEAN A SECURITY INTEREST IN THE LAND IF AHFC FUNDS ARE UTILIZED FOR THIS PURPOSE.)

(10) create subsidiary entities to implement a power conferred by this section and to provide insurance as provided in AS 18.56.093 and 18.56.095; and

(ALLOWS AHFC TO SET UP SUBSIDIARY MANAGEMENT OF AHFC OWNED PROPERTIES. ALSO ALLOWS AHFC TO ESTABLISH ITS OWN MORTGAGE INSURANCE ON CERTAIN PROPERTIES. THEY DO HAVE BROAD GENERAL POWERS IN THIS AREA; HOWEVER, AT THIS TIME, AHFC IS NOT PREPARED TO ESTABLISH IN-HOUSE MORTGAGE INSURANCE PROGRAM UNTIL THEY HAVE HAD A CHANCE TO REVIEW A SIMILAR ARRANGEMENT USED BY THE STATE OF CALIFORNIA. THIS WOULD WORK TO THE BENEFIT OF AHFC IN INSURING MORTGAGES THAT MGIC, FNMA AND OTHER PMI WILL NOT TOUCH IN ALASKA, I.E. CONDO UNITS.)

(11) take other actions necessary, convenient or desirable to carry out the powers granted in this subsection.

(SIMILAR TO GENERAL AHFC POWERS PROVISION IN AS 18.56.090)

(b) The corporation shall implement the powers conferred by this section by adopting regulations under the procedures set out in AS 18.56.088.

Sec. 2 AS 45.50.572 is amended by adding a new subsection to read:

(i) AS 45.50.562 - 45.50.596 do not forbid activities of the Alaska Housing Financing Corporation to stabilize the market price of and demand for residential housing in the state as provided in AS 18.56.210.

(ANTI-TRUST PROVISION - GIVES AHFC SPECIFIC EXEMPTION AUTHORITY TO MAKE ARRANGEMENTS TO HOLD PROPERTIES OFF OF THE MARKET FOR PUBLIC PURPOSES)

Sec. 3 This act takes effect immediately under AS 01.10.070 (c).

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO. 555

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to fund disposal of substandard publicly owned housing; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. DISPOSAL OF PUBLICLY OWNED SUBSTANDARD HOUSING. Consistent with the best interests of the agency, the Alaska Housing Finance Corporation may use not to exceed $10,000,000 in unrestricted funds available to it for the purpose of making grants to state agencies and municipalities of the state for the disposal of substandard housing owned by the state or a municipality of the state. The corporation shall take a nonrecourse security interest in land occupied by substandard housing disposed of under this section. The funds advanced shall bear interest.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

5-2091A
Bradley
4/5/88

Introduced 4/7/88
by House Jnt. -

BY THE RULES COMMITTEE BY
REQUEST OF THE HOUSE MEMBERS
OF THE JOINT COMMITTEE
ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to fund disposal of substandard publicly owned housing; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. DISPOSAL OF PUBLICLY OWNED SUBSTANDARD HOUSING. Consistent with the best interests of the ~~state~~ agency, the Alaska Housing Finance Corporation may use not to exceed ~~$20,000,000~~ 10,000,000 in unrestricted funds available to it for the purpose of making grants to state agencies and municipalities of the state for the disposal of substandard housing owned by the state or a municipality of the state. The corporation shall take a non-recourse security interest in land occupied by substandard housing disposed of under this section. ~~to recover funds granted under this section~~ funds advanced. The ~~security interest~~ shall bear interest.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

5-2091B
Bradley
4/18/88

Original sponsor: Rules by request/House Members of the Joint Committee on Economic Recovery

IN THE HOUSE

CS FOR HOUSE BILL NO. 555 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act authorizing the Alaska Housing Finance Corporation to stabilize the market price of and the demand for residential housing in the state; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 18.56 is amended by adding a new section to read:

Sec. 18.56.210. MARKET STABILIZATION POWERS. (a) If the board of directors determines that it is in the best interest of the [state, corporation] the corporation may take appropriate action under this section to stabilize the market price of and demand for residential housing in the state. To accomplish the purposes of this section, the corporation may

(1) make and execute necessary agreements and conveyances under which a borrower may exchange residential housing securing a mortgage loan owned, held, or sold by the corporation for other residential housing owned by the corporation;

(2) repurchase a mortgage loan sold or pledged by the corporation for the purpose of exercising a power conferred by this section;

(3) for the purpose of qualifying residential housing situated in a condominium project for the best available financing for mortgage loans, make and execute agreements and contracts necessary to encourage all owners who occupy units in a condominium project that is not eligible for financing under this chapter to exchange their

ownership interest for a condominium unit owned by the corporation in another project;

(4) make and execute appropriate agreements with insurers, investors, and guarantors concerning the temporary removal of residential housing owned by the corporation from the resale market;

(5) demolish residential housing owned by the corporation if the corporation determines that

(A) the housing is substandard compared to housing available on the open market;

(B) the housing cannot be converted to a public or charitable use; and

(C) there is a substantial oversupply of similar housing on the open market;

(6) convert residential housing owned by the corporation that is designed and constructed for owner occupancy to another beneficial use;

(7) make bulk sales of property owned by the corporation under procedures and terms the corporation determines are in the best interests of the corporation;

(8) provide financing under terms established by the board to promote the sale of residential housing owned by the corporation; if the board of directors determines that the terms of financing do not work an excessive hardship on competing individual sellers of residential housing;

(9) invest funds of the corporation in the removal and disposal of substandard publicly-owned residential housing if the board of directors determines that the investment is prudent, properly secured, and in the long-term best interests of the corporation;

(10) create subsidiary entities to implement a power conferred by this section and to provide insurance under AS 18.56.093 and 18.56.095; and

(11) take other actions necessary, convenient, or desirable

to carry out the powers granted in this subsection.

(b) The corporation shall implement the powers conferred by (a) of this section by adopting regulations under AS 18.56.088.

* Sec. 2. AS 45.50.572 is amended by adding a new subsection to read:

(i) AS 45.50.562 - 45.50.596 do not prohibit activities of the Alaska Housing Finance Corporation to stabilize the market price of and demand for residential housing in the state under AS 18.56.210.

* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

Alaska State Legislature
House

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Members of the House Judiciary Committee

FROM: Representative Steve Rieger
Co-Chair, Subcommittee on Housing and Banking
for the House Joint Committee on Economic Recovery

DATE: April 19, 1988

RE: CSHB 549(L&C) - "An Act relating to notice requirements in the use of a deed of trust; and providing for an effective date."

* *

The purpose of CSHB 549(L&C) is to inform the borrower who has signed Note secured by the Deed of Trust that he is in fact personally liable for the total amount of the debt, regardless of the market value of the property. In short, it requires a disclosure statement to the borrower of the lender's available remedies, should foreclosure actions be deemed necessary.

If foreclosure is warranted, under current law the lender generally has three choices:

- Suit on the Note for fulfillment of the debt;
- Nonjudicial foreclosure on the Deed of Trust with no deficiency judgment, no right of redemption and no recourse as to the Note;
- Judicial foreclosure on the Deed of Trust with a possible deficiency judgment awarded by the court, and a one year right of redemption period to the borrower.

Under the current CS, if the lender fails to give sufficient notice to the borrower of the lender's foreclosure remedies, then the lender can only foreclose nonjudicially or judicially.

When a person wants to buy a piece of property and does not have sufficient cash for the total payment, he obtains a loan. The borrower agrees to pay the lender for a debt and the lender agrees to give the borrower the funds necessary to secure the property.

A typical loan in Alaska requires the borrower to understand and sign a volume of paperwork upon closing of the loan. A Deed of Trust to secure the property is used, and usually a Note is also signed as evidence of an obligation secured by the Deed of Trust.

Historically, property values had a tendency to increase over the life of a loan. If nonjudicial foreclosure was warranted, the lender simply foreclosed on the Deed of Trust, thereby extinguishing the debt owing, as the property was worth more than the loan and sufficient to cover the debt.

Recently, property values have dropped substantially, and the loan on the property can now exceed the actual market value of the property when purchased. When foreclosure action is taken, the suit alone on the Deed of Trust often will not cover the entire debt amount, (i.e. the property is "under water" or has "negative equity"). The lender has the option to foreclose judicially or nonjudicially; nonjudicial foreclosures are more typical than the judicial type, and definitely less costly.

The borrower's assumption in the past has often been that the lender could only sue on the Deed of Trust. However, the lender does have the option to sue on the Note through judicial means prior to foreclosing on the Deed of Trust (nonjudicially) in order to obtain payment of the debt, and two recent Alaska Supreme Court decisions are cases in point. (Moening v. Alaska Mutual Bank (2/26/88), Conrad v. Counsellors Investment Company (2/26/88).

At the time of closing, the borrower did indeed sign the Deed of Trust as security for the property and also signed the Note promising to pay the amount of the debt. Yet, because there is so much involved with closing a loan, the simple facts and understandings sometimes get lost in the paper shuffle. The problem lies in the fact that some borrowers were under the assumption that if they were foreclosed upon, they could just turn in the keys and walk away from the property, (thereby extinguishing the debt), and many more borrowers were under the assumption that the lender could not take any personal assets as payment of the debt unless the lender first pursued judicial foreclosure, (i.e. deficiency judgment and right of redemption period). Many borrowers today seem surprised that the lender does indeed have the option to sue on the Note prior to foreclosing on the Deed of Trust.

Attached are copies of the standard notes used by FNMA/FHLMC, AHFC, FHA, VA and a "generic" note one can purchase at a stationary store. You will note that the FNMA/FHLMC and AHFC notes contain language which advises the borrower that he is personally liable for the debt, should foreclosure be deemed necessary. The FHA, VA and generic notes are vague in this area. The Subcommittee on Housing and Banking of the House Joint Economic Recovery Committee has heard testimony from many individuals who felt that the lender had no recourse but to foreclose on the Deed of Trust, even though they did in fact sign a Note as evidence of the obligation secured by the Deed of Trust. CSHB 549 (L&C) would require that the ability of the lender to sue on the Note prior to foreclosing on the Deed of Trust, be stated explicitly; otherwise, that remedy is not available.

In practice, the lender usually forecloses on the Deed of Trust nonjudicially if no workout arrangement can be arranged between the borrower and lender, and in very few cases would the lender chose to look towards the Note prior to foreclosing on the Deed of Trust. Further, if private mortgage insurance (PMI) is in place, (required by the lender when the loan-to-value ratio is 80% or above), the PMI pays the lender for the percentage of the loan it originally covered, frequently with no recourse to the borrower. Therefore, in a foreclosure situation where there is negative equity, it is possible that the market value of the property and the private mortgage insurance would cover the entire debt.

Both FHLMC (Federal Home Loan Mortgage Corporation) and FNMA (Federal National Mortgage Association) have provided positive endorsement for the concept of the legislation. However, due to federal government requirements, they have requested that the "notice" information be contained outside the actual document of the Note, rather than within the body of the Note. FHLMC has also recommended that we consider requiring the explanation to be spelled out in law in order to avoid future "language" problems that would develop if each lender is allowed to write their own language.

Further, the Alaska Association of Realtors endorses the concept of the legislation with an amendment that the language be included as a "rider" to the Note to avoid redrafting of standard forms now used in the industry. Testimony from various Alaska banking institutions recommends the notice language be included as a rider to the Note.

Please be aware that the CS to HB 549 (L&C) provides a change only in the ability of a lender to sue on the Note directly, and even then only in the event that the remedy was not stated on the Note or as a rider to the Note. The original version stated that the only recourses available to the lender were the recourses stated in the Note. In other words, the original version of HB 549 would have required disclosure of the personal obligation of the borrower, and if not disclosed, both the direct suit on the Note remedy and the remedy of a deficiency judgment against personal assets by a court (judicial foreclosure) would not be available.

The lending community has strongly objected to that loss of the judicial foreclosure remedy, even though the remedy would not be available only if there was no disclosure.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1586 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1383

JUDICIAL V. NONJUDICIAL FORECLOSURE PROVISIONS:

JUDICIAL FORECLOSURE -

In a judicial foreclosure, the court forecloses on the Deed of Trust, orders the property sold, and may give the lender a deficiency judgement for the difference of what they can sell the property for and what is actually owed on the property. This deficiency judgement is a personal obligation on the part of the borrower. The borrower is also given a "right of redemption" period (one year) to pay what is owed and regain possession to the property, (unless the property is sold to a bonafide purchaser and not subject to the right of redemption).

Judicial foreclosures can take a great deal of effort, are expensive, and time consuming as well.

NONJUDICIAL FORECLOSURE -

Foreclosure conducted outside the court system. No deficiency judgement or right of redemption period allowed. Lender has option to sue on the Note (by judicial means) prior to suing on the Deed of Trust, (AS 09.45.170).

The Alaska Supreme Court concluded in Moening v. Alaska Mutual Bank (2/26/88), a secured creditor may initially ignore the security, and sue on the note, absent an agreement to the contrary. Further, under Conrad v. Counsellors Investment Company (2/26/88), the Supreme Court concluded that the deed of trust does not expressly preclude a suit on the note. Under common law, (AS 34.20.100), a prior suit on the note does not preclude subsequent nonjudicial (or judicial foreclosure) of the security.

Up until recently, it was to the benefit of the lender to foreclose on the Deed of Trust, as the property was usually worth more than the amount owing; suit on the Note was unnecessary, as the lender received the full amount of the debt upon a foreclosure sale of the property. Within the past several years, many property values have dropped significantly, and the amount owing can be more than the actual market value of the property, hence the term "negative equity" or "under water".

The Alaska lending institutions have taken the following three approaches to foreclosure:

1. If the borrower has no significant assets, the lender forecloses on the Deed of Trust. However, if the borrower is making a good faith effort to remedy his defaulting loan status, then the lender usually works with him to bring the loan current before taking steps to foreclose. The lenders are not interested in managing foreclosed properties.

2. If the borrower has other assets to cover the debt, but is willing to work with the lender to alleviate the debt, then the lender does not take up a suit on the Note, but rather attempts to work out some arrangement for payment with the borrower.

3. If the borrower has other assets to cover the debt, but is unwilling to cooperate with the lender in working out some sort of payment arrangements, then the lender may take steps to sue on the Note prior to foreclosing on the Deed of Trust.

Only in Case #3 does the lender sue on the Note, and there have been very few instances where they have been forced to take this remedy prior to foreclosing on the Deed of trust.

The recent Alaska Supreme Court decisions have not altered the way the banks do business in Alaska, and it is "business as usual". What these two cases have pointed out is that the lender does indeed have the option to sue on the Note prior to foreclosing nonjudicially on the Deed of Trust, as per AS 34.20.070 - 34.20.135.

The lender does have the option to a judicial foreclosure, and will in some cases go this route if the lender feels that it is worth going after the holder of the deed of trust personally via a deficiency judgement issued by the courts. (In many cases, it is not worth the time, effort and expenditure to the lender to foreclose via the court system.)

* *

JUDICIAL FORECLOSURE	NONJUDICIAL FORECLOSURE
-Requires Court Action	-No court action required
-Deficiency judgment may be awarded	-No deficiency judgment -Suit on the Note is optional prior only to nonjudicial foreclosure on Deed of Trust
-Right of Redemption period allowed (one year)	-No Right of Redemption

* *

Mortgage -

A lien on property - does not create title or estate to secure the unpaid balance of the purchase price.

(Mortgages are rarely used in the State of Alaska.)

Foreclosure proceedings can only be conducted judicially, (through the court system) with a mortgage because there is nothing in place in the mortgage document for default remedies.

Deed of Trust

Instrument used by which legal title to real property is placed in one or more trustees to secure the repayment of a sum of money, (or the performance of some other condition). Differs in form from a mortgage as it is essentially a security.

The deed of trust document has prescribed foreclosure provisions, thereby allowing the lender to foreclose outside of court, i.e. nonjudicial foreclosure proceedings. Foreclosure proceedings can be accomplished by judicial or nonjudicial means. Deficiency judgements are prohibited in a nonjudicial foreclosure; however, the lender can sue on the Note prior to a nonjudicially foreclosing on the Deed of Trust. No suit is allowed on the Note if the lender choses to foreclose nonjudicially on the Deed of Trust first.

Note -

A unilateral instrument containing an express and absolute promise of signer to pay a specified person a definite sum of money at a specified time.

Right of Redemption - that period of time, (one year), as set by statute for the defaulting borrower to "redeem" himself and pay up on the mortgage, thereby regaining "custody" of his property. Generally, there is no right of redemption in a nonjudicial foreclosure.

1776 G Street NW
PO Box 37248
Washington, DC 20013
202/789.4700

Freddie Mac

Owned by America's Savings Institutions

April 9, 1988

Representative Steve Rieger
Co-Chair, Subcommittee on Housing and Banking
House Joint Economic Recovery Committee
Pouch V
State Capitol
Juneau, Alaska 99811
C/O Ann Ringstad

Dear Representative Rieger:

At Ann Ringstad's request, I am providing you with comments on H.B. 549, a bill requiring a notice on the mortgage note of the lender's remedies under Alaskan state law when a borrower defaults on a mortgage.

By way of background, the Federal Home Loan Mortgage Corporation, better known as Freddie Mac, was created by Congress in 1970 to increase the amount of funds available for mortgage lending. Freddie Mac accomplishes its mandate by purchasing residential mortgages from lenders, thereby replenishing their supply of funds to be lent to additional home buyers. Freddie Mac guarantees the payment of the mortgages and sells securities backed by the mortgages to institutional and private investors. In 1987, Freddie Mac purchased nearly $102 million in mortgages from Alaska lenders.

Freddie Mac certainly agrees with the concept of an informed consumer. This is not only good public policy, it is good business practice. We commend the Legislature for its concern that consumers be made aware of the lender's ability to utilize several remedies, including deficiency judgements, in default situations.

We are concerned about your method for informing the consumer. Adding more information to the note or deed may defeat your intent by making the document too complicated, wordy and intimidating. Also, making Alaska mortgage documents less uniform from notes in other states runs counter to the national trend toward uniform documents. As the mortgage finance industry becomes more reliant on the secondary mortgage market and its investors, uniform documents take on increasing importance.

We recommend that you consider requiring an explanation of lenders' remedies on a separate piece of paper which both borrower and lender would sign at closing time. The language of this explanation should be spelled out in the law in order to avoid a different explanation from each lender.

I hope this information is helpful to you and that you will call whenever you have questions on this or other issues of mutual interest.

Sincerely,

Mike Schwartz

Mike Schwartz
Legislative Director

MS:mcf

REALTOR®

ALASKA ASSOCIATION OF REALTORS, INC.®
1836 West Northern Lights Blvd. • Anchorage, Alaska 99517
Telephone 907-276-0856

Representative Steve Rieger
Alaska State Legislature
P.O. Box V (MS 3100)
Juneau, Alaska 99811

April 7, 1988

Dear Representative Rieger,

The Alaska Association of REALTORS®, after careful consideration, is supporting the passage of HB 549. The full disclosure to all parties involved in real estate transactions can only benefit the public. The Association would suggest however, that the disclosure be accomplished through a "rider" to other documents. This would serve the purpose without a complete redrafting of the standard forms.

We enthusiastically support passage of HB 549.

Sincerely,

Dea Turner

Dea Turner
Executive Vice President

REALTOR® is a registered mark which identifies a professional in real estate who subscribes to a strict Code of Ethics as a member of the NATIONAL ASSOCIATION OF REALTORS®

NOTE

See #8 + 6(C)

....., 19..... ....., Alaska
(City)

.....
[Property Address, Add Borrower's Post Office Address, if Different]

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received, I promise to pay U.S. $..... (this amount is called "principal"), plus interest, to the order of the Lender. The Lender is ..... I understand that the Lender may transfer this Note. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note is called the "Note Holder."

2. INTEREST

Interest will be charged on unpaid principal until the full amount of principal has been paid. I will pay interest at a yearly rate of .....%.

The interest rate required by this Section 2 is the rate I will pay both before and after any default described in Section 6(B) of this Note.

3. PAYMENTS

(A) Time and Place of Payments

I will pay principal and interest by making payments every month.

I will make my monthly payments on the ..... day of each month beginning on ....., 19..... I will make these payments every month until I have paid all of the principal and interest and any other charges described below that I may owe under this Note. My monthly payments will be applied to interest before principal. If, on ....., I still owe amounts under this Note, I will pay those amounts in full on that date, which is called the "maturity date."

I will make my monthly payments at .....
..... or at a different place if required by the Note Holder.

(B) Amount of Monthly Payments

My monthly payment will be in the amount of U.S. $.....

4. BORROWER'S RIGHT TO PREPAY

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "prepayment." When I make a prepayment, I will tell the Note Holder in writing that I am doing so.

I may make a full prepayment or partial prepayments without paying any prepayment charge. The Note Holder will use all of my prepayments to reduce the amount of principal that I owe under this Note. If I make a partial prepayment, there will be no changes in the due date or in the amount of my monthly payment unless the Note Holder agrees in writing to those changes.

5. LOAN CHARGES

If a law, which applies to this loan and which sets maximum loan charges, is finally interpreted so that the interest or other loan charges collected or to be collected in connection with this loan exceed the permitted limits, then: (i) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (ii) any sums already collected from me which exceeded permitted limits will be refunded to me. The Note Holder may choose to make this refund by reducing the principal I owe under this Note or by making a direct payment to me. If a refund reduces principal, the reduction will be treated as a partial prepayment.

6. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charge for Overdue Payments

If the Note Holder has not received the full amount of any monthly payments by the end of ..... calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be .....% of my overdue payment of principal and interest. I will pay this late charge promptly but only once on each late payment.

(B) Default

If I do not pay the full amount of each monthly payment on the date it is due, I will be in default.

(C) Notice of Default

If I am in default, the Note Holder may send me a written notice telling me that if I do not pay the overdue amount by a certain date, the Note Holder may require me to pay immediately the full amount of principal which has not been paid and all the interest that I owe on that amount. That date must be at least 30 days after the date on which the notice is delivered or mailed to me.

(D) No Waiver By Note Holder

Even if, at a time when I am in default, the Note Holder does not require me to pay immediately in full as described above, the Note Holder will still have the right to do so if I am in default at a later time.

(E) Payment of Note Holder's Costs and Expenses

If the Note Holder has required me to pay immediately in full as described above, the Note Holder will have the right to be paid back by me for all of its costs and expenses in enforcing this Note to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorneys' fees.

7. GIVING OF NOTICES

Unless applicable law requires a different method, any notice that must be given to me under this Note will be given by delivering it or by mailing it by first class mail to me at the Property Address above or at a different address if I give the Note Holder a notice of my different address.

Any notice that must be given to the Note Holder under this Note will be given by mailing it by first class mail to the Note Holder at the address stated in Section 3(A) above or at a different address if I am given a notice of that different address.

8. OBLIGATIONS OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each person is fully and personally obligated to keep all of the promises made in this Note, including the promise to pay the full amount owed. Any person who is a guarantor, surety or endorser of this Note is also obligated to do these things. Any person who takes over these obligations, including the obligations of a guarantor, surety or endorser of this Note, is also obligated to keep all of the promises made in this Note. The Note Holder may enforce its rights under this Note against each person individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note.

9. WAIVERS

I and any other person who has obligations under this Note waive the rights of presentment and notice of dishonor. "Presentment" means the right to require the Note Holder to demand payment of amounts due. "Notice of dishonor" means the right to require the Note Holder to give notice to other persons that amounts due have not been paid.

10. UNIFORM SECURED NOTE

This Note is a uniform instrument with limited variations in some jurisdictions. In addition to the protections given to the Note Holder under this Note, a Mortgage, Deed of Trust or Security Deed (the "Security Instrument"), dated the same date as this Note, protects the Note Holder from possible losses which might result if I do not keep the promises which I make in this Note. That Security Instrument describes how and under what conditions I may be required to make immediate payment in full of all amounts I owe under this Note. Some of those conditions are described as follows:

Transfer of the Property or a Beneficial Interest in Borrower. If all or any part of the Property or any interest in it is sold or transferred (or if a beneficial interest in Borrower is sold or transferred and Borrower is not a natural person) without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by this Security Instrument. However, this option shall not be exercised by Lender if exercise is prohibited by federal law as of the date of this Security Instrument.

If Lender exercises this option, Lender shall give Borrower notice of acceleration. The notice shall provide a period of not less than 30 days from the date the notice is delivered or mailed within which Borrower must pay all sums secured by this Security Instrument. If Borrower fails to pay these sums prior to the expiration of this period, Lender may invoke any remedies permitted by this Security Instrument without further notice or demand on Borrower.

WITNESS THE HAND(S) AND SEAL(S) OF THE UNDERSIGNED.

..... (Seal)
Borrower

..... (Seal)
Borrower

..... (Seal)
Borrower

[Sign Original Only]

$\_\_\_\_\_$ _____, Alaska, _____, 19____ No._____

For value received, we jointly and severally promise to pay to the order of

DENALI STATE BANK at its office in _____, Alaska,

_____ DOLLARS

with interest from _____ at the rate of _____ per cent per annum until this note is fully paid.

Principal and interest payable $_____ per month _____ on the _____ day of each month,

beginning _____, and continuing until this note is paid in full.

The amount of interest due on this note is to be paid at the same time the principal installments are paid. If any such installments of principal or interest is not paid when due, the whole sum of principal and interest shall at the option of the holder become immediately due and payable. Principal and interest are payable only in Legal Currency of the United States of America. For value received each and every party signing or endorsing this note hereby waives presentment, demand, protest, and notice of non-payment, any release or discharge arising from any extension of time, discharge of a prior party, or from any cause other than actual payment in full hereof, binds himself hereon as a principal, not as surety, and promises, if this note is not paid at maturity and is placed in the hands of an attorney for collection, or suit is brought hereon, to pay all costs of collection including reasonable attorney's fees.

Security _____ _____

Mailing Address _____ _____

Living Address _____ _____

DSB 217

FHA FORM NO. 9197A
Revised 1/71

This form is used in connection with deeds of trust insured under the one-to four-family provisions of the National Housing Act.

DEED OF TRUST NOTE

FHA CASE NO.

$, Alaska.
, 19 .

FOR VALUE RECEIVED, the undersigned promise(s) to pay to the order of

the principal sum of
Dollars
($), with interest from date at the rate of
per centum (%) per annum on the balance remaining from time to time unpaid. The principal and interest shall be payable at the office of
in ,
or at such other place as the holder hereof may designate, in writing, in monthly installments of
Dollars
($), commencing on the first day of , 19 , and on the first day of each month thereafter, until the principal and interest are fully paid except that the final payment of the entire indebtedness evidenced hereby, if not sooner paid, shall be due and payable on the first day of , .

If default be made in the payment of any installment under this note, and if such default is not made good prior to the due date of the next such installment, the entire principal sum and accrued interest shall at once become due and payable at the option of the holder of this note. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default. If any suit or action is instituted to collect this note or any part thereof the undersigned promise(s) and agree(s) to pay, in addition to the costs and disbursements provided by statute, a reasonable sum as attorney's fees in such suit or action.

The undersigned, whether principal, surety, guarantor, endorser, or other party hereto, agrees to be jointly and severally bound, severally hereby waive any homestead or exemption right against said debt, waive demand, protest and notice of demand, protest and nonpayment, and expressly agree that this note or any payment thereunder may be extended from time to time and consent to the acceptance of further security, including other types of security, all without in any way affecting the liability of such parties.

This note is secured by a Deed of Trust, of even date herewith, to
as Trustee, on real estate situated in the Recording Precinct, State of Alaska, and this note is to be construed according to the laws of the State of Alaska.

_____ _____

_____ _____

_____

NOTICE: THIS LOAN IS NOT ASSUMABLE WITHOUT THE APPROVAL OF THE VETERANS ADMINISTRATION OR ITS AUTHORIZED AGENT.

, Alaska

$, 19 .

FOR VALUE RECEIVED, the undersigned jointly and severally, promise to pay to the order of

the principal sum of

Dollars

($), with interest from date at the rate of per centum (%) per annum on the unpaid balance until paid. The said principal and interest shall be payable at

or at such other place as the holder may designate in writing delivered or mailed to the debtor, in monthly installments of

Dollars

($), commencing on the day of , 19 , and continuing on the day of each month thereafter, until this note is fully paid, except that, if not sooner paid, the final payment of principal and interest shall be due and payable on the day of , .

Privilege is reserved to prepay at any time, without premium or fee, the entire indebtedness or any part thereof not less than the amount of one installment, or one hundred dollars ($100.00), whichever is less. Prepayment in full shall be credited on the date received. Partial prepayment, other than on an installment due date, need not be credited until the next following installment due date or thirty days after such prepayment, whichever is earlier.

If any deficiency in the payment of any installment under this note is not made good prior to the due date of the next such installment, or if there be failure to comply with any of the agreements contained in the Deed of Trust securing the Note, the entire principal sum and accrued interest shall at once become due and payable without notice at the option of the holder of this note. Failure to exercise this option shall not constitute a waiver of the right to exercise the same in the event of any subsequent default. In the event of default, the undersigned promise(s) and agree(s) to pay necessary expenses as may be incurred in collection, including reasonable attorney's fee.

This note is secured by a Deed of Trust of even date executed by the undersigned on certain property described therein and represents money actually used for the acquisition of said property or the improvements thereon.

The undersigned agree to be jointly and severally bound, severally hereby waive demand, protest and notice of demand, protest and nonpayment, and expressly agree that this note or any payment thereunder may be extended from time to time and consent to the acceptance of further security, including other types of security, all without in any way affecting the liability of such parties.

I HEREBY CERTIFY that this is the note described in and secured by a Deed of Trust of even date herewith and in the same principal amount as herein stated and secured by real estate in the Recording District, State of Alaska. Dated this day of , 19 .

My commission expires

Notary Public in and for the State of Alaska

HFC
ABE NOTE

NOTE

Loan No._____ _____, Alaska

_____, 19_____

_____
Property Address (Street and Borrower's Post Office Address, if different)

_____
City State Zip Code

1. BORROWER'S PROMISE TO PAY

In return for a loan that I have received, I promise to pay _____ _____Dollars (U.S. $_____)(this amount will be called "principal"), plus interest, to the order of the Lender. The Lender is _____ _____. I understand that the Lender may transfer this Note. The Lender or anyone who takes this Note by transfer and who is entitled to receive payments under this Note will be called the "Note Holder".

2. INTEREST

I will pay simple interest at an annual rate of _____%.

Interest will be charged on that part of principal which has not been paid. Interest will be charged beginning on the date of this Note and continuing until the full amount of principal has been paid.

3. PAYMENTS

I will pay principal and interest by making payments each month of _____Dollars (U.S. $_____) on the _____ day of each month beginning _____, 19_____. Such monthly installments shall remain the same through the third (3rd) year and then shall increase according to the following schedule.

Beginning of Year

4 _____Dollars
(U.S. $_____) on the First day of _____, 19____

5 _____Dollars
(U.S. $_____) on the First day of _____, 19____

6 _____Dollars
(U.S. $_____) on the First day of _____, 19____

7 _____Dollars
(U.S. $_____) on the First day of _____, 19____

8 _____Dollars
(U.S. $_____) on the First day of _____, 19____

9 _____Dollars
(U.S. $_____) on the First day of _____, 19____

The monthly installment of _____ _____Dollars (U.S. $_____) shall continue until the entire indebtedness evidenced by this Note is fully paid, except that any remaining indebtedness, if not sooner paid, shall be due and payable on _____.

I will make my monthly payments at _____ _____, or at a different place if required by the Note Holder.

4. BORROWER'S FAILURE TO PAY AS REQUIRED

(A) Late Charges for Overdue Payments

If the Note Holder has not received the full amount of any of my monthly payments by the end of 15 calendar days after the date it is due, I will pay a late charge to the Note Holder. The amount of the charge will be 4% of my overdue payment. I will pay this late charge only once on any late payment.

(B) Default

If I do not pay the full amount of each monthly payment by the date stated in Section 3 above, I will be in default.

Even if, at a time when I am in default, the Note Holder does not require me to pay immediately in full as described below, the Note Holder will still have the right to do so if I am in default at a later time.

(C) Notice from Note Holder

If I am in default by more than 30 days, the Note Holder may require me to pay immediately the full amount of principal which has not been paid and all the interest that I owe on that amount.

(D) Payment of Note Holder's Costs and Expenses

If the Note is in default, the Note Holder will have the right to be paid back for all of its costs and expenses in collection amounts due it to the extent not prohibited by applicable law. Those expenses include, for example, reasonable attorney's fees.

5. THIS NOTE SECURED BY A DEED OF TRUST

In addition to the protections given to the Note Holder under this Note, a Deed of Trust, dated _____, 19____, protects the Note Holder from possible losses which might result if I do not keep the promises which I make in this Note. The Deed of Trust may be made subject to any addendums attached to the Deed of Trust. If there is a conflict between the provisions of this Note and the provisions of any Addendum, the provisions of the Addendum shall control.

6. BORROWER'S PAYMENTS BEFORE THEY ARE DUE

I have the right to make payments of principal at any time before they are due. A payment of principal only is known as a "prepayment". When I make a prepayment, I will tell the Note Holder in a letter that I am doing so. A prepayment of all of the unpaid principal is known as a "full prepayment". A prepayment of only part of the unpaid principal is known as a "partial prepayment".

I will make a full prepayment or a partial prepayment without paying any penalty. The Note Holder will use all of my prepayments to reduce the amount of the principal that I owe under this Note. If I make a partial prepayment, there will be no delays in the due dates or changes in the amounts of my monthly payments unless the Note Holder agrees in writing to those delays or changes. I may make a full prepayment at any time. If I choose to make a partial prepayment, the Note Holder may require me to make the prepayment on the same day that one of my monthly payments is due. The Note Holder may also require that the amount of my partial prepayment be equal to the amount of principal that would have been part of my next one or more monthly payments.

7. BORROWER'S WAIVERS

I waive my rights to require the Note Holder to do certain things. Those things are: (a) to demand payments of amounts due (known as "presentment"); (b) to give notice that amounts due have not been paid (known as "notice of dishonor"); (c) to obtain an official certification of nonpayment (known as "protest"). Anyone else who agrees to keep the promises made in this Note, or who agrees to make payments to the Note Holder if I fail to keep my promises under this Note, or who signs this Note to transfer it to someone else also waives these rights. These persons are known as "guarantors, sureties, and endorsers".

8. GIVING OF NOTICES

Any notice of default that must be given to me under this Note will be given by delivering it or by mailing it by certified mail addressed to me at the Property Address above. A notice will be delivered or mailed to me at a different address if I give the Note Holder a notice of my different address.

Any notice that must be given to the Note Holder under this Note will be given by mailing it by certified mail to the Note Holder at the address stated in Section 3 above. A notice will be mailed to the Note Holder at a different address if I am given a notice of that different address.

9. RESPONSIBILITY OF PERSONS UNDER THIS NOTE

If more than one person signs this Note, each of us if fully and personally obligated to pay the full amount owed and to keep all of the promises made in this Note. Any guarantor, surety, or endorser of this Note (as described in Section 7 above) is also obligated to do these things. The Note Holder may enforce its rights under this Note against each of us individually or against all of us together. This means that any one of us may be required to pay all of the amounts owed under this Note. Any person who takes over my rights or obligations under this Note will have all of my rights and must keep all of my promises made in this Note, but I will still remain liable unless released in writing by the "Note Holder". Any person who takes over the rights or obligations of a guarantor, surety, or endorser of this Note (as described in Section 7 above) is also obligated to keep all of the promises made in this Note.

_____ _____

Borrower Borrower

_____ _____

Borrower Borrower

Offered: 4/ '88
Referred: Judiciary

5-2066X

Original sponsor: Rules by Request/House Members of the Joint Committee on Economic Recovery

IN THE HOUSE

BY THE LABOR AND COMMERCE COMMITTEE

CS FOR HOUSE BILL NO. 549 (L&C)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements in the use of a deed of trust; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 34.20 is amended by adding a new section to read:

Sec. 34.20.132. NOTICE OF OTHER REMEDIES. (a) When a lender uses a note as evidence of an obligation secured by a deed of trust, the note must affirmatively advise the trustor or borrower and any other party bound by the note if the beneficiary or lender wants the option to bring suit directly on the note to collect an amount owing under the note without first foreclosing the deed of trust. This option must be stated in writing within the note or as a separate document. If a note executed after the effective date of this Act fails to contain the notice specified in this section, the debt secured by the deed of trust may be foreclosed under AS 09.45.170 - 09.45.220 or AS 34.20.070 - 34.20.135.

(b) If the beneficiary or lender wishes to collect an amount owing under the note without first foreclosing the deed of trust, the following language is sufficient in the note:

The trustor or borrower is personally obligated and fully liable for the amount due under the note. The security available to the beneficiary or lender is not limited to the property identified in the deed of trust and the beneficiary or lender has the right to sue on the note and

obtain a personal judgment against the trustor or borrower for satisfaction of the amount due under the note either before or after a judicial foreclosure of the deed of trust under AS 09.45.170 - 09.45.220.

(c) In this section, "note" includes a rider to the note.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

No.

345

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSHB 549 (L&C)
PUBLISH DATE: HOUSE 4/15/88

FISCAL NOTE

REQUEST:

Revision Date: _____
Agency Affected: Commerce & Econ. Dev.
Title: An Act relating to notice requirements on use of a deed of trust
BRU: _____
Sponsor: Rules Committee
Components: Banking
Requester: _____

EXPENDITURES / REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Lawrence P. Carroll, Acting Director
Phone: 465-2521
Division: Banking, Securities & Corporations
Date: 4/11/88
Approved by Commissioner: J. Anthony Smith
Date: 4/12/88
Agency: Department of Commerce & Economic Development

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

13860-1/041188a

Introduced: 3(/88
Referred: Labor & Commerce
and Judiciary

5-2066A

BY THE RULES COMMITTEE BY REQUEST OF THE HOUSE MEMBERS OF THE JOINT COMMITTEE ON ECONOMIC RECOVERY

IN THE HOUSE

HOUSE BILL NO. 549

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 34.20 is amended by adding a new section to read:

Sec. 34.20.132. NOTICE OF OTHER REMEDIES. When a lender uses a note as evidence of an obligation secured by a deed of trust, the note must affirmatively advise the trustor and any other party bound by the note, in writing within the note, of the security, recourse, and other remedies, if any, available to the beneficiary. If it is intended to permit the beneficiary to bring suit to collect an amount owing on the obligation without foreclosing the deed of trust, this intent must be stated in writing in the note. A beneficiary may not use a remedy not specifically and clearly stated on a note executed after the effective date of this Act. If a note executed after the effective date of this Act fails to contain the notice required by this section, the debt secured by the deed of trust may be foreclosed only under AS 34.20.-070 - 34.20.135, a deficiency judgment may not be entered, and no other action may be taken nor judgment entered against the trustor, surety, or guarantor on the obligation secured by the note.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: HB 549
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: An Act relating to notice requirements on use of a deed of trust
Sponsor: Rules Committee
Requester:

Agency Affected: Commerce & Econ. Dev.
BRU:
Components: Banking

EXPENDITURES / REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Lawrence P. Carroll, Acting Director
Division: Banking, Securities & Corporations
Phone: 465-2521
Date: 4/11/88

Approved by Commissioner: C. Anthony Smith
Agency: Department of Commerce & Economic Development
Date: 4/12/88

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

13860-1/041188a

WORK DRAFT WORK DRAFT WORK DRAFT

#1

5-2066N
Bradley
4/14/88

Original sponsor: Rules by Request/House Members of the Joint Committee on Economic Recovery

IN THE HOUSE

CS FOR HOUSE BILL NO. 549 ( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirement on the use of a deed of trust; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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(b) If the beneficiary wishes to collect an amount owing on the note without first foreclosing the deed of trust, the following language is sufficient in the note:

The borrower [redacted]

in the deed of trust and the lender has the right to sue on the note and obtain a personal judgment against the borrower for satisfaction of the amount due under the note either before or after a judicial foreclosure of the deed of trust under AS 09.45.170 - 09.45.220.

(c) In this section, "note" includes a rider to the note.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

Work Draft #5-2038A dated 3/16/88

"Urging extension of the Federal Home Loan Bank Board's "Southwest Plan" to Alaska."
By the Joint Committee on Economic Recovery (for the Subcommittee on Small Business)

Page Two, Line 7 through 10:

WHEREAS one of the [a] principal purposes of the Southwest Plan is to [realize economics of scale, reduce operating expenses, and eliminate redundancies of thrift institutions] lower costs for both the Federal Home Loan Bank Board and the lending institutions through an infusion of capital, while preserving adequate services, competition, and basic structure; and

5-2038A
Chenoweth
3/16/88

IN THE HOUSE

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY (For the Subcommittee on Small Business)

HOUSE JOINT RESOLUTION NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

Urging extension of the Federal Home Loan Bank Board's "Southwest Plan" to Alaska.

BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

WHEREAS the economy of the state is severely depressed, unemployment is extraordinarily high, real estate values have fallen by as much as 50 percent in some metropolitan areas, thousands of families have lost their jobs and homes, and hundreds of small businesses are close to failure; and

WHEREAS the state's financial system has been severely strained by the extraordinary economic events precipitated by the collapse of world oil prices; and

WHEREAS several banks have closed, to the disadvantage of the families and businesses that banked and borrowed at those banks; and

WHEREAS further erosion of the state's banking system is not in the best interests of the state's businesses, homeowners, and a competitive banking system; and

WHEREAS the economic distress because of the unprecedented economic contraction within the state is not unlike the economic distress that has been experienced by other petroleum-producing states, notably those in the South and Southwest; and

WHEREAS, among other responses to the economic downturn in the South and Southwest, the Federal Home Loan Bank Board, the federal agency that regulates and supervises the federal home loan banks that provide a flexible credit reserve for member savings institutions as a principal financing source for lending institutions, has determined that the region, comprising

the states of Arkansas, Louisiana, Mississippi, New Mexico, and Texas, warrants special assistance due to its economic difficulties; and

WHEREAS the board has fashioned and implemented a "Southwest Plan" that has provided economic and noneconomic assistance to thrift institutions in that region, partially offsetting the effects of the economic slump; and

WHEREAS a principal purpose of the "Southwest Plan" is to realize economics of scale, reduce operating expenses, and eliminate redundancies of thrift institutions while preserving adequate services, competition, and basic structure; and

WHEREAS the reforms proposed within the "Southwest Plan" should assist thrift institutions in that region to reduce operating costs while maintaining a competitive environment, and improve public confidence in those institutions during a period of economic difficulty;

BE IT RESOLVED that the Alaska State Legislature respectfully requests the Alaska delegation in Congress to request the Federal Home Loan Bank Board to extend the "Southwest Plan" to financial institutions in Alaska.

COPIES of this resolution shall be sent to the Honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators, and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

5-2066A
Bradley
3/14/88

DRAFT
by Rieger

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY (For the Subcommittee on Housing and Banking)

IN THE HOUSE

HOUSE BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to notice requirements on the use of a deed of trust; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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Sec. 34.20.132. NOTICE OF OTHER REMEDIES. When a lender uses a note as evidence of an obligation secured by a deed of trust, the note must affirmatively advise the trustor and any other party bound by the note, in writing within the note, of the security, recourse, and other remedies, if any, available to the beneficiary. If it is intended to permit the beneficiary to bring suit to collect an amount owing on the obligation without foreclosing the deed of trust, this intent must be stated in writing in the note. A beneficiary may not use a remedy not specifically and clearly stated on a note executed after the effective date of this Act. If a note executed after the effective date of this Act fails to contain the notice required by this section, the debt secured by the deed of trust may be foreclosed only under AS 34.20.-070 - 34.20.135, a deficiency judgment may not be entered, and no other action may be taken nor judgment entered against the trustor, surety, or guarantor on the obligation secured by the note.

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

JOINT LIABILITY IN PARTNERSHIPS.

HOUSE JOURNAL SUPPLEMENT

March 4, 1988 No. 22

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

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

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

BY THE JOINT COMMITTEE ON ECONOMIC RECOVERY

March 2, 1988

COMMITTEE RESOLUTION

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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.

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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

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Report to the Joint Committee on Economic Recovery
by the
House Subcommittee on Housing and Banking
February 22, 1988

Introduction

The House Subcommittee on Housing and Banking has begun investigating these threshold issues and questions: Should state government act to prop up the real estate market (residential or commercial)? Would proposed actions be effective? Who benefits and who loses? How would the overall economy, and the recovery from recession, be affected? How will active commercial loans (performing, non-real estate) be treated under various alternatives?

The Subcommittee also has begun investigating specific legislation.

The Subcommittee will continue its review on these questions and proposals, and will bring recommendations to the full committee as rapidly as possible.

Recommendation on AEDC Proposal

The Subcommittee was asked by the House chairman of the Joint Economic Recovery Committee to review and recommend whether to appropriate $250,000 to the Anchorage Economic Development Corporation (AEDC) for

assessment of the FDIC portfolio. The assessment would provide information needed to decide whether to purchase the portfolio with the proceeds of a bond issue, perhaps supported by the state's "moral obligation."

The Subcommittee conducted more than 12 hours of hearings on the AEDC proposal and other related issues during the past week.

The Subcommittee recommends against appropriation of $250,000 to AEDC for FDIC portfolio assessment at this time.

However, the Subcommittee believes there is a need to acquire additional information about the FDIC portfolio, particularly about the so-called "orphaned" commercial loans -- performing, non-real estate loans which may need a continuing line of credit. Investigations into the extent of this problem may lead to recommendations regarding the FDIC portfolio or those specific loans.

The Subcommittee has not taken a position on other proposals or legislation which need further investigation, such as the "real estate stabilization trust" described in the Hallwood Group proposal of Feb. 18, and other bridge bank concepts.

Agenda for Week of Feb. 22-29

The Subcommittee hopes to bring forward by next week additional recommendations on items that could be immediately pursued or enacted by the Legislature, such as:

- Early funding of 10 additional positions for AHFC.

- Early funding for demolition of Willow Park and Hollywood Vista projects in Anchorage.

- Resolution requesting assistance from federal agencies.

The Subcommittee has scheduled the following meetings:

Thursday, Feb. 25, 8 a.m., House Finance Committee Room

Bert Wagnon, AIDEA

Barry Hulin, First Federal Bank

Thursday, Feb. 25, 5 p.m., Room to be announced

*Willis Kirkpatrick, Division of Banking, Securities and Corporations

Saturday, Feb. 27, noon, House Finance Committee Room

Work session on residential issues

Monday, Feb. 29, 8 a.m., Room to be announced

Report to full Committee on Subcommittee recommendations

*unconfirmed

Submitted by:

Rep. Kay Brown, co-chair

Rep. Steve Rieger, co-chair

cc: House Subcommittee on Housing and Banking

Rep. Mike Davis

Rep. Fran Ulmer

Rep. Mark Boyer

Rep. Pat Pourchot

Rep. Steve Frank

Rep. Henry Springer

Rep. Dave Donley

Rep. Virginia Collins

Rep. Randy Phillips

Rep. Mike Navarre

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Report to the Joint Committee on Economic Recovery
by the
House Subcommittee on Housing and Banking
February 29, 1988

Re: Willow Park Housing Project
Statement of Subcommittee Intent

A total appropriation of up to $2.6 million of state funds is sought for the purpose of asbestos removal for demolition of Willow Park Housing Complex.

The Alaska State Building Authority has proposed a comprehensive plan to remove Willow Park, a 150-unit, low-rent housing project, from the Anchorage rental inventory. ASBA is seeking funding for this project from the federal, state and municipal governments. The total project cost is $13.8 million.

The $9 million in federal funds for relocation of the Willow Park tenants is contingent upon state or local funding of $4.8 million of other costs, including asbestos abatement, demolition and site restoration.

COMMITTEE RESOLUTION:

The Subcommittee recognizes the value of the Willow Park demolition project and recognizes a responsibility for asbestos abatement of this state-owned facility.

The Subcommittee supports efforts to obtain state, federal and local funds to complete this relocation and demolition project. The Subcommittee recognizes that the specific dollar amounts for demolition and asbestos abatement are still being refined.

The Subcommittee recommends that additional analysis be done to find appropriate sources of funding. The Subcommittee further recommends that project costs be spelled out in a project agreement between the state, federal and local governments.

JOINT COMMITTEE ON ECONOMIC RECOVERY
LEGISLATION UNDER CONSIDERATION BY THE HOUSE

The following bills and resolutions are presented under various "packages" determined by subject area. This is a preliminary review list from which a final list of bills would be drawn. There is some overlap between subject areas as some bills were considered by a number of subcommittees.

HOUSING AND BANKING

HB 402 - Relating to Alaska Industrial Development and Export Authority.
BY: Rules Committee by request of Governor
STATUS:

HB 429 - Optional exemptions from municipal property tax.
BY: Labor & Commerce Committee
STATUS:

HB 436 - Neighborhood Business Development Fund.
BY: Labor & Commerce Committee
STATUS:

HB 431 - Appropriation: Neighborhood Business Development Fund.
BY: Labor & Commerce Committee
STATUS:

HB 432 - Authorizing AHFC to accept trades.
BY: Donley
STATUS:

HB 433 - Lien foreclosure moratorium.
BY: Labor & Commerce
STATUS:

HB 434 - Relating to municipal development and redevelopment.
BY: Menard
STATUS:

HB 457 - Relating to the Alaska stabilization assistance program.
BY: Pettyjohn
STATUS:

HB 458 - Appropriation: Alaska stabilization assistance program.
BY: Pettyjohn
STATUS:

SB 338 - Relating to Uniform Common Interest Ownership Act.
BY: Faiks
STATUS:

Other legislation is under consideration for introduction.

BUSINESS PACKAGE

HB 219 - Appropriation: Alaska Center for International Business.
BY: Rules Committee by Request of Governor
STATUS:
(SB 220 Rules by request, Status:)

HB 402 - (see above under Housing and Banking)

HB 419 - Community economic disaster revolving loan fund.
BY: Rules Committee by Request of Governor
STATUS:

HB 430 - (see above under Housing and Banking)

HB 431 - (see above under Housing and Banking)

HB 432 - (see above under Housing and Banking)

EMPLOYMENT AND INDUSTRY PACKAGE

HB 15 - Enterprise zones; tax credits.
BY: Martin
STATUS:

HB 26 - Date-Labeling of milk products.
BY: Martin
STATUS:
(SB 105 by Kerttula, status:)

HB 43 - Return transportation for certain workers.
BY: Donley
STATUS:

HB 45 - Alaska bidder preference.
BY: Donley

STATUS:

HB 60 - Export enterprises.
BY: Martin
STATUS:

HB 145 - Resident hire; projects on state land.
BY: Donley
STATUS:

HB 162 - Work in underground mines.
BY: Ulmer
STATUS:

HB 185 - State loan programs; changes/elimination.
BY: Rules Committee by Request of Governor
STATUS:

HB 209 - Port authority for municipalities.
BY: Larson
STATUS:

HB 227 - Joint insurance arrangements.
BY: Taylor
STATUS:

HB 326 - Hiring local state employees.
BY: Herrmann
STATUS:

HB 353 - Revision of Workers' Compensation laws.
BY: Labor & Commerce Committee
STATUS:
(SB 322 by Labor & Commerce, status:)

HB 421 - Pipeline property tax exemption.
BY: Donley
STATUS:

HB 430 - (see above under Housing and Banking)

HB 431 - (see above under Housing and Banking)

HCR 39 - Restrict foreign workers on OCS rigs.
BY: Donley
STATUS:

HCR 45 - Encouraging local hire.
BY: Pearce
STATUS:

HJR 20 - Urging Alaska hire by federal government.
BY: Shultz
STATUS:

HJR 22 - Resident hire on defense projects.
BY: Boyer
STATUS:

HJR 24 - Federal funds for job training, voc/ed.
BY: Boyer
STATUS:
(SJR 31 by Duncan, status:)

HJR 57 - Over-the-horizon backscatter radar.
BY: Shultz
STATUS:
(SJR 65 by Coghill, status:)

SB 64 - Export enterprises under A.I.D.A.
BY: Kelly
STATUS:

SB 135 - Limiting hire of nonresident teachers
BY: Josephson
STATUS:

SB 166 - Regulations affecting small entities.
BY: Fahrenkamp
STATUS:

SB 261 - Unemployment Insurance Trust Fund.
BY: Rules Committee by Request of Governor
STATUS:

SB 345 - Resource development dispute task force.
BY: Szymanski
STATUS:

SB 414 - Foreign Trade Zones.
BY: Rules Committee by Request of Governor
STATUS:

SB 433 - Fisheries Business Tax Credits
BY: Zharoff
STATUS:

SB 471 - Business loan guarantee/refinance program.
BY: Halford
STATUS:

SCR 30 - Encouraging resident hire by the state.
BY: Coghill
STATUS:

SCR 42 - Supporting mini-module production.
BY: Faiks
STATUS:

SJR 35 - Timber industry in Southeast Alaska.
BY: Jones
STATUS:

SJR 64 - Resident hire: Amchitka, Shemya, Adak.
BY: Zharoff
STATUS:

FISHERIES PACKAGE

HB 108 - Aquatic Farming.
BY: Ellis
STATUS:

HB 492 - Appropriation: Alaska Bottomfish Development Plan.
BY: Herrmann
STATUS:

HB 509 - Commercial Fisheries Loans.
BY: Herrmann
STATUS:

HB 518 - Aquatic Farming.
BY: Hudson
STATUS:

HJR 64 - Alaska fishing in Exclusive Economic Zone.
BY: Herrmann
STATUS:

SB 410 - Operation of state hatcheries by contract.
BY: Eliason
STATUS:

SB 433 - (see above under employment and industry)

RESOURCE DEVELOPMENT PACKAGE

HB 423 - Appropriation: Tourism and recreation projects.
BY: Brown
STATUS:

HB 471 - Temporary oil and gas royalty waivers.
BY: Gruenberg
STATUS:

HJR 13 - Foreign Export of Alaska Crude Oil.
BY: Davis
STATUS:

HJR 49 - Visitor's facility, South side of Denali.
BY: Pearce
STATUS:

(SJR 49 by Sturgulewski, status:)

SB 112 - Forest management agreements.
BY: Jones
STATUS:
(HB 141 by Taylor, status:)

SB 367 - Municipal tax exemption; state resources.
BY: Duncan
STATUS:

SB 443 - Game bird farming.
BY: Coghill
STATUS:

TRANSPORTATION PACKAGE

HB 62 - Creating Alaska Marine Highway Authority.
BY: Cato
STATUS:

HB 479 - Appropriation: Marine Highway System.
BY: Goll
STATUS:

HCR 34 - Tourist oriented directional signs.
BY: Larson
STATUS:

SCR 9 - Winter service Alaska Marine Highway.
BY: Jones
STATUS:

SJR 11 - Repeal Jones Act.
BY: Coghill
STATUS:

INTERIOR REGION

HB 202 - A revision of the Cooperative Codes Revision Act.
BY: Labor & Commerce Committee
STATUS:

HB 253 - Relating to the Alaska Research Policy Act and the science and engineering advisory commission.
BY: Rules Committee by Request of Governor
STATUS:

HB 318 - Establishing the Alaska energy efficient home equity fund.
BY: Ellis
STATUS:

(SB 308 by Fahrenkamp, Status:)

HB 394 - Relating to electric and telephone cooperatives.
BY: Labor & Commerce Committee
STATUS:

HB 430 - (see above under Housing and Banking)

HB 431 - (see above under Housing and Banking)

SB 166 - (see above under Employment and Industry)
HR 5 - Local effects of state budget cuts.
BY: Community & Regional Affairs Committee
STATUS:

Minutes - H. Housing & Banking Sub-committee

INDEX - HOUSING AND BANKING SUBCOMMITTEE
OF THE HOUSE JOINT COMMITTEE ON ECONOMIC RECOVERY
1988 Committee Minutes

February 11, 1988:	General Housing Problems Alaska Housing Marketing Council Anchorage Neighborhood Housing
February 13, 1988:	General Housing Problems Gil Lulay, Condo Association manager Alaska Housing Marketing Council William McNall Teleconference participants
February 18, 1988:	Willow Park/Hollywood Vista Alaska State Building Authority Alaska Housing Financing Authority
February 18, 1988:	State of the Economy Gregg Erickson, OMB Dave Rose, Alaska Permanent Fund Connie Yoshimura Buzz Hoffman, Alaska Continental Bank
February 19, 1988:	AEDC - $250,000 FDIC review proposal Greg Strong, Bob Flint
February 25, 1988:	AIDEA Bert Wagnon, Executive Director Barry Hulin, 1st Federal Bank
February 25, 1988:	FDIC; general state of banking industry Willis Kirkpatrick, Banking and Securities
February 27, 1988:	Worksession re: Housing/Banking Issues
March 3, 1988:	Supreme Court Cases re: foreclosure William McNall, Attorney Professor Hayden Green, UAA
March 5, 1988:	HJR 72 - Residential Real Estate Market

March 10, 1988:	Foreclosures Joyce James, Asst. AG
March 12, 1988:	Work session on Draft Committee Report
March 16, 1988:	AHFC, Mobile Home Situation Dr. Ron Lehr, AHFC Pat Stewart, Mobile Home Park operator Ben March, Exec. Sec'y, Alaska Trailer Ct. Assn. Rick Barrier, President, Ak. Trailer Ct. Assn.
March 31, 1988:	Judicial/Non-judicial foreclosures Craig Dahl, Ak. Bankers Assn. Ed Van Patten, Ak. Federal Savings & Loan Bob Gray, Ak. Bankers Assn.
April 6, 1988:	Bridge Bank Jim Cairns, Hallwood Group Bert Wagnon, AIDEA Commissioner Tony Smith, Dept. of Commerce

Final Report of the Subcommittee on Housing and Banking

Joint Committee on Economic Recovery

May 5, 1988

Members

Rep. Kay Brown, Co-Chair
Rep. Steve Rieger, Co-Chair

Rep. Pat Pourchot
Rep. Steve Frank
Rep. Henry Springer
Rep. Fran Ulmer
Rep. Virginia Collins
Rep. Mike Davis
Rep. Mark Boyer
Rep. Randy Phillips
Rep. Mike Navarre
Rep. Dave Donley

Housing and Banking Subcommittee

Report to

Joint Committee on Economic Recovery

The Housing and Banking Subcommittee recommends that the legislature pursue the following policies and take the following actions to address the state's economic problems:

Policy: Improve distressed housing market.

Strategy: Reduce housing supply.

Develop and initiate plans to demolish institutionally-owned residential properties (REO's) which are unsafe, substandard in quality, and for which demand does not exist.

1. Direct state agencies and encourage other agencies owning REO to cooperate in demolishing unsafe and substandard housing.

Action needed by legislature: Pass subcommittee's resolution, HJR 72 am, on residential housing market.

Cost to State: Theoretically, none.

2. Authorize Alaska Housing Finance Corporation (AHFC) to use a portion of its reserves to participate in the demolition of publicly-owned substandard housing, including multi-family housing projects, where such action is supported by local communities and where such action makes long-term economic sense to AHFC.

Action needed by legislature: Pass CSHB 555 (FIN).

Cost to State: Depends on number and cost of projects.

3. Fund demolition of the state-owned Willow Park Apartments in Anchorage.

Action needed by legislature: Pass CSHB 555 (FIN) to authorize use of AHFC reserves.

Cost to State: Demolition of Willow Park is expected to cost up to $4.7 million, including asbestos abatement; the Alaska State Building Authority (ASBA) has proposed that the state and Anchorage municipal governments share these costs. The federal government has been asked to contribute approximately $9 million to purchase or subsidize alternate housing and to cover the residents' moving costs.

Direct AHFC to exercise prudent business judgment in managing its vacant REO mobile homes.

4. Direct AHFC to develop an analysis comparing the costs and benefits of alternative ways of managing REO mobile homes, including demolition, sales, and short-term storage in storage lots and mobile home parks. Authorize AHFC to write off and dispose of vacant and unsalable mobile homes, as part of a cooperative arrangement with other institutional REO owners, wherever it makes economic sense to do so. Direct AHFC to take immediate action to lower holding costs.

Action needed by Legislature: Pass subcommittee resolution, CSHCR 54 (FIN), on management of surplus mobile homes owned by AHFC.

Cost to State: The current foreclosed inventory of 1200 mobile homes could increase by an additional 800-1200 units if economic conditions persist. Because most AHFC mobile home loans do not carry mortgage insurance, foreclosed units involve substantial costs to AHFC whether sold, destroyed, or maintained. The Subcommittee's directive acknowledges the losses and costs to the state that could accrue through various actions by AHFC, but strongly encourages the development of a consistent strategy that minimizes losses or maintenance costs and acts in the long-term best interests of AHFC.

Strategy: Use surplus housing for public purposes.

5. Establish a mental health **pilot program** for the acquisition of excess residential properties to meet critical housing needs identified by the Alaska Mental Health Board.

During the interim, investigate feasibility of expansion of the program to address other public housing needs such as elderly, developmentally disabled, physically handicapped, homeless, low-income, transitional units for ex-offenders and substance abusers, emergency shelters for abused or runaway children and women's shelters.

Conduct a survey of all statewide public housing needs, and recommend financial and management options to the Sixteenth Legislature when it convenes in 1989.

Action needed by legislature: Fund mental health pilot program as part of the capital budget request of the Mental Health Board to meet the state's obligations under the Mental Health Trust Lands Settlement.

Direct House Research Agency to conduct an interim survey of public housing needs and to analyze options for expanding the program.

Cost to State: $2.35 million for pilot program.

Strategy: Increase demand for housing.

6. Support pending legislation identified by other subcommittees of the Joint Committee on Economic Recovery that will improve the economy generally and create jobs.

Strategy: Provide aid to distressed homeowners.

7. Revise law to allow restructuring of rural housing loans by the Department of Community and Regional Affairs, where appropriate.

Action needed by legislature: Pass subcommittee legislation, HB 550.

Cost to State: Theoretically, none.

8. Direct AHFC to relax current owner-occupancy ratios for condominium mortgage loans to the extent possible, and to take actions to raise owner occupancy in condominium developments.

Action needed by legislature: Pass subcommittee legislation CS HB 555(FIN).

Cost to State:

9. Direct AHFC to take whatever action is necessary to provide timely responses to the public on pending matters. Provide adequate funding to hire personnel trained and qualified in market problem areas, such as property management workouts, and borrower counseling.

Action needed by legislature: Approve Governor's amended budget to provide funding of 25 new positions for AHFC.

Cost to State: $1.788 million (Program Receipt dollars included in Governor's FY 89 budget request)

10. Authorize AHFC to utilize trades of property where feasible in order to increase liquidity in the housing market and to assist Alaskans whose circumstances now require a larger or smaller home, or a home in a different community. Direct AHFC to make establishment of such a program a priority.

Action needed by legislature: Pass CS HB 432 (JUD) and CS HB 555 (FIN).

Cost to State: The Housing and Banking Subcommittee believes that any use of state money for these purposes must be fair to Alaskans generally, and recommends that this issue be explored by standing committees in hearings on the bill.

11. Encourage investors to provide more flexibility in, and to increase the use of, modification, refinance, and forebearance plans.

Action needed by the legislature: Pass subcommittee resolution, HJR 72 am, expressing legislative support for concepts to be implemented by agencies.

Cost to State: Theoretically, none.

12. Provide trained, centralized staffing to assist borrowers in danger of default or delinquency, and offer statewide mortgage counseling.

Action needed by legislature: Fund and expand existing services operated by the Alaska Housing Market Council, including the Mortage and Information Referral Hotline.

Cost to State: FY 88 supplemental appropriation of $100,000 and FY 89 appropriation of $400,000 ($100,000 each from ASBA, AHFC, AIDEA and the Alaska Permanent Fund Corporation included in Governor's budget).

Strategy: Revise state lending programs.

13. Investigate changes to the AHFC HOF and Mobile Home Loan programs.

Action needed by legislature: Reflect on how, or whether, state loan programs have contributed to the current economic difficulties for the economy or for individual Alaskans, and make recommendations for changes.

Cost to State: None.

Strategy: Clarify rules regarding foreclosure.

14. Increase the required disclosure of remedies available to lenders upon default. Investigate the effects of the recent Supreme Court decisions on the default and foreclosure process, and consider action if appropriate.

Action needed by legislature: Pass subcommittee legislation, CSHB 549 (JUD).

Cost to State: None.

Strategy: Improve financing opportunities for neigborhood development.

15. Maximize available private funds for redevelopment of targeted business zones throughout Alaska, community revitalization, neighborhood housing services and economic development projects.

Action needed by legislature: Pass legislation, possibly a version of CSHB 430 (FIN) and CSHB431 (FIN) am funded at some appropriate level.

Cost to State: Up to $3 million.

Policy: Maximize ability of market to solve commercial real estate and loan problems, minimize state intervention.

16. Decrease limitations on AIDEA's ability to respond to current economic conditions.

Action needed by legislature: Passage of CSHB 402 (FIN).

Cost to State: None.

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

February 3, 1988

Members of Housing and Banking Subcommittee of the Joint Economic Recovery Committee:

Rep. Kay Brown, Co-chair
Rep. Steve Reiger, Co-chair
Rep. Mike Davis
Rep. Fran Ulmer
Rep. Mark Boyer
Rep. Pat Pourchot
Rep. Steve Frank
Rep. Henry Springer
Rep. Dave Donley
Rep. Virginia Collins
Rep. Randy Phillips

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-chair
Representative Steve Rieger, Co-chair
Housing and Banking Subcommittee

RE: Subcommittee meeting schedule

DATE: February 2, 1987

The House Economic Recovery Subcommittee on Housing and Banking has scheduled the following meeting times:

February 4, Thursday, 8:30 a.m., House Finance Committee Room
Worksession

February 11, Thursday, 8:00 a.m., House Finance Committee Room
Cynthia Parker, Anchorage Neighborhood Housing Services
Glenda Straube, Alaska Housing Market Council

February 13, Saturday, 1:30-4:00 p.m., Anchorage LIO
Teleconference with Juneau legislators
Gil Lulay, Community Associations Institute
Public Testimony

February 18, Thursday, 8:00 a.m., House Finance Committee Room
Ron Lehr, Alaska Housing Finance Committee
Barbara Morse-Quinn, Alaska State Building Authority

February 25, Thursday, 8:00 a.m., House Finance Committee Room
Bert Wagnon, AIDA
Barry Hulin, First Federal Bank

March 3, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 10, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 17, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 24, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

March 31, Thursday, 8:00 a.m., House Finance Committee Room
Topic to be announced.

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Housing and Banking Subcommittee

RE: Notice of Meetings Week of February 15, 1988

DATE: February 15, 1988

This is to notify you of the meetings scheduled for the Housing and Banking Subcommittee for the week of February 15, 1988:

February 18 — Thursday, 8:00 a.m. House Finance Committee Room
-Ron Lehr, Alaska Housing Finance Corporation
-Barbara Morse-Quinn, Alaska State Building Authority

We have also arranged the following meeting times to hear discussion on a proposal to appropriate $250,000 for an analysis and review of the current FDIC portfolio:

February 18 — Thursday, 1:00 p.m., Governor's Conference Room
-Gregg Erickson, Office of Management and Budget
-Dave Rose, Alaska Permanent Fund Corporation
-Commissioner Hugh Malone, Dept. of Revenue

February 19 — Friday, 1:30 p.m., House Finance Committee Room
-Bob Flint, Anchorage Economic Development Corp.
-Peter McDowell, Sealaska Corporation
-Commissioner Tony Smith, Dept. of Commerce
-Bob Gillam, Home Savings Bank

ALSO MARK YOUR CALENDARS FOR THE FOLLOWING MEETINGS:

February 20 — Saturday, 11:00 a.m., House Finance Committee Room
-Worksession on development of subcommittee recommendations on proposed $250,000 appropriation

February 22 — Monday, 8:05 a.m. to 9:00 a.m., House Finance Room
-Joint Committee on Economic Recovery
-Response to full Committee regarding subcommittee recommendations on proposal to appropriate $250,000

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-chair
Representative Steve Rieger, Co-chair
Housing and Banking Subcommittee

RE: Notice of Subcommittee meetings

DATE: February 22, 1988

The House Economic Recovery Subcommittee on Housing and Banking has scheduled the following meeting times:

February 25, Thursday, 8:00 a.m., House Finance Committee Room
Bert Wagnon, AIDEA
Barry Hulin, First Federal Bank

February 25, Thursday, 5:00 p.m. to 6:00 p.m.,
Governor's Conference Room
Willis Kirkpatrick, Division of Banking, Securities and Corporations

February 27, Saturday, 12:00 Noon, House Finance Committee Room
Worksession

February 29, Monday, 8:30 a.m., Room to be announced
Report to full Committee on Subcommittee recommendations

March 3, Thursday, 8:00 a.m., House Finance Committee Room
William L. McNall, attorney
Professor Hayden Green, University of Alaska, School of Business, Department of Real Estate

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, co-chair
Representative Steve Rieger, co-chair
Housing and Banking Subcommittee

RE: Notice of subcommittee meetings

DATE: March 2, 1988

March 5 Saturday, 1:30 p.m. House Finance Committee Room
Worksession

March 10 Thursday, 8:00 a.m. House Finance Committee Room
Topic to be announced

March 12 Saturday, 12 Noon House Finance Committee Room
Worksession

March 16 Wednesday, 8:00 a.m. House Finance Committee Room
Ron Lehr, AHFC

March 17 Thursday, 8:00 a.m. House Finance Committee Room
Worksession

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

Alaska State Legislature

House of Representatives

Official Business

Pouch V
State Capitol
Juneau, Alaska 99811

TO: Members of Housing and Banking Subcommittee
Joint Committee on Economic Recovery

FROM: Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Housing and Banking Subcommittee

RE: Notice of Meetings through March, 1988

DATE: March 21, 1988

This is to notify you of the meetings scheduled for the Housing and Banking Subcommittee for the remainder of March, 1988.

March 24 — Thursday, 8:00 a.m. House Finance Committee Room

-Worksession
-Discussion of pending resolutions and bills being revised by subcommittee members.

March 31 — Thursday, 8:00 a.m., House Finance Committee Room

-Worksession
-Discussion on Foreclosures

Also, for your information, we have the following meeting tentatively scheduled:

April 6 — Wednesday, 8:00 a.m. House Finance Committee Room

-Worksession - topic(s) to be announced

cc: Members of the Joint Committee on Economic Recovery
Irene Cashen, Chief Clerk

trans 11

Joint Committee on Economic Recovery
House
February 11, 1988

Present: Representative Steve Reiger (chair)
Representative Steve Frank
Representative Henry Springer
Representative Kay Brown
Representative Mike Davis
Representative Dave Donley

Side 1, tape 1 began during Rep. Donley speaking about various pieces of legislation.

Glenda Strauby: I'm the Executive Dir of the AK Housing Market Council. We're an advisory group to the governor on housing issues. Our charge at this time is to look for ways to stabilize the housing market.

She briefly ran through their annual report, which each committee member has available to look through.

They are involved in the Willow Park relocation Project, they want an example for around the state to take this opportunity to take people from the substandard market and place those people into the mainstream of the market. Some things they've looked at the hardest is the over-supply on the market. It seems critical to hold properties off the market. The state, owning alot of the properties has the opportunities to do that, which other states don't due to the anti-trust laws. There's been alot of ideas on how to do that, she supports the Bridge Bank idea (Allowing institutional property owners to trade their properties for shares in this bank-like state agency; holding the property until the market recovered, to make a profit or recover losses.)

I think that we need to allow state agencies such as AHFC to issue bonds for the purpose of financing public interest projects which are aimed at reducing their REO portfolios. AHFC can only loan to individuals now. AIDEA might be a better source for this. I support the trade up-trade down bill by Rep. Donley. We support early counseling for people getting into financial problems. The proposal Cynthia Parker may deliver to you today is excellent. The only thing I am concerned about is that the rest of the state is organized in this kind of effort. One of the things we've been talking about is the issue of abandonment. I think civil penalties are in order. Another major issue is aggressively implementing work our programs for people. Contrary to what you may have read, homeowners are not yawning at the Hope program, we are hearing from them. We need to activate the market, this is not the time to tighten the restrictions on home loans; investors and mortgage insurers need to respond for offers in a timely manner and remove alot of the stumbling blocks from qualified buyers. Condominiums are taking the hardest hits. We need to develop loan programs for these. If you

look at the list, nothing is qualified to meet the owner occupancy ratios; they are selling units where they're not requiring people to meet those ratios. Our condominium task force report came out with the recommendation that we need to include delinquent condo fees in modifications that we do. The Hope program does not now include that, and I think it should, these fees are vital to the maintenance of any home. We are at a critical stage in the housing market now. Anchorage has a 10 year surplus of housing. Some additional serious problems are: current borrowers who are almost broke and getting ready to lose it, and we need info on what to tell these people to do.

Rep. Frank: So you're saying the banks aren't listening?

Glenda: It's not all that, but it's time to turn it around and put some resources out there.

Rep. Donley: Re: condo fees/dues, the lender delays foreclosure for a long time, and they are not obligated to pay condo dues prior to the foreclosure, so the dues owned before the bank takes over are unpaid, do you have any recommendations?

Glenda: One of the things the task force recommended the banks move faster on foreclosure, because it effects everyone else. The investor has certain things they should be able to expect from a seller-servicers, they have the option to pull their contracts from the seller-servicers.

Rep. Springer voiced his concerns for the rural market, because of liberal rural housing practices.

Rep. Brown voiced concerns about marginally operated properties, and which ones will be chosen for public interest projects and what will happen to ones that aren't used.

Ms Strauby mentioned they are looking for projects to use a models in this type of utilization.

Rep. Springer wanted to get a clearer picture of who it is that's really hurting, the hardship cases. Until he gets a clearer picture of who these people are he's not willing to commit the state to any obligation, etc.

END OF SIDE 1.

Further discussion followed on who these people might be.

Cynthia Parker: I am the Exec. Dir. of Anch. Neighborhood Housing Services. The corporation was formed as assistance to cities interested in creating reinvestment opportunities and stabilize neighborhoods throughout the country. There are 200 offices like ours throughout the U.S.. We see as our current challenge one of figuring out intervention strategies that will allow us to help stabilize our neighborhoods and communities. What you have before you is one proposal we have been working with; MGIC, Fannie Mae and AK Housing on providing an additional

component, and we have agreed to do is open up the Neighborhood Housing Services on a city-wide basis in Anchorage. We will be providing a component of the HOAP (the HOPE Program). What this would provide is more indepth counseling, a larger consumer outreach, explaining the program, and setting up a foreclosure prevention counseling program. Because we have been administering a loan fund for 5 years, which has experienced a low delinquency rate. This is partially attributed to the type of evaluation we do for making loans, we look at all aspects of a person's borrowing capacity separate from just the mortgage. We typically do a second analysis for the benefit of the loan committee. Right now people are encountering high consumer debt, and sometimes the mortgage payment takes a backseat. We are helping get people back on their feet, and get them to deal with creditors themselves instead of dealing with collection agencies or just giving up. We're trying to get small debts under control so mortgage considerations are more affordable. This program can work hand in hand with the HOAP program, and we can work with the exceptions to the HOAP program. This program is one that we have looked at and tried to model from other depressed market areas. We are looking at some funds for the debt consolidation portion of the loan fund, we are willing and have discussed with our secondary market the ability to recycle the fund once it has been turned over. MGIC and MAGIC are considering providing a type of mortgage insurance on the debt consolidation loan so that the risk-
loss ratio to the state would be less.

Rep. Brown: What communities in AK would be eligible if the legislation would be proposed?

Cynthia: As I understand it there is a section in the bill that refers to a population base of 20,000. Neighborhood Investment has had experience in dealing with large and small communities throughout the country, but typically the nature of the bases are more applicable to larger populations. I wouldn't suggest the corporation be on a state-wide basis, the best thing about a corporation such as ours is that it is a local corporation and that is what's necessary to make it work is the participation and control of a local community, so my recommendation to the drafters of the bill is to set up smaller corporations similar in local communities.

Rep. Collins: Do you have any idea of the cost of demolition for the Hollywood Park apartments? Who's going to pay that?

Cynthia: I'm sure the legislature will receive a request from the Municipality for some assistance. Remarkably enough, I got the numbers last night, the price is 1
mil. 2 for asbestos abatement and demolition.

Rep. Donley: You presented a residential housing proposal today, that's separate from HB 430 and 431, which deals with revitalization of business communities, right?

Cynthia: Rep. Donley has experience with the program as we operate in the Spenard neighborhood, and we have a history in that area of developing strategies for specific neighborhoods and specific local situations.

We've been administering a business loan fund in the Spenard area, for about 8 months now. One of the things we have been doing is recruiting new businesses and trying to assist existing businesses with their expansion efforts. We have been fairly successful during this period of time. One of the considerations for the loan committee has been the creation of jobs in the economy as they consider each individual loan. ANHS began last year to launch a pilot business loan fund for the network of Neighborhood Housing Services corporations, and we proposed that with a deed capital fund from the state allocated by the legislature session before last that our secondary market match that loan fund with a 4 mil dollar commitment. That's from our social investment fund. We have a variety of public and private investment sources that contribute to the loan fund. It ranges from insurance companies (Equitable, Prudential) to the Ford Foundation, British Petroleum, Arco, all have contributed to the secondary market. One of the reasons these funds are available is these companies set aside monies for public service investment, they also receive tax benefits from their investment.

As far as the removal of 378 units from the housing market, there's a local firm (Shorrett and Riley) that produces the current housing vacancy rate, and their last July report says Anchorage is experiencing in multi-family housing a 42% vacancy rate in low range rental housing. Removing 378 of the units will have an impact on the market. We should take a look at our substandard units, and if there is an opportunity to allow for more rapid absorption into the marketplace will help the market. As far as the relocation goes, we assisted in the relocation of a trailer court in Spenard which was somewhat controversial. We were able to strike a bargain with the developer, the city contributed $100,000 in that instance for the relocation effort, the developer contributed $200,000, and we administered the relocation for them. In that instance we developed a plan, as we would do with Gov't Hill, and we had a council on the site. In some cases they had to go door to door, fill out forms to see if the were eligible for Sect. 8 or Pub. Assistance funds and basically at that time there was a limited supply of trailer court space in the Anchorage area because of coding. The situations going to be a little different because of the housing rate today, finding comparable housing units, the 2 other projects near this one are about 60-75% vacant and have a comparable rent structure, so we'll be able to do it much more rapidly. Some people are really effected by a major relocation like this, so it's good to have a relocation counselor help them out on a personal level. We don't have a private source of funds to help contribute to those people who don't fit into low-income housing guidelines, and that's a problem we haven't solved yet.

Rep. Reiger made some brief remarks about future testimony scheduling. The meeting was then adjourned.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

February 13, 1988

Present: Representative Steve Rieger, Co-Chair
Representative Kay Brown, Co-Chair
Representative Virginia Collins
Representative Pat Pourchot
Representative Dave Donley
Representative Heinrich Springer
Representative Fran Ulmer

Witnesses:

TAPE ONE, SIDE ONE

The meeting was called to order by Co-Chair Kay Brown.

Gil Lulay, Condo Association manager for 4 1/2 years, addresses the Committee, describing functions of Associations.

Rep. Ulmer asks how many problems are result of downturn in economy as opposed to problems in administrative policies and agencies. Lulay states there are 84,000 mortgages with 10% on condos. AHFC has foreclosure rate of one-third. Lulay states buyers need to be informed of condo association dues.

Rep. Rieger asks if part of purchase price is reserved for delinquent homeowner fees. Lulay responds there is a two month dues deposit initially; some dispense it immediately, others retain it in an operating reserve fund. There is no other requirement. Lulay points out this increases closing costs for buyers by $600.00 to $1,200.00, and the closing date can have an impact on the interest figure.

Rep. Pourchot states he is a condo association member and was assisted by the Association in the past. Pourchot asks if banks are purposely delaying foreclosures to avoid the membership dues while assuming the duties of ownership. Lulay states with regard to AHFC, they pressure service banks immediately if they suspect delay, although the longer the bank can forestall, the longer they delay responsibility of dues. Lulay points out that foreclosures take from six to nine months. Pourchot asks Lulay's position with regard to a moratorium on foreclosures. Lulay presumes the Bill in question refers to owner-occupied units, working to establish a plan to repay any delinquent installments, and asks how the assessment will be covered. Lulay believes that is a major issue as it has serious implications for the associations. Lulay urges that any moratorium provide that the owner is current with the Association. Pourchot refers to the 70% occupancy requirement and asks if this is a key problem in certification for AHFC loans. Lulay states it is a key factor, and is not in the control of the Association. Vacant units are considered non-owner occupied, and the lack of financing has a direct impact upon the value of the unit. Lack of certification forces sellers to find buyers with cash, who purchase at much reduced prices. Pourchot asks how the Legislature can assist; Lulay is uncertain because AHFC is controlled by bond conditions. This condition on investor money is a hardship on the Association and buyers.

Rep. Brown asks if consolidation of owners into viable units can be accomplished. Lulay responds it is a complex situation, but he believes there could be advantages for homeowners and investors who have foreclosed. Lulay points out an owner could "hold their unit hostage to any conversion." Lulay states the process involves a major selling job and points out it could destroy the heart of the association. Lulay states he does not have the answer, but benefits for all can be identified.

Rep. Brown asks who should take the lead in facilitating a consolidation. Lulay responds the clout is with the investor; they are the ones with ultimate control. Lulay states owners want to sell, but there are no buyers, so if they can come closer to being whole, they will listen.

Rep. Rieger clarifies that the "investor" is the secondary market, or AHFC or MGIC; that banks are servicers or go-betweens.

Glenda Straube, Executive Director of the Alaska Housing Market Council, in Juneau, asks about the 70% owner-occupancy requirement and states a local task force reached the conclusion that the bonding requirements actually were the reason for the 70% limit. Straube states Fannie Mae has allowed AHFC to substitute owner-occupancy regulations. Straube states bond requirements did not permit HOAP, but as

bondholders faced investment failures they were willing to allow changes. Regarding facilitators of conversions or consolidation, the task force suggested that the Market Council might be appropriate when there were multiple investors in a project.

Rep. Brown asks Mr. Lulay for specific recommendations which the Legislature should follow. Lulay refers to the modifications and amendments proposed to the Common Interest Ownership Act which have been submitted to assist association management. Lulay states anything to stabilize the economy will aid associations.

Lulay states there has been a change in AHFC's certification requirements since Fannie Mae became involved, becoming much stricter, and if AHFC makes a decision on certification, there is no appeal process. An association can request a hearing, but there is no response, and the association is decertified without appeal.

Rep. Brown opens the meeting to public testimony, asking that statements be limited to 3 minutes because of the number of requests for time.

Bill McNall, an attorney representing approximately 150 homeowner associations, and has served on national committees. McNall urges that the Legislature study the AHFC regulations or policy on owner-occupancy ratio, and find why buyers were never told that their property would not be marketable under owner-occupancy ratios -- and throw the restriction out. McNall suggests AHFC have the opportunity of buying the units back because of misrepresentation. Regarding collection of dues, McNall states there is a proposal before the Legislature to allow the association a lien right for six months assessment from the date of a default. McNall points out that banks sometimes take a year to 18 months to foreclose, although the statute requires only 111 days to foreclose. McNall states the burden created by that process is unreasonable to other homeowners, many of whom are financially struggling. McNall describes problems of credit ratings of condo owners. McNall suggests that owners be allowed to trade-out, urges that the mortgage insurance carrier be involved by including insurance "up front." McNall states that unless the Legislature "comes up with something, there will be on-going foreclosures and probably a lot of bankruptcies because those folks don't have a choice." McNall states most homeowners would do anything possible to avoid foreclosure.

Rep. Rieger asks that McNall present a written statement for the Committee.

Don Taylor, describes his problems with mobile home ownership. Taylor bought the mobile home when the real estate market was

at its highest; now his family has outgrown the mobile home and there is no prospect of selling it. Taylor states AHFC must take action to help people who want to make Alaska their permanent home, making it possible for them to trade mortgages and avoid having to leave the state.

Trina Hikes, Co-chair of Residential Interest Group for Housing Trades (Group), organized in December, contacted Rep. Donley for assistance before HB 432 was introduced. Hikes urges that the Committee invite Dr. Green to address the Committee. The Group found there are three players in the problem; the homeowner, AHFC, and the mortgage insurer. The Legislature has jurisdiction over AHFC. The Group urges that the mortgage insurer be brought in to discuss the situation with the owners and AHFC so that everyone can shoulder a portion of the burden. The Group asks that part of the negative equity be placed on each party. The Group represents single family dwelling owners as well as condo owners.

Sandra W. purchased a condo at $88,500.00; the last one sold was at $43,500.00. Sandra works at the University, is a single parent who wishes to remain in Alaska. Sandra states her payments are current now, but she does need help. She urges passage of HB 432. Sandra has sought to trade her unit for a larger unit, but has been unable to do so. AHFC sent her a three page form letter in response to her request, stating "we're not in position to trade -- it's in the hands of the mortgage insurers." Sandra states 70% of her monthly salary goes to mortgage payment, dues, and utilities, and she cannot continue to do that. She urges that homeowners be allowed to return their mortgage to AHFC in exchange for property in the AHFC inventory, or some other creative program.

Bob Rogers at Mat-Su, states he is an 18 year resident, owns a business, has little education, but has common sense. Rogers refers to HB 432. Rogers believes condominium associations have been unfairly treated because no law limits the amount of time in which the servicing bank must act. Rogers urges the Legislature to act in this regard. Rogers asks that permanent fund money be placed in Alaska banks for mortgage use in Alaska. Rogers states banks will lend on a $10,000.00 automobile, but not on a home with equity. Rogers points out that AHFC requirements for brokers are not acceptable or fair. Rogers states homeowners are not speculators, and they need relief. Rogers suggests refinancing at a lesser interest rate. Rogers states self-employed individuals are not treated fairly, either, and urges change in that respect

TAPE ONE, SIDE TWO

Mike Hinshaw addresses the Committee. He states he has a 834 square foot condo, purchased in July 1984 for $88,500.00. Currently dues are $155.00 per month. Hinshaw's family is

increasing and he needs more living space. He has gone to VA, to his bank, and to AHFC, for help, unsuccessfully. Hinshaw states integrity and honesty are important, and homeowners do not want to lose their credit rating. Hinshaw supports RIGHT and HB 432. Hinshaw asks the Legislature to invite Dr. Hayden Green to meet with them.

Robert Gray, condo owner, addresses the Committee. He states condo buyers do not understand they are buying a liability; administration. SB 338 addresses an amendment of Uniform Common Interest Ownership Act, and is supported by Gray, together with an amendment of his own that developers must provide associations in transition process the necessary building data that the average homeowner is never provided. Gray states it is imperative that the Act be amended. Gray suggests associations be audited every three years.

Rep. Donley, sponsor of HB 432, has joined the Committee.

Stan ? speaks as a citizen of Alaska, and in lieu of Professor Green of the University of Alaska Business School, who is unable to attend. Stan refers to articles by Dr. Green which describe essentials of a program which will relieve the problems being discussed. He states it is not as difficult as believed, to remedy the problem, and suggests establishing a distressed real estate holding company to unify interests of all parties in an orderly manner. Stan describes a scenario of investment in homes, and speculators, pointing out there is no advocate for the homeowner. He urges rational land use controls resulting in relief for Alaska residents.

Rep. Donley asks the staff to make a copy of the previous remarks. Donley states Labor and Commerce is working on legislation at this time.

Ray Metcalf states he sat on a committee which created AHFC. He recently developed a small project that gives a clear picture of what was created. Metcalf has delivered statistics and information to the Governor's office, and now focuses on one small area of the AHFC to show what went wrong, and how to right it. Metcalf states he developed a small mobile home area where mobile homes are on space owned by the mobile home owner. AHFC was contacted in 1981, seeking financing for the plan. In the past $350.00 a month covered mobile home payment and space rent. Then a square foot appraisal was instituted, and the "blue book" discarded, resulting in increased appraisals. Space rents then were increased. Individuals were then paying more than they were qualified for, and began to desert mobile homes. AHFC entered and paid the space rent. This keeps space rent at a peak, while apartments have decreased in rent. Metcalf states AHFC perpetrated the act, and now are obtaining judicial foreclosures against the owners. Metcalf states mortgage insurance requirements are

barriers for buyers. Metcalf offers 17 pages of written testimony.

Gordon Hazel, real estate broker and association manager, addresses the Committee. Hazel states budgets must be increased for associations, but with high vacancy rates, this is not possible, and there is a snowball effect of reduced maintenance and deterioration of the properties.

Rep. Donley states proposals in Labor and Commerce Committee provide for a moratorium, with a fair rental value set so that association dues would be paid and there would be a continuing commitment by the resident. Hazel believes that would be satisfactory. Donley states the Labor and Commerce proposal is for the court to establish a rental level that would include dues, which could be beneficial.

Lee Scott states she is concerned about use of conversion of condos to low-income residences because that would create a problem for rental units because individuals will vacate present commercial rental facilities, and would just shift the problem, creating problems for apartment owners. Scott states apartment owners are not asking for a bail-out, but just for help through a difficult period. Scott asks the Legislature to work with agencies to extend mortgage duration and decrease interest rates. Scott points out that many military personnel are leaving, creating additional vacancies.

Scott Smith states he is the owner of a sub-standard condo, with many problems in addition to those of many condo owners. Smith purchased his residence in 1982, and suffers moisture and other construction defect problems. Smith has learned that no building permit was filed; that the Attorney General's office found no contractor license or bonding for the contractor, who was a vice president of Alaska Mutual Bank. Smith asks how AHFC could allow a bank to police itself. Consumer Protection has been uncooperative. Deed in lieu of foreclosure procedures were denied by the bank, which charged $200.00 for the application. Smith states the units are uninhabitable and individuals have been forced to vacate the premises. Smith believes banks are not taking foreclosure action to avoid paying dues. Smith states residents do not wish to remain, regardless of financial relief that is offered because of the quality of the construction. Smith states he is a resident of Colonial Plaza Condominiums, a converted project.

TAPE TWO, SIDE ONE

David Rankin states he wishes to discuss legislation, is an attorney, and president of a condo association. He states the legislation proposed would assist homeowner associations to collect dues. The 70% owner-occupancy requirement of AHFC is a requirement only to the extent AHFC states it cannot be

altered. Rankin refers to legislation creating AHFC, and states there is no statute prohibiting AHFC from loaning to people who desire to rent the property. Rankin believes the legislation prohibits having owner-occupancy requirements, at 86.56.088(i). AHFC had no owner-occupancy provision prior to 1981, when they switched to Fannie Mae. From 1981 to October 1987 bonds were underwritten through Fannie Mae, and in October 1987 switched to Freddie Mac. Freddie Mac's owner-occupancy ratio is 60%, and AHFC has not lowered the ratio even though they could. Rankin states AHFC currently issues some of their own bonds, and cites examples of rental programs, and HOAP is the result of such a bond issue. Bonds are floated separately for non-conforming community associations. Rankin states the rental program has caused people to simply stop paying and be foreclosed upon.

Regarding transfer rights, Rankin states he is not certain legislation is needed, and points out that not everyone will wish to trade up; some families must of necessity trade down. Rankin describes the problems of blanket judicial foreclosures which stretches the foreclosure time for as much as a year. Rankin urges that this be eliminated.

Rep. Donley asks if Committee members have reviewed a senate proposal dealing with condominiums.

Bob Kerner addresses the Committee with regard to HB 432. Kerner refers to a letter received from Rep. Rieger which states he supports the concept of the Bill. Kerner is unaware of the full concept of the bill. Kerner did private investigation of the current market, and states AHFC's actions reduce prices to "a deal you can't refuse" which is the easiest answer. Kerner's goal is to increase his standard of living and to accommodate his family. He describes his communication with AHFC, in which the AHFC representative "laughed" when he offered to trade, giving AHFC the smaller debt, and he taking the larger one. Kerner's mortgage is $70,000.00. AHFC suggested he find a buyer who could qualify, and pay $50,000.00, and that Kerner take a second mortgage for the difference. Kerner believes trades up and down are feasible.

Rep. Rieger states he wrote in the letter that he believed it would be administratively difficult, if not impossible. Rieger states the number of players in the game make it complex. Rieger believes the concept has merit, and the Committee is taking this testimony for further information.

Kay Rollison states she owns an AHFC condo and has been talking with her servicing bank since the fall of 1986. The bank's response has been that if you keep payments current, you qualify for refinancing, which was an "illusive carrot" as they never intended to let individuals refinance. Now only if

one is in default can they refinance. Rollison asks what services are available.

Rep. Springer states lists are made of those in default, requesting assistance, who will be sent information, and other individuals on a separate list; information to be sent out within four months. Springer states banks did not agree on another program which was initiated by AHFC, and it was a bad program because only those in the business profited.

Rep. Brown states requirements include: be an AHFC loan, be owner-occupied primary residence, there be a hardship and an involuntary income decrease, have ability to repay under a modified program.

Rollison refers to condo association fees stating purchasers have a projected dues figure when they buy; and reiterates that the slowness of the banks in foreclosing creates a burden for the association. Rollison believes the goal should be to aid people and to halt the need for foreclosures. Rollison hopes individuals who intend to remain in Alaska will receive some assistance. Rollison states at current rate, it will be three to four years before the mortgage balance will be low enough to equal market value of the property. Rollison states she has a degree in economics, and the situation makes no economic sense. She suggests filing bankruptcy or moving to another state to start life over.

Jack Keene believed the meeting was for more general situations than for condos when he made plans to attend. He describes difficulties a friend encountered in attempting to work with a bank because they are not concerned, they have little to win or lose. The mortgage insurance company, located in Florida, was surprised to learn the bank was not enthusiastic to do business with her. Keene believes in commercial, condo and single family housing situations, people must work in concert rather than against each other, and perhaps the Legislature could create a facility or arbitration board with representatives from the lender, bank, insurance carrier, etc. to work out individual cases.

END OF TAPE

Joint Committee on Economic Recovery
Housing & Banking Subcommittee

February 18, 1988 8:00a.m

Present: Representative Steve Rieger
Representative Kay Brown
Representative Dave Donley
Representative Heinrich Springer
Representative Steve Frank
Representative Virginia Collins
Representative Mark Boyer
Representative Randy Phillips
Representative Pat Pourchot
Representative Fran Ulmer
Representative Max Gruenberg
Representative Mike Navarre
Representative Red Boucher

Witnesses:

Barbara Morse Quinn
Alaska State Building Authority

Dr. Ronald Lehr
Alaska Housing Financing Authority

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Barbara Morse Quinn of Alaska State Building Authority states the Committee represents an opportunity for all of Alaska to solidify the many proposals to remedy the current economic situation. Ms. Quinn's expertise is low-income housing. Quinn states that a "flight to quality" avenue has opened, allowing people to upgrade their homes, and this should be available to all citizens, including low-income families. Quinn refers to the Willow Park project, and a document entitled "The Role of Public Housing in Market Stabilization, Anchorage, Alaska, Solutions and Proposals" which represents reiterization of an application to HUD asking for $9 million in new purchase money for Alaska, to buy as many as 80 properties in the institutionally held portfolio of AHFC. Quinn states the time to act on the proposal is now. Alaska State Building Authority, a state agency, owns the Willow Park property, subject to use for low-income housing. If the property is vacated for five years, it would become the property of the municipal government. This is not recommended because subsidy to 150 tenant families would be lost. Quinn sees the Committee as an opportunity to eliminate the oversupply of housing through one small action.

Rep. Rieger states the Willow Park data has been distributed.

Rep. Springer refers to leveling the entire project. Quinn states the federal government pays for all costs except capital dollars for asbestos abatement.

Rep. Boyer asks for general philosophy of the legislature's role with regard to housing in Alaska. Ms. Quinn responds there is a 50-50 split between government intervening or not intervening to stabilize housing. Quinn feels government need not intervene except where there is crisis, which exists only in low-income residential. Quinn states "everybody will lose money, there is no way to prevent it, but we do not have to have government intervention". Rep. Boyer is concerned that the legislature not act too late. Quinn states by summer the federal agencies will have made a decision.

Rep. Collins asks the cost of demolition of Willow Park, and for the entire project. Quinn responds demolition, without asbestos removal, is $2.2 million; with asbestos removal it is $4.8 million, and the entire project is $13.8 million.

Rep. Phillips confirms there are 150 units, of which 106 are occupied.

Rep. Springer believes the cost estimate is excessive. Quinn offers to attempt to obtain re-estimates. Quinn states the contract with the federal government is on only the Willow Park property.

Rep. Frank asks if there is a waiting list for low-income housing in Anchorage. Quinn responds there are 1,000 people on the waiting list. Frank asks what people on the waiting list are told. Quinn states they are waiting for a different type of property; Willow Park is sub-standard, and has vacant units. Individuals on the list are section 8 eligible and qualifying for better properties, and describes the section 8 process and qualifications.

Ms. Quinn, in response to questions by Rep. Phillips, states there is a limited number of housing certificates available from the federal government, and describes the process of obtaining certificates.

Rep. Frank clarifies that citizens vacating Willow Park will be moved into properties owned by the agency. These must, by regulation, be 3 bedroom and larger, and can be as large as 8-plex, not single family dwellings.

Rep. Springer asks for clarification on over-income situations. Quinn describes the process, and states some individuals remain, and pay the agency the excess.

Dr. Ron Lehr, Alaska Housing Finance Corporation, joins the Committee. Rep. Rieger states this will be a question and answer presentation.

Rep. Pourchot refers to a meeting in Anchorage on Saturday at which it was stated that the 70% ownership requirement of condo associations affects the viability of associations and the demand for condos, and a report which states there is more flexibility than 70%. Pourchot asks what has been done, and what would be the limit. Lehr describes the background, stating the 70% figure comes from the Fannie Mae and FHA requirement for insurance. The recent change referred to was using Freddie Mac, rather than Fannie Mae, which allows a 60% figure if the project is eligible. Lehr states generally AHFC can provide financing and insurance; those who suffer are the average homeowner trying to sell. Little can be done with respect to conventional market, non-VA, FHA properties. Lehr states it is difficult, if not impossible, to obtain private mortgage insurance on condos. Lehr states it is necessary to convince FHA to be flexible, and he believes they are too strict in present circumstances. Lehr does not believe out of pocket financing is recommended.

Rep. Pourchot asks if foreclosed units are counted in the formula of 70%, and if it is an option. Lehr responds it is not correct procedure. Pourchot states in the distressed, residential market, there is a very large negative equity, and asks if anything can be done. Lehr responds "probably not." Pourchot asks if these are the highest at risk of foreclosure, and Lehr responds affirmatively. Lehr believes it is required that there be restriction of supply, and identifies various present sources. Pourchot asks if focusing the supply reduction at the bottom, there would be a benefit to the remaining residential market. Lehr agrees that is a possibility. Pourchot suggests concentrating the basic supply reduction on the lower end of the housing market.

Rep. Donley refers to proposals to trade up/down with MGIC and asks for clarification. Lehr states it is a proposal for trades up, and a similar mechanism could be used for a trade down. AHFC is willing to do so, but there are difficulties, including concurrence by the insurance carrier. Rep. Donley urges being creative, and not writing off entire negative equity, especially at the lower level.

TAPE ONE, SIDE TWO

Dr. Lehr states insurance companies must be convinced, and describes concern about taking units off the market. Rep. Donley asks the timeline of putting the proposal together. Lehr responds a study is to be done by the University of Alaska on figures of supply and demand, and then the program will be designed, hopefully by spring. Lehr states working

with Fannie Mae and MGIC will be easier than working with FHA and VA.

Rep. Frank asks what plans have been made to restrict supply. Lehr states the primary plan is to move residents from one group of units into others, resulting in vacant projects; then to determine the best use of the vacant projects, such as student housing, elderly housing, re-conversion to apartments, etc. Rep. Frank refers to Rep. Ulmer's suggestion to increase the interest rate on new construction loans and Lehr states there is little new construction financing, so it is not a concern. Lehr believes the market is rational.

Rep. Frank asks if the designated broker system is working. Lehr states this is a frequent question, and gives a brief history and description. When there were few properties, it was a workable system, but with multiple properties now, the system does not work well, and banks are not geared to be property managers. Lehr believes the system is working better now because of experience gained.

Rep. Ulmer asks what Dr. Lehr would propose if he were in the Legislature. Dr. Lehr responds he does not know that legislation is needed at this time. Lehr describes the HOAP program operation without legislation. Rep. Ulmer asks for comments on the proposed bridge bank. Lehr does not believe that residential properties need to be included because commercial and residential properties are very different. Lehr states 4 or 5 institutions dominate the market, and it is their problem to address. Lehr states there is a desire to minimize losses, and the institutions must work with insurance companies.

Rep. Brown asks what plans are in place to address management of mobile homes, their storage, and possibility of a bulk sale. Lehr responds mobile homes are the worst part of the market, and AHFC currently has 1,200 units, and 800 to 1,000 are currently delinquent. Lehr describes action taken to repair units and ready them for sale and marketing plans. Lehr describes monthly expense of storing mobile homes as being approximately $200 to $250 per unit. Lehr states a storage lot for approximately 100 has been obtained and units are being moved there.

Rep. Brown asks if the policy being pursued is keeping space rents artificially high for remaining residents. Dr. Lehr responds that significant vacancies always result in lower prices. Lehr states some park owners have reduced rents not just for AHFC, but for all tenants.

Rep. Springer states the current economic situation is not unique; it has been endured elsewhere, and asks if solutions in the Lower 48 might be applicable to Alaska's situation. Dr. Lehr states he traveled to other areas at the insistence

of Fannie Mae, and he believes Alaska is doing much better than other areas, despite the fact the housing market dip is greater in Alaska. Rep. Springer confirms that state governments in other areas did not become involved. Rep. Springer discusses the ABE loan program, and expensive refinancing programs. Lehr states refinance is a new loan; Springer disagrees. Lehr describes the HOAP program as an option. Lehr acknowledges there are some individuals who cannot be assisted.

Rep. Gruenberg refers to sale of mobile homes, and asks if an increase has occured in sales in other residential properties. Lehr responds the general sales trend is upwards, reflecting that the market is improving for most properties. Rep. Gruenberg clarifies that difficulties in getting lending agencies together for discussion are not the institutions refusing to do so. Rep. Gruenberg states FDIC recently indicated there are unusual factors in Alaska, and asks if the Legislature can assist in getting more response from FDIC. Lehr states it is premature at this time. Rep. Gruenberg discusses refinancing fees, and states perhaps the Legislature can assist, suggesting recommendations from Dr. Lehr. Lehr describes the requirements of the process and states there is little interest in investing in Alaska property at this time.

Rep. Donley asks if Dr. Lehr is participating in the Housing Market Council. Lehr responds affirmatively. Donley states the Legislature is asking what it can do for the homeowner. Lehr states a healthier market helps homeowners.

TAPE TWO, SIDE ONE

Dr. Lehr states he is working with investment bankers to obtain "cheap" money to assist low-income families to buy homes, and is trying to design programs that do not cost a lot of money. Rep. Donley asks that Dr. Lehr help the Legislature identify other concepts in addition to financing to solve the housing problem, and offers to work with Dr. Lehr to that end.

Rep. Frank discusses people who desire to stay in their homes, but need some assistance. Lehr states a foreclosure costs the system about $50,000.00 so it is in their best interest to assist individuals to stay in their home.

Rep. Rieger asks if there are programs which should be abolished. Dr. Lehr responds that the mobile home financing program has been a "disaster for everybody" and the Home Ownership Fund (HOF), modeled after the HUD 235 program, has created problems for AHFC because the "ceiling became a floor." Dr. Lehr does not believe the programs should be abolished, but should be revised, perhaps having an incentive built in.

Rep. Springer states another program in that category is the Rural Non-Conformance Loan Program, with state standards which are not accepted by banks.

Rep. Rieger asks the committee to consider what recommendations should be made.

Rep. Brown refers to previous testimony on foreclosures, and asks Dr. Lehr to describe the process, especially with regard to condo homeowner dues. Dr. Lehr responds that condo associations seek fast foreclosures to avoid absorbing delinquent and/or unpaid dues. When foreclosure is accomplished, AHFC pays the association dues.

Rep. Gruenberg asks for information on the "large fund". Lehr responds the balance is $1.5 billion net worth, some of which is pledged to bond issues and securities. Rep. Gruenberg asks how much is not pledged. Lehr responds it is about $400 to $500 million, but he is uncertain, and points out that unpledged does not mean it is liquid. Mobile home loans are made from that balance. Rep. Gruenberg asks "how much actual money do you have in the bank, as opposed to accounts receivable?" Lehr states $200 to $250 million, with the presumption that AHFC is "dead as a financing entity, and is basically a checking account." Rep. Gruenberg asks, of the remaining $1.25 billion, how much is collectible. Lehr states there is a loan loss reserve, so the figure is adjusted for bad debts. Rep. Gruenberg asks the figure, unadjusted. Dr. Lehr states the loan loss reserve is between $20 to $30 million, and is not covered by mortgage insurance. Lehr states AHFC received approximately $80 million last year in insurance claims.

Rep. Rieger clarifies that HOAP is refinancing 18 year loans to 30 year loans. Lehr states the HOAP program will be 10% on the first $90,000.00 and cost of funds is about 11%. Loans are being made under HOAP.

Rep. Rieger asks the committee to consider the request of Ms. Quinn on the Willow Park project, and asks for a committee recommendation. At 1:00 p.m. the committee will consider commercial real estate market, chaired by Rep. Brown.

Rep. Collins states she is troubled that we "got into this trouble because we tried to subsidize housing ownership, and when government subsidizes anything the cost automatically goes up." Collins asks, "are we are solving the problem, or just perpetuating it." Dr. Lehr states that if government intervenes in the marketplace in a way that facilitates how things work, it can be successful. Lehr describes HOF as a failed intervention because it sometimes made homeowners out of people who should have remained renters.

There being no further questions, meeting adjourned.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

February 18, 1988 1:00pm

Present: Representative Kay Brown, Chair
Representative Steve Rieger
Representative Heinrich Springer
Representative Max Gruenberg
Representative Randy Phillips
Representative Virginia Collins
Representative Mike Navarre
Representative Steve Frank
Representative Mike Davis
Representative John Sund
Representative Pat Pourchot

Witnesses:

Gregg Erickson
Office of Management and Budget
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David Rose
Alaska Permanent Fund

Connie Yoshimura
Anchorage, Alaska

Buzz Hoffman
Alaska Continental Bank

TAPE ONE, SIDE ONE

Rep. Brown calls the meeting to order, stating the purpose of the subcommittee is the underlying policy issues with respect to proposals being advanced as ways the state might assist the commercial real estate market. Brown believes a decision or recommendation would be the opportunity to appropriate money through the jobs bill. The committee is asked to look at specific requests to appropriate $250,000.00 for an appraisal of the FDIC portfolio, and the underlying issues to which such an appropriation would apply.

Gregg Erickson, Economist with Office of Management and Budget, submits written and oral comments to the Committee to give an overview of the commercial market situation.

Erickson states he will cover five questions: (1) what caused the recession, (2) when will it end, (3) what sort of recovery can we expect, (4) how will the real estate crash effect that

recovery, and (5) what are policy options for the state. Erickson summarizes answers to the questions: (1) the recession was caused by the increase in state spending in the early 1980's; it was inevitable when the state made the decision to pump so much money into the economy so quickly; (2) some economists say the recession has already ended, but everyone agrees it will end before the close of 1988; (3) recovery depends in part on decisions of the Legislature, but economists are optimistic about the recovery and believe with good reason that it will be steady; (4) the real estate crash will make recovery more robust and faster; and (5) the economy will improve on its own, the state does not need to do anything major to speed the recovery, but there things the state can do to ease the pain of the recession.

Erickson refers to a chart of the recession, with vertical accents of the percentages of the rate at which employment grew or declined, which is the pulse of regional economies. Data starts in January of 1980 and ends in January 1988. Erickson describes the boom in Alaska beginning in February 1980, driven by expectation and increased spending in July 1980, when state spending increased by 100%. The boom peaked in March 1981, when jobs were added at 12.5% annually, and thereafter declined. Beginning of the recession occurred in September 1985. Erickson states the recession was self-inflicted, and was exceptionally sharp and deep, and he believes, short. The deepest point, when jobs were lost at 1,660 per month, covered a 6 month period, the last data point being October 1987.

Erickson discusses the relationship between growth of spending and the inevitability of the recession. Erickson states the 100% increase in real per capita spending in one year made it inevitable that capital and labor would be attracted to fill the demands created by state spending, and most of it went for investment goods. Erickson describes the pyramid effect of the spending in which the investment to satisfy the initial stimulus accelerates the demand by drawing in additional investment, and the reverse situation which follows. Erickson points out that state spending did not decline until FY 86, and the construction industry recession began in late 1984.

Erickson states the oil price collapse was not the cause of the recession; it did not occur until December 1985, three months after the recession began and more than two years after the construction industry recession commenced.

Erickson states the foregoing is his view, as an economist, of the recession. He states that in balance, the real estate crash will add jobs, and compares real estate to commerce. Erickson states the decline in residence rents in Anchorage has had the equivalent economic impact of adding 1,400 state jobs. Business income from falling rents is even larger. Erickson agrees that recession has cut real incomes, which

reduces purchasing power, but firms are bidding jobs away from other areas.

Erickson states there are policy options which the State of Alaska could consider to ease the pain; those that make sense are those which do not cost much money. Erickson has no specific recommendations. Erickson states there has been justified concern that the recession has created a loss of confidence in Alaska, and declares that is difficult to measure, but there have been recent reports, including the Anchorage Population Profile, proving that is not the case. Erickson describes the out-migration from Anchorage and states it is not a broad-based exodus. The Ditman Research Report should be viewed carefully, with more attention to the numbers, which are optimistic, than the commentary, and cites examples. Erickson is optimistic, although there are two major clouds on the horizon, (1) regardless of reductions in spending in the past two years, Alaska continues to spend at a rate higher than has been described as sustainable spending, and (2) although Alaska has made an economic transformation since the 1960's, the differentials in education, health, etc. between urban and rural Alaska are increasing, with rural Alaska falling behind.

Rep. Gruenberg confirms that the chart represents growth and decline, not absolute numbers, and asks what the graph would be with absolute numbers. Erickson responds it would grow more rapidly in some areas, and more slowly in others. Gruenberg asks, when measuring percentage growth and decline, if it is using "zero as a constant or relative." Erickson states "relative to the size of the economy in the previous period." Gruenberg asks "from the point of view of making long term policy decisions for the state, what do you think our role should be in attempting to lessen the booms and busts?" Erickson responds that excessive state spending caused the current recession.

Rep. Collins asks at what level of per capita spending should the state act to prevent a recurrence. Erickson states Drs. Reaume and Goldsmith have studied this and defers to them.

Rep. Phillips asks what will happen to the state as a whole for the next 6 months, and then the next 12 months. Erickson believes the economy is probably adding jobs now, pointing out that different areas have different types of jobs and situations.

Rep. Rieger refers to "wealth effect" and real estate values, asking if a state policy is suggested for the residential market. Erickson states it exists and believes it will not be significant in Alaska. Erickson suggests reviewing a recent analysis for AHFC of the residential market done by Professor Lee Husky of University of Alaska. Rieger refers to FDIC, asking what the loans might do. Erickson responds economists

do not see the properties as being a liability to economic development.

Rep. Springer appreciates the concern of Mr. Erickson for rural Alaska, stating the economic situation in rural Alaska has suffered severely with little reason to believe there will be change in the future. Erickson states the answers to the problem are not easy to reach.

Rep. Brown states the meeting will be extended for one hour, with Dave Rose, Commissioner Malone, Connie Yoshimura and Buzz Hoffman of Alaska Continental Bank to address the committee.

TAPE ONE, SIDE TWO

David Rose states he has no prepared remarks, and will submit to questions. Rose is awaiting arrival of reports indicating the banking situation as of December 31 because he is currently working with September 30 figures. Rose states it is believed the long slide of banks has turned around in the last quarter. Alaska Permanent Fund has had as much as $182 million deposited in Alaska banks. Rose has been asked by legislators (1) should we be doing anything, and (2) is there anything we could do that really makes sense. From an economic viewpoint Rose believes the best thing to do is nothing; let the factors of supply and demand take hold. Rose compares economic issues with social and political issues. Rose believes there are social and economic responsibilities, apart from economic, and urges that the Legislature divide the problems into those categories, to be approached solely on the social and political level. Rose does not agree completely with the "wealth effect" but acknowledges it does exist. Rose describes the difficulties of businesses, stating there is real distress which must be addressed socially and politically.

Rose recommends that if the Legislature decides something must be done, not because it makes economic sense, the Committee review a report he made in January in response to Mayor Fink's inquiries about using the permanent fund. Rose states there must be diminished supply and increased demand. Subsequently Rose prepared a paper entitled "Conceptual Plan for an Alaska Stabilization Assistance Program." Rose describes proposals rejected by professionals, choosing to leave real estate loans with Alliance Bank and FDIC. Rose proposes that the State of Alaska tell owners of problem real estate, FDIC, Freddie Mac, VA, Alliance and other Alaska banks, etc., "You have a problem, and we're not going to buy that problem from you. We will allow you to pool it and take an interest in that pool, and you try to stabilize, in your own enlightened self-interest, the market so that values will come up." Rose points out that FDIC is a member bank organization, and owes a service to the banks.

Rose cited FDIC/Alliance Bank and stated the Hallwood Group must make Alliance Bank work within 18 months. He asked the Committee to consider the economic and political ramifications, and to try to move supply and demand curve in a positive direction. Rose discusses bank failures, and warns that the problem could return.

Rep. Frank asks if 18 months is long enough for the bridge bank to liquidate properties. Rose states there are two separate questions: banks must be allowed to be banks and not be property managers, and Alliance and other banks must be allowed to be bankers so that they can succeed. Rose points out it is not necessary that the banks get their money out during that period. Rep. Frank asks if banks give up flexibility by participating, and if they are better off being outside the bridge. Rose responds that will happen. Rose has received a copy of the Hallwood Group's proposal, after review of Senator Kelly's and Senator Sturgulewski's legislation, which is conceptually very close. The proposal includes the concepts advanced by Sealaska and another group concerning investment trust, providing for immediate sale to another trust with the same long term goals.

Rep. Brown asks for a copy of the proposal.

Rep. Rieger asks who would manage the bridge bank. Rose responds it would be the entities which contribute, not a state agency. The only state involvement would be appropriation of the working capital through an organization which prepares a contract and monitors the contract to ensure that stabilization is maintained. Rep. Rieger asks if it can work without the $15 million. Rose responds he does not know, pointing out there are huge carrying costs. Rep. Rieger asks how things would be different with the bridge bank. Rose states the winners are the people who hold property for the long term, and the losers are those who want the market to collapse and get in for lower amounts. Rose describes the political fault, stating a stabilization keeps the cost of living up, but in the end run it may be beneficial. Rose clarifies there are not hard advocates for the bill at this time, although it is a real concept with prospect of being executed. Rose cautions there are some weaknesses in the market which will never be overcome.

Rep. Gruenberg asks if a bridge bank has been used elsewhere. Rose responds there are none to his knowledge in any other state or country. Gruenberg recognizes benefits are available to entice the banks to participate, and asks what other methods have been used to achieve similar results in other locations. Rose states government has either stayed out entirely, or has provided cut-rate loans in distressed areas, i.e., a Pennsylvania plan. Rose states government has never been successful in dealing with such problems because it can only create jobs by hiring, or it can "get out of the way,

regulationwise." Gruenberg disagrees, pointing out that Rose suggests a method of government encouraging business to solve it's problems.

Rep. Frank asks how the value of loans will be determined. Rose states it would be the underlying collateral, or the real estate valuation. Rose refers to a similar effort in Oklahoma which fell apart because of valuation. Rose cautions that if the Hallwood proposal does not give strong consideration to by-passing the valuation problem, then it may not work.

Rep. Gruenberg refers to other testimony regarding FDIC's intent with regard to property and asks Rose what evidence he has to support his statement that FDIC is not about to dispose of their property. Rose responds he has no evidence, but knows there are two sides to FDIC, one being regulatory and the other liquidating. Rose has dealt with the regulatory body, and he believes liquidation would defeat the basic mission of FDIC.

Rep. Navarre discusses the supply curve and asks what the proposal would do on a long term basis. Rose responds that it is synchronized to work very well, but synchronization is essential.

Commissioner Malone joins the Committee. Malone cites the desire to avoid previous mistakes and urges caution in proceeding to avoid squeezing out the private sector activity. Malone urges treating the problem, not the symptoms. Malone states there is potential of properties being vacant for long periods of time, creating urban blight, and he is uncertain that mechanisms considered are the solution. Malone suggests that where state laws and regulations create barriers, perhaps they should be revised.

TAPE TWO, SIDE ONE

Commissioner Malone states total state spending is down, and the Legislature needs to consider reallocating how dollars are spent. Malone urges letting the private sector grow because that is a positive thing.

Rep. Brown refers to Dr. Lehr's comments concerning actions AHFC might take to stabilize the residential housing market, and asks Commissioner Malone's comments. Malone responds that AHFC must act to manage its properties, although he does not have concrete suggestions. Malone is uncertain about feasibility of moving individuals from one condo to another. Malone believes AHFC should be sold, "lock, stock and barrel, getting out of it whatever we can and let the buyer manage the assets." Malone believes political solutions are likely to be piecemeal and contrary to management techniques.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1587 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1384

Rep. Rieger refers to commercial loans and transfer of ownership, and asks the administration's feelings concerning out of state ownership. Malone responds the state policy is to try to attract investors from other parts of the country to invest in Alaska.

Rep. Gruenberg discusses statements by David Rose concerning social and political ramifications and asks if Commissioner Malone agrees. Malone states the word economic means more than just financial considerations. Malone suggests doing as little as possible when it comes to managing residential and commercial real estate.

Connie Yoshimura, real estate broker in Anchorage, joins the committee.

Yoshimura states her comments are as a commercial real estate investor, primarily income producing properties, and not as an economist. Yoshimura has several concerns about the state's involvement in the commercial real estate market, the first that other states have failed to remedy recessions. Yoshimura suggests the process could be slowed down through a moratorium or changing right of redemption on judicial foreclosure law. Regarding deficiency judgment on judicial foreclosures, currently lenders repossessing property do not have to pay assessed value or fair market value for the property and if the borrower is not aware that he has a right to contest, the deficiency judgment is made. Yoshimura believes a change in law would be beneficial in that respect.

Yoshimura concurs that the property which the Legislature is considering analyzing is the "dogs of the commercial real estate market" and describes examples. Yoshimura points out that in the private sector, when one buys property, they buy the best piece they can find, but that is not what is happening in this situation. Yoshimura concurs with Mr. Erickson that when an investor goes bankrupt, no jobs are lost. Yoshimura suggests finding vehicles to stimulate the economy and create jobs, thus improving the economy.

Yoshimura continues she believes state participation in facilitating purchase of numerous pieces of property would be unfair competition, and taking property off the market prevents the private investor from functioning. Yoshimura asks how the properties would be liquidated in a fair manner to avoid having winners and losers. Regarding the Alliance Bank situation, Yoshimura states she as an investor would like similar treatment to make up negative cash flow. Yoshimura does not believe it is the state's role to ease the pain of the commercial real estate investor. Yoshimura compares real estate investment to "Nevada black-jack." Yoshimura discusses loss of tax incentives in relation to rental real estate.

Yoshimura does not consider the residential real estate market in any great difficulty, although values are low, except with regard to condos.

Rep. Rieger refers to "flight to quality" and asks Yoshimura what extent of the market is substandard. Yoshimura responds she believes it is about 20%, approximately 300 units in Anchorage, and that in the condo market it is increasing, and she favors the trade up/trade down plan.

Rep. Springer points out that in rural Alaska, the single family housing market is also in trouble, and many homes cannot be sold.

Buzz Hoffman, President of Alaska Continental Bank (ACB), joins the Committee. Hoffman states he does not propose to speak for all banks, but only for the small bankers, and more for the business than the housing aspect. ACB ranks 37th in dollar number of loans in the nation in Small Business Administration guaranteed loans. Hoffman describes the "human basis" of the current recession, citing a specific example of a widow whose estate has crumbled. Hoffman states that 5 Alaska banks have failed in 18 months; that there was no aid or assistance from the State of Alaska. Hoffman states the banks failed because their customers could no longer pay their obligations. Hoffman points out that on September 30, 1987 all state chartered banks in Alaska combined had a negative net worth of $131 million, and all national banks in Alaska had a total net worth of $330 million, and that has changed with failure of one of the banks. Hoffman declares the figures are from the Department of Commerce and Economic Development, Division of Banking and Securities, provided by the State of Alaska. Hoffman states banks alone cannot fuel an economic recovery. Hoffman states that the State of Alaska owns most of the resources, whereas in most other states the individuals own the resources, and he believes the State has been a "master at extracting money from our economy and sending it out," citing the Permanent Fund, AHFC and Alaska Industrial Development and Export Authority as some of the agencies which have large sums invested outside the State of Alaska.

TAPE TWO, SIDE TWO

Buzz Hoffman states AHFC has an equity of $1.521 billion, equal to the equity of all banks in the state combined, and has a cash and short term investment in the last audit and financial statement of $1.256 billion to help people keep their homes, and profits last year of $21 million. Hoffman finds this unconscionable, and states they could have, without legislation or bonding, presented a program to reduce interest rates instead of foreclosing on homes. Hoffman believes there has been a lack of political leadership, because there are economic resources in Alaska to help individuals in trouble.

Hoffman points out that numerous pension funds are invested in real estate mortgages in Alaska. Banks are not seeking a "bail-out" states Hoffman; that it is the people of Alaska who need a "bail-out."

Rep. Navarre asks if AHFC will appear before the Committee because he has questions concerning refinancing by AHFC. Rep. Brown states Dr. Lehr may meet with the full committee. Rep. Navarre discusses individuals who cannot afford refinancing at a lower rate because of the percentages. Mr. Hoffman responds banks can do it for $30.00, and that reappraisals, new title policies, etc. are not necessary.

Rep. Frank asks, with regard to AIDA, if the agency is responding to needs. Hoffman responds they have been very cooperative in assisting borrowers, having a moratorium on interest.

There being no further question, the meeting is adjourned.

Trans6

Joint Committee on Economic Recovery
House

February 19, 1988

Present: Representative Steve Rayger (Chair)
Representative Max Gruenberg
Representative Pat Pourchot
Representative Kay Brown
Representative Mike Navarre
Representative Mike Davis
Representative Red Boucher
Representative Steve Frank

Testifying: Bob Flint, Greg Strong (AEDC)

Flint: The Development corporation is a organization much like your state agencies, it's a public corporation of the Muni of Anchorage, and it's been formed by ordinance. It has a board consisting of the Mayor, 2 members of the assembly, and 6 private citizens. The chairman of the board is Mr. Jerry Grilly, the publisher of the Daily News, the president is Scott Hawkins, formerly an economist and formerly of Key Bank. For the purpose of this proposal, because of it's statewide impact, and because of the necessity of statewide governance of the management of these assets, the proposal would include the formation of a non-profit subsidiary, of the AEDC which would structurally include on it's controlling board members of the various communities around the state which are affected by these assets and these troubled loans as well as those who would assume any part of the risk or involvement in the management of these assets. The proposal, I have made a brief outline as the what the AEDC proposes. Basically it is a bulk purchase on $330 mil. of book value of assets of the FDIC from failed AK banks, Mostly Bank of the NOrth, 1st Interstate, some from Security Nat'l. This opportunity arises in a unique way because the FDIC, which normally disposes of it's assets in a piecemeal, bulk sale basis, has proposed that they sell all their assets to a public purpose entity. This would be the largest bulk sale the FDIC has ever done. It has been told to us it is a unique proposal. The reason this is feasible, even on a large scale, it the large discount they will sell this portfolio for. The FDIC sells this at it's current appraisal, which is substantially less than book value. The reason it is feasible to purchase it and operate it on any sort of sustained basis is because the entire portfolio consists not only of real estate, which actually currently is only about 10% or less of the $330 mil., but also because of operating loans which produce a cash flow that will determine the purchase price and the operating expenses of managing the portfolio. The reasons we would enter into this transaction and accept the offer of the FDIC is basically because it gives an opportunity to manage this rather significant segment of AK loans and banking assets with some public input and with some public purpose. Otherwise, at similar prices, at it's present value, these assets will be disposed of to people who will sell them on their own for a profit.

The purposes of a group like the AEDC are as the overall goal, that we would try to achieve some form of economic stabilization, rather than a near term profit in managing the assets. First, we would try to keep people in their homes and businesses where they have not yet been foreclosed. If liquidation goes forward, the 10% (real estate) is going to rise substantially. The key to this proposal, is that there are about $100 mil of loan files that actually produce income, and some of which are in fact very good loans. The transaction on the 2 large closed banks was that NBA, the purchasing bank would acquire 50% of the ABN loans and 25% of the 1st Interstate loans. They were given loans that were not classified and no more than 60 days overdue. They are putting back the optional 50% and the 75%, so they're taking only the minimum. The reason they are doing that, I am told, is because they have other policy reasons, including exposure in the real estate market, that dictate how many loans they can take. What is necessary in order to go forward with any purchase is to determine what that is. The appraisal of this portfolio depends on a cash flow analysis, the cash flow, which, under a conservative and reasonable basis, will be able to support the operating expenses associated with managing the loans and the property as well as paying off the financing. The one thing about this proposal, is although there may be credit enhancement in order to finance the sale, nevertheless the deal will go or not go standing by itself. The terms of the sale including the price depend on this appraisal, and that involves looking at each and every loan file, to determine what cash can be expected from it as well as the security. That effort is what the $250K is all about. This is a somewhat expanded effort of what the NBA already did, when it looked at the loans that were put to it from the FDIC from the 2 banks initially. A team of experts, loan, real estate and financial experts look at the loans, determine the cash flow. At the same time, an underwriting group has to take that information and determine what can be financed. Based upon those realities, then a price and terms are negotiated with the FDIC. As part of the initial effort in this proposal, the FDIC offered to the development corporation 20 sample files to assemble a small team to look at them to see if the assumptions we would operate on were close enough to the FDIC's own assumptions as to the value of the portfolio that it was worth going for with the full appraisal. If the assumptions were so far apart that there was no deal possible obviously there's no point in wasting anybodies time. The development corporation accepted that and we have 3 people who will start tomorrow looking at those files to come up with that assessment. The development corporation is paying for those personnel out of it's own budget. We would hope and assume since this is a present value sale and the FDIC understands that it has to be financed, that a willing seller and buyer can come to an agreement on the price and terms. However, in order to go out to finance the acquisition of this portfolio, some form of subordination or credit enhancement is going to have to take place. Even today with a great project in AK it is difficult, or impossible to get participation financing outside for AK projects. You as policy makers can be convinced that this would be a self supporting operation, but the market would not even look at it, not only because it's from AK, but from failed AK banks, no way. If the state were willing in creating a moral obligation similar or the same as what you do for other agencies, i.e., the bond bank, or AHFC. The moral obligation of the state of AK carries an A rating with

Standard and Poor's, just below is AA-. The moral obligation idea is common, both around the country and in this state. It is a device which is designed as a credit enhancement and not as a subsidy, on the proposal the operation is supposed to support itself, the moral obligation is a backstop, in case the cash flows do not come up to projections. So far, not a dollar has been called on them to meet the moral obligation pledge. There are many combinations, the FDIC indicated to us on Wednesday that we should come to them with an understanding that they are open to different kind of proposals, including creative financing and although they have sold bulk sale at cash only in the past, they are willing to consider but obviously have not obligated themselves to deal with a proposal which includes part cash, and part subordinated debt, in which case they would bear part of the risk. I count that not as any commitment of any kind, but just an encouragement that we do have a seller that is willing to deal with us on a reasonable basis. There also could be a combination of state and moral and FDIC support. The $250 mil request is to analyze the portfolio with a group of professionals. In this corporation we do have people with banking, public admin, and economics background. Myself, I've been involved in banking credit for some time as well as public finance issues. Aside from the underwriter basically what would be formed would be people who would go in and tell us all, what could be done with an acquisition of this portfolio, and do it in a very professional manner. As far as the $250. mil is concerned, it would be at risk of there was no deal done, it is a cost of the sale and would be repaid out of the proceeds of the bond issue if that took place. But the team would be able to tell you at any step of the way if it wouldn't work. Finally, It's important to note that as far as the loss that is being taken in order to do this transaction, it is being taken before the transaction is put together. The biggest loss is being taken by the FDIC. The book value of the portfolio is far from the sale price, and altho we do not know what it would be, it would not be unreasonable to say that the discount would be around $100 mil, or in that area. If that were the case, the backing for getting us down to current market is being taken by FDIC itself. Behind that, it is already been taken by the banks, their shareholders and people who operated them who simply didn't make it and lost their equity. This is on a a present value basis and it will be done so the question will be how these assets are going to be managed in the future. The difference in management between segmenting it out in chunks to private venture capital is a different management from selling it in bulk sale or in pieces. While it would be hoped that this portfolio would return some funds that would could be distributed for the public benefit, that is not the basic goal, the basic goal is to manage it so that people can stay in their businesses rather than be foreclosed upon. This is a community problem. The FDIC is offering a unique possibility they have never done before. It is a possibility in which public policy makers with state wide community interest in mind can have their input in the managing of a substantial economic segment which can effect the state as a whole. It is also exciting because FDIC is anxious to do this, it's not just a concept. The essential part of it is that somebody go in and look at that portfolio and see what it's value is. I appreciate your consideration.

Mr. Strong: There are over 3,000 loans presently involved in this portfolio. Only 600 of those loans are real estate loans, so still 75% of these loans are business loans, backed by inventory, equipment, etc. The AEDC's involvement is from the concept of jobs. We began looking at the reality that was facing us in terms of what would happen if someone would come in and aggressively liquidate, not dump, these 3000 loans on this community. Our fear is that that process would cause that ownership to pass from some individual in AK to someone outside of AK, and the people who work for that individual in AK may not have a job. So the problem becomes, are we going to do this on a non-profit basis, V.S. the more rapid liquidation cycle that would be private for profit. We believe that the former will save Alaskans and save jobs for Alaskans. If we don't take a proactive stand here we're going to create an environment that's rather unattractive, not only for those people that may be left, but for people like AEDC, being able to proactively market a large marketplace in this state. If we have an unnaturally large tax burden placed on those people that remain, we have a marketplace with dwindling home equity, we have a marketplace where we have few trained people left to draw from to do the jobs that people will put in place, and we're not going to be internationally effective. What we're proposing, quickly, is a statewide public non-profit subsidiary, made up of a Board of directors, appointed by the councils and assemblies of communities affected on a pro-rata basis where these loans originated from. Only 60% of these loans are Anchorage loans. This statewide subsidiary would try to work out these business loans over a longer period of time trying to provide the opportunity for these individuals still interested in maintaining their businesses the time necessary to get their footing back underneath them, and to keep themselves in business and their employees at work. We'd like to ask for your ½ mil. appropriation to investigate the 3,000 loans in the FDIC portfolio to see whether or not we can do a business relationship with the FDIC to maintain the economic balance that we'd like to establish sooner rather than later in AK. Thank you.

Rep. Pourchot has several questions relating to the management of the portfolio by the AEDC.

Mr. Flint: Each situation will have to be dealt with differently. For example, the person who at 1st Interstate who had a revolving line of credit who depended on that line to do his on-going business and is not in default, doesn't have a default or workout situation but he doesn't have any more source of money. However, he does have all the collateral that's been given to the successor of 1st Interstate, the FDIC, so he can't go down the street and establish a new banking relationship with his collateral already tied up for the old debt. One of the possibilities is the workout staff created for the development corporation subsidiary, could, after review agree to subordinate all it's security to a new bank who would provide on-going revolving or accounts receivable financing and have him establish a new banking relationship and perhaps eventually have it refinanced out by the new bank. The criteria involves workout situations where there is an attempt to keep the business going, and modify the existing debt. It would be run like a bank. It is an important part of the management to manage the real estate owned in such a way that it is at least at market or supports the

market and doesn't lower it. The public would be not to bust the market and not to lease it for cash flow only.

In terms of state money, beyond the moral obligation, that segment of it relates to the initial financing and how you back the credit by which to obtain the money to purchase the assets. The moral obligation is one way, other devices to be explored are with the seller itself, i.e., series A and Series B bonds. The second part, the distribution of profits; hopefully since we are purchasing it at a present value basis, heavily discounted, over time there is going to be a profit. After all, the FDIC is going to sell it to somebody who believes they can make a quick profit, we would certainly hope that managing it over time there could be a return. In this proposal, since it is non-profit, the returns would go to economic development projects or organizations that would try to create a broader economic base using those profits. That's one proposal.

It is true that the community is suffering to such a great degree that even the people who are successful are harmed. The second point, this is a reaction to a specific set of loans, presented to us by the willingness of the FDIC to work on a public interest basis. This is only a segment, some of which are already controlled by private corporations, AHFC, AIDEA, etc. This will be a closed-end organization, I hope there won't be more bank failures. We would hope that taking out this piece and managing it on a long-term basis in the public interest would 1st of all give a psychological boost, that we are going to hold something for awhile to benefit people and the rest of the market. I've been told by people that we're in the 2nd phase of this crisis in which people who most at risk have already gone and what you have now are the long term Alaskans who have been struggling and paying for these projects out of their savings, etc. and the reserves are dwindling.

Rep. Navarre raised questions about the people who are making it, and the effect on them of interception of assets in foreclosure, and helping the people in the past.

Rep. Davis questioned the moral obligation of the bond sales, it's effect of the states overall rating in the future.

Flint: My personal opinion is that there is some way to go on the downturn. As far as the state's backing goes, the state would not own the assets at all. The important point about any moral obligation bond that you consider, is that you're looking at the program, establishing the criteria as a self-supporting, revenue-producing operation, so that the moral obligation is looked at as a credit enhancement in order to sell the bonds to fund the program. If it is not self-supporting then you do not use the moral obligation device. By doing the analysis the risk would be presented to you.

Rep. Boucher: This is a new role for the AEDC? (Yes.)
What successes does AEDC have in developing the economy? Is this a bureaucracy looking for something to do? What happened to the funding put in by the city for economic development, could it not be used?

Strong: The organization is less than 90 days old. The concept behind the organization is to provide jobs and to stabilize the economy, and to make AK an attractive place to do business. It's not now. We started to look at what different things we could do to look at the issue of stabilization and jobs, and this came about within the last 45 days, we've been working in it very aggressively on it. The Muni of Anchorage did provide $300K to start up this organization, approx. another $45-50K was provided by the private sector in ANchorage. We're getting an idea off the ground with a different management, different staff, that's where getting confused here. We're saying there's a problem, we're saying a way to address the problem.

Rep. Boucher: You still haven't answered my questions, what have you done for economic development, and what has been done with this money? Are we seeking any federal relief? What about other states? Hasn't the bank moved in to the FDIC and taken the most valuable properties? I haven't seen that you would be the turniquit around this bleeding economies arm.

Flint: We do know that the alternative for these properties in the next 2-3 weeks is to begin to hire a liquidation staff, to expeditiously dispose of the property as a receiver. We would hope to substitute that process for a long term process which we believe would have a beneficial impact on the market. That's all we can say.

Strong: The alternative is to do nothing, and you'll find that many of these individuals from these loans have loans at other banks, and if one source of income is cut off because their inventory is sold, etc., I would suspect the other banks will also suffer. In that case we'll probably see other banks working with the FDIC, but we can't promise that won't happen anyway. We just want to look at the FDIC portfolio and look at a new plan.

Rep. Boucher: Could this analysis not be done within the existing banking community, do we need to create this extra infrastructure, is our private sector so helpless it cannot do this, or are they silent for some reason?

Strong: The NBA did their analysis for the closing banks they bought, they had certain limits that they could not take certain assets.

Discussion on comparisons between the bridge bank concept VS the AEDC proposal followed. The AEDC proposal provides the same service as the bridge bank, but for a finite number of loans, the 3,000 loans the FDIC holds now.

Comm. Tony Smith: Explained his role. He sees the problem as a billion dollar problem, in Sept. 87 we had $165 mil in real estate owned foreclosures, $339 mil in troubled loans, not being paid. There's roughly $300 mil in Alliance Bank, and the $250 mil the FDIC holds. Today we're discussing the bridge bank or the real estate investment trust ideas. The first thing this committee needs to understand is that we need a statute in order to have a bridge bank, an entity that can take a non-depository entity to deal with assets from financial institutions.

Willis Kirkpatrick and I have looked at that and we don't have the statute to regulate such an institution. The real estate investment trust is provided for within existing statutes and reg's. The evaluating process which Mr. Flint and Mr. Strong discussed is a real one, we're looking at over 3,000 assets, and these have been looked at by a number of financial institutions, but they're problems assets. My understanding that the documentation problems, at least the 1st Interstate portfolio are gigantic, and documentation means, can you collect the loan?, often. You have to understand that these assets have been picked over again and again by some very knowledgeable people. NBA has not only been able to pick them over, but brought them into their fold and it's anticipated that they're going to put 1,000 of them back, so the issue of evaluating these is real. I know the Reeds group is working on calculating what each loan is worth. The question of $250 thousand is probably not a bad number. AIDEA Board a few weeks ago directed the staff to put out an RFP for $55,000. to just start the process and see what we had, because of the new procurement law we ought to be able to get in a position to do that, the odds of being able to use anybody who's creditable is unlikely, we'll end up with a new bidder. It seems to me there are some benefits to using a public corporation such as the AEDC which is not subject to the procurement law which is set up for a different purpose to take a look at these assets. If you choose in your wisdom that you want to do that, I would tie as a condition to any such appropriation from the legislature that the information be available to other groups looking at the problem have access to this information. Another thing you have to understand: there may be $250 mil. worth of assets, there may be 605 parcels of real estate but not all of these have any impact on the market, so to say that all $250 mil worth of assets have an impact on the market and our financial institutions is to overstate the case. Which brings me to the difficulties and limitation of the procurement law. (Reference to article).

END OF TAPE ONE

(con't.)
Whatever institution deals with the problem is going to have to treat the particular sectors differently and I'm not sure how well we can, with the bridge bank or with any public entity deal with those differentiations. Dave Rose and others have commented on artificially stimulating the market, your questions show you're aware of that, I would on the other side of the equation, in my personal view, we created probably one of the best socialistic systems known mankind and going cold turkey may be a difficult prospect, we played around with the market, and I hope Alaskans entrepreneurs and Alaskan business people would have a future in the state, and that we wouldn't take a posture to control, if they're all people from California, so be it. I believe we need to consciously manage our assets and conduct our affairs to get us over this period with as little problems as possible. We need more flexibility with AHFC, and aid. Those are areas, as I see it of real appropriate legislative focus. AHFC needs more private sector people on the board, I'd like to see us have the ability to react in manners that other finance institutions would. From my perspective as chairman of the board, we need to do something with the conflict problem, in a

banking institution if you have a conflict you don't vote on that particular issue when it comes to the board. AHFC, anybody who works for a bank that's a servicer can't be on the board because he or she has a conflict, anybody who works in the real estate industry, the same happens. That in my view is an area for you to focus some of your attention on.

There's an area no one has focused on, is condemnation and urban renewal. We have a supply and demand problem, we have a heritage land bank, the major problems with this type of real estate are in the Railbelt. Perhaps the public sector could, through condemnation and improving the quality of neighborhoods use the Heritage Land Bank and also through Municipalities, loans from the Railbelt Energy Fund, etc. but that would seem to be a clean response to the supply and demand problem, which would have a real impact on the other side. We are working on various ideas on solutions to the problem.

Bob Gillam: I am chairman of the board and CEO of a savings bank in Anchorage. Bob gave a brief personal background. I'm here to discuss 3 issues: -credit disenfranchisement of a large section of our borrowers; -housing and the housing collapse; -concentration of wealth and the elimination of competition in our financial system. In 1987 our company increased our lending to the business sector, in fact we increased our portfolio of our own account by almost 45%. Institutions that have not done well are generally absorbed by larger institutions, recently this is not the case in AK, and the consequences are disastrous for small businesses to obtain loans. A new banker will discuss the issue of new loans with you, but the FDIC will not, one out of every 8 is today held by agency of the federal gov't, whose sole purpose is to liquidate. This legislature needs to prevent the kind of catastrophe where people are eliminated from the credit system. 3 out of 4 sales are driven by a gov't agency. People from FDIC told me that if I wanted to see what Alaska would be like in a year, come to Oklahoma, so I did. In that community condo prices have dropped as much as 95%, and the results, much like ours, came about because of uncoordinated selling by gov't agencies. If you think I'm kidding, look at the $100. down HUD homes for sale each week in the paper. This phenomenon has a spiraling effect, and it must be for the AK Legislature to stop this. The middle income home is virtually non-existent, the supply that seems to remain is in the lower end, and more delapidated. We will probably provide several millions of dollars of new construction for a demand which is beginning to reappear. The remaining small independent banks lost approx. ½ of their capital in the last year. Right now only 4 institutions hold almost 90% of all the bank assets. We see an elimination of credit opportunities for thousands of Alaskans. We have seen a downward spiral of housing prices caused by gov't selling. We have seen a concentration of wealth in a small number of institutions. Several solutions have been proposed. We suggest it is not in the best interest of the state to allow more failures, as those will be in gov't hands. We're much better off to allow our existing institutions or remaining institutions to work with our businesses than to propose some new super agency that will solve the problem after the doors are closed and after the customers have been liquidated.

Rep. Boucher asked if it might be a good idea to send a resolution to the Feds. requesting to be able to get in on any federal aid other oil based economy states might be able to qualify for, i.e. The Southwest Plan.

End of Side 1, Tape 2

Questions for Mr. Cutty, regarding the involvement of the legislature, and the procedure he used for evaluating the FDIC loan portfolio. In his view, to be successful the corporation would have to be able to buy this bunch of loans at below what the market says it's worth, and if the market says it's worth $100 mil, then you might want to buy it at $80 mil, and maybe FDIC could be convinced that it would be in the interest of the banks at large to protect them to have a governmental entity buy these assets and hold them off the market, and from our bank's standpoint, that'd sure be nice if someone would come in and buy these assets and hold them off the market. What you have to do, though is make a policy decision, will the FDIC sell below cost, second if they won't, you need to make a policy decision, are you willing to and is it in the public interest to subsidize this project? I can't imagine you could buy these assets and hold them off the market for an extended period of time and sell them and realize enough profit to pay back the accrued interest and all of your carrying costs. I think you'd have to buy them at below market or build in an additional appropriation to subsidize it. In determining the cost, one thing you might do is see, if NBA has had these under their wing for awhile, see if they'll open up and tell you what they're worth, and then find out what FDIC thinks they're worth. I can't imagine that our bank would accrue more than 1/10th of what that cost would be to come up with a bid on it. I would think that a team of 5 or so people would in a week go through most of those files and send somebody out to snap photos of the real estate that's out there, and I would guess with that, come up with a bid.

Rep. Boucher thought it might be better to go to the banks that have already picked those properties over and see from them what they're worth, instead of forming a new corporation to do this.

There are vulture funds waiting to buy from outside the state, however they're not convinced that the market has hit bottom, and there's too much risk to buy now.

Rep. Brown has a question about how the small business would be better off with an entity like the state acquiring it, (which can't act as a bank and advance working capital) rather that one of these outside groups who might be interested in seeing it go as a business.

Cutty: Speaking generally, the loans that are there are not very good loans, that's partially why they cannot get other banks to make loans to them. The values dropped, and there's less pieces of property that aren't already heavily mortgaged and that need more financing. Quite a few of the loans held by the other banks simply are non-performing and not viable, what does the next entity do with those loans?

Pete McDowell: The proposed investment opportunity began about 10 months ago, and there were discussions during a project I was working on for Sealaska Corp. last spring that evolved into a proposal to establish an AK owned and managed real estate investment trust funded by private interests. This was discussed with Comm. Smith and others ad DCED at the time, and what's occurred is that idea has come along. The response of Sealaska Corp. to dialogue with Comm. Smith last month was to say yes, the Corp. is intertested in pursuing further in examination in the feasibility of such an investment entity, and would take the lead in doing so. They then engaged me to serve as their consultant and project director to examine further the possibilities that began last spring. Discussions to date with other private institutions that have indicated possible interest in investing with Sealaska Corp. have been positive but very preliminary. At the moment discussions are only being held with Alaskan private sector interest that have the wherewithal to make a high risk but sophisticated investment decision, probably in the neighborhood of several million $$$ each, and those people have been positive and want to go further on this. There are 4 proposals in the works, the AEDC, the Sealaska initiative, the Bridge Bank proposal, and a proposal to establish a trust described by the Hallwood Corp. There is so much out there, that any one effort is probably not going to be enough. There are high risk opportunities out there, but I don't perceive there's enough private capital interested in this kind of investment available to deal with all of the assets, but beyond government intervention through the existing agencies that are already involved, I don't have any specific proposal for further intervention beyond that which is already in existence.

Rep. Gruenberg asked that Comm. Smith put in writing the suggestions he mentioned to us so we can review them.

Rep. Reiger adjourned the meeting.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

February 25, 1988 8:00a.m.

Present: Representative Steve Rieger, Co-Chair
Representative Kay Brown, Co-Chair
Representative Virginia Collins
Representative Pat Pourchot
Representative Heinrich Springer
Representative Mark Boyer
Representative Steve Frank
Representative Randy Phillips
Representative Dave Donley

Witnesses:

Bert Wagnon
AIDEA

Barry Hulin
First Federal Bank

TAPE ONE, SIDE ONE

The meeting was called to order by Co-Chair Steve Rieger

Bert Wagnon of Alaska Industrial Development and Export Authority (AIDEA) joins the committee to present an overview of AIDEA and comment on HB 402 regarding lending limits and eligibility of lending institutions to underwrite loans. Wagnon distributes a packet and describes charts. The first chart, AIDEA income statement, shows net earnings slowly descending in 1985, 86, and 87. Wagnon states the decline is due to falling interest rates and increases in provision for loan loss reserves, reflecting a weak economy and poor loans.

Chart Two is a graph of delinquencies within AIDEA, indicating loans delinquent 30 days or greater. There is an increase in early 1986, peaking in July of 1987, and has now gone up again. Wagnon states that in October, November and December, the increase is due to close of Alaska Bank of the North, and AFDIC has not promptly remitted payments on AIDEA's pro rata share of the loans.

Chart Three is the same delinquency chart, with Other Real Estate Owned (OREOs) superimposed, CREO's being loans that have been foreclosed and title rests with the bank or the authority. There were no OREO's prior to June 1986.

Chart Four is a geographic summary to show where AIDEA's money is placed. Anchorage has $161 million in bond proceeds, or

54% of their total; Southeast Alaska has $30 million, or 10%. Efforts are made to mirror population in loan distribution.

Chart Five is delinquent bond sale loans by area. Anchorage has $42.3 million, or 82.7%; Southeast has 1.74% of the delinquencies.

Chart Six is delinquent bond sale loans by type. Office buildings are 26% of the delinquencies; warehouses almost 19% and strip retail shopping centers, which are smaller due to $10 million limit, are almost 27%. Wagnon points out these are being hit hard by the recession.

Chart Seven is what is being done about the situation. Wagnon states two work-out reports have been distributed to the Committee; one is loans funded through bond sales and the other loans appropriated to AIDEA from the Department of Commerce or Department of Revenue.

Wagnon states 32 loans have been rewritten for $31 million, and on appropriated serve also 32 loans for almost $8 million.

The Authority's total portfolio at December 31 was slightly over $300 million on just under 1,000 loans. If current conditions continue, it is anticipated more loans will be rewritten. Wagnon describes the sequence of events in rewriting loans. Loans were originated by a bank, then a portion purchased by AIDEA; readjustment of a loan requires satisfactory arrangements between the borrower, the bank and the Authority. Banks are paid to service loans, and they must develop a plan for AIDEA consideration. Wagnon states it is difficult to sell commercial property at this time. OREO's are expensive to maintain and avoided whenever possible.

The last chart is the OREO foreclosed property; 28 properties total $12.3 million. AIDEA has approximately $100 million outstanding in loans in the Anchorage area. Wagnon describes residential loans as different in that there are numerous lenders in commercial loans as opposed to a limited number of residential lenders. Wagnon states AIDEA is financially sound with $250 million restricted/unrestricted assets, the vast majority of which is in government agencies. Wagnon describes AIDEA as conservative and cautious.

Rep. Rieger states the committee is interested in comments on HB 402, following questions.

Rep. Frank asks if AIDEA is able to reduce interest rates. Wagnon outlines procedures. Interest was originally added back into the loan, but that has ended "because it did not give the borrower any hope of realizing the transaction to completion." Rep. Frank confirms the alternative would be foreclosures, which are expensive. Rep. Frank discusses statutory requirements on Community and Regional Affairs

regarding reduced interest rates and asks if others are reducing interest rates. Wagnon responds he is not able to answer that, but believes generally restructuring is occurring throughout the area, and out of state lenders are stricter than others. Rep. Frank asks who does negotiations. Wagnon states the bank is required to present a plan to AIDEA because they are the servicer and originated the credit. In situations where banks have gone out of business, AIDEA is attempting to locate a bank to handle the accounts because AIDEA is a secondary lender. Rep. Frank asks if the banks share reduced interest rates. Wagnon states most loans are split rate; thus the note has two different interest rates. Generally, if the bank recommends AIDEA reduce the interest rate, then AIDEA requests the same from the bank.

Rep. Rieger asks if rewrites go back to the Board of Directors or if the staff has discretion to do them. Wagnon states staff has that discretion; the Board is concerned that staff is too conservative, and has mandated quarterly work reports and the workout for any unsuccessful proposal.

Rieger asks AIDEA intentions concerning repossessed real estate. Wagnon responds it is not their intent to dump on the market, with limited exceptions: a hotel in Barrow which is functionally obsolete, and a hanger at Illiamna airport which cannot be managed. Some properties have been held in excess of a year. Rep. Rieger asks what Wagnon expects for FY 89. Wagnon responds he expects FY 89 to be better than FY 88, because he believes that for quality properties, the recession is nearly over.

Rep. Brown asks how much "underwater" the portfolio is estimated to be. Wagnon states he can only guess that the overall portfolio is 110 to 115% below value.

Rep. Frank asks if that is reflected in loan loss reserves. Wagnon responds affirmatively. The Loan Loss Reserve is at $16 million. The portfolio of loans is $300 million.

Rep. Rieger asks Mr. Wagnon to speak on HB 402 to increase limits from $10 million to $25 million and delinquent loan criteria. Wagnon is familiar with the Bill and makes the following comments:

Section 1, the major item is increase of loan limit from $10 million to $25 million. The AIDEA board asked that this be inserted because large projects cannot be financed, especially tourism industry projects. The increase from $500,000.00 to $1 million is inserted because the BIA and National Marine Fisheries will guarantee loans in excess of $500,000.00 under a government guarantee program and it seems prudent with a government guarantee to take that advantage. The original $500,000.00 limit was to coincide with the SBA limit.

Section 2, there is difficulty with the SBA purchase program because when statutes were originally written the interest rate on purchase of SBA loans was set at Moody's AA Corporate Index, which was advantageous to borrowers as prime rates were 20% and the Index was below the prime rate. SBA places limits on interest rates of 2 3/4 or 2 1/4, depending on the term of the loan, over prime. Prime has fallen and the Index is sometimes above the SBA limit, putting AIDEA out of purchasing guaranteed loans. The Bill would allow flexibility in setting the interest rate on the purchase of SBA guaranteed loans, the guaranteed portion, at the lesser of the prevailing prime rate of SBA, Moody's Index, and such other index as established by regulation of the Authority. The last was inserted because they are unable to control what the federal SBA does, and SBA may change in the future. Wagnon believes it allows a safe, mature investment with protection. Wagnon believes the last section is most important because 44.88.165 currently requires that "any bank I do business with, if the loans that I have purchased from them are delinquent 2% or greater, 90 days or more, I have no choice, I stop doing business with that bank." This is very restrictive because the recession has put banks out of business.

Rep. Frank confirms that the $10 to $25 million is for new ventures and not restructuring.

Rep. Rieger asks if that is the state's moral obligation program. Wagnon states he believes there would not be moral obligation on anything in excess of $10 million, and he believes the statutes state $10 million cap. Wagnon will provide this information in writing later.

Rep. Frank refers to reports concerning AIDEA balance and estimated value. Frank confirms the AIDEA balance is their share of the loan. Wagnon states if credit was over $1 million, it would be 80%, and if it was under it would be closer to 90%. Estimated value is total value.

Rep. Springer states Southwest Alaska shows very low, 7% of the portfolio, and asks why there is not a higher percentage when that area is developing. Wagnon responds that the Aleutians are financed from Seattle and Alaska banks are unable to do business with AIDEA, so there has been no participation in that area. Wagnon states the area has only become active in the last 18 to 24 months in Dutch Harbor.

Rep. Rieger calls on Barry Hulin to describe what he sees happening, and for recommendation. Hulin believes the Committee has heard sufficient information, and reads from a book which he finds scary, but which shows that what is happening is not new. The writing is by Frederick Lewis Allen, entitled "Only Yesterday: An Informed History of the 1920's." Hulin believes that what is happening has local causes, but also important national and international causes.

Hulin states the change in the tax law in 1986 hurt Alaska real estate. Hulin states real estate in Alaska and the lower 48 is in trouble because of overbuilding, over-speculation, and faulty appraisals. Hulin states the falling oil prices also contributed to the problem.

Hulin discusses Alaska housing and the request for additional staff at AHFC, stating the workload is excessive and cites examples of enormous pressure on people. Hulin states the reaction of cutting back is probably the wrong reaction, and if an agency is to be responsive, they must have staff to handle the enormous workload. Hulin believes the effort to keep people in their homes who have jobs and make an effort to make payments is a good one which should be continued. Hulin is President of Anchorage Neighborhood Housing Services, and states there is much substandard housing in Anchorage. The problem of getting people into better housing is part of the challenge. The demand/supply imbalance will not be solved until the supply is restricted (knocking buildings down) or create jobs to create demand for housing. Hulin believes many condo projects must be converted to rental property, as was done in Seattle.

On the commercial side, Hulin describes the problem of how to take real estate off the market. Hulin states the problem is close to $2 billion and most suggestions are unsatisfactory to him because they could be bottomless pits for the State of Alaska. Hulin states a critical issue is the number of people doing "very well out of this collapse in prices and values." Hulin believes businesses are surviving only because their occupancy costs have been driven down. Creating an artificial market is not a solution.

TAPE ONE, SIDE TWO

Hulin describes appraisals, stating he received two appraisals on an 84 unit apartment building in which the bank has $3.4 million in the building, and appraisals were $1.5 million and $4.4 million. Hulin states appraisals are a real science, and there is no market. Hulin states financial institutions are not all solid and making money. Hulin believes there are $500 million in troubled assets in financial institutions. Hulin suggests there may be ways to recapitalize some of the institutions with federal regulatory agency assistance.

Rep. Frank asks if reducing interest rates across the board, or allowing state agencies, if they cannot already, to reduce interest rates is a solution. Hulin believes that is absolutely necessary and states every bank is doing that. Hulin cautions you can reduce interest rates to zero, and still not get payments to the bank because the property will not carry expenses of operation. Hulin urges not focusing on real estate as though it were in a vacuum, stating he believes the situation is as bad as the great depression, and if people

stayed in Alaska there would be a 20% unemployment rate. Hulin states that "the state was a big player on the way up, and probably has to be a big player on the way down. We have to create jobs." Hulin states banks are trying to keep the borrower in the property, but that is a Band-Aid, because without creation of jobs there is danger of a downward spiral.

Rep. Springer refers to proposals by Native corporations and asks if there is potential. Hulin states he does not know how it would be done, but believes "if Sealaska wants to play in that game, they should be encouraged to play in that game, but I would be reluctant to throw state money at that game." Hulin urges creation of jobs as a solution.

Rep. Brown discusses residential market proposals and asks if Hulin sees any viable solutions. He responds that schemes for trading up might make sense. Hulin believes people should be heard sympathetically. Hulin states dramatic things must be done by the State, citing Roosevelt's actions to relieve the depression, and examples of other states in the past recovering from recession. He again urges job creation.

Rep. Brown asks where the focus should be in job creation, and Hulin responds it is necessary to take a fundamental look at the economy, playing to strong points. Creating jobs is going to cost money, and it is appropriate to spend some savings to do that, with the key being creation of jobs which will last for a long period of time, such as ski resort and production of goods in Alaska. Hulin states it cannot be construction jobs or state payroll jobs.

Rep. Boyer expresses concern about the state creating a false market and the state "giving $170 million to the oil companies this year, under the guise of creating an atmosphere for $7 billion of work over 10 years . . ." Boyer asks if ELF and what is being done, or not done, is not a bad investment. Hulin responds he is skeptical when it comes to oil companies, believing they are master politicians because they do what is in their best interest in terms of making money. Hulin suggests if there is money to be made and they had to pay $160 million to make it, they would pay. Hulin has not seen their projections, but there is a tremendous investment in the North Slope and finds it hard to believe there would be much that would dissuade them from doing what they are on the North Slope. Hulin states the oil industry does not directly employ many people, and those who are employed are typically higher paid people so they have a significant impact.

Rep. Boyer discusses creating a job market to attract people back to Alaska, which will take more than $170 million. Hulin states it would take $2 billion to heat the economy because it is so far underwater. Hulin believes it will be many years before real estate values return, if ever. Costs of living have dramatically decreased.

Rep. Springer states he has studied job creation in 50 countries, and his assessment is that in Alaska several things are lacking in creating a labor favorable environment, including lack of competition, and Alaskans are lazy, unskilled and undisciplined with little personal inclination when compared to Korea, China or many European countries. Springer believes we are squandering resources, e.g., wood, jade, etc. Springer cites the pipeline as an example of waste with a 30% efficiency level. Springer believes educational assistance is needed and we do not subscribe to protection of trade laws. Springer points out we are now trying to address what the state can do to bridge the short term gap of 5 to 6 years. Springer supports tourism enhancement.

Hulin comments that realistically the jobs he suggests creating would be filled by people coming from outside; and hopefully they would be people involved in something other than manual construction workers. Hulin agrees with Rep. Springer on labor costs. He suggests improving vocational training. Hulin agrees this is a long term focus, but urges looking at what will spin-out in the short term. Hulin is uncertain what the component of unemployment is, in terms of skills, etc., but suggests people with skills be brought to Alaska.

Rep. Springer gives an example of lost resources as ivory carving, which is reacting to markets by giving up, and skilled artists are not producing to their full potential. Springer believes education and incentive could relieve the problem.

Rep. Rieger refers to a question asked at other meetings regarding HOF and similar programs and asks for recommendation to the legislature. Hulin responds he has a philosophical problem with creation of artificial markets and refers to the history of the programs. Hulin suggests that if interest rates are to be subsidized, it must be done with people who have an equity interest. Concerning HOF, Hulin states a false market was created because of the cap, and distortion in the market. Hulin has been vocal in a suggestion to use AHFC's mobile homes to create an artificial reef in Seattle. Hulin states there is a legitimate role in subsidizing interest rates, but there must be discipline. He believes there will be a severe limitation in interest deduction for tax purposes. Hulin predicts a more sane financial situation nationally in the future.

There being no further questions, the meeting adjourns.

Joint Committee on Economic Recovery
House - Subcommittee on Housing & Banking
February 25, 1988 5:00 p.m.

Present: Representative Kay Brown
Representative Steve Reiger
Representative Steve Frank
Representative Virginia Collins

TAPE ONE, SIDE ONE
Rep. Reiger summarized the questions which Willis Kirkpatrick will be addressing.

Kirkpatrick: One of the things we, the regulators are concerned about is when you have multi financial institution failure in a relatively small geographic area, like the Anchorage area, that you have a multitude of effects, and one of the primary effects is the reduction and availability of credit, and I don't know where the term "orphan loan" came from, but I certainly feel that fits the definition of one of our major concerns. When a financial institution, in it's normal course of lending, develops a history of certain commercial credits, and that may not be good, but over a long period of time that financial institution has worked with that credit, has provided a source of operating funds, a source of inventory, worked with that credit during hard and good times, and when we get into a situation where the financial institution is closed, the day after these types of credits are subject to losing all credit relationships. It's a situation where we would refer to it as acceptable credit without a lending source. One of the things we work hard to do is what we call open bank assistance, in other words, don't let the institution fail. You have to destroy the shareholders, but an open bank assistance allows the creditors and depositors some continuation. The FDIC does not want to be in a lending business; these types of creditors you have to work with continually, many of them are on a monthly basis, you have to negotiate with those borrowers as to what their monthly problems are, and so the FDIC will probably try to find a home for them where they can, whoever that might be, I don't know. They've claimed to people in my presence, that the FDIC is not desiring to close these people out, but there was some reference that they're not going to advance funds for inventory or operating needs. I would say that by FDIC liquidators comments that there would probably be approximately $44 million of those types of loans, of a total of $80 million of commercial loans, when the banks (First Interstate and Ak Nat'l Bank of the North) were operating. On the purchase and assumption agreement with National Bank of AK, in the case of Bank of the North, the assuming bank put back a certain percentage of the loans, so the difference of the $44 mil. from the $80 mil. is probably those putbacks, and that figure has not really solidified yet. There is probably a large number of these loans that could survive with additional financing, but they're still at a tremendous risk. (Discussion of handouts.)

Rep. Reiger: Is there something we can do to try and get these loans a home, or something else you see we could do?

Kirkpatrick: The last 2 years I've thought of that alot, and I've had borrowers who have been orphaned talk to me, and I've had some concern in this area. The department used to have a small business loan program (and I'm not endorsing this), where somebody, hopefully in the private sector, would have to make a major [illegible]. Ohio had a program that was called Link Deposit program. They used it because they had a downturn in manufacturing, they had a program and held seminars. They would put link deposits into a financial institution if that institution could demonstrate that it was going to do certain things with those deposits, and for that there would be a preferred rate. One of those things they had to do is demonstrate that they were going to maintain or increase the level of employees, or that they were going to buy equipment that would enable them to survive so their employees could survive. Now I don't know how that can be worked into our situation, but regardless somebody is going to have to take a look at each one of those loans, to determine if it is salvageable, whether or not the state could take a risk in advancing funds or working with that borrower. I really don't know of any problems that can address our problems. The financial institutions problems are basically the problems of the borrowers. If you can create jobs and a sound business environment then those financial institutions in that environment or course will benefit. I've worried for the last 2 years, but I don't know what the answer is.

I've been criticized that because I regulate securities that I'm hampering the ability of promoters to raise capitol for venture and new businesses. So, I find myself in a situation where, we as investment capital is concerned, we will work with anybody who wants to raise money for a viable project, or we will work with someone on a non-viable project if they tell investors the chances of succeeding. I don't see a situation where the surviving financial institutions are going to turn down viable projects. I think that the financial institutions are looking for a source of income, and one source is a good commercial loan with the viability of success.

In response to the state propping up the economy, I just don't have the staff or the ability to measure that. I'm not an economist, so I don't know of the effects of buying up an available supply of problem assets would have. I would like to see something done in the private sector. The other states bank failures are Oklahoma, 6%, Texas, 4%, but Alaska's is at 30%.

On rumors that additional banks are going to go under, we have problem banks, on the numbers that I've heard, I don't have that many of them. They have to publish their financial statement, so if you see problems in earnings that's evidence. There are 2 financial institutions with low capital, but I can't publicly address the extent of those problems. When you have continued erosion of capital, the capital account then has to be addressed, and there's no place in AK. to address this, and I think we're running of anyplace to address this. If we continue to have foreclosures and the results, it extends the period of time that you

don't have earnings. Some indication I'm getting in financial plans is that for 1988 there could be some earnings.

Right now the FDIC is caretaker. Before they set up an operating entity, they would like for somebody to step forward and relieve them of what they have. One of their first meetings was with Comm. Smith, and they said they would give him until 1-30-88 a right to come in and address all of the assets they had. That date went by quickly, they said that 12-26-87, but they're still in that mode. What they were willing to do was if that entity would take a substantial amount of their loans, then they could offer it for discount, they wouldn't have to set up what's called a "bad bank". They said they'd give a deeper discount, which would even provide for a profit at the end figure, however you wanted to structure it. What I see and have heard, is probably they've gone as long as they can go, that some entity has to be formed and put into process at this time. They don't want to have a presence in AK, they see it as expensive, they see it as a situation, where investors are going to have to come from outside AK, for the most part. They have said they are not going to dump, but I don't know what the definition of dump is. The division of supervision is the division I work with, the division of liquidation is entirely different. Let me clarify that I really don't have a plan, in addressing assets that are out there in liquidation, if anyone was to address those assets it would be my preference it would be in the private sector. As far as, are there investors out there, yes, there are investors out there, and I'm aware of several that would like to have certain parts of assets, and I do know of other investors outside of the state that would also like to bid on those specific parts of those assets in liquidation. I know of 3 organizations (all in the private sector) that are trying to put something together to address those. So, there is some activity going on there. They can get the job done and move faster than governmental.

Rep. Brown asked if these assets are sold to a trust at a deep discount, isn't that going to have the same effect as the piece-meal selling?

The perception of assets held by FDIC has a different perception that if it was held in different hands. These comments seem to say that an asset held by FDIC is an asset that may have a lesser value because it's in liquidation than if there was a negotiated value for keeping something out of liquidation. As a state regulator, if the people who determine values in the market, uses that as their market value to transfer from FDIC to whatever this entity is, than, yes, that's going to effect the market. But the chairman felt that the transfer from liquidation to a negotiated value that would not be on the market would be carried at a different value as far as the market was concerned.

Rep. Brown adjourned the meeting.

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Joint Committee on Economic Recovery
House -Subcommittee on Housing & Banking
February 27, 1988

Present: Representative Frank
Representative Pourchot
Representative Brown (Co-Chair)
Representative Reiger (Co-Chair)
Representative Furnace
Representative Davis
Representative Ulmer
Representative Springer

The subject today is a work session to see if any recommendations can be submitted by this subcommittee to the full committee on Monday based on anything we've heard this last week or in previous weeks that the committee can reach a consensus on. I have 2 things: 1.) Draft Resolution: To be introduced through the J.E.R.C. Committee asking the various mortgage insurers to cooperate with the AHFC on the proposals that we're working on in the state regarding trade up/trade down, restructure, refinancing, etc. 2). A proposal regarding the presentations we've received on Willow Park and Hollywood Vista, in which they're asking for the state to share in the cost of the asbestos removal and demolition which would lead to the relocation of tenants in those 2 projects. The bulk of the cost being picked up by HUD.

I would like first to go to the draft resolution. We are hoping to try to get comments from AHFC on whether this is what will help them, and whether it will make a difference if the Legislature will pass something along these lines. Are there any other subjects anyone would like to bring up before we go to the Hollywood Vista question?

Rep. Brown: I had a question about line 10, pg. 1, the way that sentence reads....should that be an 8-10 bil. loss, or what, it doesn't make sense to me in that context?

Rep. Reiger: That number was given to us in testimony. That was from a paper presented by Greg Erikson, which was presented as being a loss of 8-10 bil. dollars in assets. Rep. Frank?

Rep. Frank: Kay, was there a question on grammar? It might be more correct if we put the word loss in there again, after 8-10 bil.

Rep. Frank: I did want to focus on the numbers tho, they're larger than any I've ever seen, where did those come from?

Rep. Pourchot: The Anchorage property tax base assessments, I think that's where alot of that figure comes from, we've gone from 15.5 - 8.

Rep. Frank: It says the loss in Anchorage private real property values has already been 5 bil.

I'd like to welcome Rep. Furnace. We can check that number before it's introduced to the full committee. Again it's not my request of the committee that they agree on the final wording of this, or even agree to send it out today, but rather to have it for your review. Any other questions? Note presence of Rep. Ulmer.

Rep Frank: This does bring back to mind the ability and the constraints of these various creditors, their willingness and their ability to restructure loans, and I'm wondering, we didn't ask AHFC if they needed statutory authority to reduce interest rates, we didn't get into that. I've talked about looking into the HAD loans, where we're a primary lender, not a secondary lender, and whether or not we should make a recommendation in that area, but I'd like to have us focus on that issue again. My understanding is that AHFC, when they are an uninsured primary lender, that it's up to AHFC to do their own workout, and whether or not they have statutory authority to reduce interest rates, if that's in the best interest of the Corp., I don't know, but I'd like to find out. I'm doing some research on that now, but it's not complete yet.

Rep. Pourchot: Thank you Mr. Chairman. Even in a resolution, we do have an opportunity to tell, particularly our own agencies some particular things we may want them to do. What we've done here is basically told them to cooperate and look creatively. That may serve some purpose, altho I guess I was convinced that AHFC is looking creatively, at least that's what they have told us in testimony. I wonder if the committee would like to entertain additional language that we might be able to tell our own agencies in a resolution. For i.e., we heard alot of testimony about AHFC's ability to physically hold off things on the market, or not, in terms of the sale of their foreclosed properties. The investors will continue to look at AFHC and AIDEA and their portfolio, yet the investor may or may not know what they may do with it, even if we dealt with our FDIC and MGIC and others in control of property. So, one thing to consider in a resolution is to flat out tell our agencies that not only is it ok to hold on to their properties, but we view that as a positive approach towards a potential dumping problem that we see. Another problem we heard in testimony was a hint that AIDEA has not been aggressively involved in workouts as much as they might be. So another possibility on a recommendation that would be certainly pointed and strong would be to tell AIDEA what we would have them do in approaching workout situations. Another direct resolution might be instructing AIDEA and AHFC in how to handle their reserves in utilizing these creative and innovative and cooperative approaches. When we tell them it's ok or it's not ok, to use your reserves, that's a real policy choice. Those would be 3 things that come to my mind. Also insert the words AIDEA, and include the Gov. to direct our message to, as well as Bert Wagnon and AHFC.

Rep. Brown: In response to Rep. Franks question earlier, looking at the homeowners assistance program which they entered in to on their

own without any authorization, that is one of the features of it, that if the people meet the criteria, they may be able to lower the interest rates, lower your monthly payment, restructure your whole loan, so it seems like at least they had it in this instance.

Rep. Frank: That leaves us with AIDEA being able to do it, AHFC being able to do it, but had HAD not been able to do it, that seems inconsistent. I'm getting the feeling that AIDEA has made a very dramatic change in their posture with regard to workouts, so it sounds like they're starting to turn themselves around.

Rep. Reiger: On the AIDEA issue, I have no objection to having them included in the resolution crafting what we want to tell them, I wonder if it shouldn't be in a separate resolution, because in drafting this one we tried to focus on residential, since the primary focus of it was to send a message to the mortgage insurers.

Rep. Frank: I don't see anything wrong with rolling a few of these issues together into one resolution, I see it as a real estate problem. Just for the sake of convenience.

Rep. Reiger: This week we plan to get legal opinion on the scope of authority on AHFC and AIDEA.

Rep. Frank: I've requested one, but haven't gotten it yet.

Rep. Reiger: We have notified AHFC to expect to be called back before the committee in about 1½ weeks.

Rep. Frank: In response to Pourchot's ideas, I agree we should address those issues.

Rep. Ulmer: On the 1st whereas, we should redraft that, I'm not sure it's accurate. In conversations with business leaders a few weeks ago, there many who have rounded the curve and are doing quite well. I'm also not sure that the crisis is what's led to the bankruptcies, they're in part a reaction to state gov't policies, lending practices, overbuilding, etc. There are complex things that have led to this.

Rep. Brown: We could rewrite that to say, Whereas some of the areas of the state are experiencing severe economic crisis as evidenced by bankruptcies, etc. ....does that address...

Rep. Reiger: Why don't the members submit their changes and we'll try to have a resolution for next weeks work session that we can reach a consensus on and send to the full committee.

Next, let's bring back to proposal on the Willow Park and Hollywood Vista Apts.. Any summary statements on this proposal?

Barbara Morse Quinn: I met with Don Young, who directed me to prepare a letter from the Jt. Congressional Delegation to Sec. Pierce, and that has been done. I also met with ? Shamiro, who holds approval for

funding. My request to the state has been for 2.6 mil. for asbestos abatement and 2.2 mil; for the actual demolition.

Rep. Springer: Are there technical reasons for the differences in ratio ?

Barbara: We are doing a line by line cost comparison on the 2 & we are calling on another report to verify the first one. The report prepared by HUD dealt with the asbestos abatement issue surfacially. It indicated enough of a presence of ozone asbestos, but not in the ground, it's possible there's a larger quantity of asbestos at Willow Park than there is at Hollywood Vista, even tho it's a larger project. Secondly, the airborne fiber content is determined to have been within allowable levels, however in the demolition, asbestos containing materials would become airborne and it may in fact cost more.

Rep. Pourchot: Barbara, line by line, what does that mean?

Barbara: Going through their report and having a comparison between their analysis and what it entails and ours and what ours entails, and comparing. We hired people to check the duplication, and to check the work of each cost estimation.

Rep. Pourchot: It seems demolishing Willow Park is going to help, but could you tell me how that works exactly, in terms of the economics of the situation, what is the practical effect of demolishing Hollywood Vista?

Barbara: I haven't done much with Hollywood Vista because it's not my property, but the obvious effect is that there is an impetus for the upgrade of Gov't Hill, from an economic standard; it has great economic potential for Anchorage.

Rep. Ulmer: In looking at the justification, I have no problem with the state of AK paying for the relocation of the tenants, but I have no idea why the state should be paying to demolish these buildings?

Barbara: Fed. Gov't will pay to relocate the tenants, but not the demolition, the physical problem of the building, there's no other source for funds.

Rep. Ulmer: My point is that it is a municipal responsibility, the benefit which is associated with tearing down the buildings are to the municipality and they should be paying for that.

Barbara: Let me clarify the ownership of the 2 properties: Hollywood Vista is a FHA foreclosure that was privately owned and never subsidized by the state or local gov't. HUD received it, offered it to us, we turned it down, they offered it to the Gov., he did the same, the Municipality agreed to purchase it for $1. in exchange for title to the valuable land, and for finding the funds to demolish. Willow Park: Owned by the ASBA, which is a state entity.

Rep. Brown: We're hoping to get 9 mil. from Feds, 2.6 from the state, and 2.2 for demolition and site restoration from the muni., none of this money was in the jobs bill, so we are investigating other sources of funds for how we might fund the states portion of that, we do hope the muni will help us.

Rep. Davis: I'm glad Rep. Ulmer brought this point up, perhaps if this is such valuable property (Hollywood Vista) perhaps the state could be reimbursed when they sell that property.

Rep. Frank: Barbara, it seems like you talked about getting 80 new certificates, are you going to buy 80 new units?

Barbara: The proposal is to acquire 80 units, and with that would come the opportunity to subsidize 80 families for 30 years. (inaudible)

Rep. Frank; Of the 106 that are occupied in Willow Park, they would move to a combination of the 80 that you would buy, and the additional would go into the private market and through the certificate system, and then those 51 in Hollywood Vista would those also be eligible from the certificate program?

Barbara: I believe only 22 are eligible. In addition to our own request for Willow Park, HUD will give us however many are eligible from Hollywood Vista. The people who are not eligible there are given a relocation allowance, and all liklihood they will find similar housing (market pricing).

Rep. Frank: So Hollywood Vista is private, not subsidized, and is foreclosed on by the gov't financing entity, and has been private.

Paul Baer: Background of how the muni got Hollywood Vista:
Foreclosed on in Nov. 87, At the sale, Knowles advised potential buyers that there were substantial building deficiencies (asbestos, etc.) Fink had meeting with HUD, an agreement was struck between muni and HUD, saying we would pay $1. for it and handle the demolition costs within 2 yrs. There are 51 tenants, 31 have Sec. 8 eligibility, the others were offered by an adjacent complex to move free, same rent, etc. Others did the same. The Gov't Hill CC supports the demolition, and there's 15 acres of land there. (Barbara has covered Willow Park.) The city had a budget shortfall, we allowed ourselves 2 years to get this taken care of, but we feel it's a benefit to the muni and the state. We have been looking for other sources of funding. Heather Flynn, who represents the district has suggested many ideas, I've met with the Finance officer of the city and Larry Crawford, and it will take time to implement these ideas. Worst case scenario: City would have to board up Hollywood Vista, until we got the funds, but we are reluctant to do that, because of the potential liability involved. We are going to handle this as carefully as possible in terms of the tenants, and will be calling on Anch. Neighborhood Housing to help.

Rep. Davis: It says here that sale is contingent upon the muni razing the building within the 2 years, what is the value of that 15 acres?

Paul: A million 523. One consideration was the city considered this obsolete housing.

Rep. Pourchot: I'm interested in your thoughts on the longer range usage of those parcels from a tax base standpoint.

Baer: As far as the Hollywood Vista complex, it's zoned R4 (high density residential). this is my view, as far as Willow Park, it might be good to look at that as a governmental complex, the city is leasing the land now, it would be an excellent site in an area of town for a governmental complex, muni complex, etc. The Hollywood Vista sight I would see as a residential sight in the future, if the Navy were to come in perhaps the city could use that. There's a idea also of expanding the cemetery.

Rep. Pourchot: Governmental property is again apart from the tax base, but there may be benefits if it's in lieu property acquisition, would this be in lieu of purchasing other centrally located gov't. properties for a governmental complex.

Baer: We've done a brief analysis of the downtown area, one of the parameters would be the muni. gov't. would remain in the downtown area, that's a given.

Rep. Brown: Both of these projects are in my district, Willow Park is right across the street from the park strip on 9th Ave, and is centrally located and would have great value in the near term, because it's in an area that's more likely to be in demand. H.V., on the other hand, is across the bridge, across Ship Creek, next to the military base, and has some of the worst living conditions in Anchorage, and the value of the land is much lower. Discussing this with Heather Flynn she saw many options open to the muni since the Willow Park land would revert to the Muni, where the Muni could get bonding or other financing to tear this down because they were going to get some useful land out of it in a prime location, whereas that option was not open in the other location. A concern of the people in these areas is that these structures not remain boarded up and vacant, because of the effect it would have on the overall deterioration of the neighborhood, there's already lots of vacant properties in this area.

Rep. Springer: Has the military any interest of this property?

Baer: Not to my knowledge. HUD would know.

Rep. Frank: Did they meet a code that made them technically uninhabitable?

Baer: No, not uninhabitable at that time, they just didn't meet certain codes, that was why Knowles was at the sale. Once the Fed.

Gov't obtained title to them, they supercede the local and state gov't., but they didn't have title to them until 87.

Rep. Frank: So the city dissuaded any private investor from buying the property and rehabilitating it, keeping it on the market, or any option the private sector would have taken. If nobody bid on it, it would have been HUD's responsibility to take care of it. But now, the Muni. is coming to the state, asking for SSS$ to help them finance acquisition of the thing. It seems to me the whole thing is driven by a Muni. decision, to take significant action, and I'm looking at just who's responsibility it is. I'd like to know the status of the grant received from C&RA to build low income housing where there already was some housing, it was torn down, and nothing was ever built there, and the Muni failed to return the $$$ they received from the grant, I'd like to know the status of that.

Baer: I don't know the status of that, we can check into that.

Rep. Frank: My understanding is that the Dept. of Law is fighting with the Muni. over the return of over 1 mil. $$$ I'm reluctant to support more appropriation when this is the case.

Rep. Ulmer: It's hard to be sympathetic towards municipal projects, when my district has it's own needs that the state cannot finance.

Barbara: In regards to the mayor's intervention at the foreclosure sale, HUD could not take the property back to make a decision about it until the foreclosure sale took place. At that time there were some interested parties, however they were not informed of the cost of rehab or demolition. The reason people were not evicted by the Muni. was because the violations etc., would not occur until the time that rehab were to take place , they were grandfather codes, so it wasn't a present threat to life and safety, so if anyone would sink a dime into the place, it would mean that all of those codes would be brought up to present speed, and that cost would be very high. Knowles concern would be that at that time, once they found out the costs of rehab, they might come back to the city for help. 0

Rep. Reiger; It sounds like it would be a good idea to bring up each of these issues separately. First Willow Park.

Rep. Ulmer: Has the ASHA money to demolish existing ASHA properties been used, where is it?

Barbara: It was transferred back to the state to repay notes.

Discussion followed.

Rep. Frank: Are the federal monies contingent on demolishing Willow Park?

Barbara: We could apply for this money. We applied for it last year, but didn't get it because we had no matching funds. I've been told that we won't have a chance at getting the federal monies if we

don't get the state and muni money secured. The senate side asked me if I would accept the money on a contingency basis if the fed money didn't come through.

More discussion on language followed.

Rep. Brown asked that the committee adopt the suggested language by Rep. Ulmer:

The committee recognizes the value of the WIllow Park demolition project and recognizes a responsibility for asbestos abatement of this state owned facility. The committee supports efforts to obtain state, federal and local funds to complete this relocation and demolition project. The committee also recommends that additional analysis be done to find the appropriate sources of funding. This is subject to a project agreement, and the state and local share of this cost would be 55%.

Barbara commented that she needs to be in Washington on March 23 and needs to take something that says the amount of state and local dollars committed.

Rep. Pourchot: It sounds like the city doesn't know where they will get their share (the 2.2 mil), but look to the state for it.

Any percentage breakdown would be ok as long as 100% of the cost was allocated.

The earlier wording was shown no objection, if the clause about the 55% is removed. This wording is just for Willow Park. More discussion will follow on Hollywood Vista.

Meeting adjourned.

Joint Committee on Economic Recovery
House
Housing & Banking Subcommittee

March 3, 1988

Present: Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Representative Heinrich Springer
Representative Randy Phillips
Representative Steve Frank
Representative Mike Davis
Representative Pat Pourchot

Witnesses:

Bill McNall
Attorney, Bankruptcy Counselor

Professor Hayden Green
University of Alaska School of Business
Department of Real Estate

TAPE ONE, SIDE ONE

Meeting is called to order by Representative Kay Brown, Co-Chair.

Bill McNall states the Committee should have a paper he submitted, and today he will address foreclosures and the impact on the market. McNall refers to Alaska Supreme Court decisions in Conrad v. Counsellors Investment Co., No. 3275, Feb. 26, 1988, and Moening v. Alaska Mutual Bank, No. 3274, Feb. 26, 1988, which changed the potential of any homeowner trying to resolve issues on default because banks can now avoid foreclosure on the balance of the promissory note and deed of trust, and then can attempt to collect their judgment by garnishment of wages, savings accounts, etc. and after that proceed with foreclosure. McNall states that bank attorneys are now advising clients to cease and desist in foreclosures, and simply bring actions on notes. McNall states this will be more expeditious for lenders. McNall states his office has now changed their procedure from a defense mode to bankruptcy counselling.

McNall states an immediate concern is the AHFC owner-occupancy ratio. McNall states condo buyers were not informed at the time of purchase that their home was marketable only when less than 30% of the units were now owner-occupied. As a result, occupants are now unable to obtain secondary financing from

any source, including AHFC, Fannie Mae, and FHA because the owner-occupancy ratio is over the limit. However, MGIC and AHFC are selling the units in the same projects which they have foreclosed. Thus, homeowners cannot sell, but AHFC can, and people are giving up. McNall states abandonment compounds the problem for homeowner associations and other residents. During the foreclosure procedure, the associations are unable to collect dues, placing the burden on other owners, and collection of moneys due is to expensive to pursue. McNall points out that many condo projects are lower-income projects and residents cannot afford to carry the burden of their former neighbors.

McNall states that statutes allow foreclosure in 90 to 120 days from declaration of default, usually two months from the first payment being met. Thus, foreclosure can occur within 5 to 6 months. With condos the defaults are delayed until as much as a year, and after foreclosure lenders to not advise the association of the process, because they are then responsible for the dues. SB 348 addresses some of these problems. McNall urges the Committee to give assistance to homeowner associations. McNall states he recently met with AHFC and MGIC representatives concerning unpaid condo assessments and were told nothing would be done. As a result, if a residence is refinanced and the mortgage payment is reduced, and association assessments are not paid, the individual will be sued, wages garnished, and the reduced payments will not be made; thus the process will be for naught. McNall urges that association dues be included in the restructuring of the loans.

McNall discusses foreclosures stating the Supreme Court decisions have not changed the law drastically. McNall refers to 9.45.170-.220. When those statutes were drafted, foreclosures were not how business was done. Now, it is found that legislation unintentionally gave the banks substantial power. McNall urges revision of foreclosure states, and presents a proposed draft amendment asking that the following be considered: (1) mortgage insurance should be put in place immediately upon default, allowing a voluntary conveyance; (2) allow foreclosure, with a fair market value for the property -- not distressed market value, but fair market value of current replacement cost, covering association dues; (3) make certain people do not lose their rights via right to sue directly on the note, and (4) remedies, judicial v. non-judicial foreclosures, be final and when the process is commenced, it be irrevocable. McNall states borrowers have communicated with the bank regarding their hardship, the bank elected to proceed with non-judicial procedure and the individual left the state, then is served with a lawsuit seeking a deficiency judgment because the bank changed the procedure.

McNall addresses real estate changes, and expresses his appreciation of the efforts the Committee has advanced in that area. Real estate exchanges are a method for people who have money to be relieved of a burdensome home and obtain a new home. McNall suggests 110% financing, with the additional 10% used to subsidize reduction in the prior home mortgage, along with the mortgage insurance. McNall discusses market recovery, and suggests that individuals benefitting by swaps have a 30% interest in a non-recourse note to be paid when the property is sold at a profit because of market increase (as opposed to property improvements), be shared equally with AHFC. McNall points out the downside: if swaps are not allowed, there will be defaults. Mortgage insurers are aware of this fact.

McNall states he has sent Senator Faiks the most recent information received from the Division of Insurance, a report entitled "Crucial Link in the Housing Chain Crack" and a California newspaper report indicating that TMIC (mortgage insurance carrier in Alaska) is being liquidated by the State of California Division of Insurance. Verex is a similar firm, sued by Oklahoma Housing Finance Agency for bad faith refusal to honor insurance commitments. McNall states many Alaskans have been advised there is now no insurance to cover losses. Foremost Guarantee will not honor its mortgage guarantee commitments because of fraud in the inducement. These companies represent in excess of 3,000 loans in Alaska without mortgage insurance to back them -- insurance paid for by homeowners and upon which they and AHFC have depended.

Rep. Frank asks, regarding mortgage foreclosure law, how McNall's suggestions would differ from a non-recourse mortgage. McNall responds he is not certain a non-recourse mortgage can be done under a Supreme Court decision without waiver of express rights in the Deed of Trust, although it could be contemplated. McNall believes lenders should be entitled to do a summary foreclosure proceeding, or a judicial foreclosure proceeding, but there should be a requirement to act one way or the other. Rep. Frank asks the circumstances in which a lending institution would ignore the security and sue. McNall responds if, for example, an individual has $60,000.00 in a Merrill Lynch account, and owes $60,000.00 on a condo which is now worth $30,000.00, and they must maintain the unit upon foreclosure, the bank would sue on the note, obtain a judgment, take the Merrill Lynch account and let the individual keep the condo. McNall states the individual defaulted because of an economic situation, a good faith reason.

Rep. Frank asks if this would increase the likelihood of people abandoning homes if there is no financial penalty for their act. McNall points out buyers bought and paid for

mandatory mortgage to protect them in event of a foreclosure. Frank believes that was to protect the lending institution, not the borrower. McNall states Alaska case law provides whoever pays the premium, and the named insured, are entitled to insurance protection. McNall points out the benefits to the lender to sue rather than foreclose. Frank expresses concern about sweeping ramifications of McNall's proposal.

Rep. Brown asks if retirement accounts are protected. McNall states they are protected in bankruptcy courts, until retirement.

Rep. Rieger discusses the trade-up/trade-down plan and 110% financing on the new property, and clarifies by example: X has an $80,000.00 note on property now worth $50,000.00, and wants to buy property worth $100,000.00. X has $30,000.00 negative equity. The institution will give 110% financing. X takes a $110,000.00 on the $100,000.00 property, and the excess $10,000.00 pays down the $80,000.00 note. McNall leads Rieger through the $80,000.00 transaction. Mortgage insurance was bought and paid for 25% of the $80,000.00, or $20,000.00 in coverage. There is pool insurance for 15%, or $12,000.00. Rieger is uncertain of the pool insurance. The mortgage is thus reduced to $50,000.00. The note on the new home is $110,000.00, and $10,000.00 is to reduce the balance of the mortgage down to $50,000.00. Rieger asks if one can abandon property and collect on the mortgage insurance. McNall refers to a handout, page 2, paragraph 10, Procedure on Default, which states "for the insured at any time . . . shall not preclude the insured's recovery for loss under this policy." McNall believes AHFC has the ability to accept voluntary conveyance and obtain the coverage bought and paid for as required. McNall believes once an individual defaults, the mortgage insurance carrier is required to pay. McNall proposes an incentive via reduction in the amount the carrier would be required to pay.

Rep. Rieger refers to voluntary conveyance and asks if the mortgage insurance company has recourse, assuming AHFC is the insured, to go after AHFC for accepting the voluntary conveyance. McNall refers to page 3, stating there is no right of subrogation against the borrower. McNall points out his clients are distressed and they do not want to be in their position, and want to do what is honorable. Rieger asks if, under the proposal, there is no cash downpayment. McNall suggests there be a requirement for some downpayment.

Rep. Brown refers to McNall's support of HB 433 and asks if the Supreme Court decisions change his view. McNall believes the decisions will require the Legislature to go back to the drawing board on foreclosure procedures, as the moratorium will not be of assistance. Brown clarifies that HB 433 does

not reach the problem, and states she has not received McNall's proposal or the Supreme Court decisions.

Rep. Frank asks if McNall's proposal would affect contracts. McNall responds there is difficulty with changing the rules after the fact. He states homebuyers were told that if there was a default the mortgage insurance would pay off the mortgage.

Rep. Springer asks about outside firms being mortgage insurers. McNall responds it is possible there might be reinsurance in place, but since it affects more than 3,000 Alaskans, he is very concerned.

TAPE ONE, SIDE TWO

Rep. Frank asks if research has been done on other states' foreclosure laws. McNall states that in 1933, Sering National Bank v. Grise the courts of Wisconsin ruled that the deficiency judgment must be based on a realistic value. McNall refers to Oskosh and National Bank of Washington v. Equity Investors for review. Alaska did not have the opportunity to pass legislation during the depression, and is seeing the issue for the first time.

Rep. Frank asks if the cases defined fair market value as replacement costs. McNall responds Oskosh describes it on page 5 as not market value as the term is generally understood or that value which the property may have in the future under normal favorable economic conditions or if remodeled or put to other more extensive use. McNall states appraisers are now doing appraisals, based on economic obsolescence, the difference of what the property is worth and what it is worth in this market. McNall believes it is close to replacement value and refers to drop in land values and labor costs.

Dr. Hayden Green joins the Committee. Green states he has daily received questions regarding real estate and the market. Green comments that the Supreme Court rulings are of concern to him because it changes the rules "late in the game." Green recites the history of foreclosures in Alaska, stating it was an unwritten rule that in default the bank would do a non-judicial foreclosure. In most instances the bank allowed deed in lieu of foreclosure. Green states people who have been hurt are the ones who wanted to do the morally right thing, hanging in to the last, and the new ruling will hurt them even more. Green urges the Legislature to address this because it was never anticipated that banks would pursue the remedies which they are at this time.

With regard to the trade-up program, Dr. Green states he feels responsible for some of the proposals presented to the

Committee because he suggested them. Green anticipates that mortgage insurance companies will lose large sums of money, and he believes those sums if properly handled could go to a social good. Green has recommended that Alaska work with the mortgage insurance companies with positive suggestions, targeting certain condo projects to be used for student and low-income housing, as well as demolition on certain projects. Green suggests that because this would involve multiple parties, it will be necessary to consolidate ownership in a holding company, in exchange for stock. Green suggests inducement to hold-out owners via trade-out or trade-across proceedings in which they would receive a special economic benefit. Green proposes that when families are moved into the vacant properties, and low quality projects are demolished, the land be given back to the mortgage insurer for future recovery of losses.

Regarding trade-up proposals, Green states he differs somewhat with Mr. McNall because the people McNall represents are not defaulting, although they are discouraged. Green does not believe the lending associations and insurers would indiscriminately start trading because of (1) substantial administrative costs and (2) the upper limits would fill, with the lenders and insurers left with low-end property.

Green believes the proposal for a holding company to transfer real estate interest makes sense, but would be a property management nightmare to implement. Green suggests private enterprise might be interested in the process. Green states much wealth transfer is taking place in Alaska, but it is not a fresh infusion of capital and the net economic benefit will not be great. Green predicts a "tremendous transfer of wealth" in the next couple of years, and he believes the proposals before the Legislature are an additional transfer of wealth -- that people are asking the Legislature who to transfer the wealth to, and the Legislature must deal with this issue. Green believes the best thing that can be done is transfer some of the losses to create some social good.

Concerning FDIC holdings, Green states they are marginal properties which have already been picked over by the banks, and reminds the Legislature that FDIC's role in society is a holding company. Green states FDIC's record is not as good as has been testified to the Committee, and the market value they use is the distressed market value.

Rep. Rieger asks, with regard to trades, if Green or McNall has met with AHFC concerning how to negotiate with mortgage insurers. Green responds he has not talked to AHFC because they do not asks for opinions, but he has met with MGIC and they have indicated an interest in finding solutions, but solutions must be meaningful to them also. Rieger confirms

that there must be financial "sweetener" to encourage them. McNall comments he is uncertain that there is a choice; it is all or nothing. McNall points out that AHFC has a right to exchanges and take a voluntary conveyance, and there may be benefit to the mortgage insurers. Green states trade programs must be specific to those going into default, and disagrees with McNall that everyone has the right. McNall points out that there have been changes; that if one shows need for assistance then HOAP II is suggested.

Rep. Rieger questions negative equity and asks if one can carry it with them to get in a new home. Green suggests this be thought through and indicates it might be better to default. Green points out there is negative equity in all homes now and the bank has already written the value down. Green urges there be a renewal program in conjunction with trading to make economic sense. Rieger asks Green if the carrot/stick approach is what is needed. Green responds negotiation is necessary and believes some organizations would invite legislation.

Rep. Frank refers to the trade-up program and asks if trades would be to AHFC owned property, or privately held property. Green responds it would probably have to be in AHFC inventory. Frank questions McNall whether the individual trading up would assume fair market value or replacement cost. McNall responds they are the same thing, and proposes the distressed market value. The property taken in and that left must be assessed in the same manner. McNall describes potential tax problems under the Internal Revenue Code, and how the taxpayer receives a forgiveness of debt. McNall states tax attorneys he is working with are unable to answer the problem. Frank responds that may outweigh his preference for current market value. McNall states experts do not have an answer.

Dr. Green reminds the Committee that the market is in sections; that there is a fair market for homes in excess of $200,000.00; there is beginning of stabilization in middle level homes, and the low end is in question.

Rep. Springer favors an approach where everyone "takes a bit of a hit" because everyone had a certain amount of fault.

TAPE TWO, SIDE ONE

Rep. Brown asks if it would be accurate to assume that non-property owners would benefit. Green confirms there will be a transfer of wealth, and encourages the concept of private sector participation. He states anything that can be done to address supply and demand will help the situation.

McNall points out that discussions with real estate brokers about the Supreme Court decisions indicate concern about long term implications. Green states redirection of foreclosures disturbs him most of all. He describes procedures in other states, stating deficiency judgments are not a new concept. Green describes Alaska's problem as arising because there has been a change in the rules since people bought their property.

Rep. Frank confirms people would not have bought if they had believed the market would go down, and does not believe people realize when they sign the note that they are responsible for an obligation. Green states it is a situation of legal understanding vs. practices of the past. McNall states there is a difference; the right to sue on the note in context of a judicial foreclosure has always been there, but now the right to sue on the note is independent of the obligation of foreclosure, allowing recovery of all assets other than the property. McNall argues that risks now are totally different. Dr. Green agrees. Frank asks the circumstances under which a rational lender would pursue judicial foreclosure. Green states suing on the note is less expensive and gives the opportunity to recover assets other than the property, and then they will foreclose. McNall states bank attorneys are urging clients to stop the foreclosure process entirely and do only suits on the notes because it is less expensive. Dr. Green describes procedures; stating banks can obtain judgment immediately upon default, take any asset you might have for the full value of the note, take the car, garnish wages, and if they do not receive full value, then foreclose on the property. Rep. Frank asks Dr. Green about the effect on availability of credit and cost of credit, and availability of mortgage insurance if there is a hold-harmless from risk of the borrower. McNall responds "we've been doing it. If default occurs, the bank can do judicial or non-judicial, and if they do either they have to bring in the mortgage insurer, if it is in fact there, and they are entitled to deficiency judgment if they want to proceed judicially." McNall asks for recognition of fair market value, not distressed market value. Dr. Green responds he agrees with McNall on this point because we are talking about not allowing lenders to find loopholes in the legal system to give them new power which no one ever envisioned they would have. Green does not believe that will change the ability to obtain credit. McNall points out the deed of trust used by banks claimed non-recourse, so forms used by lenders "apparently don't mean what they thought they meant" according to the Supreme Court. McNall states he does not believe banks thought they had the power the Supreme Court says they have.

Rep. Brown asks Dr. Green for clarification on holding companies/bridge banks and asks if private industry can do that, or if state participation is required. Dr. Green

responds he believes the State will have to provide money to set it up and relieve the banks. Green believes property would be put in by lenders in exchange for costs. Green does not see the State funding the full operation and urges consultation with a bond attorney concerning repurchase of bonds, and other issues. Green does not recommend investment of large amounts of capital because it is a non-productive investment, although it will help people.

The meeting then left the teleconference network, and schedule of future meetings was discussed. Rep. Frank distributes a legal opinion on what agencies can or cannot do regarding changing interest rates.

Meeting is adjourned.

RE: HJR 72

Joint Committee on Economic Recovery
House - Subcommittee on Housing/Banking
March 5, 1988

Present: Representative Steve Reiger (Co-Chair)
Representative Randy Phillips
Representative Mike Daivs
Representative Steve Frank
On teleconference: Representative Henry Springer
Representative Kay Brown
Representative Pat Pourchot

On the agenda: Revised resolution relating to the residential real estate market to be forwarded to full JERC committee. Rep. Frank asked if it was the Legislature's responsibility to keep people in their homes. Rep Reiger responded yes, it's a valid public purpose in his opinion. Discussion followed on this issue. (Pg. 1, line 14)

Rep. Pourchot explained this clause is a message to the state agencies to not dump their properties, urging them to show forebearance in that area.

Rep. Davis; Isn't the further resolve before that one aimed at trying to create economic stabilization, I would like to see all the parties work together to make sure that there is some kind of stabilization taking place.

Rep. Brown: If the result that only public agencies held properties off the market and others proceeded to liquidate their investments as rapidly as possible, where that leads us I'm not sure.

Rep. Frank: I'd like to see the departments or agencies do is what is in their long term best interest, and the language should be structured as such. For example: Further resolved, the legislature fully supports efforts on the part of the AHFC, the DCED, the Dept. of Revenue and APFC to hold foreclosed properties off the market in instances when due to the influence that those agencies actions have on the market would not be in the long term best interest of those agencies", something like that. If they can sell them off in a situation where short term they'll make more money now than later, do it. But if dumping is going to have a net economic impact, then they should hold off. The gist of my idea is long term best interest.

Rep. Davis: I think these concerns are taken care of in the previous whereas.

Rep. Reiger: There is not alot of policy direction from the administration, altho this is a resolution; right now to a large extent,

there is a vacuum as to what policy should be, and this can set direction where there is none now.

Rep. Reiger moved to delete the Further Resolved, lines 13 thru 18, page 3. Rep. Pourchot objected.

No objection on any other part of the resolution were made.

Rep Frank has completed a proposal, Rep. Reiger withdrew his motion. On line 17, after the word instances, read: Where, due to the influence that these agencies actions have on the market, holding properties off the market would be in the long term best interest of the agency. (Delete the remainder, and add this.)

Rep. Frank: We're not saying keep these off the market because we want to keep them propped up forever, we're saying keep them off the market if you think it's the right idea from your long term perspective.

Rep. Frank moved the amendment. Rep. Davis objected, stating the whole resolve clause deals in an area we don't have a handle on what we're doing here; the point is covered in other portions of the resolve. Rep. Frank said this is what this new resolve is trying to accomplish. Rep Davis removed his objection.

Rep. Brown asked if there was any reason AIDEA was not mentioned. Rep. Reiger said the reason is AIDEA only is involved in 5-plexes and above, and at the last check we made, they only have 1 foreclosed property. Dept. of Commerce is mentioned because they do have the power to make residential loans, but AIDEA no longer does make residential loans, and the title refers to residential.

Rep. Springer moved to adding C&RA, as they deal with rural properties, no objection. No other objections showed, Rep. Reiger moved the entire resolution be moved to the entire committee this coming week as a recommendation of the subcommittee.

Rep. Frank: I think we should add, "In the best long term interest of the agencies as a whole", rather than individually beneficial.

Rep. Brown and Frank suggested deleting "agency" from the clause and substituting "agencies and the state."

Rep. Reiger suggested saying "will hold foreclosed properties off the market where such action makes long term economic sense." No objection to that wording. The entire resolve clause will read:

> Further resolved that the Legislature fully supports efforts on the part of the AHFC, DCED, DC&RA, Dept. of Revenue and APFC to hold foreclosed-upon residential properties off the market in instances where such action makes long term economic sense.

Additional rewording includes, "stabilize and improve." Hearing no objection, that revised wording is in as it's reported out.

CORRECTION

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Additional rewording includes, "stabilize and improve." Hearing no objection, that revised wording is in as it's reported out.

Rep. Reiger: Next on the agenda, a draft on the arbitration process to help in the restructuring of loans, for your consideration.

Rep. Brown: On page 1 line 29, and page 2 line 27 I have a question, if we can do this it's a good idea, I'm trying to make sure we can do this.

Rep Reiger didn't have an answer to this question, but thinks that it should be researched.

Rep. Phillips: What's the public purpose behind this and is it really going to help bottom line people?

Rep. Brown stated the philosophy is to help individuals who are in economic distress to explore their options and salvage their situation if possible.

Rep. Frank would like to see more evidence that the AHFC isn't acting to be as flexible as they should be; the Director of AHFC testified before us that they are doing everything then can to keep people in their homes, to not foreclose, etc.. He's concerned that getting a mediator involved may not serve a useful purpose. Rep. Springer echoed the same sentiment. All we would be doing would be throwing in another independent opinion. Also, when you have an arbitrator in the employ of an agency, neutrality would be doubted.

Rep. Reiger: We could consider this to the point of taking testimony on this, and we can kick this idea around this week.

Rep. Reiger: Going on to the next subject, before you are the draft and the resolution, this coming week we'll get to you drafts concerning AHFC's mobile home loan program, the homeownership program, and some kinds of drafts on the moratorium on foreclosure bill, which is moving, and whether this committee wants to take any action on that or any amendments to it. Rep. Brown and I have discussed whether there should be anything we should do to follow up on the testimony we took last Thursday regarding some of the procedures in foreclosure.

Rep. Frank thinks we should address that, we have a good committee to deal with that issue.

Rep. Reiger explained that if the full committee adopts a resolution, it would be introduced as a resolution; it would be introduced by the J.C.E.R., or through the House Rules Committee and referred to the standing committees as would any other bill. Tom Begich clarified the process. Rep. Phillips suggested they get the Attorney General's office to testify on the legality of the issue.

Rep. Pourchot: I share the confusion after reading the article in the paper, I think it would be helpful to get a representative from the banks to testify too, because, at least in the news article it was very unclear as to which shoe to drop next, so to speak.

Rep. Frank: In my experience as a banker it was my impression that we could sue on the note if we wanted to if we wanted to ignore the

collateral, usually the collateral is the easiest thing to go after, so maybe it's just a change in economic conditions that would shift bank practices, but personally I would not expect after the court decision for banks to operate all that much differently, generally people don't have much else.

Bill Lasher and others from Anchorage gave individual testimony although this was a worksession only, not for testimony. Some written statements were provided.

If it's the concurrence of the co-chair, we'll try to get the AG's office to testify next week.

Rep. Reiger adjourned the meeting.

Joint Committee on Economic Recovery
House - Subcommittee on Housing/Banking
March 10, 1988

Present: Representative Kay Brown (chair)
Representative Steve Reiger
Representative Virginia Collins
Representative Randy Phillips
Representative Mike Davis
Representative Henry Springer
Representative Max Gruenberg
Representative Steve Frank
Representative Pat Pourchot
Representative Fran Ulmer

Agenda: 1. Dept. of Law Asst. A.G. Joyce James: Foreclosure
2. Draft bill up for consideration.
3. Packet material for subcommittees report.

Joyce James: Creditor has 3 options available to them when borrower defaults: 1. Non judicial foreclosure: act on deed of trust without involving court. 2. Judicial Foreclosure: Go to court, get court to order foreclosure sale. 3. Sue on the note, ignore deed of trust. With the 2 new Supreme Ct. cases: There's not been a big exception on these cases, people are concerned that borrowers didn't understand the law when they signed up for their obligation, it looks like the risk is trying to be shifted from the borrower back to the lending institution.

Rep. Reiger: Can't the guy who's responsible for the deficiency judgement get more of a fair market value?

Joyce; There's nothing in the law that allows the borrower to go through a real estate agent, the law has developed around the concept that a well conducted foreclosure sale will bring a fair value for the property at a forced sale. By definition, a forced sale value is different from a fair market value, because fair market value assumes a buyer and a seller not under duress or compulsion. If the property was purchased at an unreasonably low price, the borrower could try to upset the sale on that basis.

Differences between judicial and non judicial foreclosures explained further, as it relates to the bill on discussion.

Anti-deficiency statutes: Some states have modified common law by statute.

Rep. Frank: Is it correct that on a non-judicial you cannot pursue a deficiency judgement?

Joyce: Yes, on a non judicial ~~judgement~~ foreclosure there's no court action involved, and the statutes provide that after you sell the property, that no further action may be taken for collection.

Rep. Gruenberg further explained different types of foreclosures.

Rep. Frank; Your bill would extend the right of redemption three years, what's the logic on that?

Rep. Gruenberg: In this time of economic crisis, it may take 3 years to pull out, and we're dealing with a persons primary home, and the policy of the bill is to try to protect a persons primary residences. It would make it less attractive to foreclose on somebody's home. This is only for personal residences.

Rep. Springer commented on the differences he's experienced in purchasing real estate over the years.

In reference to mortgage insurance, a pool has been set up to cover this, but when the pool is exhausted, there's no more money, so it's limited. Rep. Springer asked for clarification as to why people pay mortgage insurance if it isn't to cover the payments or balance. The insurance is to pay off the lender, and that doesn't necessarily follow that the borrower is off the hook. The importance of letting people know about foreclosure procedures before buying is again stressed.

Joyce: My decisions as to what remedy to take in a foreclosure, is what will recover my money the best. People are going to determine how they can get their money back with the least expense.

Rep. Brown: Pg 4, Sec. 9: Added a section that would make the borrower more aware of what they're going into.

Joyce: It's not cumbersome in that it requires the deed of trust to contain another provision, again, the problems with the guarantor, in a nonjudicial, that's ok, in a practical vein, I'm not sure how much that would do, is this going to be one of those provisions where no one's going to read it?

Rep. Gruenberg: If we're talking about the right of notice, what about a requirement that says in light of the Moening decision, since people may have had their expectations changed, all lenders must let borrowers know that in the event of a default they can proceed against the note independently of the security, simply requiring a notice be sent out to all borrowers.

Joyce said it doesn't appear to be too cumbersome, but is concerned as to how it will be understood.

Rep. Reiger: It appears where this section 9 would apply to the non lawyer is on the note, not the deed of trust. It bothers me that there's no language in there that says this note is also secured by my bank

account, my IRA, etc...it seems you could be alot more clear in specifying what the security behind that note is.

Joyce: You're saying what if there was a requirement that the note include language that the borrower is also personally liable? Again, it seems ok, but does the borrower read and understand it?

Rep. Reiger said it will help, looking for the words "personally guaranteed".

Discussion followed on specific language that could be used.

Rep. Reiger is bothered by the reversal of sequence, that they can go against a note before the non judicial foreclosure on the Deed of Trust

Rep. Frank: We're talking about these in the abstract, I'd like to know what kind of borrowers we're talking about, examples where they're suing against the note, now working with the borrower, I can't believe the logical lender is going to sue against the borrower, etc.

Rep. Brown says part of the problem is because of this new option that's it's going to be easier for the lenders in this market to recover part of what they're owed if they strip the person of all personal assets.

Rep. Frank is concerned that they're making a bigger problem out of this than is necessary because of lack of testimony on this issue. He also is concerned about what this will do to the availability of credit, as well as the issue of mortgage insurance, and the borrowers liability.

Committees attention turned to document everyone has in their packet. Need to prepare a summary report with suggestions for solutions. On some of these issues, we're not at a consensus yet, but we should be able to go through some of these issues, and decide which ones we can agree on, throw out, have more discussion on,etc.

Rep. Frank prepared a draft proposal to amend the HAD program, entitled an act authorizing C&RA to refinance mortgage loans. We need to take this into debate. RE: Mobile homes situation, there is in your packet a draft resolution that Rep. Reiger put together, Rep. Springer has provided us with a packet of info on the mobile home situation.

Rep. Pourchot would like to determine the subcommittees role on tightening up current demand, and if it will help. Rep. Springer recommended they give AHFC a policy statement and leave it at that.

Brief discussion followed on various issues. Meeting adjourned.

Joint Committee on Economic Recovery
House
Housing and Banking Subcommittee

March 12, 1988

Present: Representative Steve Rieger
Representative Kay Brown
Representative Heinrich Springer
Representative Fran Ulmer
Representative Pat Pourchot
Representative Max Gruenberg
Representative Virginia Collins

TAPE ONE, SIDE ONE

Rep. Rieger calls the meeting to order and states the Committee will review the policy report and discuss draft bills which have been presented concerning loans, HOF loans and mobile homes, to review comments of Tony Smith, Commissioner of Economic Development and a memo from Ron Lehr of AHFC.

Rep. Rieger states the committee will walk through the draft report and make comments on policy by policy issues, starting with Number 1, Improve Distressed Housing Market. Rep. Pourchot clarifies there is a distinction between residential housing and commercial real estate, and points out the draft does not specifically refer to commercial property. Rep. Brown states page 5 addresses a policy with respect to commercial real estate, and points out this committee has considered mainly residential issues, while the senate has concentrated on commercial issues. Rep. Brown states there are some overlaps and "grey" areas. Rep. Rieger suggests "residential real estate" instead of "housing."

Rep. Collins expresses concern over the portion titled "Action Needed by the Legislature" to "direct AHFC and encourage other agencies . . . ." Brown believes that "direct" is not strong enough and urges specific instruction. No recommendation for change is made at this time.

Rep. Ulmer has joined the committee.

Rep. Brown states the first draft had numerous blanks, which have since been filled in. Rep. Pourchot refers to item Number 3, regarding mobile homes, and states he is undecided regarding "vacant and unsaleable." Pourchot asks when a mobile home is unsaleable and appropriate to be written off. Rep. Springer states four categories are involved; (1) some

people remain in trailer parks and are paying but they are so few the owner of the park cannot continue in business, (2) many residents have left mobile homes and are not making payments to AHFC, which owns the units, and they cannot be moved; (3) moveable units which could be stored to avoid glut on the market, and (4) those which because of size and price could be absorbed by the market. Springer states there are approximately 1200 units involved. Springer agrees with the statement that units are essentially unsaleable. Rep. Brown refers to a sheet dated 10/27 re storage criteria for mobile homes. Brown understands it is the criteria AHFC considered when determining what would be done with units. Brown believes if nothing is done, and vacant units remain in parks at a rate of $311.00 per unit per month, costs will be in excess of $4.4 million. AHFC has indicated cost of storage lots at the sales unit are $123.00 per month. Brown is uncertain of cost of demolition, and the write-off value.

Rep. Rieger refers to discussion on the resolution with a tie back to make economic sense, which explains the intent of the statement. Rieger believes that AHFC is working on a cooperative arrangement with MGIC and others because it makes economic sense to take the write-off. Rieger believes this statement sanctions the AHFC action. Rieger believes all of the units will be a write-off to some extent.

Rep. Ulmer attempts to sort out economic problems from political problems. Ulmer discusses disposition of unsaleable units, taking them from privately owned spaces which are receiving rental income, giving them cash flow for improvements and their investment in the parks. Ulmer points out the property might then be used for a legitimate purpose -- or will the legislature be asked to pay them for renewal of the land.

Rep. Springer concurs with Rep. Ulmer and states Condo Associations are in the same situation as mobile home park owners. Springer believes there are two considerations; one is units which can not be moved, and demolition might be the prudent thing to do; and, those which can be moved. Springer states cost can be reduced by moving many of the units.

Rep. Collins has no objection in attempting to keep a mobile home owner in a mobile home, but will strongly oppose assisting park owners to continue at state expense. Collins believes they are no different than any other commercial entity.

Rep. Brown suggests two options on the policy statement, (1) add language such as "support efforts by AHFC to lower holding costs for vacant and potentially saleable mobile homes by storing them, and to write off and dispose of vacant, unsaleable mobile homes . . . " or (2) refine the language and rewrite Number 3, or (3) support efforts of AHFC to use

prudent business judgment in management of the mobile homes. Brown also calls attention to the last items in the packet, HCR draft relating to disposition of mobile homes and substandard, low-income housing. Brown suggests in the resolve, on page 2, line 12, regarding write-off and disposition of unsaleable mobile homes, that similar language be included.

Rep. Ulmer believes the proposed language is a conceptual amendment and an important clarification. Brown continues "and to lower holding costs for vacant and potentially saleable mobile homes by storing them."

Rep. Collins refers to the holding costs and urges that they be reduced by 50 to 60 per cent, and give them a mandate to do this. For homes not possible to do so, then to demolish them, reducing holding fees. Rep. Pourchot points out that reducing holding fees may or may not mean placement in storage. Pourchot would not link reducing costs just to storage.

Rep. Gruenberg asks if the mobile homes are in good enough condition to make it worthwhile for AHFC to contact other state agencies in other states to determine if they could be transported elsewhere where low-cost housing is needed. Rep. Springer states he believes AHFC has considered this. Rep. Gruenberg suggests this be investigated because some developing countries might have use for the units.

Rep. Collins refers to an article in an Anchorage paper about people in rural areas renting empty vans or trucks because housing was not available, and suggests some of the units be sent to those areas. Rep. Rieger believes Bethel and Dutch Harbor were mentioned.

Rep. Rieger states he is leaning as policy to go to "use prudent business judgment." Rieger believes direction should be limited to suggested examples.

Rep. Brown expresses hesitation over general direction because the problem has existed for two years and nothing has happened, that some direction is required to reach satisfactory results. Brown urges the committee work some of the concepts into the draft resolution.

Rep. Pourchot suggests use of "reducing carrying costs through following sound business practices" with differentiation between saleable and unsaleable units.

Rep. Rieger asks if this should be set out in the mobile home and substandard low-income home resolution. Staff is directed to draft appropriate language. Rep. Rieger concurs with Rep. Springer that there is a surplus in Oklahoma.

Rep. Ulmer states she is still troubled by combining Willow Park and Hollywood Vista to other units. Ulmer refers to a resolution which described the projects, and believes this document "blurs the dividing line" and prefers removal of Hollywood Vista. Rep. Brown states she attempted to differentiate them, and discusses the memo from Ron Lehr dated March 8 to the Directors. Lehr proposes "I think the Board should consider a program whereby $20 million of AHFC resources are used as a stabilization and upgrade fund . . . and grants should be matching grants." (copy should be attached). Brown suggests authorizing AHFC to operate with a specific amount of its reserves in projects of this type, and have them develop the specific plans and criteria with assurance there would be a match by the local entity.

Rep. Ulmer agrees with authorizing AHFC as suggested by Rep. Brown, with review by the Legislature. Rep. Springer concurs.

TAPE ONE, SIDE TWO

Rep. Brown would like to have Willow Park accomplished, and states there is expectation and momentum at this time. Brown discusses possible methods of accomplishing this. Rep. Ulmer

suggests asking Ron Lehr if the Legislature authorized $20 million of AHFC resources, how long it would take to develop the criteria and put the plan in process.

Rep. Rieger clarifies that the Committee would allow AHFC to financially participate in the demolition project. Action needed is amendment, and direct AHFC to develop guidelines. Rep. Brown refers to correspondence and states in the past the Legislature has not appropriated from AHFC reserves and asks if there are legal questions. Brown asks if an authorizing statement in HB 432 is appropriate. Rep. Rieger responds he would look at it as "allow", not "direct." Rieger believes it is important to be cautious about taking AHFC reserves because of the precedence it sets.

Rep. Brown proposes language be drafted that incorporates the concept of authorizing -- it ties in with item 4 at page 2 and item 5 -- ideas coming from Commissioner Smith and others to meet social needs. Brown asks how people will react to the statement in Number 5.

Rep. Pourchot refers to page 2 and states he does not see benefit in Number 4, regardless of funding source. Pourchot suggests inclusion of Mental Health which is separate from low-income, elderly, etc. because there may be other funding sources. Pourchot describes examples of benefits.

Rep. Rieger states that the committee at this point leans toward allowing AHFC to financially participate.

Rep. Rieger moves to points 4 and 5. Rep. Ulmer asks, referring to Number 4, who will investigate the feasibility, and if an additional position will be created at AHFC to work with agencies and non-profits. Ulmer suggests clarification is needed.

Rep. Brown asks if it is beyond feasibility to determine within the next few weeks anything that can be enacted this year. Brown cites the change in the mission of AHFC by this document. Brown explains the statement as her intent that the Legislature would investigate the feasibility of carrying out the concept which has broad public support. Another idea presented was considering a combination of ASBA and AHFC. Brown suggests combining Numbers 4 and 5 into a single statement.

Rep. Rieger states he has reservation about that direction and cites the Heritage Fund at Alberta as an example of problems from mixed messages and mandates to a single agency. Rieger expresses extreme reservation.

Rep. Pourchot states in most cases the implementing first step is the Legislature giving money to who it wants to accomplish goals. At the next stage AHFC is directed to work with the people. Pourchot describes utilizing AHFC to hold properties to act in their best interest to remove properties from their inventory. Pourchot states AHFC has considered social equity problems, but it has not stopped them from working with ASBA to convert properties.

Rep. Collins concurs with Pourchot and describes needs of the disabled and others, and cautions there is need for external rather than internal procedures.

Rep. Rieger believes ASBA is an excellent vehicle and can accomplish a great many goals. Pourchot suggests this could be a direction to the Legislature to look at public housing needs.

Rep. Brown asks if the Committee would revise the language to incorporate this discussion and have it as a discussion item for a meeting with the AHFC board. Brown would like to have a written document for that meeting. No objection.

Rep. Rieger refers to Number 6. There is no discussion.

Rep. Rieger asks for comments on Number 7, and the legal opinion which has been distributed. Rep. Rieger refers to section 2 and asks if the Committee is comfortable giving that much authority because technically it exists elsewhere. Rieger states there is intent in number 3 of the findings, which reduces exposure.

Rep. Rieger asks for comments on Number 8. Rep. Pourchot refers to testimony regarding the owner-occupancy ratio and asks what truly is within AHFC's discretion. Rep. Rieger states he believes the secondary lenders use 70% owner-occupancy, except that Freddie Mac uses 60% for the guarantee. Open questions are is there a way AHFC can call their property owner-occupied. Also, is there a negotiated relaxation of that figure, and is it within AHFC's resources to do a special bond issue as in HOAP to get around this. Rieger believes all are encompassed in the last four words, "to the extent possible." Pourchot concurs. Pourchot refers to condo owners' testimony about AHFC marketing their property and not counting themselves as a non-owner occupant -- thus it is unfair to other owners, but if it can result in a sale to an owner-occupant, it improves the situation. Pourchot suggests asking AHFC how they market property, in terms of financing.

Rep. Rieger asks for comments on Number 9. Rep. Brown states "25" is used is that AHFC reduced their contractual and increased personal services, for the same dollar amount of $1.788 million, but would get 25 positions with that amount. Rep. Rieger clarifies that $1.788 million is non-general fund, and suggests adding that it be "non-general fund." Rep. Brown does not agree with calling the funds "non-general funds." Rep. Pourchot points out they are "roll-over monies within the AHFC fund that annually revolve." Rieger points out that the budget each year contains a paragraph stating that all AHFC program receipts are reappropriated to AHFC for operation of the program, and this would have no effect on other general funds available for other uses.

Rep. Rieger asks for comments on Number 10. Rep. Ulmer asks why $15 million is used. Rieger responds that Labor and Commerce version suggests $15 million. Rep. Ulmer suggests asking Ron Lehr about this. Rep. Brown states the bill is in the Judiciary on Monday. Rep. Pourchot asks if this means that we are looking only at financial feasibility or are concerned with equity questions. Rep. Pourchot states feasible means if a person is willing to add $20,000.00 onto a new loan, and can make the payments, then it is feasible, but does not mean it is fair to another individual who is not so able. Rep. Brown suggests changing "and" to "or". Brown states trade proposals can be presented to AHFC for consideration, but there is no structure. Rep. Rieger states he has serious reservations that the envisioned use of $15 million and whether it will meet a basic fairness test and cites examples. Rieger would like a statement of reservation concerning a test of fairness. Rep. Ulmer suggests statement be made in the policy statement, making it clear that the Committee is concerned about basic fairness. Rep. Collins suggests changing "and" to "or" and "and, if AHFC reserves are used, that the transaction meet a basic fairness test." Rep. Rieger believes it should be necessary. Rep. Pourchot points

out that trades will be accomplished with all parties are in agreement. Rep. Rieger believes it is necessary to direct AHFC to take steps to make this type of program a priority. Rep. Pourchot suggests language, which will be considered.

Rep. Rieger asks for comments on Number 12. Rep. Brown asks if there is cost to the state in forbearance, refinance matters. Rep. Rieger responds in theory it costs the state less. Rep. Pourchot points out wording in the forbearance resolution, "long term economic sense."

Rep. Pourchot states he has had questions regarding the 28 positions at AHFC because of statements that AHFC is not professionally equipped to address the problems, that it is not the number of people, but the quality of their abilities. Pourchot asks if there is a link between Number 9 and Number 12, because 12 targets Alaska Housing Marketing Council. Rep. Brown would not object to adding language to Number 9 because AHMC serves a worthwhile purpose.

TAPE TWO, SIDE ONE

Rep. Pourchot asks if there is a problem with the level of management expertise or professional staffing of AHFC. Rep. Rieger suggests adding on Number 9 that staff be adequately trained in problem areas, such as property management. Pourchot agrees. Question is raised regarding definition of property management, and Rep. Rieger cites examples involving response to the public. potential buyers, borrowers, park owners, and others who work with AHFC. Rep. Pourchot states he has no problem with Number 12, and clarifies that the request is for $100,000.00 for this fiscal year because Permanent Fund declined to accept the offer to contribute that sum this year. There is an '88 request for supplemental appropriation of $100,000.00, and the 400 is included in each agency, including the Permanent Fund for 89.

Rep. Rieger asks for comments on Number 13. Rep. Pourchot points out that there are two areas being considered, problems now and future problems, and some of the recommendations will not relieve the existing problems. Pourchot asks if the Committee is going to guide the future to avoid problems of the past, or focus on present problems. Pourchot points out that the HOF program has substantial support because it is a "help the poor" program -- social policy decisions are being made. Pourchot asks why "we are picking on the poor people programs." Rep. Pourchot suggests making assumptions from statistics without targeting HOF.

Rep. Brown notes that Numbers 13 and 14 are conceptually different, 14 going along with flexibility, and suggests moving 14 into "Aid to Distressed Homeowners." Brown refers to comments by Commissioner Smith, and suggests Number 13 be rewritten to recommend specific items. Rieger does not agree

and believes AHFC has flexibility to restructure when property is distressed, and to dispose of property. Rieger disagrees with telling AHFC to increase subsidies to improve the market. Rieger does agree that when disposing of repossessed property it is best to close at high principle and low interest.

Rep. Brown indicates another meeting is scheduled for the room in a few minutes, suggests taking no action on Numbers 13 and 14 when more members are present. Rep. Rieger suggests reviewing proposed recommendations for change.

With regard to commercial real estate, the committee will state that minimizing state intervention is recommended. Pourchot asks for more data on bridge bank and suggests further consideration of that and similar proposals because new information has been received.

Rep. Brown refers to Commissioner Smith's memo, page 2, number 4, re HB 429 and suggests consideration later, and also HB 430 and 431 should also be considered at the next meeting.

Rep. Pourchot states Hollywood Vista consideration was not concluded, and suggests taking Rep. Ulmer's first suggestion to clarify the difference between Willow Park and Hollywood Vista. Rep. Brown suggests "demolition of state owned Willow Park and then add at the end, "the subcommittee has recommended, or adopted a resolution recommending state action or funding or acknowledging state responsibility . . . " Rep. Pourchot suggests then referring to Number 2, "at the end discuss other things, such as municipally owned Hollywood Vista and others should be reviewed." Brown clarifies that Pourchot desires to leave the report as a direction or recommendation to fund Willow Park and allow further examination of the concept of allowing use of reserves for other kinds of removal of properties, suggesting Hollywood Vista as a possibility."

Rep. Brown states the proposition of allowing AHFC to use its reserves to do that, and get a general authorization through the legislature, may be a way to accomplish it, and consideration later this week will clarify this. Pourchot states he does not necessarily want to say that for Willow Park. Brown states the problem is where the municipality's share will come from, because they don't have the money. Rieger points out that statewide policy is being drafted by the committee.

The meeting is adjourned.

Joint Committee on Economic Recovery
House
Housing and Banking Subcommittee

March 16, 1988

Present Representative Kay Brown, Co-Chair
Representative Steve Rieger, Co-Chair
Representative Randy Phillips
Representative Heinrich Springer
Representative Mark Boyer
Representative Pat Pourchot
Representative Steve Frank
Representative Red Boucher
Representative Virignia Collins
Representative Fran Ulmer

Witnesses

Dr. Ron Lehr
AHFC
Anchorage, Alaska

Pat Steward
Anchorage, Alaska

Ben Marsh, Executive Secretary
Alaska Trailer Court Association
Anchorage, Alaska

Rick Barrier, President
Alaska Trailer Court Association
Anchorage, Alaska

TAPE ONE, SIDE ONE

Rep. Brown calls the meeting to order and states the Committee will hear from Dr. Ron Lehr of AHFC, and discuss the draft report of the Committee, and take public testimony for 30 minutes.

Dr. Lehr joins the Committee. Lehr has no prepared remarks, and will answer questions of the Committee. Brown asks Lehr to comment on the draft report which the Committee provided, taking points one-by-one. Lehr states he has not had the opportunity to discuss the report with the Board as he had hoped to do. Regarding "develop initiative plans to demolish institutionally owned properties which are unsafe, substandard

in quality and for which demand does not exist" Lehr states unsafe and substandard for which demand does not exist should have a time frame, and points out that statutes require "safe and sanitary" housing. Lehr believes some condos should be held off the market for a period of time.

Brown asks about analysis of management of AHFC REO's to determine which units are unsafe, etc. Lehr suggests breaking into segments (1) mobile homes, (2) condos, and (3) everything else. On everything else, only normal marketing procedures are recommended. On mobile homes, many suggestions have been made to the Board for consideration during the next two to three weeks. Those recommendations were to (1) try various sales techniques to sell in place, (2) to set threshold value that any mobile home below that value be automatically used for parts, and (3) to do bulk sales outside the area, or a combination, to reduce carrying costs. Quick action must be taken to cut the inventory to one-half. Regarding condos, Lehr states information required with regard to supply and demand is not complete. Lehr discusses the possibility of removing 1,000 condos from the market and stockpiling them -- the effect being to stabilize prices.

Rep. Rieger asks, with regard to condos, about the extent to which MGIC would cooperate in removing surplus condos from the market. Lehr states MGIC will be meeting with AHFC about March 29, and will present a plan for trades, exchanges, etc. Lehr believes they are much more amenable than in the past. Fannie Mae has made no commitment. Lehr believes plans should be made with MGIC, then with Fannie Mae. Lehr will be in Washington, D.C. next week to meet with FHA to discuss plans. Lehr states Fannie Mae generally rejects suggestions at first, then "come around".

Rep. Brown asks, with respect to the suggestion that AHFC use part of its reserve to participate in demolition of multi-family housing projects where supported by local communities, if it is necessary to have legislation. Lehr states his Board has asked that an Attorney General opinion be obtained. Lehr does not believe it is possible. Brown refers to a memo of March 8 by Lehr to the Board that suggests $20 million be used for stabilization and upgrade, with matching requirements, limited to state agencies and local governments, and asks why $20 million was established. Lehr responds it has to do with financing ability, to avoid a negative net income, and last year there was a net income of $21 million. Lehr believes that would have an impact on the market. With regard to the number of units involved, it is not possible to respond until there is feedback from the Board. Brown confirms it would apply to single family dwellings, such as mobile homes, as well as to multi-family units. Lehr believes it should be any "substandard" home, not limited to

multi-family homes, and points out that AHFC has a 4-plex limit.

Rep. Rieger asks what capabilities AHFC has of a stand-alone bond issue to get around owner-occupancy requirement of condos. Lehr responds it could be done if not a bid-bond issue and would require a huge amount of collaterization, with insurance, and states it would be very expensive. Lehr has considered this, and states there are other options to consider first, such as moving residents from one project to another. Lehr would like to have FHA more involved in providing insurance. Lehr states AHFC has a wide range of programs, some of which work very well, and the problem with specialized bond issues do not guarantee buyers that they can get financing in the future. A specialized bond issue may be necessary in the future.

Rep. Brown notes that Representatives Boyer, Pourchot, Frank and Boucher have joined the Committee.

Rep. Rieger refers to testimony about the HOF program and asks for comments on proposed changes to the program, either increasing the downpayment or changing the interest rate requirements, etc. Lehr has not discussed this with the Board recently, and believes the primary problem with the program was the purchase limit of $80,000 or $90,000 depending on how many family members worked, and the 28% of income figure. Lehr states there was no incentive to buy a less expensive home, and the ceiling became the floor for developers, artificially inflating the price of properties. Lehr believes the change to be made is giving incentive to buy a less expensive home. Rieger asks how this can be done. Lehr responds there must be a sliding scale. Rieger states testimony has been taken concerning the down payment, and buying private mortgage insurance (PMI). Lehr states currently a 10% downpayment is required for PMI, and there is a direct relationship between down payment and delinquencies and foreclosures.

Rep. Brown asks if authorization or statutory change is needed to facilitate consolidation proposals with respect to condos. Lehr is seeking an Attorney General opinion in that regard. Brown refers to a statute and broader powers for a subsidiary corporation described in a memo from Commissioner Smith on March 7, page 4 in particular. Lehr discusses the proposal to move residents from one project to another, and asks what would happen to the project eventually -- would it be joint ownership with Fannie Mae and others -- and states a subsidiary corporation to manage such things might be appropriate.

Rep. Frank expresses similar concern regarding conversion and subsequent management, and available HUD subsidies. Rep. Brown states the Mental Health Board has requested state funds to purchase residential housing. Brown believes this would be a major policy departure if the state were to provide additional low income housing.

Rep. Pourchot asks Lehr's reaction to suggested requests by an agency such as mental health for large residences for group homes if they had cash in hand. Lehr states this has happened and it would depend on insurance involved, because the insurer would set the price limit. Pourchot asks what percentage of owner-occupied type dwellings which have been foreclosed have that insurance backing -- Lehr responds approximately 90%, although some condo loans do not have that requirement. Lehr confirms that pool insurance would require approval of the selling price by AHFC. Lehr states 5 mobile homes were sold to one group, but recalls no specific such sale in the past for residential property. Lehr states that regarding a "nice, single family house", there is no flexibility from the insurance company because those home sell; often the institutional buyers are interested in 4-plexes, and "good deals can be cut" on them, or a group of condos. AHFC would work with the group or institution because those properties do not sell well. Lehr stated there is some concern about reducing market value of other units, but it is not as great with an institutional buyer.

Rep. Pourchot states he has concerns about mortgage insurance and asks Lehr for clarification. Lehr gives an example: a house goes up for foreclosure, the first insurance is the primary PMI, which has the option of paying off the loan and taking the home for disposal, or paying their claim -- now they just write a check to AHFC for their claim of a percentage -- and the house goes to AHFC. If Fannie Mae insurance is involved, Fannie Mae takes the residence via deed. MGIC has the same option, and in some instances they take the property, but generally lets AHFC take the home and they pay their claim. They must approve sales, terms, and conditions, etc. because they write the check. MGIC and Fannie Mae are pool, or secondary insurers. The first line or primary can be MGIC or Republic, or others. That takes it down to generally about 70% of the original sales price. Lehr describes computation of loan balance, foreclosure costs, etc. Pourchot confirms that is followed by pool insurance. Primary carriers have the option of paying off the loan and taking the property, and the others can do the same. Pourchot asks how low the pool insurance goes -- Lehr responds "until the pool runs out. The pool insurance is like a big checking account." Because of pool insurance, AHFC has not experienced a loss. Pourchot asks how much is left in the "checking account." Lehr responds each separate bond issue has a different

account. A $100 million bond issue had a 20% pool policy, or $20 million pool insurance, and until that $20 million is gone, everything is covered. Pourchot asks if the 20% would take one down to the 50% level of sales. Lehr responds affirmatively and cites examples, stating he does not believe AHFC will ever run through a pool policy.

Pourchot asks who controls most of the property, the pool insurer or AHFC. Lehr states that with Fannie Mae, it is entirely Fannie Mae. On MGIC it is a combination because AHFC and MGIC must work together.

Rep. Brown states Representatives Collins and Ulmer have joined the committee.

Rep. Pourchot refers to bridge banks and cartels to keep property off the market, and asks who actually controls residential foreclosed properties vs. commercial properties vs. commercial loans. Lehr responds AHFC is the largest lender, and has the most foreclosed properties, approximately 60% or 2/3 of the market. Within that, Lehr states, most of AHFC properties, if the loan has been made since 1981, there are few foreclosures because there is either MGIC or Fannie Mae insurance. Lehr describes recent Fannie Mae insurance with recourse provisions, a guarantee to the bond holder but AHFC suffers the loss. On MGIC, control is joint with AHFC. Lehr estimates 10% of the stickbuilts are controlled by AHFC. AHFC is the sole controller on mobile homes, perhaps 30% have insurance. Lehr states AHFC probably loses an average of $30,000 on a mobile home and they cover $20,000 of the loss. Lehr refers to a cartel and believes it is possible in the residential market because there are so few players. Pourchot asks for numbers in terms of foreclosed properties; MGIC controlled, AHFC turn-backs to Fannie Mae, mobile homes over which AHFC has exclusive control, or shared control, etc., and commercial and residential. Pourchot asks the effect of "dumping" commercial property on the residential market, assuming there is not a "dumping" of residential properties. Lehr states the only effect is if dumping commercial properties caused people to lose their jobs, then residential would be affected.

TAPE ONE, SIDE TWO

Lehr states institutions own so many properties, it is a situation of rearranging them, taking some of the supply off the market. Pourchot asks what AHFC is doing relative to other major players on selling or not selling properties. Lehr believes there should be a coordinated effort and he has made preliminary, tentative recommendations to Fannie Mae and MGIC and would like to include FHA and VA because it makes sense with regard to the condo market. Lehr states there has

been no action, just discussion. Lehr states withholding property from the market works only if you can control a large part of the market. Lehr describes multiple listing service booklets and states in the lower end AHFC, MGIC and Fannie Mae are the major owners, however in the higher prices it is all private owners. Without PMI participation, the average owner in the lower end does not have a market. Pre-sales are described. Lehr states the private individual has been shoved out of the sale market in the lower end because they cannot compete with the institutions. Lehr would like to see the private market place function in the lower end.

Rep. Rieger states there has been criticism that institutional owners can sell condos, but private individuals cannot because of the owner-occupancy restriction, and asks how AHFC sells condos. Lehr states they sell infrequently; most with a special financing program with MGIC whereby they buy the interest rate down to 9 or 9.5%. Lehr points out that in most instances the loan balance is such that the individual could not afford to sell if financing were available.

Rep. Rieger asks if primary insurance automatically pays, regardless of the selling price. Lehr responds affirmatively, that it is possible to make a profit, and states in a normal market place, that would happen. Rep. Rieger asks what recourse the insurers have against the borrower who defaults and is foreclosed. Lehr states in judicial foreclosure, the insurer receives more benefit than AHFC. Lehr states he believes the insurer can take action against the borrower. Lehr recites the history of mortgages when individuals were required to have a substantial downpayment, and there was no mortgage insurance; lower downpayments brought about mortgage insurance in lieu of a downpayment. Lehr does not know the legal rights of parties.

Rep. Rieger asks, regarding the $20 million fund for matching grants, how long it would take to set up after approval. Lehr responds approximately a couple of months.

Rep. Rieger asks the status of out of state sales of mobile homes. Lehr states a suggestion to the Board was to do a bulk sale of 50 to 100 units outside the area of Anchorage, Fairbanks or Juneau. Offers have been received from out of state for 1,000 mobile homes, but bids are so low they are not acceptable.

Rep. Springer refers to testimony on mortgage insurance which was quite different than what Lehr describes, and asks if the PMIs are cooperating with AHFC, along with the pool insurance. Lehr responds it is generally true; that of approximately $100 million in losses, $81 million were covered by insurance, and the $20 million loss was on mobile homes. Lehr states

insurance companies are now trying to find new ways to deny claims. Lehr states there are now three condo projects in Anchorage on which MGIC will not pay pool claims because the properties are not "market ready or have marketable title." Policies cover a deterioration in price due to the market, but not if the property is defective. Restoration costs AHFC money, and that is occurring more frequently recently. Lehr states prime property does not come back to AHFC. Lehr points out that often homeowners associations do not have money to make repairs of structural problems. Springer states from a public policy standpoint he believes there are problems in the State's exposure in programs such as Community and Regional Affairs which carry no mortgage insurance. Springer does not believe a subsidiary corporation of AHFC is necessary, but more an umbrella organization to view the state's total interest in the financing of housing. Lehr states in terms of percentage loss, other programs will have more severe problems than AHFC because of insurance.

Rep. Phillips asks, regarding properties in AHFC inventory handled by private companies for maintenance, brokerage, etc., about dissatisfaction and complaints being received. Lehr states it is known as the designated broker system, which was initiated because the original process did not work well. There is a limited number of brokers because they are essentially property management people, and there must be control over people who spend hundreds of thousands of dollars. Lehr describes the bid process and requirements to ascertain capability, and acknowledges there have been many complaints, some of which are justified. Lehr is preparing to make recommendations of changes, such as limited terms of contracts, and a need for a formal procedures manual. Rep. Phillips expresses concern over charges of market manipulation, and access to information, especially for single family dwellings. Lehr states he has not heard a complaint on market manipulation. Lehr is considering a recommendation for real estate commission complaints. Phillips points out that information on properties is available to only the contract broker, which is manipulation of the market, and contributes to the fallen values of some properties. Rep. Phillips states he does not believe this is a free enterprise system, but is a controlling system, and sees need for revision. Phillips states this is a serious problem among his constituents in Eagle River area.

Rep. Frank states he has received similar complaints from non-designated brokers; that properties are being sold at too low prices and not getting on the books or listings in the open market. Rep. Frank asks for information on a task force which has been mentioned, consisting of a designated broker and a non-designated broker, and others. Lehr is not aware of this task force, but states it makes sense. Frank asks if

there is a better method of accomplishing the goals. Lehr has discussed the issues and heard suggestions from brokers and states some solutions create other problems. Lehr suggests adding more designated brokers; Frank believes that might solve part of the problem. Lehr acknowledges that does not solve the points raised by Rep. Phillips, which are of concern to Lehr. Lehr points out that much effort has been expended by the designated brokers, and the system is working better with time.

Rep. Frank discusses repair work being done to restore properties. Lehr states there have been serious problems, and the system has not worked as intended. Frank urges that extra effort be made to protect all bidders.

Rep. Frank discusses Lehr's statement about $70 million in non-conforming loans, urban area loans. Lehr states there may have been some other loans included. Frank refers to a situation involving a rural, non-conforming, 4-plex, owner occupied property with no cash flow, but because of statute there are constraints. Frank asks if there is flexibility to reduce interest rates for temporary periods, and asks for recommendations. Lehr states restrictions would apply to all loans, and states there is forbearance and arrangements can be worked out. Lehr estimates there could be more flexibility in interest rates because there is a large loss to everyone involved when properties are lost.

Rep. Frank presents a rough draft of proposed legislation and asks recommendations from Dr. Lehr for guidelines and proposed regulations to lay out circumstances under which it would be in AHFC's best interest to reduce interest rates.

Rep. Brown asks if AHFC is reducing interest rates in the HOAP program. Lehr responds they are to the extent allowed, 10%. Brown also asks for recommendations.

Rep. Springer asks about the trailer park situation and refers to correspondence he has received, and the summary by Lehr to the Board recently concerning losing $1.5 to $2 million for trailer rent for trailers that are stored in the courts. Lehr states there is a summary of the response, which was minimal, in the packet which has been distributed to the Committee. Lehr describes efforts to obtain reduced rents from park owners and states the owners were generally reluctant to do so. At that point the sales/storage lot was obtained, and when units were moved to the lot, park owners made an effort to communicate, although there was little in the way of reductions. Lehr states the issue is tabled until the next meeting of the Board, following recommendations and opinions from the Attorney General.

Rep. Brown asks if the Board took action on March 15 regarding Willow Park of Hollywood Vista. Lehr responds he was instructed to get a legal opinion from the Attorney General. Brown asks the reserve which AHFC presently holds. Lehr responds the net worth is $1.5 billion, but much is not liquid. Lehr states if AHFC were shut down today, in the next year $200 to $250 million would be obtained. Brown asks how much erosion there has been in the net worth of the corporation over the last year to 18 months as a result of the plunge in property values. Lehr states there has always been a positive net income. There has been an increase in the loan loss reserve of approximately $30 million, a result of mobile home losses. Lehr states that is an increase in reserve or write-off. Brown asks what the effect would be of designating a portion of reserves, perhaps $20 million, for work in demolition projects and substandard, unsafe properties. Lehr states that could be done, and his only concern is how it would be viewed by the rest of the financial community.

Rep. Brown raises the issue of minimal thermal standards for new construction, and states there is concern of how they will be enforced. Brown refers to a letter of February 16 from Betty Cook, mortgage operations director of AHFC, stating that enforcement of the standards would be better served if incorporated in statewide building codes. Lehr states he has not worked on this, although he knows that regulations will be enforced as best they can be. Brown asks if the increment proposed will give resources to meet this requirement. Lehr states they would not; AHFC is not set up to do enforcement of building regulations and standards.

TAPE TWO, SIDE ONE

Rep. Brown asks for a written response from Lehr in regard to the issue.

Rep. Pourchot asks what Lehr estimates the next year will be for AHFC with regard to demand and outstanding bond capabilities. Lehr responds it has been slow, there are problems with lenders selling loans; Lehr believes money will be obtained and available, but he is concerned about mortgage insurance availability on conventional loans because there is only one company, Commonwealth, doing the majority of the business at this time. Pourchot asks about loan program changes on the demand/supply situation, such as changing HOF. Lehr states relaxing standards would create more business.

Rep. Collins discusses trade up/trade down, and asks for comments. Lehr states it is viable if insurance companies can be persuaded and gives examples.

Pat Steward joins the Committee. Steward is an Anchorage resident. He states that last fall AHFC held a bid action for lease of land to store mobile homes, and he was the successful bidder. Steward states not all trailers should be moved -- some are not liveable or up to code, and should be destroyed, and others with lean-tos and additions are too expensive to move. There are many mobile homes in parks which he believes it would be beneficial to move because of cost savings of $188.00 per month, per unit. Steward estimates that moving 75% of the units to a storage area would result in $1.5 million per year in savings. Steward states the area is fenced and there are security guards on the property, reducing vandalism, it is well lit, and allows display of numerous units at one time in one area.

Ben Marsh addresses the Committee, stating he is the Executive Secretary of the Alaska Trailer Court Association. Marsh states the Association speaks in defense of claims that they are "bad guys" as they are involuntary partners with AHFC in the current economic recession. Marsh points out that Rep. Springer asked about the letter from Dr. Lehr to the Association, and states he has a copy of his reply, dated February 10. Marsh also has a reply from a court owner, Bob Penny, and states several others answered independently. Marsh challenged the conclusions of Dr. Lehr's letter, as did Bob Penny and states the points made represented a basis for negotiation on what might be a reasonable and fair price as compared to storage and sales lots. Marsh states he received no response from AHFC, and he believes there is no willingness on the part of AHFC to discuss what is a fair and equitable comparison. Marsh believes Lehr's proposals spell disaster to most mobile home courts. Marsh states mobile home courts in Anchorage represent $75 million in taxable property. The association believes there is basis for negotiation on the question of storage rates and of bulk sales, if not for the purpose of moving units from the court. Marsh suggests that AHFC could rent units in the courts. Marsh states there are mobile homes built prior to 1972 which are of low value, unsaleable, because they do not meet codes adopted in 1972. Marsh recommends that those units in particular be demolished or sold for parts, accomplishing a reduction in the supply of mobile homes on the market. Marsh suggests the following recommendations regarding proposed legislation: changing the title to read "relating to the disposition of vacant, unsaleable and substandard housing" removing the words "mobile homes and low income".

The second recommendation would be to remove the 5th and 6th "Whereas" clauses relating specifically to mobile homes because the resolution should be broader, dealing with all substandard, unsaleable homes. If the last "whereas" remains, it should be more specific, reading "mobile homes manufactured

before 1972 and not meeting Alaska codes." It is also suggested that "and appraised at less than $5,000.00" be added after the word "codes." In the next "whereas", insert the words "not in compliance with appropriate building codes" after "attempts to sell substandard properties". On the "Further resolved" paragraph, change to read "Further resolved that the Alaska state Legislature support the efforts of the AHFC corporation to write off and dispose of vacant and unsaleable housing units (rather than mobile homes) in their REO portfolio." Marsh states that changes the thrust of the resolution so that it does not single out the mobile home industry, but covers the question of vacant, unsaleable and substandard units. Marsh offers copies of previously mentioned correspondence.

Rep. Collins clarifies that park owners are interested in buying some of the foreclosed units, units located in their own court, to leave them at the location, with the only acceptable condition being that they be rented for a period of time relating to the market conditions. Marsh states it has been proposed to AHFC and Dr. Lehr has scheduled a meeting for more specific plans from the membership of AHFC. Dr. Lehr's report to AHFC Board was obtained on Monday, and the meeting was set for Tuesday, so they had little time to prepare. Rep. Collins expressed hope that something can be worked out, and asks what percentage of mobile home inventory they would be able to purchase. Marsh is uncertain at this point how many units in each court are in the REO. Collins suggests something be worked out if possible. Marsh states a desire to protect the portfolio, and the economic viability of the mobile home courts at the same time.

Rick Barrier, partner of Malespina Properties, owners of two trailer courts in Anchorage, appears as president of the Alaska Trailer Court Association, makes comments to the Committee. First, Barrier points out the mobile home industry is a viable housing source in Alaska, and there is no more over-supply of mobile than in 1980 because there are few parks. Prices were inflated when AHFC offered 20 year financing, and now the loans are "under water" so they cannot be sold. Barrier states the private mobile home industry is alive and well. Regarding AHFC, Barrier states he must respond to issues which have been raised. Barrier states they have made offers and proposals to AHFC in the last two years to preserve the industry so that there would be mobile homes available for citizens to live in, and the parks would have a business. However, they have not been able to get negotiations, agreements or serious discussions because mobile homes have not been the major concern of AHFC, which has bigger issues to worry about. Barrier states the issues have not been dealt with, and now the problem is unresolved. The Association wants to see repossessions stopped, and they have

suggestions as to how it can be done, if AHFC will meet with them. The Association believes it can save the state substantial sums monthly.

Rep. Brown asks if the Association responded to the offer by AHFC to make recommendations. Barrier states there was no response to the January 15 letter because Ben Marsh responded on February 10, and they await response from Dr. Lehr to an offer to get together. Barrier states the group would like to see AHFC take steps to improve their situation, and the future of the park industry. Barrier states there are 3,000 mobile home loans which may be in trouble if steps are not taken to protect them. Barrier urges AHFC to work with the park owners to avoid future problems. Barrier responded to an August letter from AHFC requesting reductions and presented ideas, but has never received a response to that and several other letters written to AHFC and their management firm. Barrier states a desire to preserve the industry.

Rep. Brown adjourns the meeting for a floor session.

Joint Committee on Economic Recovery
House Subcommittee on Housing + Banking
March 31, 1988

Present: Representative Steve Reiger (co-chair)
Representative Mark Boyer
Representative Virginia Collins
Representative Henry Springer
Representative Kay Brown (co-chair)
Representative Randy Phillips

Rep. Reiger: There is a bill draft based on the suggestions of Ron Lehr, AHFC, that there should be a $ amount set aside for some of the sub-standard housing projects.

Rep. Brown: This bill follows the general policy concept the committee has already approved. At last discussion, there was some question as to whether specific authority was needed. One project we specifically have in mind is the Willow Park apartments. After looking at this draft, Mr. Lehr suggested that non-profit corporations not be included, because it would take too much red tape in making the grants. I would urge the committee to endorse this draft. I move we recommend introduction to the full committee.

Brief discussion followed.

Rep. Brown moved they insert "consistent with the best interest of the corporation" at the beginning of line 12. Rep. Phillips objected to utilizing their time getting bogged down in details. Rep. Springer disagreed, stating pertinent points have been made and that the time pressure should not be overstated. No objection to the amendment, and no objection to moving the bill to the full House side of the committee.

Bob Gray (2nd Vice Pres., AK Bankers Assn., Pres., NBA)
Ed Van Patten (AK Fed. Savings and Loan)
Craig ~~Daw~~ Carl (Pres., AK Bankers Assn.)

Bob Gray: I'm testifying on proposed changes in judicial and non-judicial foreclosures, the right of a secured lender to sue on a note as affirmed by a recent AK Supreme Court decision. Let me define the situation: All of the proposed changes to the law concern a debtor who is delinquent under a note secured by a deed of trust. The controversy arises out of the lenders right to sue on a note, then to foreclose under the deed of trust. Let's analyze the possible conditions of the debtor. The 1st possibility is that the debtor has no significant assets in which the debtor has equity. In this case, the lender would not sue under the note, because it would be futile, but unnecessarily increase the expenses of the creditor. The 2nd possibility is that the debtor does have other assets that can be liquidated to help satisfy the lenders loan; the debtor is willing to work with the lender to help

satisfy that debt. I can assure you the lender would much rather work with the debtor in these circumstances. It's cheaper, it reduces or eliminates legal expenses, it's quicker and much more pleasant. Under this circumstance, the lender would not sue under the note, because a debtor is voluntarily aiding in the collection of the debt. The 3rd possibility is the debtor has other assets in which the debtor has equity and refuses to use theses assets to satisfy the debt. Under this circumstance, the lender may elect to sue on the note, under rights supplied by the AK Supreme Court. In essence, the lender would be forcing the liquidation of assets to aid in the payment of a lawfully contracted debt. The debtor promised to pay the loan, shouldn't the debtor use the resources available to satisfy that promise? The simple fact is that the debtor promised to pay and should do so if it is within the debtors power to do so. It should be noted that a debtor has recourse through a whole body of law through the bankruptcy court. There are certain other considerations of which you should be appraised. If the rules of lending are changed, lenders will adapt to the changing conditions. You should be aware of this and anticipate the changes your actions may cause. Some of the smaller banks in our association are concerned that changes involving rights under a deed of trust would hinder their ability to sell loan in the outside market. Tim Bairn's banks specifically asked me to state that the proposed changes would make their mortgages unattractive to outside lenders. They state they vitally need these markets. Another consideration is how any proposed changes would effect the ultimate recovery of funds by a lender on a non-performing real estate loan. The simple fact is that property sells at a higher value by a trustee than it does by a court under a judicial foreclosure. This situation is caused by the fact that the one year right of redemption diminishes the value of property to a perspective buyer. Legislation to limit recovery of funds in excess of the value of the property through judicial foreclosures will reduce recoveries to the lender from what it would have been by suing on the note. Lenders will react to legislation that increases their risk to real estate lending. My last consideration: the state has the ability to alter or interfere with the working of the credit market in AK. Record of the interaction of the state and federal gov't in the credit markets of AK is plain for everyone to see. That record is the wreckage of economy you see around you. We do not need to change the rules. Lenders should be allowed to force payment of valid debts from those individuals and companies with the ability but not the desire to pay. Do not damage our ability to attract outside capital to any greater extent than it has already been damaged.

Ed Van Patten : I've been in contact with Freddie Mac, who is a major secondary market source for many financial institutions in AK, and also is the secondary market source for AK housing. I asked him about the moratorium on foreclosures, and the proposed changes on the foreclosure process. They indicated in their experiences they have faced 2 instances in the past where states have proposed doing the former, one Pennsylvania, one Illinois, and both states chose not to implement the moratoriums. When asked if AK were to do so, if they were faced with something like this they would change their pricing policy. They would stay in the state, and still offer purchase loans, but they would change

their pricing, perhaps the down payment from 10% to 25-30% down, the interest rate would go up, debt to income ratios would increase, etc. I don't think that's what we want.

Mr. Daw: I'd like to add to what Mr. Gray said. The focus for you tends to be to look at the AK housing transaction. From our standpoint, any further additions or technicalities restricts the traditional rights and remedies of everyone else in the country. That hampers our ability to look at any type of real estate transaction where we might need an outside lender to participate with us. If we're adding alot of different obstacles and rules they do not have to deal with in other markets, there is no incentive for banks to look at our transactions which hampers our ability to lend, etc. Mr. Gray's comments about the basic ethics in borrowing and lending is basic to the transaction.

Rep. Brown: In regard to your last point, would that apply to our suggested legislation, HB 439. Would that create a problem in terms of standard documentation? 549

Mr. Daw: Yes. Freddie Mac does have some states that have additional statements added to lending documentation, and in each instance they ask that statement not be made in one of the standard documents, but made as an addendum in a separate document. The reason for that is they also then are sellers of loans in the secondary market, and the people buying their product rely on standard documentation, and if it's altered they are less sellable to the 3rd parties involved. They suggested they might have some wording that might be of help to you, if you want their phone number.

Rep. Brown had a brief additional question, (partially inaudible).

Mr. Van Patten: One additional suggestion on that. Maybe you should focus that additional disclosure aspect through the consumer type transactions. I think one concern is another opportunity for misunderstanding an additional document. The language used for that rider will be subject to each transaction's interpretation...inaudible....If there's some concern that the innocent consumer didn't understand the transaction, ...

Mr. Daw: Another concern with this kind of statement is how far do we go? We've had a number of borrowers say "We expected the private mortgage insurance would cover this kind of loss", do we put that in this kind of statement? Are we opening ourselves to something later down the road? This disclaimer could ultimately take up 25-30 pages, ultimately.

Rep. Reiger: What's different in rights for lenders vs borrowers because of the Supreme Court rulings?

Mr. Daw: From our experience, the Supreme Court clarified what we always thought what we had. We won't do anything differently now. We have sued on the note before. We've only done it a few times; one time it did lead to foreclosure action we went on a non-judicial. In most instance a suit against the note has been sufficient to satisfy the judgement.

Mr. Gray: You need to realize the group of borrowers we're talking about is very small, we're talking about the people with the ability to pay who refuse to pay. The vast majority of people who have problems on their loans are either unable to pay or are scraping through somehow and are working with the lenders. On your question on the profits, on a sale, where you actually have the sale of the property and you have a bidder and they bid more then the lender has into the deal, my understanding is that the excess goes to the borrower, if it's done at the time of the sale. Now if the title transfers to the lender, because there were no other bidders, and then at some future date the lender sells it, they would keep the profits under those situations.

Leslie Ellis (Pres., Frontier AK State Credit Union): most of the comments I intended to make have been said. We also like to go on record against this bill, for the same reason s that have been mentioned. The basic problem we have right now is borrowers that will not pay, for whatever reason. We have no other means of recovering those funds, and eventually we will go out of business. (Voice is going on and off.) People who are unhappy with the value of their condo or home, and now they don't want the property,a nd they refuse to stay. We are also concerned that we will not be able to sell our mortgage loans, and it will affect the pricing of our other loans, forcing higher costs for loans, and higher down payments. We'd like you to consider the effect of people who can make payments who are hanging on to their properties, because they know the institution has some recourse to keep them from walking away.

Rep. Reiger: What bill are you referring to?

Ms. Ellis: The proposed Senate bill which will eliminate judicial foreclosures.

Rep. Brown: What's your view of HB 549?

Ms. Ellis: We have discussed it. We feel we adequately disclose what could happen to the borrower in the threat of default, however, we feel this is the lesser of the evils if a speciality closure has to be made, we will agree with it, as long as it meets the requirements of the other investors, as was previously mentioned.

Rep. Collins: I know there's alot of pressure on all of us to try to provide some assistance to homeowners experiencing significant problems as a result of what has happened to our economy and housing market. These 2 bills represent an attempt to respond to that. I have a problem with the because I think that neither one of these bill will help the people presently in the problems to begin with, it would help people beyond the date of the actual passage of the legislation. So, if we're attempting to help the people who are currently experiencing problems, this is not going to do it. I think the present problems we're experiencing is an unusual one, and I'm really concerned, and uncomfortable about passing legislation to respond to an unusual situation that might not occur again. The last concern is, on the one hand we're asking lenders to be considerate, to work with borrowers, and on the other hand we're tying their hands. We can't have it all ways; on one hand if we

want to encourage the lending industry to work with homeowners and borrowers, that we can't limit their options to recover. The best way I think we could help the situation is to not make any radical changes. I feel very strongly in terms of the responsibility of the borrower to know what they're getting themselves into. To have an attorney review that with you only costs $25-50. I feel that both of these 2 pieces would be more detrimental than anything else. I don't have too big a problem with HB549, but I don't think it's really necessary. This is a fiscal note to the private industry. We're giving them a responsibility that really belongs to the borrower. I have a real problem with the Senate bill, and if the committee intends to introduce the companion piece, I would have to impose that, that's the act relating to judicial and non-judicial foreclosures.

Rep. Reiger: Regarding the Senate bill, that has just been introduced as a draft to that committee. I don't even think that committee has reported a recommendation on it. There's no companion piece on the House side. We have had testimony that people didn't realize the full extent of what they we're getting into. Part of it was because we had a history of where real estate always went up, and not down, so it wasn't common knowledge of what the implications were of signing a note, because no one ever lost anything but their property if they defaulted. It's in that spirit that maybe this would be a useful thing to inject a note of caution on the part of the borrower.

Bill McNall: Since the Supreme Court decision came down, I'll give you an idea of the type of advice I'm having to give clients right now. Both for commercial and homeowner. First, nobody was ever informed by any bank that they would be potentially personally liable on their note. That's what I'm telling clients now. So that if they have to go bankrupt, if they are sued they can protect what little bit they have left. I disagree with the idea that banks will somehow be responsible. If you give them this power that's going to be used at the lowest level in the bank.....That's what we're seeing, we're seeing people of having babies intentionally to avoid paying the banks. The responsible people in the bank really sometimes do not control the people my clients have to work with. It is subject for abuse. In the context of trying to straighten this out, we have to take away from the banks the new-found abilities the Supreme Court has said they always had. I've talked to bank attorneys, and they said they view this as a window of opportunity, for the banks to go back and go after borrowers that are defaulting under law. There's really no restriction, and the reason for that is, if they get a judgement against the borrower, they have the judgement for the entire amount of the debt; that judgement's good for 10 years, and they don't have to do anything with it right now, because then they can foreclose non-judicially on the property and they have a judgement for the entire amount of money plus they have the property back. That judgement can lay in the weeds for up to 10 years before they again trace the debtor down, after he's established his life over again and has some assets again, and at that point they have some money to go after. They have the best of all possible worlds. I would urge this committee to take a long hard look at taking that right away from the banks; allowing the banks to keep the deficiency judgement, I think they have to keep that for the secondary market purposes, they certainly

should be able to sue if there's surely a deficiency judgement to be gone after, except I have seen numerous instances that we have defended where they were suing people that were literally bankrupt. Or, suing on property where the value was in excess of the loan. When we asked them why they did that, they weren't clear; they couldn't get a deficiency judgement, but they sued them anyway. We see these kinds of cases to be concerned about that, and that's why I'm here today. Alot of times banks make very good decisions, but you also know we have banks scrambling to make it, not invery sound conditions, and they're making bad decisions. I wish they could have leadership of the older experienced banks, but it's not going to be that way. So, we have consumers, at this point, at the mercy where banks can make whatever decisions they want, and sometimes they're going to sue on the note, whether it's apprcpriate or not, and my client will go bankrupt. My clients sometimes have $5,000. left. The bank said, yes it's true your daughter's going to college and that your wife needs an operation, but why don't you give us that $5,000.? My client couldn't believe he was asked to do that. What about his obligation to his wife and child? We have subsequently filed that bankruptcy, by the way. I urge you to take a long hard look at the chicken-little approach you're getting this morning. The sky is not going to fall. And if the banks really mean it would take 30 pages for them to fully disclose the risk the borrowers are at, then we are in more trouble than any of us realize. I'll tell you right now that not one of my clients, commercial or residential, ever thought they would be personally liable on the note independently of the property. Everybody I have talked to, nobody ever thought the bank would be free to ignore the assets (?). That's the crux of the problem, and the banks are now going to take advantage of that.

Rep. Reiger thanked those that gave testimony, and adjourned the meeting.

trans 15

Joint Committee on Economic Recovery
House
Housing and Banking Subcommittee
April 6, 1988

Present: Representative Kay Brown (Co-chair)
Representative Steve Frank
Representative Steve Reiger (Co-chair)
Representative Randy Phillips
Representative Mike Navarre
Senator Joe Josephson

Mr. Jim Cairns (Hallwood Group, also Chairman of Alliance Bank Corp.) The Alliance Bank is a combination of the old AK Mutual Bank and United Bank of AK and UBA Southeast. Today, it has about $80 mil. of real estate it owns as a result of foreclosures, that is the written down value. In addition to that it has $250 mil. worth of loans that are still outstanding and other various stages of non-performing. Against that $250 mil., Alliance Bank has posted $130 mil. in reserves, so it has more than 50% of it's troubled loans are fully reserved for, which puts it in a unique position to liquidate the property quickly if that's the right thing to do, which we think it is not. Our concern is we think the Alaska economy is just now bottoming out or will soon do so. We've noticed in the past 2-3 years, especially residential property values have declined in the area of 40-60%. In working with our customers and others, that people cannot sell their properties. We're concerned that as the economy starts to bottom out and turn, that with this tremendous overhang of property, that all of these people will be seeking the same buyers, and this will have a negative impact. We've seen this happen already. We're also concerned about several of our customers in many areas. We are now paying over 3,000 utility bills for customers each month. We think it's not only important to deal with the liquidation of this property, but also that the economy is stabilized so people can get on with the business of rebuilding their livlihoods, etc. Out of all that comes the Hallwood AK. Real Estate Stabilization Trust. I have copies here for anyone. As a result of the current recession of the AK economy, AK lending institutions like ourselves and certain state agencies are burdened with alot of bad real estate. If any of these institutions were to dump, there would be a collapse of the fragile price structure, and that would continue the recession. The objective of this trust is to prevent that further decline of real estate values by allowing the trustee of a trust to manage the liquidation of the trust assets which would be all these properties, to prevent oversupply of property on the marketplace. We're trying to just hold off this property off the market. We are asking all to become subscribers to the trust and what we're saying is, you put your property into the trust, we'll put our's in, and others will do the same, and they'll take back their undivided interest in this pool of real estate being contributed and from there on share on a pool basis. We anticipate transferred assets would consist of single family homes, condos, apartment

buildings, a few office buildings and commercial structures, and also that it would receive partially or non-performing loans. We see the commercial properties added to generate some cash flow. As these properties are transferred into the trust, that they be valued at their fair market value today. Any loss sustained up till now would be borne by the institution transferring the funds. Further, we would use a common technique of valuing these properties as they come in. No asset would be sold for the less the agreed amount. Reports from the trust would be made available. A board of directors would consist of those who had contributed properties to the trust. In ensure the trust has sufficient working capital, we're requesting the state through one or more of it's agencies to participate the sum of $15 mil. for which the state will receive their proportionate share. We anticipate the $15 mil. will be sufficient to ensure the continuity of th trust and the payment of all marketing, administrative costs, etc. for at least a year. At the end of the year, we think the trust will require further funding from the state, we'll report then and see. A package will include all the pertinent information for each property. I propose Hallwood be the managers of this trust, for the benefit of the contributors. It is a publicly listed company on the N.Y. and London stock exchanges specializing in the financial services industry. It is owned by 35,000 shareholders. It has considerable experience in the liquidation and management of distressed real estate. Hallwood intends to offer the AK real estate to foreign investors. Buyers will be offered management services as well. Offering some commercial properties also allows for some cash flow, as some of them are still rented. It will just make a more attractive package.
Hallwood does not expect to receive any fees managing this trust. At the end of 18 months, Hallwood has the right to put this bank back to the FDIC if things don't work out for it. Hallwood really doesn't want to do that, we have made an extensive investment in AK. We have begun liquidating assets to repay the loan to get this going. We're doing everything we can, we want to stay in Alaska. If it fails, Hallwood would stay on and run the trust, it would expect to be paid normal commercial rates at that time, but it would leave it as an option if the Board would want us to remain in that role. We think that if we are successful, it would be an important step to economic recovery here. One last concern is that AK has suffered a great deal. How much can the state stand in terms of an erosion of it's banking system? It's serious question to ponder. AK is not like the lower 48, it's a large state and it's expensive to get started here. We don't think it's wise for the state to have a further erosion of it's banking system. To the extent our proposal will stabilize things, help consumers, and help preserve the banking system, we think the proposal satisfies many objectives that should be considered.

Rep. Phillips: Can you elaborate on your comments on the economy?

Mr. Cairns: My assessment would be that we're right around the bottom, very close to being stabilized, it's really tough to tell. The Anchorage area sent out their tax assessments, so there's alot of depression right now. It's definitely not the free-fall now that there was. As far as jobs, I don't know.

Rep. Navarre: If we set up a mechanism for AIDEA or AHFC to commit to this, would that mean the Hallwood group would not put the bank back in 18 months, or would that be another factor in that consideration?

Mr. Cairns: That would be another factor in the consideration. If we are at the bottom, and we could stop the erosion, the decisions we had made to make the initial investment would be valid decisions. I don't think st this stage before we have some of those answers, we can or should make that decision until we get to that time.

Rep. Frank: Where are the other holders in reference to putting this thing together?

Mr. Cairns: They're not jumping at the bit, there's alot of concern and questions there. Alot of different proposals have surfaced. We have a continuing dialog going, I don't think they're going to make any decision until you make your decisions here.

Various questions were asked referring to remarks already made.

Bert Wagman: From review of the legislation it appears AIDEA's role in such an entity would be straightforward. It would be a custodian of funds, and making sure the trust was implemented as directed by the legislature, and once that was accomplished then to release the funds to the trust. $15 mil. is the pricetag, and I'd like to ask, where is the money going to come from? The second question I'm going to ask is what are you really going to get for your money? I'm confused, what Mr. Cairns proposes to do is currently already being done, instead of being done in one big organization, it's being done in lots of organizations, i.e,, NBA, AIDEA, AHFC are all already doing it. I assume the motivation is a "fear of Dumping". I believe the proposal is an organized method where everybody takes their dirty laundry and puts it in a big washtub and it's methodically dumped. From AIDEA's perspective, every loan I have has a bank involved with it, and that bank is responsible for handling that liquidation. I think the banks do a good job on my liquidations, we're holding right now. The big fear of dumping seems obscene to think FDIC is going to go in and destroy the marketplace. My biggest concern is what you're going to get for your $15 mil?

Rep. Brown: Are we referring to the proposal in SB 408? I see someone nodding yes. There is an appropriation bill that accompanies this, doesn't that take it out of the Railbelt Energy money? I see someone nodding yes.

Mr. Wagman: From a selfish point of view, in my role, AIDEA won't need any more operational funds, our existing budget would cover our ability to help implement it. The way the bills are structured, AIDEA would make sure the agreements all reflected the legislation that had passed, and the funds would be released to the trust, and that would be all the authority's role, other than if we elected to put our properties in, and that would depend upon what my particular banks would want to do. I don't know how many banks would want to participate in this, in all honesty, the major people that would contribute to the trust would be the Alliance and FDIC.

Rep. Brown: Do you see an advantage in the management of your properties if they were put into the trust?

Mr. Wagman: I've already got it for free without the $15 mil. UBA and AK Mutual together were my 2 largest originators, those same people Hallwood proposes to use are currently servicing those loans. From my selfish perspective, One, I've already got the expertise on those loans, and Two, the other banks are doing an adequate job of handling those loans, I feel. When a bank does make a decision that is not in our best interest, we can veto that decision. We don't have any complaints of the banks servicing us.

Rep. Reiger: We had an earlier meeting where we talked to you about HB 402 (underwrite up to 25 mil.). We still have not reported that bill out, is anything changed on that? Is AIDEA still in favor of all 3 portions on that?

Mr. Wagman: I'll set the 3 priorities now: Most importantly we need relief from the 2% rule. The banks that can participate are very limited. The next priority is to get some relief on that SBA purchase, interest reate section, it's handcuffed our hands. The third would be the 25 mil.

Rep. Reiger: The only reservations I have is whether the increase to $25 mil. raised the moral obligation of the state and I think you've written a letter that it does not. On the SBA, the wording is a little loose, and I have no problem rewriting that to give you the flexibility to comply with new SBA policies. I encourage this committee to favorable recommend it.

Comm. Tony Smith: As chairman of AIDEA, I second Mr. Wagman's comments, concerning that piece of legislation. I've been in a number of discussions about the Bridge Bank concept. We do need the authority in Title 6 to do that. We're currently going through the statutes on that. There is in the administrative code a provision for regulation of a real estate investment trust. There is no statutory or administrative regulatory authority for what is essentially a non-depository institution, that's taking assets and giving some sort of certificates of participations. Willis Kirkpatrick and I feel that with the A.G. the cleanest way to do it is to provide in Title 6 for the Div. of Banking and Securities to regulate a non-depository institution, rather than get into the question of how you apply present security laws and protections to this particular vehicle. It's our belief the cleanest way is to just go in and change Title 6. In my discussions, I pointed out to them that we're alot more comfortable with 15 mil from the state as a investment. If you get the cash flow from those FDIC loans as part of this whole package, because that will change dramatically the need to come back next year. That discussion is ongoing between Hallwood and FDIC. As part of the whole discussion, it's a fairly straight forward matter to statutorily provide for the regulation of some kind of entity that might come together. AHFC now has 4,000 properties. AIDEA now has 1,200 properties. Roughly 170 residential properties in the FDIC portfolio, 1,800 other would be FHA, VA and others out there. That's a changing number. One of the things this committee needs to understand that it's

costing us $8,000./yr. per unit to carry. The Hallwood trust is premised on about a 4% cost to carry, the industry average is 7-8%, on a yearly basis. There are substantial costs, and I believe that what Hallwood is proposing is to maximize the efficiency in the carrying of this property, as I see it. MGIC is at a point at if we don't do something, they're going to go to auctions, because it's costing them $8,000./yr. for the properties they're carrying, and they're a substantial percentage of the 4,000. Right now AHFC is adequately covered by pool insurance, which is paying these costs. What is starting to loom on the horizon is the insurers saying they won't pay that and sell the units. We're getting to the point where outside entities are getting tired of being good guys, and just want to recoop their losses. So I view the Bridge Bank concept as a vehicle to bring some order to the management of this property. It's my hope that the FDIC and Hallwood will reach an agreement, so that rather than FDIC setting up a duplicate system to manage what it's taken back, that that cash will be available for the carrying entity. It seems to me that if the state were to make an investment, that it may be an effective way to deal with the management of these properties and also to do some securitization, which Hallwood feels it can do.

Rep. Brown: With respect to the $15 mil., have you explored any alternate sources for this money?

Mr. Smith: There have been discussions with various groups. I think the numbers won't be solidified until the numbers are completed. I think the FDIC cash flow, assuming they are part of a Bridge Bank, would make a major impact on any requirement for additional funds in later years. It's entirely possible AHFC might want to do the same thing Alliance wants to do if the Trust is established, but what we're looking at now with the $15 mil., if you're going to ask the FDIC to put their cash flow (80-100 Mil. of loans) down, they will want something in return. The first 15 mil. from the state is going to be needed to make the thing work. If Hallwood can get FDIC in, this thing could work. The results of that determination will be a financial determination.

Rep. Brown said she doesn't see the legislature coming up with this $15 mil. at this point.

Rep. Reiger asked a question about the Homestead exemption bill, as to Comm. Smith's position on this bill. Mr. Smith said it would be strictly up to the legislature. He would be glad to respond further in writing.

Rep. Reiger: Would you be expecting to having the property for rent during the time it's being held?

Mr. Smith: Yes. But again, what you're able to rent properties for to some degree has some impact on what the properties can sell for, so there's a problem to tune that as best you can. What you're trying to do with the commercial properties with the trust is to try to generate some revenue and make it as attractive as you can for potential purchasers. My impression is that the higher priced homes are trading as they

normally would. They're down a bit more then 10%. The medium priced tier of homes is mixed. The lower priced homes is the hardest hit. As far as commercial property is concerned, there's very little sale, but some rental activity. SOme of the people who bought, and owe more than the property is worth are using the properties but having a hard time making payments, and we are helping those people out, cutting interest rates to nothing, sometimes.

Rep. Brown: How critical is the cash contribution from the state?

Mr. Cairn: Essential. I don't think the Bridge Bank will ever happen without it. The cost of a small private placement is modest, and we think we could get rid of maybe $1 mil. worth of properties by a private placement, but you can't only do one of those a year, and that isn't going to address the problem. The objective of the whole thing is we want to sell this property ultimately to attract people to the state and keep them here. We don't think you can sell it to the existing Alaska population, initially. It is going to take some time. To attract people from outside takes the effort and expense. That's why the trust works.

Rep. Brown: If you have private owners that have these properties, why is it the responsibility of the general public of AK to help pay their carrying costs, what's the broad public benefit that should warrant that expenditure of public money?

Mr. Cairn: That's a good question. I tried to point out earlier that we can dump the property now. We think we have the reserves, that we've written the property down enough that we can go out and dump it. If the trust is not authorized, we're going to have to look very heavily at that, because the question in our mind, is to decide if we can keep it or get rid of it. To the extent that we can reduce that overhang of real estate in our own bank, it'll make that decision much easier to keep it, depending if the numbers work out. So, we could find ourselves, where the FDIC isn't going to be the villain, we are. We might have to dump in order to stay, which is a terrible position to be in. If we dump, then the values of other people's properties will be hurt. What a position that puts the state in, that puts us in, really. We are dependent upon and trying to support the local economy, but we could be forced to damage the economy. We think there's a state public good in having an orderly liquidation, so that you don't have to face that eventuality. Point 2, if we did dump, we believe there are other financial institutions which would come under more financial pressure than they are already under. We're not sure how much more would have to be put up in reserves before they too would have to be failed. If they were failed, as the last 2 banks were failed, then the state would lose 1-2 more banks. If that happens, your banking structure is reduced to something very thin. If Alliance fails, or one or 2 more banks fail as a result of dumping, what have you got left? Is that sufficient for you to rebuild your economy, does that bring you the kind of banking system you want in the state? I think there's some public good in indirectly trying to preserve the banking system you have today. The public good is being served by trying to keep public from suffering further

unrealistic losses and at the same time to try to preserve a banking system to build the state back.

Meeting adjourned.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1588 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1385

Alaska Housing Finance Corporation

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 9981

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

by Brown and Rieger
February 27, 1988

SUMMARY OF PROPOSAL:

A total appropriation of $4,750,000 in state funds is sought for the purpose of demolition of Willow Park and Hollywood Vista Apartments in Anchorage.

WILLOW PARK:

The Alaska State Building Authority has proposed a comprehensive plan to remove Willow Park, a 150-unit, low-rent housing project, from the Anchorage rental inventory. ASBA is seeking funding for this project from the federal, state and municipal governments. The total project cost is $13.8 million. See attached summary of costs.

The $9 million in federal funds for relocation of the Willow Park tenants is contingent upon state or local funding of $4.8 million of other costs, including asbestos abatement, demoliton and site restoration.

HOLLYWOOD VISTA APARTMENTS:

The Hollywood Vista Apartment Complex consists of 347 units of which 51 are currently occupied. The municipality of Anchorage purchased the project from the United States Department of Housing and Urban Development for the sum of $1.00 in February 1988. This sale is contingent on the Municipality's agreement to raze the complex within two years of title acquisition. The Municpality has proposed demolition of this property due to its substandard condition and the current abundance of multi-family rental units available in Anchorage.

The proposed costs of the demolition and relocation are approximately $2.15 million. See attached summary of costs.

JUSTIFICATION:

- Existing buildings are 35 years old and in need of extensive renovation to remedy safety code violations. Renovation would cost more than structures are worth.

- Removing substandard units and replacing them with available public and privately owned housing units will help to stabilize the current housing market.

- Relocation would provide improved quality of life and upgraded housing for Willow Park and Hollywood Vista residents.

- The complexes are functionally obsolete and a blight on the community.

- The projects are labor intensive and will provide jobs this summer.

WILLOW PARK

FINANCING

The success of this proposal requires the communication, cooperation, and participation of many. The following sequence illustrates tasks, responsibilities, and recommended funding sources which will make this proposal attainable.

DATE	ACTION	$ AMOUNT	DECISION	OPTIONS
3/87	The Authority applied to HUD through a CIAP/MROP application for Authority to demolish and/or renovate Willow Park in full or in part	10,545,000 12,000,000 8,758,212	*Denied *Denied *Denied	Reapply 1/88 for HUD authority to demolish Willow Park but not as CIAP project
4/87	The Authority application to HUD for purchases of additional scattered site family housing	9,000,000	*Denied	Reapply 1/88
1/88	Asbestos Abatement	2,600,000		Governor Cowper's Job Bill State Appropriation
1/88	Demolition and Site Restoration	2,200,000		Municipality of Anc. Governor Cowper's Job Bill State Appropriation

*NOTE: Alaska has received a disproportionate share of funding for "public" family housing. The Alaska State Building Authority has not received HUD funding to purchase additional public family housing since March 1979 ($6.5 million). During this nine-year period, HUD has chosen to specifically award monies for family housing to Indian Housing.

ANCHORAGE NEIGHBORHOOD HOUSING SERVICES

HOLLYWOOD VISTA

Hollywood Vista is a 360 unit complex located on approximately 15.3 Acres in Government Hill. The property has been foreclosed on by HUD and the decision has been made to sell the project with the condition that it be demolished. HUD will sell the units to the Municipality for one dollar ($1), and will provide additional Section 8 vouchers for eligible residents. ANHS will be under contract to the Municipality to relocate the tenants, and all tenants will be provided with a form of financial and counciling assistance. The Municipality is looking for funds to demolish the units and relocate the approximately 51 tenants currently residing there.

ESTIMATED EXPENSES

Relocate Current Tenants 51 tenants @ $850 each	$ 43,350
Asbestos Removal and Disposition	646,875
Demolition	1,500,000
TOTAL	$2,190,225

hold

MEMORANDUM

DATE March 3 88

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn, Executive Director

SUBJECT: Willow Park Demolition Cost Estimate

We have based our funding request on the Clark-Graves estimate for demolition and asbestos removal on the above project.

In order to validate this estimate we have compared it to:

1. Environmental Health Sciences - Alaska Cost Estimate for Asbestos Removal at Hollywood Vista apartments.

2. HMS' estimate for demolition and asbestos removal at Willow Park.

3. Ocean-Tech's estimate for asbestos removal at Birch Park.

It should be noted at the outset that the scope of work on all four estimates is not the same; therefore, any comparison will involve some interpolation and judgment.

The result of our analysis indicate that the Clark-Graves estimate, as amended, presents a reasonable (albeit a conservative) scenario. To base any proposal on a lesser amount would put the Authority at risk due to the nature of the project.

The Hollywood Vista estimate was reviewed and discussions were held with Mr. Joe Bell and Mr. Paul Johnson of HUD and the estimate's author, Dr. Thomas Swearingen.

HUD advised that initially they were skeptical of the estimate and reviewed it with Dr. Swearingen. HUD had a copy of the Clark-Grave estimate which they made available to the estimator. Dr. Swearingen advised them that he felt that there was considerably less asbestos at Hollywood Vista than at Willow Park and additionally, he felt that there had been a general downward cost trend in the market place that was not being picked up by other estimators.

We contacted Mr. Swearingen directly and discussed the estimate. It was ascertained: 1) that he personally did the estimate; 2) that he was a professional engineer in the environmental sciences (not a professional estimator); 3) that the estimate was a "bare bones" estimate, 4) that a contractor's overhead and profit was

MEMORANDUM

DATE March 3 , 88

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT: Willow Park Demolition Cost Estimate

not included, nor were administrative costs; 5) that he did not have a real good handle on insurance costs. He figured that the contractor belonged to and would get his insurance from a "risk retention group" and no allowance was made for higher cost of insurance for asbestos work; 6) that only the minimum amount of asbestos removal would be done; 7) that only one decontamination unit would be used; 8) that no contingency was allowed for.

It is for the above reasons that we do not consider this estimate valid and it should not be used as a comparison to the C.G. estimate on Willow Park.

The HMS estimate for demolition and asbestos removal is 42% below the Clark-Grave estimate. This does not mean that errors have necessarily been made on it nor does it mean that the Clark-Grave estimate is too high. Both estimators are professional and have been in business for some time. Because estimates are educated guesses of the future and an in-exact science, the approach an estimator takes and the scenario he develops directly affect the end result.

Our analysis of the HMS estimate indicates a minimal approach to the accomplishment of the work. This is not to say that this approach is wrong, but rather to ask the question "can the Authority take the chance that it is?"

Ocean-Tech has provided an estimate for the Birch Park asbestos removal which is similar to Willow Park, except that it is one-half the size of Willow Park. In our dealings with Ocean-Tech over the past year, we have developed a high degree of confidence in them. Their estimate for Birch Park is approximately 50% of the Clark-Graves estimate for asbestos removal at Willow Park. (It should be noted that the economic law of "economy of scale" is seldom operative in this type of work.) Therefore we feel that Ocean-Tech's estimate tends to validate the Clark-Graves estimate.

MEMORANDUM

DATE March 3 19 88

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT: Willow Park Demolition Cost Estimate

Clark-Graves has revised their estimate, changing the asbestos hazard insurance surcharge to 10 to 12% rather than the original 25%, increasing the hourly wage rates to reflect the increase in workers compensation rates and adding the cost of removing contaminated earth beneath the buildings.

Clark-Graves was originally advised to provide an estimate based on the worst possible situation with regard to the project. It is our opinion that they have done so. Their revised estimate at $4,283,111 is somewhat higher than the original estimate upon which our request for funding was based. However, we feel that the original funding request will be adequate, supplying the Authority with sufficient funds to complete the project without delay.

Bond and All Risk Insurance

The original estimate provided by Clark-Graves, Inc. dated December 15, 1987 allocated $30,535 (2.5% of building and site demolition contract value) and $54,394 (2.5% of asbestos abatement and removal contract value) to Bond and All Risk Insurance Coverage. The Bond and All Risk Insurance line item includes a 100% performance bond and 100% payment bond and All Risk Builder's Risk of 100% of the contract values (building and site demolition and asbestos abatement and removal contracts). Costs for comprehensive general liability insurance (with exclusion of asbestos) are incorporated in the "overhead and profit" line item; workman's compensation insurance is incorporated in the "labor" line items. Additionally, $543,200 (25% of asbestos abatement and removal contract value) was allocated for comprehensive general liability insurance to include asbestos.

NOTE: The amended estimate dated March 2, 1988 decreases the cost of the comprehensive general liability insurance from 25% ($543,200) to approximately 10 -12% ($217,577 - 261,092). This decrease in cost does not decrease the insurance coverage.

State Bonding Requirement

AS 36.25.010(2) requires that "...when the total amount payable by the terms of the contract is more than $1,000,000 and not more than $5,000,000, the payment bond shall be in a sum of 40 percent of the total amount payable by the terms of the contract..."

MEMORANDUM

DATE March 3 88

ALASKA STATE BUILDING AUTHORITY

FROM HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT Willow Park Demolition Cost Estimate

AS 36.25.010(1) requires that "...the amount of the performance bond shall be equivalent to the amount of the payment bond;".

Currently, the Department of Transportation and Public Facilities (DOT/PF) requires that for contracts in excess of $100,000 the performance an payment bonds must each be a minimum of 50% of the total amount payable by the terms of the contract. [Rod Wilson, DOT/PF pers. comm.]

Additionally, comprehensive general liability insurance to include asbestos abatement is not required by DOT/PF. The DOT/PF has determined that the current available coverage does not warrant the excess project costs.

Therefore, pursuant to information provided by DOT/PF, the $217,597 - 216,092 (10 - 12% of the asbestos abatement and removal contract) as allocated for general comprehensive liability insurance to include asbestos would not be required by DOT/PF. Additionally, the Performance and Payment Bond are also in excess of DOT/PF's current requirements.

Federal Bonding Requirements

On development projects HUD requires a 100% All Risk Builders Risk Policy in addition to both a 100% performance bond and a 100% Labor and Materials Payment Bond. In the case of the Labor and Payment Bond HUD cites 24 CFR Sec. 941.102 as the determining regulation. 24 CFR Sec. 941.102 states:

> "The Contractor is required to furnish a 100 percent performance and payment bond or other assurances approved by the field office."

The estimate as provided by Clark-Graves, Inc., as previously stated, includes 100% performance bond, 100% payment bond and 100% All Risk Builder's Risk pursuant to Federal Procurement policies for development projects, the cost estimate is sufficient. (Note: requirements for additional Comprehensive General Liability Insurance with asbestos coverage is not addressed under HUD guidelines.)

MEMORANDUM

DATE March 3 , 1988

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT: Willow Park Demolition Cost Estimate

Manpower Utilization

Manpower utilization during the course of the project is listed below. Hourly wage rates are per AS 36; hoever, the rate shown is an average rate used for estimating purposes and includes costs for workers compensation, employers portion of FICA and ESC, in addition to the base wage and benefits.

Craft	Total Hours	Wage	
Superintendent	1,236	$37.27	$ 46,066
Scheduler	35	37.27	1,304
Office Engineer	76	37.27	2,833
Quality Control Engineer	387	37.27	14,423
Safety Engineer	18	37.27	671
Clerical Services	35	37.27	1,304
Operator	843	37.27	31,419
Laborer	1,368	37.27	50,985
Laborer/Foreman	783	37.27	29,182
Electrican	783	37.27	29,182
Asbestos Removal Mech	7,498	36.50	273,677
Truck Driver	1,308	37.27	48,749
Plumber	260	37.27	9,690
Laborer/Asbestos	14,995	36.50	547,318
Carpenter	524	37.27	19,530
TOTAL LABOR COST			$1,106,333

Crew size will be as follows:

General Demolition	Maximum crew	23
	Average crew	9
Asbestos Remove	Maximum crew	12
	Average crew	12

In addition to the manpower listed above, the following professional and administrative support will be imperative to the completion of this project:

MEMORANDUM

DATE March 7 88

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT: Willow Park Demolition Cost Estimate

Asbestos A & E - Design & construction management and monitoring

Project Manager	34 md.
Professional Engineer/Architect	126 md.
Engineer II	114 md.
Industrial Hygienist	30 md.
Drafting/Clerical	29 md.
	333 md.

Total A & E Fees
Based on 10% of estimated asbestos $262,490 = $800/day

Demolition A & E - Design & construction management

Prime Architect	63 md.
Project Manager	84 md.
Civil/Soils Engineer	5 md.
Mechanical Engineer	5 md.
Electrical	5 md.
Drafting/Clerical	64 md.
	226 md.

Total A & E Fees
Based on 5% of estimated demolition costs 73,676 = $300/day

GRAND TOTAL A & E FEES $336,166

POSITION	SALARY HRLY.	HOURS	SALARY TOTAL	JOB TOTAL
HOUSING DEVELOPMENT & CONSTRUCTION				
Non-Technical Salaries				
Director	$29.90	690	$20,631	
Administrative Officer	23.58	690	16,270	
Modernization Coordinator	19.26	690	13,289	
Secretary	11.35	690	7,289	
TOTAL DEVELOPMENT ADMIN W/OVERHEAD				$174,134

MEMORANDUM

DATE March 3 '88

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT: Willow Park Demolition Cost Estimate

Technical Salaries				
Technical Coordinator	23.58	750	17,685	
Clerk of the works	16.10	1,135	18,274	
TOTAL TECHNICAL SALARIES W/BENEFITS				46,386

****

HOUSING MANAGEMENT

Non-Technical Salaries/CO				
Director	28.84	80	$ 2,307	
Program Administrator	24.46	40	978	
Admin Assistant III	20.63	80	1,650	
Clerk I	9.55	80	764	
TOTAL CO MANAGEMENT ADMIN W/OVERHEAD				17,100

Project Staff Salaries				
POM	16.71	500	8,355	
Clerk I	9.55	500	4,775	
TOTAL PROJECT STAFF ADMIN W/BENEFITS				16,923

****

MAINTENANCE

Central Office				
Maintenance Officer	23.58	37.5	884	
MA Admin Assistant	14.55	37.5	546	
Central Area Supt.	17.91	37.5	672	
TOTAL MAINTENANCE ADMIN W/OVERHEAD				6,305

MEMORANDUM

DATE March 3 '88

ALASKA STATE BUILDING AUTHORITY

FROM: HD/C and Contracts Office

TO: Barbara Morse-Quinn

SUBJECT: Willow Park Demolition Cost Estimate

Field Office				
Maintenance Mechanic II	17.58	150	2,637	
Maintenance Mechanic I	16.10	150	2,415	
Maintenance Mechanic I	16.10	150	2,415	
Laborer	13.50	150	2,025	
Laborer	13.50	150	2,025	
Custodian	11.10	150	1,665	
Custodian	11.10	150	1,665	
TOTAL FIELD MAINTENANCE W/BENEFITS				19,153

****

TOTAL ADMINISTRATIVE CHARGES $280,000

****

AHFC also holds several thousand VA-guaranteed loans and a few FHA-insured loans. On the VA-guaranteed loans, as we described earlier, the VA has the option of taking title to the properties and re-selling them, or paying claims up to a maximum of $27,500 for each loan. In cases where the VA judges that its liability would exceed $27,500 if it took the property itself--and that includes many cases today--the VA simply pays the claim and leaves AHFC with the property and any additional losses. On FHA-insured loans that go into default, FHA takes possession and re-sells them itself.

Some AHFC loans carry no insurance. These are by and large loans that were made under special programs that no longer exist. They include some loans made under the old state veterans program; the legislature directed AHFC to take on some of these loans when the Division of Veterans Affairs was abolished. They also include loans the Department of Community and Regional Affairs made under the nonconforming loan program, which the legislature transferred to AHFC in fiscal 1986. Also, AHFC had a rural loan program in the early 1980s; loans made under that program carry no insurance.

A large share of AHFC's mobile home loans likewise carry no insurance: before 1983 AHFC did not require insurance on mobile home loans. AHFC takes all losses when such loans go into default. On mobile home loans since 1983, AHFC has required private credit insurance to cover 40 percent of the value of the loan; AHFC takes any losses not covered by that private insurance.

Alaska Properties in Foreclosure

Having looked at mortgage holdings and liabilities of lenders and insurers, we now turn to the strongest evidence of the condition of Alaska's housing market today: properties in foreclosure.

Table 3.6 shows numbers of foreclosed properties held by major lenders and insurers as of June 1987, and numbers of properties they had sold from their inventories in the previous year and a half. The table tells us that all lenders are being hit with loan defaults. But as we would expect, given that AHFC holds more than 60 percent of the outstanding residential mortgages in the state, including most of those made in recent years, AHFC is taking the hardest hit.

As of the end of June, the big lenders and insurers in Alaska were holding 4,254 foreclosed properties; 2,758 of those--65 percent--were AHFC properties. FNMA, FHA, and VA were each holding close to 400 properties--or about 9 percent each--of the total inventory. Many of the properties in FNMA's inventory were financed with AHFC loans that FNMA had backed.

[c]Includes both properties the VA has already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

[d]Some foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

[e]Properties sold 1986 - May 1, 1987.

[f]Estimated sales from November 1986 - June 1987.

SOURCES: See Sources, Table 3.1.

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02-576(2/77)

AHFC also holds several thousand VA-guaranteed loans and a few FHA-insured loans. On the VA-guaranteed loans, as we described earlier, the VA has the option of taking title to the properties and re-selling them, or paying claims up to a maximum of $27,500 for each loan. In cases where the VA judges that its liability would exceed $27,500 if it took the property itself--and that includes many cases today--the VA simply pays the claim and leaves AHFC with the property and any additional losses. On FHA-insured loans that go into default, FHA takes possession and re-sells them itself.

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Table 3.6 shows numbers of foreclosed properties held by major lenders and insurers as of June 1987, and numbers of properties they had sold from their inventories in the previous year and a half. The table tells us that all lenders are being hit with loan defaults. But as we would expect, given that AHFC holds more than 60 percent of the outstanding residential mortgages in the state, including most of those made in recent years, AHFC is taking the hardest hit.

As of the end of June, the big lenders and insurers in Alaska were holding 4,254 foreclosed properties; 2,758 of those--65 percent--were AHFC properties. FNMA, FHA, and VA were each holding close to 400 properties--or about 9 percent each--of the total inventory. Many of the properties in FNMA's inventory were financed with AHFC loans that FNMA had backed.

ISER Report / Oct 1987

TABLE 3.6. INVENTORY OF FORECLOSED PROPERTIES HELD BY MAJOR ALASKA LENDERS AND INSURERS, JUNE 1987

	Held in Inventory June 1987	Foreclosed Properties Sold 1986 - June 1987
AHFC		
Mobile Home	965	143
Other	1,793	1,075
Total	2,758	1,218
FNMA	394	160 [e]
FHLMC[b]	78	-
FHA-Insured	385	87
VA-Guaranteed[c]	366	80
MGIC	105	25 [f]
Alaska Dept. of CRA	40	1
Farmers' Home Admin.	100	30
Alaska Perm. Fund	23	11
AIDA and Div. of Invest.	5	6
Others[d]	NA	NA
Total	4,254	1,618

[a]Properties "held by" each lender or insurer include just those to which each already held title or was in the process of acquiring title to as of June 1987.

[b]Includes both completed and nearly completed foreclosures.

[c]Includes both properties the VA has already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

[d]Some foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

[e]Properties sold 1986 - May 1, 1987.

[f]Estimated sales from November 1986 - June 1987.

SOURCES: See Sources, Table 3.1.

MGIC, as we discussed earlier, provided pool insurance for thousands of AHFC loans in the early 1980s. Many of the properties in AHFC's inventory of foreclosures are covered by MGIC pool insurance; MGIC is working with AHFC to market those properties, but AHFC holds title to them. MGIC also provided private mortgage insurance for a large number of Alaska homeowners. The 105 properties MGIC had in June 1987--about 2 percent of total foreclosures--were largely properties it had taken title to as a primary rather than a pool insurer.

The remaining mortgage holders in the table together held about 250 foreclosed properties, or 6 percent of the total inventory.

The second column of Table 3.6 gives us another piece of information about the volume of foreclosures in Alaska: properties that lenders took into foreclosure but re-sold from the start of 1986 through the middle of 1987. Foreclosed properties that were re-sold during that period totaled more than 1,600. Again the lion's share was AHFC's: 1,218, or 75 percent of the total, were AHFC properties.

Taken together, the foreclosed properties held in inventory and those sold during the previous 18 months totalled 5,872. That represents 7 percent of outstanding residential mortgages in Alaska in mid-1987. And there were no doubt other foreclosures that are not recorded on this table--those held by banks and private mortgage insurance companies (other than MGIC), for instance. Reliable figures on such foreclosures are very difficult to get.

Table 3.7 looks in more detail at AHFC foreclosures, showing numbers of mobile homes and other properties taken in foreclosure each year since 1984, numbers sold, and remaining inventory in June 1987. What the table shows most clearly is the snowballing rate of foreclosures during that period. In 1984, AHFC foreclosed on 169 properties; in 1985 on 630; in 1986 on 1,792; and in just the first six months of 1987 on 1,676--for a total of 4,267 foreclosures in three and a half years. It re-sold 1,509 of those properties, mostly during 1986 and the first half of 1987, and in June was left with 2,758 properties. Of those, 965 were mobile homes and the rest were almost all condominiums and single-family houses. (AHFC does finance duplexes and triplexes, but the numbers are small.)

The table also makes clear the difficulties of re-selling mobile homes; of the 1,153 AHFC foreclosed on during this period, it re-sold just 188, or about 16 percent. By contrast, it re-sold about 42 percent of the other kinds of properties it took under foreclosure. And foreclosures continue to climb: in the month after this table was compiled AHFC took in roughly 200 more properties.

TABLE 3.7. AHFC INVENTORY OF FORECLOSED PROPERTIES AND SALES, 1984 - JUNE 1987

	1984	1985	1986	June 1987	Cumulative 1984 - June 1987
Total Properties Taken Under Foreclosures Each Year					
Mobile Homes	48	183	509	413	1,153
Other	121	447	1,283	1,263	3,114
All	169	630	1,792	1,676	4,267
Foreclosed Properties Sold Each Year					
Mobile Homes	10	35	85	58	188
Other	30	216	544	531	1,321
All	40	251	629	589	1,509
Remaining Inventory of Properties (Cumulative)					
Mobile Homes	38	186	610	965	965
Other	91	322	1,061	1,793	1,793
All	129	508	1,671	2,758	2,758

SOURCE: AHFC

Summary

Taken together, the tables and figures in this chapter tell much of the story of the rise and fall of Alaska's housing market in the 1980s, and of AHFC's major role in that market in the past seven years.

During Alaska's economic boom of the early 1980s, houses were bought and sold at a record pace and at record prices. AHFC played an important part in boosting housing sales, because it was subsidizing mortgage interest rates and offering special programs for lower income Alaskans. At the same time, the economic good times were drawing tens of thousands of new residents to the state. The combination of below-market interest rates and growing demand for housing pushed housing construction and sales up: in 1983, the peak year of activity, more than 16,500 new mortgages for homes sales were written. And in those boom years between 1981 and 1984, AHFC bought about eight out of ten new mortgages in the state.

The pace of housing sales began dropping in 1985--coincident with the economic slowdown that that became a severe recession in 1986. At the same time, market interest rates began dropping, and by the end of 1986 were at their lowest point in the 1980s. A combination of declining interest rates and different loan terms offered by various lenders brought AHFC's share of mortgages for home sales to about 60 percent in 1985; its inability to do refinancing in that year brought its overall share of mortgages for sales and refinances to around 50 percent.

The recession began making itself felt in earnest in the housing market in 1986, when only about half as many mortgages for homes sales were written as in the previous year, and less than a third as many as had been written as recently as 1983.

Two-thirds of the new mortgages written in 1986 were for refinances by existing owners rather than for sales. The state legislature gave AHFC authority to refinance mortgages in 1986, and its overall share of mortgages for sales and for refinances was about 40 percent that year. In the first half of 1987, home sales were even slower than in 1986, with only about 1,700 mortgages for homes sales written. Refinancing continued brisk in early 1987, with about twice as many mortgages written for refinances as for sales. AHFC had about a third of the overall mortgage market through mid-1987.

Another sign of the growing recession was the growing number of Alaska properties in foreclosure in 1986 and the first half of 1987. The big lenders and insurers were holding more than 4,200 foreclosed properties in June 1987, and had sold an additional 1,600 properties that had been taken in foreclosure in the preceding 18 months. Taken together, those sold and unsold properties represented 7 percent of

outstanding residential mortgages in Alaska in 1987. That rate compares, for instance, with a national foreclosure rate for FHLMC-financed properties of less than 1 percent.

The lion's share of foreclosed properties were AHFC's--not surprising, given AHFC's 60-percent share of outstanding residential mortgages and given that most of the loans were written when prices were at their peak. With property values sliding, many AHFC mortgage holders find themselves unable to sell their homes for even as much as they still owe on the mortgage--let alone for the prices they paid for the properties. And the pace of foreclosures accelerated in 1987, with AHFC taking in nearly as many properties in the first six months of 1987 as it had in the entire previous year.

We projected in Chapter II that the economic conditions that have forced down property values, slashed home sales, and put thousands of properties into foreclosure will begin to improve in 1988. The next chapter looks at what AHFC and other lenders might do to help the housing market recover.

E - AHFC

ALASKA HOUSING FINANCE CORPORATION

FY 89 BUDGET AMENDMENT NARRATIVE

The Alaska Economy has experienced a major contraction. Since 1985 Alaska has faced a trend of losing more jobs than were being created. It is estimated that by the time things have turned around one of every ten jobs in place in 1985 will have been lost.

The Alaska Housing Finance Corporation has taken an extremely positive and active role in meeting the operational, procedural and philosophical challenges of a sagging economy. Initially able to meet the additional responsibilities by existing staff working overtime, we soon began transferring employees assigned to the Underwriting Department over to new departments established to cope with the increasing levels of loan delinquencies and foreclosures. As those loans which could not be saved were foreclosed upon, oversight of property management and real estate marketing activities were necessary. Borrowers receiving what they felt to be an inadequate response from the financial institution servicing their mortgage loan began to contact the Corporation directly. While this practice is not encouraged, it is extremely difficult to refuse anyone with an AHFC financed property the opportunity to find out directly what can be done to address their specific financial situation.

We currently find ourselves at the point of initiating significant organizational changes to conform to a structure more typical of a major real estate finance institution. The balance of this memorandum details the need for major additions to budget and personnel authorization for the Corporation and provides general descriptions of the new requirements imposed on AHFC directly attributable to our efforts to keep borrowers in their homes if at all possible, or if necessary, to expeditiously pursue foreclosure and marketing of the property.

The following table shows how the foreclosure/property ownership problem is a recent phenomenon for the Corporation and indicates its magnitude:

	Foreclosures		Disposals		Inventory at December 31		
Calendar Year	Type II Mobile Homes	Site Built	Type II Mobile Homes	Site Built	Type II Mobile Homes	Site Built	Total
1981	0	2	-	-	0	9	9
1982	0	1	-	-	0	10	10
1983	3	7	1	1	2	16	18
1984	45	112	11	33	36	95	131
1985	182	446	36	218	182	323	505
1986	516	1,338	86	546	587	976	1,563
1987	851	2,825	257	1,283	1,181	2,518	3,699

The above will be further aggravated by the additional 6,392 mortgages and 656 mobile home loans which were delinquent in their loan payments at the end of December, 1987.

During calendar year 1983 and 1984 the Corporation originated 22,891 mortgage loans (exclusive of mobile home loans) worth a total of $ 2.3 billion. Of these, the Corporation still owns 16,823 with outstanding principal balances of $ 1.6 billion (including loans made to refinance those purchased in 1983 and 1984). It is estimated that in most cases the loan balances owed by any of these borrowers who received maximum percentage financing exceeds the market value of the properties which they secure (net of sales costs) by approximately $ 200 million.

The Corporation is the largest single owner of residential real estate in the State of Alaska. Virtually all of it is currently on the market. The total listings of single family through four plex properties in the Anchorage/Mat-Su/Kenai area according to the most recent Multiple Listing Service report is 3,167. In this same geographic area the Corporation now owns 2,255 properties representing an overwhelming 71 % . The Corporation's actions or inactions in response to the existing real estate situation affects the financial well being of virtually every residential property owner in the State.

To deal with the additional administrative and management functions necessitated by loan delinquencies, foreclosures, and property dispositions, entire new departments within the Corporation have been formed. The Special Credits/Borrowers Counseling Department has been created to deal with the management of delinquent loans and foreclosure process. It is within this department that the tailoring of individual loan forbearance or workout provisions with the requirements of the loan insurer or guarantor will occur.

The newly established Property Disposal Department is responsible for bringing the foreclosed properties into "market ready" condition, negotiating property repair expenditures with applicable mortgage insurer/guarantors, assigning properties to a Designated (Real Estate) Broker and reviewing purchase offers.

The Claims Administration Department handles the payment of all expenses related to the repair, maintenance, and holding of the property. The Claims Department additionally is responsible for the filing of claims for reimbursement of foreclosure losses with the appropriate mortgage insurer or guarantor, as well as monitoring the status of claims filed by the loan servicers with the primary mortgage insurer, FHA or VA.

The Corporation is fortunate to have obtained substantial loan loss coverage for site built homes. As a result, in spite of property value reductions of 20% to 50% from what they were when the loans were originally made, the actual losses to be incurred by the Corporation should be relatively small. Exhibit A details the allocation of the Corporation's loan loss reserve at September 30, 1987. As evident in the Exhibit, the bulk of the losses to be realized will be related to the Corporation's mobile home program. Actual loan losses will be many times higher, with the primary mortgage insurers (or FHA/VA) incurring an average loss of $30,000 combined with the mortgage pool insurer/guarantors (FNMA and MGIC) taking an additional loss of $10,000 to $30,000 per property foreclosed and sold.

For many properties, particularly condos and mobile homes, a major portion of the loss will be related to the excessive holding period and ongoing monthly costs incurred (space rent, homeowner's dues, utilities and interest accruals).

The number of loss instances combined with the magnitude of losses has resulted in the insurers and guarantors on whom the Corporation had laid off the risk of loss increasingly scrutinizing each claim filed. An alarming number of claims are being reduced or denied in their entirety for reasons which range from alleged misrepresentations as to original property condition or borrower qualification, to technical procedural errors made in the foreclosure process by the loan servicer or the Corporation. These claim exceptions involve many thousands of dollars in disputed items which must be fought out on a case by case basis. The documentation to support a claim filed with the insurer/guarantor must include those items necessary to demonstrate that (i) every attempt was made to keep the borrower in the home; that failing (ii) the foreclosure process was handled expeditiously; (iii) property repairs needed to get the residences in "market ready" condition were made as quickly as possible, and (iv) the property was sold pursuant to a marketing program designed to minimize their loss.

Attached as Exhibit B are copies of representative correspondence related to payment of loan insurance or guarantor amounts. Since the number of loan insurers/guarantors upon which the Corporation is relying to absorb all or a portion of any particular loan loss approximate 20, with claims filing responsibilities spread out amongst the Corporation and its 40+ loan servicers, resolution of contested claims on any level other than a property by property basis has proven extremely difficult. Currently, existing staff levels permit the negotiation of those cases involving multiple units in condominium projects or those individual cases where the uncovered loss is substantial. To be able to resolve the numerous situations involving amounts ranging from five thousand to twenty-five thousand dollars, additional staffing must be provided.

As an example of the dollar amounts involved, a total of $ 11.4 million was paid to the Corporation during calendar year 1987 by Mortgage Guaranty Insurance Corp. (MGIC) which provided mortgage pool insurance on a total of 26 groups of mortgages put together and pledged to the bonds issued by the Corporation between 1981 and 1983.

The Federal National Mortgage Corporation (FNMA) paid out to the Corporation in excess of $ 45 million to acquire 473 foreclosed properties during 1987 pursuant to various loan guaranty agreements.

The Corporation received, in settlement of insurance claims and property conveyances from primary mortgage insurers and the VA during calendar year 1987, a total amount of just over $ 55 million.

The above represents aggregate payments made to AHFC by other secondary mortgage market participants in excess of $ 111.5 million during a single calendar year. Each of these parties , as well as the owners of in excess of $4 billion in bonds issued by the Corporation and still outstanding, expect the Corporation to prudently respond to the changing economic circumstances by devoting a level of personnel and management resources commensurate with the extent of the problem and related financial liability. Under the variety of agreements with the mortgage insurers/guarantors they remain obligated to absorb the risk of loss on the foreclosed property only if the Corporation has fulfilled its obligation to respond to the delinquency, process the foreclosure, manage and market the property according to their specific instructions.

The Corporation has responded to the economic recession and decline in residential values in a number of positive ways. Some of the more significant changes include permitting the rental of AHFC financed properties so borrowers wouldn't have to sell their home if they were required to relocate to another area or upgrade to a larger dwelling to accommodate family additions. Legislation was also sought for a refinance program that would not be restricted based upon the current value of the residence. This would give all homeowners with higher loan rates the opportunity to reduce their monthly payments. This program, while approved by the legislature last year was pre-empted by increased market interest rates. Recent reductions in rates have renewed the viability of this program which is now being actively pursued again by staff.

The most recent effort to provide relief to borrowers is the implementation of the Home Owners' Assistance Program (HOAP). HOAP was designed to provide financial assistance to eligible homeowners who are experiencing serious, but temporary, financial difficulties: HOAP can help in a variety of ways; lower payments, bring loan current, make further advances if necessary, and eliminate the ABE (scheduled increase) feature of many AHFC loans. HOAP is the first program of its kind in the nation. It is now being used as a model for other programs. HOAP will required some funds from AHFC - maybe $10-20 million for advances plus other funds for bonding collateral, but we believe it is a good investment in Alaskan homeowners.

This innovative program was developed in cooperation with the Federal National Mortgage Association (FNMA) and Mortgage Guaranty Insurance Corp. (MGIC) enabling it to be available to any owner occupied property financed by AHFC.

These programs are of significant financial benefit not only to the Corporation through reduced foreclosures but to the many homeowners who have or will participate. AHFC is in a unique position to be the catalyst necessary to draw together the fragmented secondary mortgage market participants into a plan designed to initially stabilize and subsequently increase housing values.

A number of things should be done by the Corporation in recognition of the aggregate financial magnitude of the problem to the Corporation and other at-risk mortgage participants as well as the individual financial and emotional importance of a families investment in their home. AHFC has addressed the issues as best it can with its existing personnel resources. Worthwhile ideas relating to property trades, warehousing of vacant units and elimination of older less adequate housing stock have been raised. Development and implementation of these ideas can only be achieved when those individuals familiar with the intricacies of the secondary mortgage markets as they relate to AHFC financed properties have been provided the level of personnel support required to enable them to turn these ideas into fully developed proposals available for approval and implementation.

To enable the Corporation to (i) meet its obligations under various loan, insurance and financing agreements, (ii) assure itself that its significant investment in real estate is adequately protected from vandalism and the elements and repaired or refurbished to "market ready" conditions and (iii) provide the necessary service to those nearly 50,000 families to whom the Corporation has outstanding loans to and (iv) operate a marketing program designed to achieve the best possible prices, significant additions are necessary. The increased authorization needed is already included in the Governor's Budget. A budget amendment to allow a line item transfer and creation of additional positions is also being requested. The schedules presented in Exhibit C summarize the requested FY89 budget. For comparative purposes summary data from the FY88 operating budget as approved by the legislature last year is included with the requested changes in the FY89 budget detailed.

The organization chart reflecting the 55 positions which were included in the FY88 budget documents previously approved by the legislature is included as Exhibit D. The chart also indicates the additional positions presently being requested.

The changes from what was presented to you last year reflect the addition of 25 permanent positions; related cost of office equipment; increased occupancy cost to accommodate the required additional personnel;

contractual expenses including legal services incurred and expected to be sustained arising from contract disputes and data processing system modifications necessary to provide the additional detailed information needed for reporting and insurance claim filing purposes: modular office furnishing to enhance efficiency of personnel and space; and other expected increases in travel and commodities expenditures. Since the Corporation's operating budget is funded from Program Receipts, these increases can be made without impact to the State's General Fund.

While the above represents a substantial increase in the Corporation's level of operating expenditures, little choice exists under the circumstances. Increased staffing and support is necessary for the Corporation to maintain insurance coverage and safeguard the assets pledged to its bondholders as well as to attend to those situations where borrowers who are experiencing financial difficulties and have a genuine interest in avoiding foreclosure desire to have the Corporation consider forbearance or establishment of a work-out plan.

The response of the Alaskan lending community to the existing situation of record delinquencies and foreclosures will have a lasting effect on the secondary mortgage market participants, including loan insurers, decisions whether to continue to do business in the State. A primary objective of Alaska Housing Finance Corporation is to help assure that residential financing is available to those who have chosen to make Alaska their home. This objective recognizes the historical difficulties the lending community in Alaska has experienced due to the remoteness of the State and general unfamiliarity by many mortgage market participants. The lending community's responsiveness in protecting these participants from any unnecessary losses will go a long way in convincing them to continue or reinstate participation once the problems associated with declining housing values are behind us.

Willow Park residents: Demolish our homes and move us

By Yereth Rosen
Times Writer

You might think that some people would be upset about a state government proposal to raze a public-housing complex and relocate 106 families.

You would be wrong.

Willow Park apartment residents who attended a public hearing at Denali Elementary School Wednesday night gave unanimous approval to the Alaska State Building Authority's plan to tear down the apartments and place the residents elsewhere.

About 80 people, most of them Willow Park residents, braved frigid temperatures to attend a meeting called by the Alaska Housing Market Council. There they listened to details about the relocation plan.

Willow Park, built in 1953, is the oldest public housing project in Anchorage. Its design, wiring and fireproofing — an asbestos lining — are obsolete, and Anchorage's housing market is chock-full of residential vacancies.

This is the right time to tear down the complex and place the residents in better housing, said Barbara Morse-Quinn, executive director of the Alaska State Building Authority.



Times photo by Walt Johnson

Willow Park resident John Jousma questions officials during a public hearing Wednesday.

The building authority hopes to acquire federal funds to buy 80 of the many institutionally owned housing units in the city and move most of the Willow Park residents there. There's room in current ASBA housing, or in the Section 8 program, which provides housing subsidies to qualified renters who find homes in the private sector, for the 26 other families, according to building authority calculations.

When Glenda Straube, executive director of the Alaska Housing Market Council, and Morse-Quinn asked for a show of hands signaling approval of the plan, about three-fourths of the people attending the meeting held their hands aloft.

When Straube and Morse-Quinn asked if anyone opposed the plan, not one hand was raised.

"Wow. Are we doing something right, or what?" Straube said.

The Willow Park residents had some specific questions about the relocation plan. Some asked about their new housing, mentioning preferences for such qualities as being within walking distance of grocery stores and the convenience of one-story housing.

Until the nearby Safeway closed, Willow Park residents were within a short walk of a grocery store. However, the apartments, built by the U.S. Public Housing Administration, the precessor of the Department of Housing and Urban Development, were constructed long before concerns about handicapped and elderly access were given strong consideration.

See Willow, page B-2

Anch Times 1-28-88

Willow: Residents behind demolition

Continued from page B-1

Before anyone is moved from Willow Park, Morse-Quinn said, all residents will be surveyed in detail about their housing preferences.

The whole plan depends on the building authority's ability to get the funding and the federal permission to tear down Willow Park. The authority has asked the U.S. Departments of Labor and Housing and Urban Development for permission to demolish the complex.

ASBA applied this month to HUD for $9 million to buy housing to be used as relocation sites for the Willow Park residents. In addition, the building authority would need $2.2 million for demolition and site restoration and $2.6 million to remove Willow Park's asbestos.

Morse-Quinn said ASBA expects to learn by June whether it has the funding to proceed with the project. Once all the money is in place and once all residents have been surveyed about their housing preferences, residents will be moved within 45 days, she said.

"We aren't going to move on any part of this plan, including the acquiring, until we have all the money in the bank," she said.

Clarissa Oksoktaruk probably spoke for many when she said she favors the relocation plan but has some regrets about leaving the housing complex.

"I am not looking forward to moving right away," she said. After all, she said, she moved into her Willow Park apartment in December and has just started to get settled.

"But I am happy that they are going to move us eventually," she said.

WILLOW PARK MODEL RELOCATION PROJECT

SUMMARY

The Willow Park low income housing project is composed of 150 units located on 5.9 acres at 9th and Fairbanks streets in Anchorage. It was built in 1953 and is the oldest low income housing project in Alaska. The vacancy rate currently stands at 28%; this is partially due to recent fires in several of the units.

The Willow Park model relocation project is divided into two parts: 1) demolition and site restoration; and 2) relocation of the residents.

In January of 1988, the Alaska State Building Authority (ASBA) applied to the U.S. Department of Labor, Housing and Urban Development (HUD), for the authority to demolish Willow Park.

If ASBA's application for demolition is approved, a source of funds for demolition costs must be found. In addition to the estimated $2.2 million for demolition and site restoration, $2.6 million is needed to remove the asbestos found in the buildings. ASBA is currently seeking money from state and local officials for the demolition costs and asbestos removal.

ASBA is also asking HUD for funds to acquire scattered homesites to use as possible relocation sites for Willow Park residents- estimated cost is $9 million.

If funding is obtained, it would be possible to acquire some of the large inventory of institutionally and privately owned repossessed properties in the Anchorage area. Without funding, ASBA will either have to purchase/rent new homes for the residents themselves, or place them in other low income housing projects (as long as they qualify under current assistance programs).

The decision to demolish Willow Park is based on several factors:

1) The existing buildings are old and in need of extensive renovation to comply with safety code violations. Renovation would cost more than the structures are worth.

2) They are functionally obsolete and no longer meet the needs of the community.

3) There is currently a surplus of housing in the Anchorage real estate market which has forced market prices down; this makes the older low income housing projects less competitive and harder to fill.

4) Due to the surplus of housing, this is a perfect time to remove existing substandard units and allow current Willow Park residents to enhance their living standards by relocating to better housing.

5) By removing substandard units and replacing them with available public and privately owned housing units, this plan will help to stabilize the current housing market.

Proposed Timetable For Demolition and Relocation:

Public comment and HUD review of application:	January to Mid April 1988
Seek funding source for demolition:	January to Mid June 1988
Relocation of residents:	Mid May to August 1988
Bidding procedure and demolition construction:	Mid May, 1988 to June 1989
Project final:	June to August 1989

HUD's review of the application for demolition will not start until after the public has had a chance to comment on the proposal.

The Alaska State Building Authority is encouraging interested members of the community to read the plan and comment on it. Copies of "The Role of Public Housing in Market Stabilization" can be obtained from the Alaska Housing Market Council by calling 563-3325.

Written comments will be accepted until March 11, 1988 by writing to:

Attn: Willow Park
Alaska Housing Market Council
624 W. International Airport Rd., Suite E
Anchorage, Alaska 99518

FINANCING

The success of this proposal requires the communication, cooperation, and participation of many. The following sequence illustrates tasks, responsibilities, and recommended funding sources which will make this proposal attainable.

DATE	ACTION	$ AMOUNT	DECISION	OPTIONS
3/87	The Authority applied to HUD through a CIAP/MROP application for Authority to demolish and/or renovate Willow Park in full or in part	10,545,000 12,000,000 8,758,212	*Denied *Denied *Denied	Reapply 1/88 for HUD authority to demolish Willow Park but not as CIAP project
4/87	The Authority application to HUD for purchases of additional scattered site family housing	9,000,000	*Denied	Reapply 1/88
1/88	Asbestos Abatement	2,600,000		Governor Cowper's Job Bill State Appropriation
1/88	Demolition and Site Restoration	2,200,000		Municipality of Anc. Governor Cowper's Job Bill State Appropriation

*NOTE: Alaska has received a disproportionate share of funding for "public" family housing. The Alaska State Building Authority has not received HUD funding to purchase additional public family housing since March 1979 ($6.5 million). During this nine-year period, HUD has chosen to specifically award monies for family housing to Indian Housing.

Municipality of Anchorage

OFFICE OF THE MAYOR

P.O. BOX 196650
ANCHORAGE, ALASKA 99519-6650
(907) 343-4431

TOM FINK,
MAYOR

February 26, 1988

Ms. Barbara Morse-Quinn
Executive Director
Alaska State Building Authority
P. O. Box 100080
Anchorage, Alaska 99510

Dear Ms. Morse-Quinn:

Thank you for sharing with me the plan for Willow Park. This project is in keeping with my administrative priorities for economic recovery in Anchorage's real estate market. We have a strong commitment to addressing the problem in a responsible fashion. To do so, we have sought out those low-end multifamily properties which no longer have useful economic value in Anchorage and wholeheartedly support their demolition.

The Heritage Land Bank is committed to working with you to see that a cleared and useful site is achieved where Willow Park now stands. Given the approximate land valuation of $1.8 million in present market conditions and the overwhelming public benefit achieved when Willow Park is removed from present stock, your request for $2.2 million in municipal assistance is a good investment for us to make. Discussions about the best method to meet this request are ongoing and a number of options exist. We plan to present a request for these funds from the Legislature through the Anchorage delegation. At present, we do not have the $2.2 million available, but would hope we could provide the funds from the state allocation to the Municipality.

The securing of the $2.6 million state commitment and approximately $9 million federal commitment to make this project happen are important to our economy. We will keep you informed of the options we are pursuing and look forward to hearing of your progress in securing state and federal funds.

Sincerely,

Tom Fink
Mayor

cc: Paul Baer

Official Business

Alaska State Legislature
House

P.O. BOX V
State Capitol
Juneau, Alaska 99811

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

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr RL
Executive Director

DATE: March 8, 1988

RE: Attached Memo from Representative Brown
to Commissioner Malone

Commissioner Malone has requested that I comment on the attached memo from Representative Brown regarding funds for demolition costs for Willow Park and Hollywood Vista. As Representative Brown notes in her cover letter, a total of $4.75 million additional is needed, and she believes these funds should come from AHFC reserves.

It seems there are two separate issues raised by this letter. First, is the demolition of these projects an issue that should involve AHFC (and its resources)? Second, assuming AHFC will be financially involved in assisting this demolition, what is the most appropriate form of involvement?

The first question is largely a policy decision. However, it is perhaps appropriate to note that even though both these projects are multifamily rental projects, and hence not normally the province of AHFC, any action that involves 500 units of housing is likely to have some effect on the housing market in general.

The second question raises certain sensitive issues regarding legislative appropriation of AHFC resources. As has been discussed, there is a great deal of concern in the financial community regarding just how secure AHFC's assets are. Any use of AHFC resources for other than standard programs is bound to raise the question again, and we should be prepared to deal with it.

With regard to the specific subject of $4.75 million for the two projects, clearly AHFC has adequate resources to actually provide funding. Furthermore, an appropriation to fund these projects would appear to be simple. However, it would certainly raise the questions cited above, as well as legal questions about the legislature's ability to appropriate AHFC funds. Furthermore, it would seem to

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Anchorage, Alaska 99510

encourage additional appropriations of AHFC resources for other real-estate related projects.

I believe that the Board should at least consider another approach. Willow Park and Hollywood Vista are merely representatives of a much bigger problem, that being a large excess supply of housing, particularly in the lower end of the quality range. It may be appropriate to devote a significant amount of AHFC resources toward dealing with this overall problem, rather than simply funding requests for these two projects.

Specifically, I think the Board should consider a program whereby, say, $20 million of AHFC resources are to be used as a "stabilization and upgrade fund." This fund could be used for grants to other state agencies or local governments. The purpose of the fund would be to upgrade the overall supply and availability of adequate housing. In operation the fund would be used for two purposes. First, it could make grants to destroy substandard housing. Second, it could be used as grants to allow applicable governmental bodies to purchase AHFC-owned property that would be used for qualified purposes. Examples of qualified purposes could be low income housing, student housing, senior citizen housing, etc. This would include, for instance, the sale of mobile homes to rural areas to make more housing available. I believe that all grants should be matching grants, since there is a natural screening process done when an applicant needs to put some of their own resources into a project. Furthermore, I believe it would be best to limit the eligible recipients to state and local governments. This will limit the number of applications which AHFC will have to contend with and avoid AHFC having to establish a significant grants bureaucracy.

The costs of this program are clearly greater than simply an appropriation of $4.75 million. However, I believe the concept does have certain advantages that may justify the additional costs. First, it is a more broad based approach, so should provide more overall help. Second, I believe that such an approach could be more easily explained to the financial community. It should not be surprising to the financial community that AHFC would be engaging in programs that not only help individual housing needs, but also help contribute to improving the overall situation in the housing market in a planned and coordinated fashion.

su

Attachment

Kay Brown

Alaska State Legislature
House of Representatives

RECEIVED
ALASKA DEPARTMENT OF REVENUE
FEB 25 1988
OFFICE OF THE COMMISSIONER

Low FVI

TO: Commissioner Hugh Malone
Department of Revenue

FROM: Representative Kay Brown

RE: Willow Park and Hollywood Vista Apartments

DATE: February 25, 1988

As we discussed yesterday, please find attached background information on the Willow Park and Hollywood Vista demolition costs. A total state appropriation of $4.75 million is needed, and I believe it would be appropriate to fund this work from AHFC reserves.

If you need further information or have questions on this material, please contact me or Katy McHugh of my office.

P. O. Box 20-2661
Anchorage, AK 99520-2661
(907) 272-0207

During Session:
P. O. Box V
Juneau, AK 99811
(907) 465-4998

WILLOW PARK AND HOLLYWOOD VISTA SITE DEMOLITION AND RESIDENT RELOCATION PLANS

WILLOW PARK

The $13.8 million proposal is a comprehensive plan to remove Willow Park, a 35-year old, 150-unit low rent multifamily housing project, from the Anchorage rental inventory. The funding for this project would be obtained from three sources: federal, state and municipal government.

$2.6 million state funds (asbestos abatement)
$2.2 million municipal funds (demolition and site restoration costs)
$9 million federal funds (relocation and administration costs)

=$13.8 million

Municipal officials have indicated that the municipality will make a commitment on its $2.2 million share in the next few days. The Alaska State Building Authority cannot obtain the $9 million of federal funds until both the state and municipality have committed to funding their portions of the project.

HOLLYWOOD VISTA APARTMENTS

The Hollywood Vista Apartment Complex consists of 347 units of which 51 are currently occupied. The municipality of Anchorage purchased the project from the United States Department of Housing and Urban Development for the sum of $1.00 in February 1988. This sale is contingent on the Municpality's agreement to raze the complex within two years of title acquisition. The Municpality has proposed demolition of this property due to its substandard condition and the current abundance of multi-family rental units available in Anchorage.

The proposed costs of the demolition and relocation are approximately $2.15 million.

$650,000 (asbestos abatement)
$1.5 million (demolition, site restoration and relocation)

=$2.15 million

The Alaska State Building Authority has agreed to issue vouchers or certificates (through HUD) for Hollywood Vista residents that qualify for public housing assistance. (30 to 40 tenants out of the 81 remaining.)

A total appropriation of $4,750,000 in state funds is sought for the purpose of demolition of Willow Park and Hollywood Vista Apartments in Anchorage. This decision is based on several determining factors including:

- Existing buildings are old and in need of extensive renovation to remedy safety code violations. Renovation would cost more than structures are worth.
- Removing substandard units and replacing them with available public and privately owned housing units will help to stabilize the current housing market.
- Relocation would provide improved quality of life and upgraded housing for Willow Park and Hollywood Vista residents.
- The complexes are functionally obsolete and no longer meet the needs of the community.

Prepared by:
Rep. Kay Brown
2/25/88

From Floor Discussion

Work Session

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr RL
Executive Director

DATE: March 9, 1988

RE: Mobile Home Marketing Program

Approximately a year ago the Board and staff undertook a number of actions involving the Corporation's mobile home loan program. A summary of these actions, and progress to date is provided in the attached memo (Attachment C).

As is clear from that memo, a number of things have been accomplished in the past year. However, given the ever increasing number of AHFC owned mobile homes, much more needs to be done. The intent of this memo is twofold: first, to provide a summary of current marketing plans; and second, to solicit input from the Board on some proposed efforts.

Currently the Corporation owns approximately 1200 mobile homes statewide, with the bulk of these (90%) in Anchorage. We have about 1050 in various mobile home parks, and this memo will focus on those units. Attachment A provides a breakdown of these Corporation-owned homes.

The major change to date in the Corporation's marketing effort took place when we went to our current system which utilizes three property managers (Anchorage/Fairbanks/Juneau) and incorporates open listing. This system has provided improved inventory information, more control over the quality and condition of units offered for sale, and a more energetic and coordinated sales effort. All this is reflected in Attachment B, a graph which shows monthly mobile home unit sales during the past two years. We adopted the new marketing system in the summer of 1987, and its impact has been dramatic (February 1987 sales - 4; February 1988 sales - 33).

Still, the 1050 units currently owned represent well over two years worth of sales at present rates, even if no new units were added to

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our inventory, which is unlikely. Furthermore, we have had a preliminary study done by the Institute of Social and Economic Research regarding future trends in the demand for mobile homes. Their projections indicate that it is unlikely that we will experience any significant increase in demand for mobile homes in the next few years.

Given these factors, staff believes that additional changes are necessary. The areas in which changes are felt necessary are detailed below. We believe it is important to clarify program objectives and tailor our approach to achieve these ends recognizing that we have three (sometimes competing) goals: 1) to obtain the maximum return from units; 2) to minimize the carrying costs on units prior to their sale; and 3) to cause as little disruption as possible to the remainder of the marketplace.

This latter goal is particularly important, both because of our status as a state owned corporation and because it is clearly in everyone's best interests to refrain from actions that could cause our current loans (over 3,000) to become repossessions.

We believe that our future marketing plans should be comprised of a number of efforts. The first consideration relates to the number of units we need to sell. Many of the repossessed units are in poor shape. This has become more clear with the additional information available under our new property management system. As a result, we have sold for parts or simply disposed of a number of units in the past few months. However, we believe that a specific Board policy would be appropriate with regard to disposals since other important factors are also involved.

Unit Disposals

Currently, virtually all involved agree there is an excess supply of housing, particularly in the least expensive segments of the Anchorage market. A number of suggestions have been made to demolish certain low quality housing units, such as the Willow Park project. If demolition of excess low end units becomes an accepted policy, destruction of inexpensive mobile homes is clearly an efficient approach. In any case, trying to market very low value units probably does not make economic sense because of the transaction and carrying costs involved, and because these units often times may not satisfy the Corporation's mandate regarding "safe and sanitary housing".

Therefore, we believe it is appropriate to establish a policy under which repossessed units below a certain value would automatically be either destroyed or sold for parts. If the Board agrees, staff will

prepare a series of alternatives. First the basis for valuation, either as-is value or net repaired value, must be determined. Second, the threshold value itself must be established. For instance, a reasonable first approximation would be to set the threshold as-is value at $5,000. This value can be contrasted against an average annual carrying cost of approximately $3700, plus a 10% sales cost ($500 in this case), plus $300 in closing cost, or about $4500 if such a unit sold in one year. Hence, were the unit to be held over one year, AHFC would begin actually losing money on such a unit when compared to the option of destroying it.

Open Listing Sales Program

Second, we believe that our current sales efforts and procedures should continue. These efforts have been moderately successful, resulting in sales of about 32 units per month. We may want to enhance these efforts with certain sales agent incentives such as provided by MGIC in their recent condo sales program. Given the potential sensitivity toward AHFC giving free trips for sales, though, we will check with the Board prior to initiating any major programs.

Targeted Park Marketing Program

The third group of recommendations entails the involvement of the mobile home park owners. Clearly, it is in their best interest to have an owner occupied unit (paying space rent) in their parks. The intent of this group of suggestions is to use that incentive to aid the Corporation. Option one involves entering into an agreement with the park owners whereby they select a few units (5 - 10) in their park for this program. The park owner would receive a percentage of the price (say 5%) when the unit sells, and the sales agent the standard 10%. AHFC would pay no space rent on those units. Option two involves entering into an agreement with park owners for a fixed number of selected units (say 5 - 10) for a set time period (say one year). The park owners would have the exclusive right to sell the units. We would make the units available to the park owners at list minus one year's holding cost. The park owners would keep any sales amount above this as profit, and would be responsible for any sales commission. AHFC would pay no space rent. Option three would involve mini-bulk sales. Although these sales could not be restricted to park owners, they clearly would be a target group and likely would be the most interested in the units. In this case, AHFC would simply have small groups of units (10-20) that would be sold to the highest cash bidder. No restrictions would be placed upon where these units could be located. Restrictions could be imposed regarding whether these could be resold or had to be rented, or whether AHFC would provide financing to eventual owners if they were resold.

Creative Marketing Approaches

This group of ideas involves increasing the sales visibility of our units. This could be done in a variety of ways, including more extensive use of our sales/storage lot in Anchorage. The other main idea would involve establishing one or more sales lots for drive-bys. These lots (or this lot) would be in prominent locations, and would have model units on display and would be covered by our sales agents. We could contract for these lots by paying a per unit fee per month, or perhaps by paying no monthly charge but rather allowing for a sales commission to the lot owner.

Additional ideas along the same lines involve a more active marketing effort to attract an expanded group of buyers. For instance, we need to encourage the use of mobile homes as second homes, lake cabins, and similar uses. We also need to target possible institutional/business buyers, such as the military, mining, and timber companies both within and outside the State.

Carrying Cost Control

Next, the Corporation needs to make continued efforts to decrease carrying costs while units are being marketed. We have tried to get park owners to lower their space rent for vacant AHFC owned units, with limited success. The Corporation also contracted for a sales/storage lot in Anchorage to decrease space rents. There has been considerable opposition from park owners to the Corporation moving units to the sales/storage lot. However, unless park owners lower their space rents (significantly in many cases) staff strongly believes that units should promptly be moved to the sales/storage lot. If we are not able to get reduced rents from park owners and/or sell existing and future inventory more quickly, consideration will need to be given to contracting for another such lot.

Multi-unit Offerings

All of the above are predominantly variations on a theme, that being to sell units individually or in small groups within a geographic area while at the same time attempting to lower carrying costs while these sales are taking place. Although we believe these are all valid efforts, it must be admitted that it is rather unlikely that these efforts will be adequate to deal with our excess inventory in a reasonable length of time.

Hence, our final staff recommendation is to do some bulk sales, with the specific requirement that the units so sold cannot be used for residential purposes in the Anchorage, Fairbanks, or Juneau areas.

The advantages of an out-of-area bulk sale are obvious - a large number of units are permanently removed from the market, decreasing both the excess supply and the downward price pressure on remaining units. Of course, carrying costs for these units are also ended. The disadvantages are also apparent. A bulk sale is likely to bring in a much lower price for a given unit than a more standard sale would bring. There is likely to be considerable opposition from park owners, since these out-of-area bulk sales will result in fewer units in their parks, and hence less revenue.

Given the large inventory of units, and the length of time the Corporation is likely to have a large inventory using conventional sales techniques, we believe the advantages of a bulk sale outweigh the disadvantages. As such, staff would like Board approval to initiate a moderately sized (50 - 100 units) out-of-area bulk sale. As we learn from this experience, we can then make adjustments for future such sales, or perhaps forego further sales if our experience is negative. We also need to be prepared to respond to bulk offers from potential buyers. For instance, how should the Corporation respond to an offer to, say, buy all of our "double-wides", given that any such offer will be at prices well below list. Should we turn the offer back around as a bulk sale bid? Should we provide any financing on bulk sales (staff recommends against it)? At this time, staff would like Board approval to continue with the development of a bulk sale, with the understanding that subsequent Board approval would be required before any sale was actually conducted.

In closing, we would like to make two final observations. First, some of the AHFC owned mobile homes have insurance on them, and actions involving these units may require approval from the relevant company. Second, although we believe the efforts described above represent a significant sales program, it should always be kept in mind that the best actions are those that prevent repossession in the first place, e.g., the Home Owners Assistance Program, Simplified Refinance, other workouts, and so forth.

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Attachments: Attachment A - Mobile Home Inventory Statewide
Attachment B - Graph of Mobile Home Sales
Attachment C - Memo to AHFC Board of Directors with attachment (Resolution 87-3)
Attachment D - Mobile Home Parks

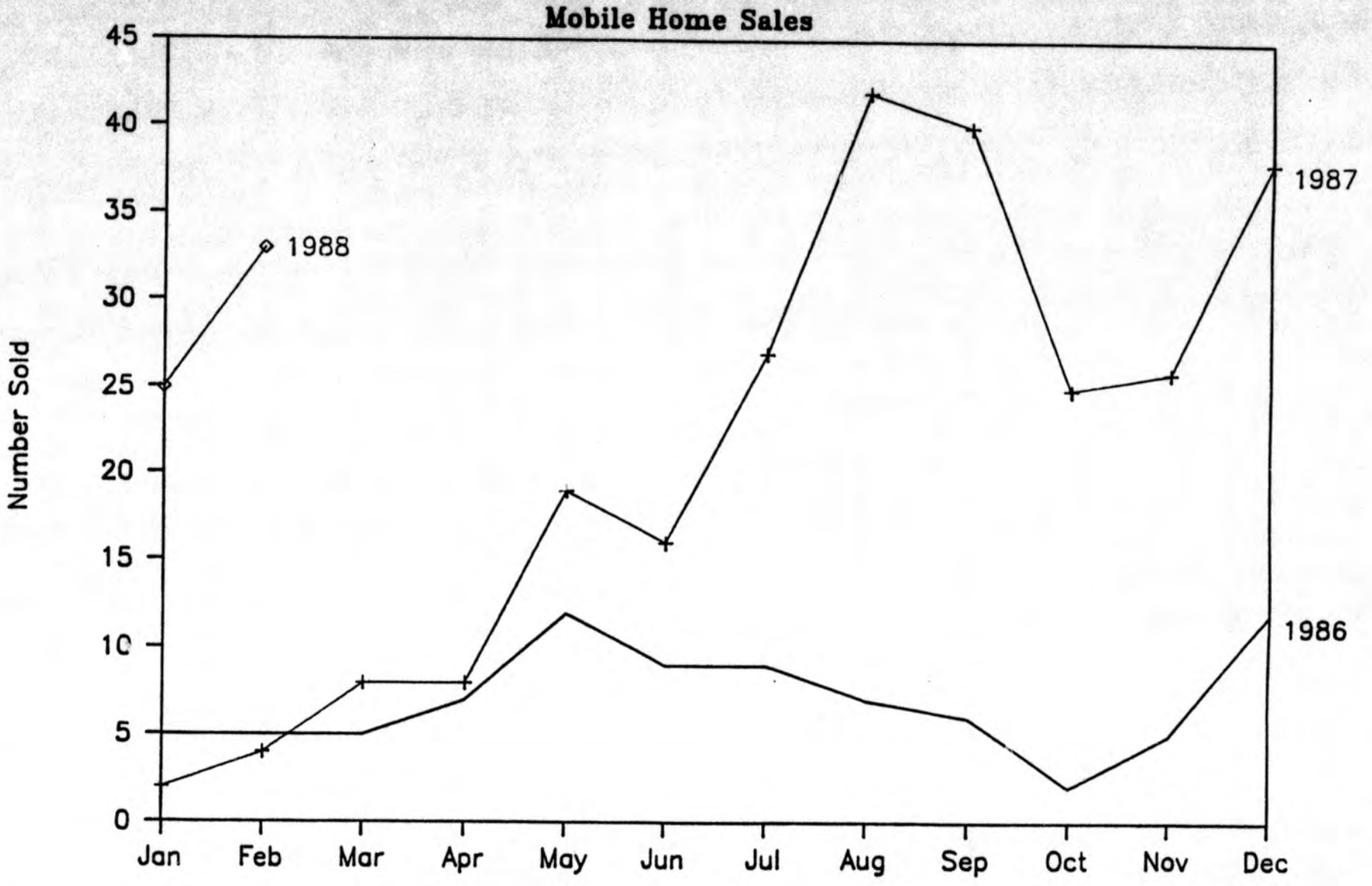
Mobile Home Inventory Statewide
Under Management
as of 2/29/88

Type/Age	Anchorage/ Mat-Valley/Kenai	Fairbanks North Pole	Juneau	Total
Singlewide 0 - 1972	183	13	11	207
Singlewide 1973-1978	422	53	13	488
Singlewide 1979-new	200	49	9	258
Doublewide	97	2	2	101
TOTAL	902	117	35	1054

Average Sales Price

Type/Age	Anchorage/ Mat-Valley/Kenai	Fairbanks North Pole	Juneau	Statewide Average
Singlewide 0 - 1972	5,000	4,000	4,000	4,300
Singlewide 1973-1978	10,000	7,800	7,900	8,500
Singlewide 1979-new	20,000	18,000	12,200	16,700
Doublewide	25,000	28,700	16,000	23,200

ALASKA HOUSING FINANCE CORPORATION



Attachment B

Attachment C

Alaska HOUSING FINANCE CORPORATION

MEMO

TO: AHFC Board of Directors

FROM: Ronald D. Lehr
Executive Director

DATE: March 9, 1988

RE: Progress to date on AHFC's Repossessed Mobile Home Program and Mobile Homes

Attached is a copy of Board Resolution No. 87-3 which was approved May 4, 1987, giving direction to AHFC regarding AHFC's mobile home program and the marketing and sale of repossessed mobile homes.

What follows are short explanations of what AHFC has done in response to those directions:

1. "AHFC shall conduct a survey of delinquent mobile home loans to determine what steps the Corporation can take to reduce those delinquencies and foreclosures."

AHFC is working on this survey with the Institute of Social and Economic Research. Although our survey has not yet been completed, many steps have been taken to reduce delinquencies and foreclosures. A major effort is the Home Owners' Assistance Program, which was recently instituted to help distressed borrowers make their payments. Mobile home borrowers are eligible for this program.

Even prior to Home Owners' Assistance Program (HOAP), a number of workout and forbearance programs have been conducted. At least partially because of these efforts, delinquencies of the mobile home portfolio have declined from a high of 25.39% in June '87 to 20.65% in January '88.

2. "AHFC shall implement an aggressive and inclusive sales strategy for AHFC mobile homes owned. That strategy shall include:

   a. that the mobile home marketing activities will be concentrated within the Special Credits Department;

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b. that AHFC will go to a select broker system for property management and sale of AHFC mobile home REOs;

c. that AHFC will contract with a single servicing agent to service all sales of AHFC mobile home REOs that have AHFC financing; and

d. that AHFC will offer 95%, 10-year financing for AHFC mobile home REOs.

AHFC has made great strides in implementing this directive. A mobile home marketing specialist position was created within the Special Credits Department to coordinate all mobile home activities within the Corporation. To date, four sales seminars have been held in Anchorage, Fairbanks, and Juneau, to educate real estate agents about AHFC's marketing program. Sixty-five agents are now approved to sell AHFC mobile homes. In calendar year 1987, AHFC sold 256 units.

AHFC recently added another position to work specifically on sales strategy, particularly bulk sales.

On June 6, AHFC issued a Request for Proposal for three contractors, one each in Anchorage, Juneau and Fairbanks, to handle mobile home inventory and management. The selection has since been completed and contracts have been signed with Summit Logistics in Fairbanks, Coldwell Banker/Joe Shaw Realty in Juneau, and Western Enterprises in Anchorage.

3. "AHFC shall negotiate with park owners to obtain significantly lower space rents for vacant AHFC mobile home REOs located in those parks, and, if unsuccessful, AHFC shall obtain off-site sales and storage lots."

As suggested in this directive, AHFC contacted park owners. The results of that contact are in Attachment D. Based upon these figures, AHFC believed it was cost effective to obtain sales/storage lots. On August 24, AHFC issued an Invitation to Bid and selected a sales/storage lot in Anchorage in November. The space rent in this lot is over $100/month less than in the average space rent from all other parks. AHFC once again contacted park owners to see if they would be willing to lower their rent to match the cost of our sales/storage lot. The results to date are also summarized in Attachment D. I should note that although some of the park owners have characterized the sales/storage lot as a "boneyard" from which we will never sell a mobile home, we do not agree. Others knowledgeable in the industry believe we will have a better sales performance off the lot since it makes it easier for a buyer to "comparison shop."

Furthermore, many of our recent sales have been of units that have been subsequently moved off their current lot, so again, we do not believe that moving these units to a storage lot will cripple our sales efforts.

At this point I would like to digress and state AHFC is not arbitrarily selecting mobile homes to move. AHFC staff have developed a matrix to determine which homes should be moved. The matrix takes into account such factors as the number of units, cost, location, repairs necessary, ability to move, among others.

4. "AHFC will solicit offers for bulk purchases of AHFC mobile home REOs. Before accepting offers for bulk purchases of AHFC mobile home REOs, AHFC must ascertain that these offers are:

   a. financially beneficial to AHFC, and

   b. that they take into consideration the need to stabilize the market by reducing excess supply."

Western Enterprises has been pursuing this, however, most of the offers have not been realistic. With a new staff person on board, more emphasis will be devoted to this subject in the near future.

5. "AHFC shall select a broker to manage the sales and storage lots described in number 3."

This is accomplished through use of the master agents.

6. "AHFC shall offer, on a trial basis, 95%, 10-year loans on all mobile home financing, in addition to AHFC's standard financing."

Same as 2(d), this has been accomplished.

7. "The AHFC Board of Directors will consider adopting a policy that mobile home loan amounts may not exceed the greater of the outstanding loan balance currently financed by AHFC, or the N.A.D.A. "blue book" value adjusted for transportation costs for the mobile homes. AHFC staff is to prepare a recommendation for the Board's consideration at its next meeting."

This was accomplished under regulation changes listed in 2(d).

8. "For mobile homes brought into the state after April 1, 1987, the minimum downpayment for an AHFC loan will be 10% and the maximum loan term will be 12 years."

This was accomplished under regulation changes cited in 2(d).

9. "Effective May 1, 1987, AHFC will no longer be responsible for back space rent on units not owned by AHFC."

10. "Space rents accumulated prior to May 1, 1987, on units in the process of being repossessed will be reimbursed."

11. "As of June 1, 1987, AHFC will pay space rent due on AHFC's mobile home REOs directly to park owners."

Nine, 10 and 11 were implemented immediately by staff.

12. "If the AHFC Board of Directors considers adopting a program for rental of AHFC mobile home REOs managed by park owners, AHFC will immediately hold public hearings for that purpose."

The Board has not give any further direction on the possible rental of AHFC mobile homes.

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Attachment

RESOLUTION NUMBER 87-3

RESOLUTION OF THE ALASKA HOUSING FINANCE CORPORATION CONCERNING THE CORPORATION'S REAL ESTATE OWNED MOBILE HOMES

1) AHFC shall conduct a survey of delinquent mobile home loans to determine what steps the Corporation can take to reduce those delinquencies and foreclosures.

2) AHFC shall implement an aggressive and inclusive sales strategy for AHFC mobile homes owned. That strategy shall include:

   a. that the mobile home marketing activities will be concentrated within the Special Credits Department;

   b. that AHFC will go to a select broker system for property management and sale of AHFC mobile home REOs;

   c. that AHFC will contract with a single servicing agent to service all sales of AHFC mobile home REOs that have AHFC financing; and

   d. that AHFC will offer 95%, 10-year financing for AHFC mobile home REOs.

3) AHFC shall negotiate with park owners to obtain significantly lower space rents for vacant AHFC mobile home REOs located in those parks, and, if unsuccessful, AHFC shall obtain off-site sales and storage lots.

4) AHFC will solicit offers for bulk purchases of AHFC mobile home REOs. Before accepting offers for bulk purchases of AHFC mobile home REOs, AHFC must ascertain that these offers are:

   a. financially beneficial to AHFC; and

   b. that they take into consideration the need to stabilize the market by reducing excess supply.

5) AHFC shall select a broker to manage the sales and storage lots described in number 3.

6) AHFC shall offer, on a trial basis, 95%, 10-year loans for all mobile home financing, in addition to AHFC's standard financing.

7) The AHFC Board of Directors will consider adopting a policy that mobile home loan amounts may not exceed the greater of the outstanding loan balance currently financed by AHFC, or the N.A.D.A. "blue book" value adjusted for transportation costs for the mobile homes. AHFC staff is to prepare a recommendation for the Board's consideration at its next meeting.

8) For mobile homes brought into the state after April 1, 1987, the minimum down payment for an AHFC loan will be 10% and the maximum loan term will be 12 years.

9) Effective May 1, 1987, AHFC will no longer be responsible for back space rent on units not owned by AHFC.

10) Space rents accumulated prior to May 1, 1987, on units in the process of being repossessed will be reimbursed.

11) As of June 1, 1987, AHFC will pay space rent due on AHFC's mobile home REO's directly to park owners.

12) If the AHFC Board of Directors considers adopting a program for rental of AHFC mobile home REOs managed by park owners, AHFC will immediately hold public hearings for that purpose.

This Resolution shall take effect immediately.

May 4, 1987

There are approximately 130 mobile home parks in Anchorage. Alaska Housing Finance Corporation has received 18 responses, with 11 reductions regarding space rent. Only 6 parks in Anchorage are offering $125 or less in space rent to AHFC.

Park	Original Space Rent	Proposed Rent Request Letter 7/87	"Meet or Beat" Letter of 1/88
Alaskan Village	$285	$130	$105
Four Seasons	285	130	105
Dimond Estates	225	218	Responded Requesting Meeting
Glencaren Court	230	200	Effective May 1,88 Verbal - $170
Glen Muldoon	250	Reduced 200	-
Malaspina	265	Responded No reduction offered	-
Glacier Terrace	265	Responded No reduction offered	-
Manoogs Isle	250	Reduced 125	-
Mayflower	225-250	Responded No reduction offered	Responded No reduction indicated
Penland Park	260	Responded No reduction offered	180
Plaza 36	265	Responded No reduction offered	-
Rangeview	215	110	-
Riviera Terrace	250	Withdrawn 150	-
Southwood Manor	290	Reduced 228	-
Idle Wheels	280	-	Responded No reduction offered
Sunset M/H Park	230	Reduced 125	-
Brookside Manor	240	Reduced 190	-
Trails End	225	Reduced 125	-

(2.) Submit the application along with the following documentation:

- Wage Earner/Salaried Individuals:

--Pay stub(s) or salary voucher(s) for the most recent 30-day period, with year-to-date earnings indicated. (If your application is submitted after December 31, 1987, but prior to filing your 1987 Federal income tax return, you should provide either a copy of your final pay stub or salary voucher for 1987 with year-to-date earnings indicated, or copies of your W-2 forms. Please include information from all employers during 1987),

and

--Your last signed Federal income tax return with all schedules and W-2 forms.

- Self-employed individuals:

--Your last signed Federal income tax return with all schedules and W-2 forms,

--A year-to-date profit and loss statement for your business, if available.

(3.) Call the Fannie Mae HOAP Center (907) 562-3434 or (800) 478-3434 within Alaska, before March 31, 1988, between the hours of 12:00 noon and 9:00 p.m., Monday thru Friday and 9:00 a.m. to 3:00 p.m. on Saturday. Eligible home owners will be scheduled for interviews to discuss their participation in HOAP.

As explained in our letter, the Federal National Mortgage Association (Fannie Mae), in cooperation with Alaska Housing Finance Corporation, will administer the program. All inquiries regarding your participation in this program should be directed to Fannie Mae.

HOAP may be the means to a mutually satisfying, long-term solution to problems you may have when making your mortgage payments. It is our goal to help as many of our home owners as possible keep the American dream of home ownership a reality. As a homeowner, you want the opportunity to keep your home; HOAP may provide that opportunity.

HOME OWNERS' ASSISTANCE PROGRAM

WHAT IS THE HOME OWNERS' ASSISTANCE PROGRAM?

It is quite likely your home is the largest and most important investment you have ever made. Alaska Housing Finance Corporation (AHFC) wants to work with you to protect your investment. Quite often, unforeseen circumstances occur that result in homeowners not being able to make their mortgage payments. The loss of a job, reduction in income, serious illness or death of a wage earner can bring about serious financial hardship. In many instances, the financial hardship is only a temporary situation. We recognize that with some financial assistance you may be able to avoid foreclosure.

The Home Owners' Assistance Program (HOAP) has been designed to provide financial assistance to eligible home owners who are experiencing serious, but temporary, financial difficulties. Depending upon your financial situation, HOAP may be able to do the following for you:

- eliminate the currently scheduled increases in your monthly principal and interest payments (the ABE feature of your loan),
- lower your interest rate and perhaps also lower your monthly payment,
- provide advances to bring your loan current, and
- supplement your monthly mortgage payment for a short time.

QW DCES HOAP WORK?

The type and amount of assistance you may receive ill be determined after a review of your current financial tuation. Let's take a look at the different ways in which HOAP an be of assistance if you are eligible:

- Loan Type Change — If your loan is an Alaska Building Equity (ABE) loan, the currently scheduled increases in monthly principal and interest payments will be eliminated.
- Interest Rate Change — Depending upon your current interest rate, the rate on your modified loan may be lower (it will never be higher) which may result in lower monthly payments.
- Advances — If necessary, AHFC may advance funds to bring your loan current and/or pay a portion of the monthly mortgage payment for a "specified" period of time (up to a maximum of two years). This type of assistance will help you bring your loan current with no immediate out-of-pocket expense, and/or make your future monthly mortgage payments more affordable until you can resume making full payments.

If advances are necessary, the total funds advanced vill be limited to 10% of the outstanding loan balance as of the late the homeowner applies to participate in the program. The unds advanced will be added to the outstanding loan balance nd subsequently repaid, with interest, by the homeowner.

Homeowners will be expected to pay at least 28% of heir expected gross monthly income toward the monthly mort- gage payment (principal, interest, taxes and insurance). How- ver, a homeowner may be allowed to contribute less than 28% f our analysis indicates an exception is warranted.

Upon approval to participate in the program, AHFC vill offer an assistance plan tailored to meet your specific ieeds.

If your property is subject to any other liens or outstanding claims, they must be subordinated prior to modify- ng your mortgage loan.

After approval, homeowners will be required to pay a losing fee as a condition to our assistance. This fee may be dded to the outstanding loan balance.

WHO SHOULD APPLY?

You are eligible to apply for participation in the program if you meet all the following criteria:

- your mortgage loan is owned by AHFC and not a Rental Program loan;
- the property is owner-occupied as your primary residence;
- you can provide evidence a hardship exists and that an involuntary decrease in income has occurred;
- you can provide reasonable assurance you will be able to repay any assistance provided and make full monthly mortgage payments as provided in the loan modification agreement; and
- you can provide reasonable assurance that you will be able to pay taxes, insurance, homeowners dues and other such expenses becoming due after you sign the loan modification agreement.

The following are examples of hardships that are eligible for HOAP and some examples of hardships that are *not eligible*.

ELIGIBLE HARDSHIPS

- Long-term layoff
- Involuntary loss of job
- Mandatory reduction in pay
- Disability or illness which results in a reduced income
- Death of a wage earner
- Reduction in self-employed earnings

SITUATIONS NOT CONSIDERED AS HARDSHIPS

- Normal seasonal layoff
- Voluntary job loss or reduction in hours or income
- Loss of income to return to school

HOW TO APPLY

(1.) Complete and sign the enclosed "Financial Analysis Worksheet/Application."

- It is important that all items on the worksheet be completed. This information will help us to determine if you are eligible and, if so, the best assistance plan for your needs. The information must be provided for the borrower and the co-borrower. The worksheet also must be signed by all borrowers. Missing or incomplete information will delay the processing of your application.

(Continued overleaf)

Financial Analysis Worksheet/Application

BORROWER DATA

Borrower Name	Home Telephone Number ( )	Work Telephone Number ( )
Co-borrower Name	Home Telephone Number ( )	Work Telephone Number ( )

PROPERTY ADDRESS (Owner Occupied? ☐ Yes ☐ No)

Street Address		
City	State	Zip Code

CURRENT ADDRESS (If different than property address stated above)

Street Address		
City	State	Zip Code

PLEASE FURNISH THE FOLLOWING INFORMATION FOR ALL BORROWERS:

1. Employment Data

		Employer Name & Address	Telephone Number	Gross Monthly Income
A	Borrower	Name	( )	$
		Address		
B	Co-Borrower	Name	( )	$
		Address		

		Other Income -- Source*	Gross Monthly Amount
C	Borrower		$
	Co-Borrower		$

* Alimony, child support, or separate maintenance income need not be revealed if the Borrower or Co-Borrower does not choose to have it considered as a basis for repaying the loan.

2. Please check the reason for the reduction of your income and provide a detailed explanation, plus employer contact for verification.

Borrower	Co-Borrower	REASON	Explanation for reduction in income. (If this space is insufficient, please submit your explanation in letter form.)
☐	☐	Quit my job	
☐	☐	Involuntary loss of job	
☐	☐	Seasonal layoff	
☐	☐	Mandatory reduction in hours and/or income	
☐	☐	Illness or Disability resulting in loss of income	
☐	☐	Self-employed borrower experiencing a decline in earnings	
☐	☐	Death of a borrower, co-borrower	
☐	☐	Voluntary loss of job	
☐	☐	Voluntary reduction in hours and/or income	
☐	☐	Reduction or loss of income to return to school	
☐	☐	Long term layoff (6 months or longer)	
☐	☐	Other – specify _____	

Employer Contact	Telephone Number ( )
Address (Including City, State & Zip Code)	

3. Monthly Mortgage Payment $_____

4. Total Monthly Installments, Revolving Credit Payments, Second Mortgage Obligations, and other monthly fixed payment obligations.

Name of Creditor(s)	Monthly Payment	Balance
		$
		$
		$
		$
		$
		$
		$
		$

5. Have you been declared bankrupt within the past 7 years? ☐ Yes ☐ No
If yes, explain below.

6. Do you have any outstanding liens or judgements? ☐ Yes ☐ No
If yes, explain below.

7. Please list all bank accounts and indicate for each if it is a checking or savings account.

Account Type	Financial Institution	Balance
		$
		$
		$

8. Do you own stocks or bonds ☐ Yes ☐ No If yes, total value $_____.

9. Do you own other real estate ☐ Yes ☐ No
If yes, complete schedule of real estate owned below

Property Address (Including City/State)	Present Market Value	Amount of Mortgage	Gross Rental Income	Mortgage Payment Incl. Taxes & Insurance

Lender Data

Lender Name
Lender Loan Number

PLEASE ATTACH THE FOLLOWING INFORMATION TO THIS APPLICATION. YOUR ASSISTANCE REQUEST CANNOT BE PROCESSED UNLESS THIS INFORMATION IS PROVIDED. IT MUST BE INCLUDED FOR ALL BORROWERS.

A. Wage Earner/Salaried Individuals:

- Pay stub(s) or salary voucher(s) for the most recent 30-day period with year-to-date earnings indicated. (If your application is submitted after December 31, 1987, but prior to filing your 1987 Federal income tax return, you should provide either a copy of your final pay stub(s) or salary voucher(s) for 1987 with year-to date earnings indicated or copies of your W-2 forms. Please include information from all employers during 1987), and
- The last signed Federal income tax return with all schedules and W-2 forms

B. Self-employed Individuals:

- The last signed Federal income tax returns with all schedules and W-2 forms, and
- A year-to-date profit and loss statement for your business(es)

TO BE ELIGIBLE FOR THE ALASKA HOUSING FINANCE CORPORATION HOME OWNERS' ASSISTANCE PROGRAM (HOAP), ALL BORROWERS MUST SIGN AND DATE THIS APPLICATION. YOUR APPLICATION CANNOT BE PROCESSED IF IT IS NOT SIGNED.

I obtained a mortgage loan which was secured by the referenced property. I have described my present financial condition on this financial analysis form and the attachments hereto and I certify that all the information contained thereon is true, accurate, complete, and correct to the best of my knowledge.

Due to my financial condition, I believe, in good faith, I will not be able to pay the full amount due on future monthly mortgage loan payments in their present amounts and/or existing mortgage loan delinquency.

I understand and realize the financial information I am providing will be used by the lender and/or insurer of my mortgage loan to analyze my options with respect to the mortgage loan. I further understand and acknowledge that any action taken by the lender and/or insurer of my mortgage loan on my behalf will be made in strict reliance on the financial information I am providing herein.

I therefore agree, if it is determined the financial information I have provided contained information which was misrepresented by me and thereby caused actions to be taken which would not have been taken had the true facts and circumstances been known, I shall be liable for any or all losses or damages suffered by the lender and/or insurer of my mortgage loan and, also, may have legal action brought against me as permitted by applicable law.

INFORMATION FOR GOVERNMENT MONITORING PURPOSES

The following information is requested by the Federal Government for certain types of loans related to a dwelling, in order to monitor the lender's compliance with equal credit opportunity and fair housing laws. You are not required to furnish this information, but are encouraged to do so. The law provides that a lender may neither discriminate on the basis of this information, nor on whether you choose to furnish it. However, if you choose not to furnish it, under Federal regulations this lender is required to note race and sex on the basis of visual observation or surname. If you do not wish to furnish the above information, please check the box below.

Borrower: ☐ I do not wish to furnish this information

Race/National Origin:

☐ American Indian, Alaskan Native
☐ Asian, Pacific Islander
☐ Black ☐ Hispanic ☐ White
☐ Other (specify): _____

Sex: ☐ Female ☐ Male

Co-Borrower: ☐ I do not wish to furnish this information

Race/National Origin:

☐ American Indian, Alaskan Native
☐ Asian, Pacific Islander
☐ Black ☐ Hispanic ☐ White
☐ Other (specify): _____

Sex: ☐ Female ☐ Male

I hereby authorize the servicer of my mortgage loan to release any information concerning my mortgage loan and for other creditors, depositories or credit agencies to release information regarding my financial obligations to Fannie Mae or other designees of Alaska Housing Finance Corporation.

Submitted this _____ day of _____, 19_____.

By _____
Signature of Borrower

By _____
Signature of Co-Borrower

C - Low Income Hsg

MORTGAGE HOME OWNERSHIP ASSISTANCE PROGRAM

Anchorage Neighborhood Services
3700 Woodland Park Drive
Anchorage, Alaska 99517
(907) 243-1558

MORTGAGE HOME OWNERSHIP ASSISTANCE PROGRAM

I. Executive Summary

II. Proposal
- Financial Counseling
- Debt Consolidation
- Social Service Assistance

III. Marketing and Outreach Program

IV. Anchorage Neighborhood Housing Services Background

V. Staffing and Budget

I. EXECUTIVE SUMMARY

This report contains a proposal to AHFC, MGIC and FNMA to provide financial and debt counseling by Anchorage Neighborhood Housing Services, Inc. It is our proposal to offer a program parallel to the HOAP program developed by AHFC, MGIC and FNMA, but including more in depth counseling and social service assistance. We propose that a revolving loan fund be established for individuals needing debt consolidation loans. This loan fund would provide minimum debt consolidation for exceptional hardship uses and would be used to prevent mortgage foreclosure during these hard economic times. The loans would be reviewed by a loan committee and administered by ANHS. ANHS proposes to seek its secondary market support for this fund and would ask FNMA and MGIC to consider providing private mortgage insurance on loans made with this fund. ANHS also proposes to develop a marketing and outreach plan to make consumers aware of this program.

Staffing will be provided by ANHS. Attached is a budget of anticipated expenses for the first year of operation.

Anchorage Neighorhood Housing Services, Inc. has a successful six year history in Anchorage community and economic development. We have maintained a close working relationship with our loan clients, which has resulted in an extremely low delinquency rate.

II. MORTGAGE HOME OWNERSHIP ASSISTANCE PROGRAM

Anchorage Neighborhood Housing Services, Inc. proposes to administer a mortgage assistance and financial counseling program in Anchorage. This program will be modeled after the Home Ownership Protective Effort (HOPE) of Housing Opportunities, INC. in McKeesport, Pa. In preparing this proposal we have also contacted Washington D.C. Delinquent Home Mortgage Programs, the National Federation of Housing Counselors and other counseling and delinquency programs in other areas. The ANHS program will work in close cooperation with the HOAP program currently underway by AHFC, MGIC and FNMA, but will offer more in depth counseling. This will include personal financial planning, mortgage debt counseling and restructuring, consumer debt counseling, and social service agency assistance, if necessary.

The ANHS program will include the following:

- Financial counseling: This will be the cornerstone of the program.
  - ANHS counselors will help the consumer focus on their most essential needs ie. food, mortgage and utilities.
  - We will teach money management skills and record keeping of all income and expenses.
  - We will help develop a budget based on individual income and needs
  - Counselors will work out mortgage modification or forbearance agreements with the appropriate agencies.
  - Counselors will assist in negotiating repayment schedules with consumer creditors. Where it is necessary for consumers to have their credit managed for them, we will refer them to the Consumer Credit Counseling Service of Alaska. It is expected, based on our own experience and that of the HOPE program, that this will not usually be necessary.

- Social Service Assistance: Referral and connection to appropriate community resources will be available when necessary.
  - ANHS has a close working relationship with the various public and private community resources. We will refer consumers to them on a case by case basis.
  - We will help workers find job retraining programs, where appropriate.

• Debt Consolidation Program

Where debt consolidation is necessary, consumers will be provided with an opportunity to borrow money through a revolving loan fund. Loan fund applicants will be reviewed by a loan committee of ANHS. ANHS will look to the State to capitalize this fund and will ask FNMA and MGIC to participate through a mortgage insurance pool. ANHS would be willing to entertain participation through its secondary market to recapitalize this fund. Loans will be secured by a Deed of trust on the residence or by a personal note. The repayment plan will be flexible and based on need and ability to repay the loan.

It is expected, based on the HOPE model, that new clients will require an average of six (6) hours of counseling and staff time in their first month in the program. This will consist of an initial visit in the client's home with both borrowers present (if applicable) lasting 2-3 hours. At the time of this visit, the counselor will be able to see the condition of the home and recommend any necessary deferred maintenance and repairs, as well

as obtain a detailed picture of the family's financial situation. Subsequent sessions will be on a face to face basis as necessary. Once a plan is established and implemented, contact will be maintained by phone and personal visits, as needed. Based on the HOPE model, we estimate an average of 2-3 hours per month of follow-up once a family's financial situation is stabilized for at least four months.

III. OUTREACH PROGRAM

ANHS will develop an outreach program to make consumers aware of our services. This will consist of:

- Two (2) Public Service Announcements to be aired on Anchorage TV stations - KIMO Channel 13, KTVA Channel 11 and, KTUU Channel 2
- Two (2) public service announcements to be aired on Anchorage radio stations - KBYR, KENI, KFQD, KHAR, KNIK, KYAK.
- Print advertisements to appear in the Anchorage Times and the Anchorage Daily News.
- Brochures explaining our program will be printed and distributed by mail and through lending institutions and other agencies.

ANHS will conduct several (based upon need) community workshops. These workshops will cover financial planning and money management as well as budget making and record keeping. This would also present an excellent opportunity to acquaint the public with this service as well as the Alaska HOAP program.

ANHS will expect referrals from AHFC, MGIC and FNMA as well as the Alaska Housing Market Council and local financial institutions themselves. A close well coordinated relationship with these entities is essential if the program is to be successful.

IV. BACKGROUND

Anchorage Neighborhood Housing Services is a private non-profit corporation which has been involved in community and economic development since 1982. The corporation operates on a partnership model, bringing together lenders, residents, and government representatives. Representatives of this partnership comprise the Board of Directors, which sets policy for the corporation and its various committees.

The corporation is part of a national network of Neighborhood Housing Services of America and the Neighborhood Reinvestment Corporation, a congressionally chartered, public, non-profit corporation charged with neighborhood revitalization activities. Neighborhood Reinvestment is governed by a board of directors comprised of the Chairman of the Federal Home Loan Bank Board, the Secretary of HUD, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency, a member of the Board of Governors of the Federal Reserve System and the Chairman of the National Credit Union Administration.

A key program element of ANHS is the Revolving Loan Fund. There are two funds administered by ANHS: a commercial loan fund for business district revitalization efforts, and a residential loan fund for home improvements, and to refinance existing mortgages. The Residential Loan Fund loans to both single family homes and multifamily properties. The loan fund operates as a lender of last resort, thus allowing for neighborhood-wide improvements.

There are two separate loan committees which review administration of all loan funds. The committees follow the partnership model, each one comprised of local lenders, residents and government representatives. The Residential Loan Committee's lenders include representatives from three different banking institutions and are experienced mortgage lenders; the commercial loan committee lenders have experience in their commercial loan functions. Through the partnership model, ANHS has developed an active and solid working relationship with local lending institutions. When appropriate, ANHS leverages its funds by participating with local banks in loans. This allows the Loan Fund to assist a greater number of neighborhood residents. Furthermore, ANHS has a secondary market for its real estate loans, Neighborhood Housing Services of America. By selling its loans to NHSA, the loan fund is continually being replenished.

Despite the often high risk nature of the ANHS loan portfolio, the recovery rate has been commendable. To date, more than $3.0 million dollars have been loaned; the current principal balance is $1.3 million. Of these loans, only one in the past six years has resulted in a foreclosure. In the current loan portfolio, there is only one loan which is 90 days delinquent. The problems within the community the corporation is seeing today are clearly related to the present economic conditions.

Part of the reason for ANHS' success rate in lending is the close on going relationship ANHS develops with its loan clients. ANHS has also sponsored community workshops, both on conventional lending including FNMA and AHFC's HOF program, and on more technical home improvement topics.

While the ANHS approach over the last six years has been neighborhood based redevelopment, the problems the corporation has been addressing are citywide. Essentially, the central issue around which ANHS' work has focused is quality of life for the city's residents. This, of course, takes a number of forms. Clearly one of the most important measures of quality of life is maintaining one's own home. Given ANHS's commitment to decent housing , the corporation has been an active participant in the housing support sector. As a result, ANHS has worked closely with such agencies as Alaska State Building Authority, the Alaska Housing Finance Corporation, the Alaska Housing Market Council, the State's Department of Community and Regional Affairs, and the Municipality's Department of Community Planning.

ANHS has become a well respected participant in the Anchorage housing and lending communities. This position has been earned by the work of both the staff and the many committed volunteers who have helped create this effective, professional enterprise. The skills of the staff are complemented by the abilities and expertise of the professional volunteers who serve on the Board of Directors and the various committees. They are listed at the back of this proposal.

V. STAFFING PATTERNS AND DRAFT BUDGET

Anchorage Neighborhood Housing Services is currently staffed by seven employees, including two loan packagers, a housing inspector, project administrative and clerical positions. It would be our intent to include the housing foreclosure and debt counseling program within the present organizational structure, but as a separate component. Staff requirements would based upon volume of people requiring this service, and the type of counseling needed. Based on the HOPE experience, it is anticipated that each counseling applicant would require 6 - 12 initial hours of counseling assistance over a four month period, including initial document review, and an at-home visit. Counseling needs will vary with some individuals requiring referral and connection to other social service agencies, mortgage counseling or assistance with credit forbearance. ANHS would propose that a small loan fund similar to its Revolving Loan Fund be available for occasional debt consolidation if necessary. ANHS believes this loan fund could be capitalized at $1.5 million, and would be prepared to seek secondary funds through its secondary market. The ANHS Loan Committee comprised of realtors, bankers and private citizens would act as the review body for approval of those loans. ANHS proposes that MGIC and FNMA look at participation in this loan pool by providing private mortgage insurance for these type of loans.

BUDGET

Assuming an average of 6 - 12 hours counseling per individual, we would propose the following one year budget: It is our belief that this program should run parallel to the Alaska "HOAP" Program for a two year period.

Personnel	
Personnel * 1	$113,000
Employee Expense	22,600
	$135,600
Office Expenses	
Telephone	$ 2,400
Postage	1,200
Printing	7,000
Travel	5,000
Training and Development	7,000
Office Supplies	2,000
Advertising and PR *2	12,000 - 35,000
Equip/Software	3,000
Miscellaneous	1,200
	$ 40,800
General and Administrative	
Rent and Utilities *3	$ 24,000
Insurance	800
Legal	5,000
Accounting	4,000
Outside Services	2,400
Depreciation	1,200
Amortization	-0-
	$ 37,400
TOTAL OPERATIONS - FIRST YEAR	$213,800
CONTINGENCY IF EXPANDED SERVICE IS NECESSARY	$ 42,000

*1 Personnel Costs assume a maximum review of 2,000 clients

*2 Advertising and PR costs depend on necessity for paid announcement vs. Public Service use.

*3 Rent may require expansion of existing facilities, but is anticipated that the program will not require it.

ANHS Board of Directors

Barry Hulin, President
Alaska Mutual Bank

Dan Dixon, Director
State Office of International Trade

Will Walker, Mathematics Teacher
Service High School

Nick Rodes
Graduate Student

Dan O'Connell
Federal Deposit Insurance Corp.

Lois Reed
Department of Transportation

Donald Keil, Anchorage Director
Federal Aviation Administration

Tyler Jones, Director
Port of Anchorage

Tom Scott, Executive Director
South Region Emergency Medical Services

Bert Wagnon
Alaska Industrial Development Authority

Julie Liska, Volunteer Coordinator
Anchorage Arts Council

David Leppanen, General Contractor
Leppanen Construction

Veronica Slager
Marketing Specialist

Ex-Officio Board of Directors

Jim Kubitz, President
Kubitz Construction

Connie Parker
Anchorage Resident

Jim Cash, President/CEO
Cash's Machine and Welding

Faye Connolly
Anchorage Resident

Residential Loan Committee

Gale Cipra, Vice President
Key Pacific Mortgage

Lois Reed
Department of Transportation

Faye Connolly
Anchorage Resident

Mike Hanley, Vice President
Commercial Lending, Rainier Bank

Patricia Ledbetter, SR Vice Pres.
National Bank of Alaska

Commercial Development and Loan Committee

Barbara Steckel, Chief Fiscal Officer
Municipality of Anchorage

Will Walker, Mathematics Teacher
Service High School

Steven Street, Vice President
Alaska Continental Bank

Jay Hanseth, Assoc. Broker
Jack White Company

Gordon Godfred, President/CEO
Arctic Circle Enterprises

Mike Hanley, Vice President
Commercial Lending, Rainier Bank

Paul Smith
Owner, Sunset Travel
Controller, Barratt Inn

Jim Kubitz, Owner/Manager
Kubitz Construction

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1589 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

Condominium Market

ALASKA HOUSING MARKET COUNCIL
624 West International Airport Road
Suite E
Anchorage, Alaska 99518
(907) 563-3325

TO: Council Members

SUBJECT: Condo Task Force Report

FROM: Glenda Straube
Executive Director

DATE: February 5, 1988

In late November, recognizing the unique problems faced by parties in the condominium market, I requested that the Community Associations Institute (CAI) put together a diverse group of people to provide recommendations to the Council pertaining to solving some of those problems. It had become clear, earlier, that the regional task forces would not have the same time or expertise available to work on the condo issue.

Enclosed is a copy of the report requested from CAI. The recommendations contained within this report are scheduled to be discussed and voted upon, should the Council choose to do so.

Though there are many worthwhile recommendations contained within this report, I will address two major solutions at this time.

<u>REDIRECT THE STOCK OF CONDOMINIUM UNITS ON THE MARKET</u>

Since we are already pursuing alternate public uses for condos, there is no need to address that issue in this memo. The most important issue here, however, is whether the state should become involved in relocating condo owners from marginally operated condo groups to more stable condo projects, with higher owner-occupancy ratios.

Though the implementation of this recommendation would be complex and time-consuming, it could certainly prove to remedy much of the problems experienced by condo owners, while also allowing investors, insurers, and the state, the opportunity to use the vacant projects for many of the public uses we have already discussed.

In recent meetings with Milwaukee representatives of MGIC, it became clear that MGIC is one insurer who is seriously considering these relocation options.

INCLUDE DELINQUENT CONDO FEES IN MODIFICATIONS/REFINANCES

It is true that, oftentimes, condo associations are unable to collect delinquent fees. Though this delinquency can be easily established as a lien against the condo unit through the small claims process, it is often meaningless when a foreclosure occurs; the liens are being extinguished because there are no funds for any second liens.

Yet, this uncollectable debt becomes a burden for all other condo owners, since others must pick up the slack for the operating costs of the association. Those fees are not merely funds for beautification of the common area. They include essential costs of operation: heat; water and sewer; insurance; common electric, etc. With less maintenance and upkeep, the units decrease in value.

When funds are being advanced, through modifications such as HOAP, to help bring delinquent borrowers current, it sets the stage for the following scenario. Condo owner, Mary, qualifies to receive those "advance" funds and she is able to bring her mortgage current. Since she is still working, condo associations will be able to move to garnish her wages to collect the delinquent condo association fees. Now she no longer has the same amount of funds to help her keep her mortgage current.

Though this situation is not being played out yet, it won't be long before condo associations might do what they must to keep the condo groups viable. Ultimately, we are not further ahead in helping the condo owner keep their home.

Now is the time to take seriously the unique problems which condo owners and associations face. It's critical that we find a way to solve the issues of delinquent condo fees, low owner-occupancy ratios, and inadequate standards.

ALASKA CHAPTER
Community Associations Institute
200 W. 34th Ave., Suite 277, Anchorage, AK 99503

December 30, 1987

Glenda J. Straube, Executive Coordinator
Alaska Housing Market Council
624 W. International Airport Rd., Ste. E
Anchorage AK 99518

Dear Ms. Straube:

In response to your request, the Alaska Chapter of the Community Associations Institute called together a task force to recommend strategies and solutions for market problems that affect condomium associations. The task force was comprised of a cross-section of disciplines involved with condominium operation and management; the report prepared is a task force product rather than an official Chapter position.

The condominium community does not exist in a vacuum. All the forces at work within the state affect the individual owners and associations just as they affect owners of single-family residences and businesses in Alaska. At the same time, the "association" in condominiums and homeowner associations exists as an additional administrative layer. The collateral of the owners and financial institutions is administered through it.

None of the problems which associations confront are simple. As a result of the developer and institutional greed or governmental failure to inspect or enforce codes, we have inadequate design, shoddy construction, unsound marketing and financing, poor budgeting and management of associations.

As the task force reflected on problems and solutions, it discovered that even the players familiar with the community association arena did not understand the relationships between owners-units-investors-common areas-boards of directors. It is understandable, then, that financial institutions take for granted the function of the associations, attempting to impose responsibilities without the participation or consent of the very associations which they attempt at times to burden.

This report begins with a list of recommendations, followed by a discussion of five areas of concern. The participants on the task force are listed at the end of the report. There is no governmental agency or financial institution that understands the operation of community associations. The CAI chapter has unique experience to contribute in this arena.

In order to improve the situation with community associations, positive action must be taken now. We trust that you share our concern. The Chapter looks forward to an opportunity to provide specific details for the problems indicated and to develop with your administration solutions that will speed the economic recovery as it affects and is affected by community associations. I can be reached at 563-4849.

Sincerely,
COMMUNITY ASSOCIATIONS INSTITUTE

Gil Lulay,
President, Alaska Chapter

ALASKA CHAPTER

COMMUNITY ASSOCIATIONS INSTITUTE

TASK FORCE REPORT

COMMUNITY ASSOCIATIONS AND THE ALASKAN HOUSING MARKET

December, 1987

TABLE OF CONTENTS

1. LETTER OF TRANSMITTAL

2. TABLE OF CONTENTS

3. SUMMARY RECOMMENDATIONS

4. TEXT -- PROBLEM AREAS

   A. MARKET PROBLEMS

   B. FINANCIAL PROBLEMS

   C. EDUCATION/AWARENESS/ATTITUDE

   D. GOVERNMENT LENDER REGULATIONS/ POLICIES

   E. MANAGEMENT

5. TASK FORCE PARTICIPANTS

SUMMARY RECOMMENDATIONS

1. Establish a rating system for community associations. The existing resale certificate could provide a basic set of criteria. The rating system would provide criteria for investors and buyers to use in the evaluation of lending/purchasing decisions. It would also give to associations both criteria and incentives for improvement of association management practices; and major investors a mechanism for consolidating scattered holdings (i.e., REOs).

2. Require continuing education for those individuals who are involved in the housing market and who require state licenses (e.g., contractors, real estate agents, etc.).

3. Encourage continuing education for those involved in the housing market without state licensing requirements (e.g., bankers, title insurance companies, etc.).

4. Define and strengthen by statute the warranty and bonding requirements of developers and interim construction lenders as they become involved in the construction of residential units, especially in community associations.

5. In all mortgage work-out programs in which the State or State agencies become involved, provide that the assessments for the maintenance of the property be current and remain current as a condition of the work-out agreement. Make funds available so this can happen.

6. Provide staffing through the State to support the recommendations above, which staffing may be either through AHFC or through another agency which can appropriately address the well-being of the associations.

7. Provide community association representation in the decision making process with AHFC, so the interests of the owners as they relate to the operations of the associations will be appropriately represented.

8. Establish a licensing procedure for community association managers according to the policies, procedures and standards of the community association management industry.

9. Simplify the functioning of association boards by further defining the scope of liability of board members for actions, and by including community association board members among those boards exempt from liability in AS 09.17.050.

I. MARKET PROBLEMS

The housing market, as it pertains to condominium units, suffers from an oversupply. Major construction-related problems, including poor design, poor location and construction defects as well as negative press coverage have contributed to a pessimistic outlook for the condominium market. It can be anticipated that these conditions will continue and/or worsen.

SOLUTIONS:

1. Pursue strategies and alternatives to reduce, control or direct the stock of condominium units on the market, including:



a. Develop alternate uses for condominium units. These would include the study and implementation of programs to restructure condominium associations for use as housing for students, housing for State and federally-subsidized housing programs, medical support housing and other alternative uses that may be identified.



b. Consolidate the current, non-institutional ownership of units into associations that are sound structurally and financially, desireably designed and located and adequately organized and operating so that solid, healthy, stable associations can survive. Such consolidation could involve property trades, whereby an owner in a marginal association could trade his unit for another in a higher-rated association. Set priorities by identifying associations that will be targeted to become investment residential/rental properties, requiring a change in the form of ownership.

2. Establish standards for organization, operation and financing of associations, to assist investors to consolidate the available supply, buyers to make informed purchase decisions and lenders to evaluate the collateral value of various projects, so that the marketable units can retain their value in the housing stock and the marginal units can be organized for other uses.

3. Educate the community -- lenders, real estate agents, attorneys, insurance agents, accountants, managers, developers, owners and buyers -- about the condominium life style, the uniqueness of condominium projects, the management thereof, the relative merits of condominium ownership vs. single family residence ownership, and the rights and responsibilities which accompany each form of ownership.

II. FINANCIAL PROBLEMS

Community associations provide a mechanism for the maintenance of the commonly held property. The association board of directors, made up of volunteer owners, has responsibility for preservation of the commonly held assets.

In some instances, initial budgets prepared by the developers were designed to facilitate sales rather than to provide for the financial health and stability of the associations. All budgets were reviewed and approved by the interim construction lending institutions and investors such as AHFC.

Also, in some instances, prices for units under construction were influenced by the existing loan programs (e.g. HOF, the $80,000 base loan subsidy). Construction costs were driven by potential selling price rather than on quality control standards for construction within the Alaskan environment.

These inadequate budgets and construction deficiencies have resulted in ....

-- shortfalls in operating budgets
-- inadequate capital reserves for replacements
-- special assessments to cover constuction defect repairs
-- litigation with developers to settle construction disputes
-- extended negotiations with developers and successor developers to remedy defects

In addition to the internal problems of the Associations, the economic recession and depressed real estate market have put condominium units in an unfavorable and undesireable sales position. A relatively high percentage of condominium units have

become delinquent in both the mortgage loan and association assessment payments. Foreclosures and bankruptcies create bad debt burdens for all parties. Associations must increase regular or special assessments to recoup the loss in order to meet operating expenses and reserve funding requirements.

SOLUTIONS:

1. Establish industry standards/guidelines to be used by interim construction lenders, developers and investors such as AHFC in evaluating the adequacy of project budgets, and by Boards of Directors in making decisions for the operations of community associations. These would include standards/ guidelines for analyzing and evaluating operating budgets and capital reserve schedules.

2. Establish warranty and bonding requirements for developers and interim construction lending institutions which cover a period of time adequate to allow for the development, discovery and repair of construction defects.

3. Establish standards, policies and procedures to evaluate existing projects to determine, in the best way possible, the most viable associations. Then, attempt to consolidate financially stable owners in sound associations. This would preserve and increase the values of the best associations. It would also increase the options for utilizing the worst properties, because it would make them available to larger investors as residential/rental investment properties.

   The standards must provide for an evaluation of the associations, based on financing, maintainability, amenities, location, desireability, physical condition and any other identifiable condition which might have an impact on

the future potential of the property.

With no intervention, every association in the state will be weakened by the downward spiral in the market. The contamination created by foreclosures will continue to spread and grow, because each foreclosure creates an additional burden on the association and every other owner within the association. When a unit becomes vacant due to foreclosure, a share of "desireability" for the association is lost, and when the percentage of vacancies and foreclosures is high enough, the determination to "hang on" can be eroded to the point where the last foreclosures come much more quickly than the first.

* **The policy decision required**: The State must intervene to establish an evaluation process which will rate associations. The strongest associations should be supported to continue, and the weakest should be supported to convert to alternate forms of ownership.

The procedures involved: A rating system should be developed, supported by competent staffing. A basic evaluation format already exists in the resale certificate, a disclosure statement mandated by the Alaska Common Interest Ownership Act. Voluntary participation on the part of associations should be encouraged. Participation of investors and homeowners should be obtained. Association managers have a special contribution to make. The Alaska Chapter of the Community Association Institute provides a channel to a wide assortment of practitioners in the community association field, and a great deal of information is available, both locally and nationally, to help with evaluation criteria.

Although this process would be extremely complex, it appears to be the only process by which significant movement can occur in the market and the supply of investment capital can be increased.

4. All workout programs which provide funds to cover delinquent balances on mortgages should include funds to bring delinquent condominium fees current.. These fees are not ordinary delinquent bills, comparable to other charge accounts or consumer loans. They cover the cost to maintain the property which is the collateral for the mortgage loan, and continue to accrue each month. As such, they are bills in which the investor has a primary stake because they pay for the maintenance of the property which is the security for the mortgage loan. Funds should be advanced at the time of any workout arrangement to bring assessments current. The advancement of funds would be authorized by the investor and repayment would be added to the end of the loan.

III EDUCATION / AWARENESS / ATTITUDES

Professionals dealing in the financing and sales of units in common interest communities, and especially in condominiums, deal with the individual units primarily, and come into contact with the associations only when functionally necessary. The role of the association in the maintenance of the mortgaged asset has been ignored by the financial and governmental institutions making decisions about mortgaging, lending, work-out and forebearance programs. The impact their decisions have on the associations is significant, and, at times, critical to the health and financial stability of the Associations. If the Association fails, the lender's and owner's security is jeopardized.

Education to affect the awareness and attitudes of the participants is needed for....

-- the financial community, so they understand, support and involve the associations in the decisions that impact them. -- the real estate community, so they understand the product they are marketing, and qualify prospective buyers based on life-style as well as financial capability.

-- the Associations and Association members, so they understand their responsibilities within the associations to participate in the successful functioning of the association.

-- the managers of associations, so they understand the associations responsibility to the membership and their responsibilities to both.

-- the general public, so they understand the complexity of the condominium market, community and life style.

SOLUTIONS:

1. Establish continuing education standards and requirements for the real estate industry.

2. Establish registration/certification requirements for communityassociation managers.

3. Provide adequate staffing and continuing education for the Community association support department at AHFC.

4. Encourage AMBA to create educational opportunities for participants from member organizations regarding community association operations, problems and services.

5. Education must be a major part of any activity to rate associations and support them. Provide State support in the form of grants to do public education.

IV GOVERNMENTAL REGULATIONS/LENDER GUIDELINES

Governmental regulations and investors guidelines relating to community associations are confusing, complex and inconsistently enforced. An example is the application of the owner-occupancy ratio, which is incomprehensible in its concept, disastrous, discriminatory and arbitrary in its application.

As the real estate market has deteriorated, the problems confronting the associations have increased. The staffing provided by the investors such as AHFC to deal with the Associations and their problems, at the same time, has diminished. The reduced staffing appears to indicate a lack of awareness, concern and commitment to support the very entities which protect the security of the investment.

Project certification guidelines are meaningful for project approval or disapproval, but they do not help the association work through problems and they do not provide meaningful standards to be used by the associations in decision making and problem resolution. Communication channels and information exchange are severely restricted. The decision- making processes within the financial institutions are not accessible to the associations and their representatives.

SOLUTIONS:

1. Increase AHFC support staff assigned to the Community Association review and support department.

2. Reevaluate guidelines for Seller Servicers and develop guidelines which are appropriate to the Alaskan situation.

3. In the evaluation process, base decisions on standards which can be cited as the basis for approval/disapproval.

4. Establish an appeal procedure in the certification process so that associations can appeal decisions which will drastically affect the health and well being of the association and its members.

5. Establish guidelines to assist in the evaluation and maintenance of financial health for the associations rather than diagnosing for developing illness. Stress prevention rather than cure.

6. Establish procedures that involve community associations in the AHFC decision making process, where rules, regulations and decisions impact associations.

7. Establish a program to provide grants to community associations for capital reserve programs analyses. This should involve establishing standards for the studies as well as loans to cover the costs.

8. Establish a policy that will support the continued, increased health of the best associations, provide for transfer of owner resources from the worst to the best, and develop alternate uses for associations which are identified as not practically viable as condominiums for the future.

* 9. Establish a foreclosure procedure for systematic and timely transfer of ownership from the mortgagor to the mortgagee, so that the ownership responsibilities to the association are continuously met.

V. MANAGEMENT

The management of the Associations is the responsibility of the boards of directors. Declaration and bylaws provide procedures for decision making and management. But, since the board of directors is made up of volunteers, how do they become educated to the requirements of their fiduciary responsibilities in managing the assets for which the association is responsible?

SOLUTIONS:

1. Provide incentives to Boards of Directors who pursue association operation education for members and other homeowners. This could involve the sponsorship of seminars, workshops, study days, or other special projects to educate involved individuals about all the aspects of community association operation.

2. Provide an evaluation and grading system that acknowledges and rewards those associations that achieve excellence in the management of their assets.

3. Obtain statutory exemption from liability for association board members except in the case of malice or willful negligence by their inclusion in AS 09.17.050..

4. Simplify the amendment process for adoption of AS 34.08 (Alaska Common Interest Ownership Act) provisions by existing associations.

5. Establish a program to certify or register community association managers, establishing experience and educational requirements, both for initial registration/certification and for renewal of same.

Foreclosures - Supreme Court Cases

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Save for Thursday's H/B meeting

February 26, 1988

The Honorable Jan Faiks
President Alaska State Senate
P.O. Box V
Juneau, Alaska 99801

Re: Foreclosures

Dear Senator Faiks:

As if the debtor were not under enough pressure, the Alaska Supreme Court has just made it more difficult. I have enclosed the February 26, 1988, cases decided by our supreme court. These decisions allow the lender to place the consumer under serious financial pressure far beyond that which the Legislature intended when the statutes were enacted.

The first case is Moening v. Alaska Mutual Bank, decided February 26, 1988. The case holds that the lender may elect to pursue an action on the note and obtain a judgment against the debtor for all sums due on the promissory note (deed of trust note). In the event the lender cannot collect all sums due on the note, they can then recover the balance of their money through foreclosure, either nonjudicial or judicial.

In Conrad v. Counseler Investment Co., decided February 26, 1988, the court held that the lender may pursue the debtor despite specific language in the deed of trust. This is so, says the court, because the inclusion of the language was not an election of that remedy. In short, says the court, the inclusion of specific language was not an exclusion of other remedies. How a consumer would know the difference is beyond me. To illustrate the point, all of the other defendants in Conrad were attorneys.

I'm sure that a review of these cases will cause you concern for the vast majority of AHFC borrowers who were told that if there was a default the mortgage insurance would pay the mortgage. No one was even told that they were at risk for a separate law suit. Certainly, the banks and other closing agents always tied a default to foreclosure and mortgage insurance. I believe that such specific representations created substantial confusion at the time of closing these loans in light of the rights the lenders held. Certainly, the representations as to the applicability of the mortgage insurance coverage appears to have been erroneous and thus fits the definition of either innocent or negligent misrepresentation.

I believe legislation to curb the lenders' powers must be introduced immediately. I suggest that the lender, upon default, must be compelled to foreclose and, as part of the foreclosure process, be compelled to bid a fair market value (not a distressed market value). Once the fair market value is bid, the mortgage insurance should be applied to the difference and then the lender could receive a judgment for any remaining deficiency.

If I can be of any assistance, please contact me.

Sincerely,

LAW OFFICES OF WILLIAM L. McNALL

By: William L. McNall
William L. McNall

WLM/sel

Enclosures - as stated.

cc: The Honorable Rick Halford
The Honorable Kay Brown

NOTICE: This opinion is subject to formal correction before publication in the Pacific Reporter. Readers are requested to bring typographical or other formal errors to the attention of the Clerk of the Appellate Courts, 303 K Street, Anchorage, Alaska 99501, in order that corrections may be made prior to permanent publication.

THE SUPREME COURT OF THE STATE OF ALASKA

HAROLD J. MOENING and COLLEEN M. MOENING, Appellants, v. ALASKA MUTUAL BANK, Appellee.	File No. S-1980 O P I N I O N [No. 3274 - February 26, 1988]

Appeal from the Superior Court of the State of Alaska, Third Judicial District, Anchorage, Milton M. Souter, Judge.

Appearances: Francis J. Nosek, Jr. and Kelly Fisher, Anchorage, for Appellants. Gordon F. Schadt and Milford H. Knutson, Anchorage, for Appellee.

Before: Matthews, Chief Justice, Rabinowitz, Compton, and Moore, Justices. [Burke, Justice, not participating.]

COMPTON, Justice.

This appeal presents three questions. The first question is whether a secured creditor initially may ignore the security and sue for a personal judgment on the underlying debt, absent an agreement to the contrary. The second is whether the creditor agreed to limit its remedy to foreclosure of the security. The third is whether the suit on the debt extinguishes the security as a matter of law.

I. FACTUAL AND PROCEDURAL BACKGROUND

Harold Moening and Ronald Rivard became business associates in 1983. Prior to their association, Rivard was the sole shareholder of Quest Enterprises, Inc. (Quest). Moening agreed to guarantee Quest's debts to Alaska Mutual Bank (AMB) in exchange for a 40% interest in the business.[1]

To effectuate the guarantee, Moening executed a $700,000 deed of trust note in favor of AMB.[2] The note was secured by a deed of trust on Moening's home, and on the property which originally secured the Quest obligations extinguished by the consolidation. Moening defaulted. Later Moening executed a secured promissory note for $33,000 to guarantee the debt for

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1. Colleen Moening is a named defendant because she co-signed many of the obligations with her husband Harold Moening.

2. The principal was payable on demand in a single installment. Absent a demand, the note was due on May 7, 1985.

property purchased by Quest in Peters Creek.[3] Moening defaulted on this note as well.

AMB filed a complaint against Moening seeking a personal judgment on the notes. It did not foreclose the deeds of trust nor attempt to exercise the power of sale. The superior court entered summary judgment for AMB, concluding that AMB had the right initially to ignore its security and sue on the note. The court entered a money judgment for $733,000 in principal due on the notes, plus accrued interest, costs, and attorney's fees. In addition, the court ordered that the notes should be filed with the court, marked "Conditionally Cancelled" and, "if subsequent execution on the judgment does not satisfy it, the amount by which it is not satisfied may form the basis of judicial or non-judicial foreclosure of the collateral securing the promissory notes."

Moening appeals on the grounds that (1) as a matter of law, AMB must exhaust the security first; (2) AMB agreed to exhaust the security first; and (3) AMB waived its security by suing on the notes.[4] For the reasons hereinafter set forth, we affirm the judgment of the superior court.

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3. The note was secured by a deed of trust identical to that securing the $700,000 note. The trust deed is not part of the record.

4. Moening also argues that AMB failed to join indispensable parties (Rivard and Quest). Alaska R. Civ. P. 19(b). This is an action to collect a debt. Neither Rivard nor

(Footnote Continued)

II. THE RIGHTS OF A SECURED CREDITOR

Moening argues that a secured creditor may not ignore the security and sue on the underlying obligation; it must first exhaust the security. AMB contends that a secured creditor has the option to foreclose or sue on the note, and that it may pursue these remedies concurrently or consecutively.

Statutes provide a secured creditor with a variety of remedies when the debtor defaults. For example, the creditor may bring an action for judicial foreclosure. AS 09.45.170.[5] The creditor is then entitled to a deficiency judgment against the debtor. Id.; Smith v. Shortall, 732 P.2d 548, 549 (Alaska 1987); Suber v. Alaska State Bond Comm., 414 P.2d 546, 555-56 (Alaska

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(Footnote Continued)

Quest was a party to the note and neither has an interest in this lawsuit. Civil Rule 19(a)(2). Moreover, their absence does not preclude granting complete relief between Moening and AMB. Civil Rule 19(a)(1). The fact that Moening may have claims against Rivard arising from other agreements, or that Rivard and Quest may have interests of record in the security, does not render them indispensable to AMB's suit on the note.

5. AS 09.45.170 provides:

> A person having a lien upon real property, other than that of a judgment, whether created by mortgage or otherwise, to secure a debt or other obligation may bring an action to foreclose the lien. In the action, the court may direct the sale of the encumbered property or a portion of it and the application of the proceeds of the sale to the payment of costs, expenses of sale, and the amount due the plaintiff. The judgment shall also determine the personal liability of a defendant for the payment of the debt secured by the lien and be entered accordingly.

1966). The debtor has a statutory right of redemption for twelve months after the sale is confirmed. AS 09.45.190, 09.35.250.

The creditor may elect to conduct a nonjudicial foreclosure sale if the deed of trust provides for this remedy. Suber, 414 P.2d at 555-56; AS 34.20.070(a).[6] The creditor is not entitled to a deficiency judgment following a nonjudicial foreclosure. Smith, 732 P.2d at 549; AS 34.20.100.[7] The debtor is not entitled to redeem the property, unless the deed of trust provides otherwise. AS 34.20.090(a).

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6. AS 34.20.070(a) provides in part:

> If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court . . . .

(Emphasis added).

7. AS 34.20.100 provides:

> When a sale is made by a trustee under a deed of trust, as authorized by AS 34.20.070 -- 34.20.130, no other or further action or proceeding may be taken nor judgment entered against the maker or the surety or guarantor of the maker, on the obligation secured by the deed of trust for a deficiency.

Statutes also refer to an action on the underlying obligation. Alaska Statute 09.45.200 provides:

> During or after the pendency of an action for the recovery of a debt secured by a lien mentioned in AS 09.45.170, an action cannot be maintained for the foreclosure of the lien unless judgment is given in that action that the plaintiff recover the debt or a part of it, and an execution issued in the action against the property of the defendant is returned unsatisfied in whole or in part.

The clear implication of this section is that the creditor may sue directly on the note without first foreclosing the property. Moreover, if the creditor prevails in the legal action and cannot satisfy the judgment against the debtor's personal property, it may then maintain an action for judicial foreclosure of the security.

The superior court order also permits AMB to foreclose nonjudicially if the judgment on the note is returned unsatisfied. Moening argues that, even if AMB initially may ignore the security, it may not foreclose nonjudicially after obtaining a judgment on the note.

The anti-deficiency statute prohibits a deficiency judgment following exercise of a power of sale; however, it does not preclude the exercise of a power of sale following a judgment on the note. AS 34.20.100, supra note 7. Under the common law, a prior suit on the note does not preclude subsequent judicial or nonjudicial foreclosure of the security. Foothills Holding Corp. v. Tulsa Rig, Reel & Mfg., 393 P.2d 749, 751 (Colo. 1964); Berg

3274

v. Liberty Fed. Savings & Loan, 428 A.2d 347, 348-49 (Del. 1981); Klondike, Inc. v. Blair, 211 So. 2d 41, 42-43 (Fla. App. 1968). The doctrine of election of remedies does not apply, because foreclosure and a suit on the note are not inconsistent remedies. Klondike, 211 So. 2d at 42; Norwood Realty v. First Fed. Savings & Loan, 109 S.E. 2d 844 (Ga. App. 1954); Skach v. Lydon, 306 N.E. 2d 482, 485 (Ill. App. 1973). See also 55 Am. Jur. 2d Mortgages § 543, at 523 (1971).

We conclude that the statutes permit a secured creditor initially to ignore the security and sue on the note. Once the creditor obtains a personal judgment which is returned unsatisfied in whole or in part, the creditor may judicially or nonjudicially foreclose the security.[8]

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8. In Smith v. Shortall, 732 P.2d at 549, we held that a spouse who nonjudicially foreclosed a deed of trust securing her former husband's property division obligation was not entitled to a deficiency judgment under AS 34.20.100. In dicta we stated:

> The obligation was evidenced by a promissory note and secured by a deed of trust. When [Debtor] defaulted on the obligation, [Creditor] had several options. She could have waived the security of the deed of trust and sued on the note. Or, she could have brought an action to judicially foreclose the deed of trust, retaining the right to recover a deficiency judgment. AS 09.45.170; Suber v. Alaska State Bond Committee, 414 P.2d 546, 555 (Alaska 1966). Instead, [Creditor] elected the remedy of non-judicial foreclosure. By electing this remedy, [Creditor] lost her right to recover a deficiency judgment against [Debtor].

(Footnote Continued)

III. THE PARTIES' AGREEMENT

When a note is executed and secured by a deed of trust, the documents are read and construed together as one contract to ascertain the parties' intent. In re Sutton Inv., 266 S.E.2d 686, 689 (N.C. App. 1980), rev. denied, 301 N.C. 90 (1980); Herrington v. Murphy, 446 P.2d 595, 597 (Okla. 1968). The contract is interpreted to give effect to the reasonable expectations of the parties, looking to the language of the contract, the circumstances surrounding its adoption, and case law interpreting similar agreements. Craig Taylor Equip. v. Pettibone Corp., 659 P.2d 594, 597 (Alaska 1983). Ambiguities are construed in favor of the debtor. Patton v. First Fed. Sav. & Loan Ass'n, 578 P.2d 152, 156 (Ariz. 1978).

Any agreement between the parties that the creditor will not seek a deficiency judgment and will look only to the security is enforceable. Stern v. Itkin Bros., 385 N.Y.S.2d 753, 754 (N.Y. Sup. 1975).[9] Such an agreement is enforced even when the security is destroyed by foreclosure of a superior lien. The

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(Footnote Continued)

Id. We disapprove of this dicta insofar as it suggests that a suit on the note constitutes a legal waiver of the security.

9. A rider to the Stern mortgage provided in part:

> On default hereunder, no deficiency judgment shall be sought, rendered or entered against the mortgagor and mortgagees will look only to the mortgaged premises.

385 N.Y.S.2d at 754.

formerly secured inferior creditor is not entitled to sue on the note. Laclede Inv. Corp. v. Kaiser, 596 S.W.2d 36, 39 (Mo. App. 1980).[10]

The $700,000 obligation was evidenced by a "deed of trust note." By its terms, Moening expressly promised to pay principal and interest. The note also stated:

> [E]very party signing . . . this note hereby . . . binds himself thereon as a principal, . . . and promises, if this note is not timely paid and is placed in the hands of an attorney for collection, or suit is brought hereon, to pay all costs of collection, including reasonable attorney's fees.

(Emphasis added). The note constitutes a personal obligation of Moening. It does not preclude AMB from suing directly on the note.

The $33,000 debt is evidenced by a "single payment promissory note" in which Moening expressly promised to pay principal and interest. In case of default, Moening agreed to pay AMB's collection costs and attorney's fees. It does not limit AMB's ability to sue Moening.

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10. The Kaiser note contained the following provision:

> No personal liability shall be asserted or be enforceable against the maker, it being intended that the sole remedy of the holder hereof be by the foreclosure of the Deed of Trust and Security Agreement . . . .

596 S.W.2d at 39 n.1.

The deeds of trust securing the loans contain a power of sale provision permitting nonjudicial foreclosure. The trust deeds also expressly allow judicial foreclosure.[11] They do not limit the creditor's right to ignore the security and sue on the note.

IV. CANCELLING THE NOTES AND TRUST DEEDS

When AMB submitted a proposed judgment on the notes, Moening objected because the judgment did not include an order cancelling the notes and deeds of trust under Civil Rule 78(d).[12] AMB submitted the original notes to the court, but did not submit the trust deeds. AMB requested that the notes not be cancelled in case the personal judgment was returned unsatisfied. The superior court ordered that the notes be marked "Conditionally

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11. The trust deed states in part:

> In the event that this Deed of Trust is foreclosed as a mortgage and said property sold as a foreclosure sale [the purchasers may make necessary repairs or alterations] . . . .

12. Alaska R. Civ. P. 78(d) provides:

> In all cases in which a judgment upon a written instrument is entered, such instrument shall be filed with the court, and unless the court otherwise orders, it shall be cancelled by marks and writing upon its face. The clerk shall retain the same in the files unless otherwise directed by the court.

Cancelled." Moening argues that the superior court erred by failing to unconditionally cancel the notes and trust deeds, entering the order without adequate briefing, and entering the order after the notice of appeal was filed.

When judgment is entered on a written instrument, the instrument shall be filed with the court and cancelled on its face, unless the court orders otherwise. Civil Rule 78(d). We perceive no reason why a secured note should not be subject to this general rule. The note merges with the judgment, and any further proceedings will be to enforce the judgment rather than the note.

In contrast, the deeds of trust should neither be filed with the court nor cancelled:

> [A] judgment recovered upon a debt <u>secured</u> by a mortgage does not merge the mortgage nor operate as a discharge, abandonment, or release of the mortgage security.
>
> . . . The mortgage continues to secure such debt and is not released, discharged, or satisfied by a judgment on the debt, note, or bond. Such judgment stands <u>subordinate</u> to the mortgage lien.

<u>Silver v. Williams</u>, 175 A.2d 673, 676 (N.J. Super. Ct. Ch. Div. 1961) (emphasis in original), <u>rev'd on other grounds</u>, 178 A.2d 649 (N.J. Super. Ct. App. Div. 1962). In essence, the creditor ends up with a secured judgment.

Although the superior court could have simply cancelled the notes, it had discretion under the rule to order otherwise.

The conditional cancellation order does not constitute an abuse of that discretion.[13]

AFFIRMED.

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13. The record does not support Moening's assertion that the conditional cancellation order was entered after Moening filed a notice of appeal. The order was entered on January 7. The notice of appeal contains an initial filing stamp of December 19; however, that stamp was cancelled and the notice shows a second stamped filing date of January 7.

NOTICE: This opinion is subject to formal correction before publication in the Pacific Reporter. Readers are requested to bring typographical or other formal errors to the attention of the Clerk of the Appellate Courts, 303 K Street, Anchorage, Alaska 99501, in order that corrections may be made prior to permanent publication.

THE SUPREME COURT OF THE STATE OF ALASKA

MARSHALL LEE CONRAD and COLLEEN M. CONRAD,

Appellants/Respondents,

v.

COUNSELLORS INVESTMENT CO., a partnership; BRIAN J. BRUNDIN; BILL LAWRENCE; MARCUS R. CLAPP; JERRY E. MELCHER; and JAMES M. POWELL,

Appellees/Petitioners.

File No. S-1996/2102

O P I N I O N

[No. 3275 - February 26, 1988]

Appeal in File No. S-1996 from the Superior Court of the State of Alaska, Fourth Judicial District, Fairbanks, Gerald J. Van Hoomissen, Judge. Petition for Review in File No. S-2102 from the Superior Court of the State of Alaska, Fourth Judicial District, Fairbanks, Jay Hodges, Judge.

Appearances: Barry Donnellan, Fairbanks, for Appellants/Respondents. Timothy R. Byrnes, James M. Gorski, Hughes, Thorsness, Gantz, Powell, and Brundin, Anchorage, for Appellees/ Petitioners.

Before: Matthews, Chief Justice, Rabinowitz, Compton, and Moore, Justices. [Burke, Justice, not participating.]

COMPTON, Justice.

This appeal presents two questions. The first question is whether secured creditors agreed to limit their remedy to nonjudicial foreclosure of their security. The second is whether the creditors' subsequent claim for judicial foreclosure of that security is precluded by the judgment in a prior suit on the note.

I. FACTUAL AND PROCEDURAL BACKGROUND

Counsellors Investment Co. (Counsellors)[1] purchased commercial property in Fairbanks from Marshall Lee Conrad and Colleen M. Conrad. In partial payment for the property, Counsellors gave the Conrads a note secured by a second deed of trust.

Counsellors eventually stopped making payments on the note and offered to reconvey the property to the Conrads in satisfaction of the debt. The Conrads declined the offer and sued Counsellors and its partners for a personal judgment on the note (Conrad I).

The superior court entered summary judgment for Counsellors on the ground that the Conrads' "remedy under their note and deed of trust is that provided in Paragraph B6 of the deed of trust and in AS 34.20.070-.135, and that [the Conrads] may not

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1. Counsellors is a general partnership. The partners are Brian Brundin, Bill Lawrence, Marcus Clapp, Jerry Melcher and James Powell.

maintain a suit on the promissory note alone;" in other words, the Conrads' remedy was limited to nonjudicial foreclosure of the security. Since the judgment form submitted by Counsellors was not consistent with some of the court's oral conclusions, the Conrads moved to amend the judgment to clarify whether they had the right to foreclose judicially. The court denied the motion and entered an order prohibiting the Conrads from exercising "any remedy inconsistent with the deed of trust." However, the court struck language in the proposed order which expressly precluded an action for judicial foreclosure.

The Conrads appealed the judgment in Conrad I and filed a complaint for judicial foreclosure and a deficiency judgment (Conrad II). Counsellors moved to dismiss the complaint, arguing that the Conrads' claim for judicial foreclosure was barred by the judgment in Conrad I. The superior court denied the motion to dismiss because "the question of judicial foreclosure was not before the court in the [prior] action" and "the right of the Conrads to maintain this action for judicial foreclosure of a deed of trust is granted by AS 09.45.170." Counsellors petitioned for review. We granted review and consolidated the cases for appeal.

II. CONRAD I: DID THE CREDITORS AGREE TO LIMIT THEIR REMEDY TO NONJUDICIAL FORECLOSURE OF THE SECURITY?

The Conrads argue that they have the right initially to ignore their security and sue on the note, or to file a complaint

for judicial foreclosure. Counsellors does not dispute that a secured creditor generally has that option; however, it contends that the deed of trust expressly limits the Conrads' remedy to nonjudicial foreclosure.

In Moening v. Alaska Mutual Bank, __ P.2d __, Op. No. 3274 at 6 (Alaska, February 26, 1988), we held that absent an agreement to the contrary, a secured creditor has the option whether to sue on the note or foreclose the security. If the creditor sues on the note and obtains a personal judgment which is returned unsatisfied, the creditor may then foreclose the security. Id.; AS 09.45.200.[2] In determining whether the parties agreed to limit the creditor's remedies, the note and trust deed are construed together and interpreted to carry out the reasonable expectations of the parties. __ P.2d at __, Op. No. 3274 at 7.

The deed of trust note here in issue states that Counsellors "promise(s) to pay" the Conrads the loan amount. In the event of default, the Conrads may at once declare the entire debt due and payable. The note does not indicate that

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2. AS 09.45.200 provides:

> During or after the pendency of an action for the recovery of a debt secured by a lien mentioned in AS 09.45.170, an action cannot be maintained for the foreclosure of the lien unless judgment is given in that action that the plaintiff recover the debt or a part of it, and an execution issued in the action against the property of the defendant is returned unsatisfied in whole or in part.

Counsellors is not liable for payment; therefore, the Conrads are entitled to sue on the note or foreclose judicially unless the deed of trust provides otherwise.

Counsellors argue that Paragraph B6 of the deed of trust limits the Conrads' remedy to nonjudicial foreclosure:

> Upon default by Trustor in payment of any indebtedness secured hereby or in performance of any agreement hereunder, all sums secured hereby shall immediately become due and payable at the option of the Beneficiary. In the event of default Beneficiary shall execute or cause the Trustee to execute a written notice of such default and of his election to cause to be sold the herein described property to satisfy the obligation hereof, and shall cause such notice to be recorded in the office of the recorder of each recording precinct wherein said real property of [sic] some part thereof is situated.

(Emphasis added). Counsellors reasons that the language "Beneficiary shall execute" must be construed as a limitation on the Conrads' right to do anything else.[3] However, we believe that the only logical interpretation of this language requires the Conrads to execute the notice only after they have "elected" the remedy of nonjudicial foreclosure. The Conrads are entitled to exercise any other remedies permitted by law.

We conclude that the deed of trust does not limit the Conrads to the remedy of nonjudicial foreclosure. The trust deed

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3. See Fowler v. City of Anchorage, 583 P.2d 817, 820 (Alaska 1978) ("Unless the context otherwise indicates, the use of the word 'shall' denotes a mandatory intent.")

does not expressly preclude a suit on the note. The fact that a creditor may foreclose nonjudicially does not imply that it may not foreclose judicially.[4] Because the Conrads' remedies were not expressly waived in the note or deed of trust, they had the right to sue on the note or foreclose the security. Therefore, the superior court erred as a matter of law when it entered summary judgment against the Conrads on their right to sue on the note.[5]

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4. AS 34.20.070(a) provides in part:

> If a deed of trust is executed conveying real property located in the state to a trustee as security for the payment of an indebtedness and the deed provides that in case of default or noncompliance with the terms of the trust, the trustee may sell the property for condition broken, the trustee, in addition to the right of foreclosure and sale, may execute the trust by sale of the property, upon the conditions and in the manner set forth in the deed of trust, without first securing a decree of foreclosure and order of sale from the court, . . .

(Emphasis added).

5. The superior court appeared concerned that the Conrads filed suit on the note without providing Counsellors any notice of default. Paragraph B6 of the deed of trust requires the Conrads to record a notice of default as one of the steps leading to nonjudicial foreclosure. However, no notice is required if the Conrads pursue one of the other remedies available to them as secured creditors. See Smith v. Certified Realty, 585 P.2d 293, 294 (Colo. App. 1978), aff'd, 575 P.2d 1043 (Colo. 1979) (debtor has no equitable right to cure default in an action brought solely on a promissory note).

III. CONRAD II: IS THE CREDITORS' CLAIM FOR JUDICIAL FORECLOSURE PRECLUDED BY THE PRIOR SUIT ON THE NOTE?

Counsellors argues that the Conrads' claim for judicial foreclosure is precluded by the judgment on the note. The Conrads contend that judicial foreclosure was not addressed in Conrad I.

We described the claim preclusive effect of a prior judgment in State v. Smith, 720 P.2d 40, 41 (Alaska 1986), as follows:

> Under the doctrine of res judicata (claim preclusion), a judgment on the merits of a controversy bars subsequent suits between the same parties asserting the same claim for relief when the matter raised was or could have been decided in the first suit. Pankratz v. State, Department of Highways, 652 P.2d 68, 74 (Alaska 1982); Calhoun v. Greening, 636 P.2d 69, 71-72 (Alaska 1981). The Restatement (Second) of Judgments § 24(a) (1982) states that the claim extinguished by the first judgment:
>
> > includes all rights of the plaintiff to remedies against the defendant with respect to all or any part of the transaction, or series of connected transactions, out of which the action arose.
>
> A mere change in the legal theory asserted will not avoid the preclusive effect of the first judgment. Pankratz, 652 P.2d at 74.

Arguably, Conrad II is barred under this reasoning. Conrad I involved the same parties and resulted in a judgment on the merits. The Conrads could have joined a claim for judicial

foreclosure with their claim for judgment on the note. Thus, it is irrelevant whether the Conrad I court ruled on this issue.[6]

On the other hand, the common law permits a creditor to judicially foreclose a security following an action on the note. E.g., Foothills Holding Corp. v. Tulsa Rig, Reel & Mfg., 393 P.2d 749, 751 (Colo. 1964); Berg v. Liberty Fed. Sav. & Loan Ass'n, 428 A.2d 347, 348-49 (Del. 1981); Klondike, Inc. v. Blair, 211 So. 2d 41, 42-43 (Fla. App. 1968). Moreover, AS 09.45.200 permits an action for judicial foreclosure "after the pendency of an action for the recovery of a [secured] debt," provided that the creditor prevails in the prior action and its judgment remains unsatisfied in whole or in part.[7]

We believe that this situation is best viewed as an express statutory exception to general principles of res judicata. A creditor need not join its claim for judicial foreclosure in the suit for recovery on the note at the risk of losing its security. In one sense, the subsequent foreclosure may be considered a special form of execution on the prior

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6. To the extent that Counsellors argues that this issue is precluded by Conrad I, it is relevant whether the first court ruled on the judicial foreclosure question. We agree with the Conrads that the superior court did not rule that the Conrads are limited to nonjudicial foreclosure; despite Counsellors' best efforts to obtain a decision on this question, the court left it unresolved.

7. See AS 09.45.200, supra note 2.

judgment for the creditor. Under AS 09.45.200, the creditor may bring these claims consecutively.[8]

The decision of the superior court in File No. S-1996 is REVERSED; the decision in File No. S-2102 is AFFIRMED. The cases are REMANDED to the superior court for further proceedings. The Conrads may elect whether to proceed with the suit on the note or the foreclosure.

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8. However, when the creditor resorts first to judicial foreclosure, failure to join its claim for a deficiency judgment may result in claim preclusion. See AS 09.45.170; see also Darnell v. Denton, 669 P.2d 981, 983 (Ariz. App. 1983); but see Perpetual Bldg. & Loan Ass'n v. Braun, 242 S.E.2d 407 (S.C. 1978).

STATE OF ALASKA
THE LEGISLATURE

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM February 22, 1988

SUBJECT: Judicial and nonjudicial foreclosures

TO: Representative Steve Rieger, Co-Chairman
Representative Kay Brown, Co-Chairman
Subcommittee on Housing and Banking
Joint Committee on Economic Recovery

FROM: Richard A. Bradley
Legislative Counsel

You have requested that we explain the distinction between a "judicial foreclosure" and a "nonjudicial foreclosure."

In real property law, the document that establishes the procedure to be used to foreclose the interests of the purchaser of the property in the property is usually either a mortgage or a deed of trust.

While the terms are not always used precisely in the actual documents, the general understanding is that a mortgage will require a judicial foreclosure because it does not contain provisions for its foreclosure. A mortgage is the older procedure used for centuries in Anglo-American real property law.

In more recent years, legislatures have established the deed of trust. The provisions of the laws establishing the procedure permit the foreclosure of the purchaser's interests without judicial intervention. It is assumed that it is more expeditious and simpler to use.

While both procedures are to some extent statutory now, I believe that historically the judicial foreclosure may have been entirely judicial. Because it was judicial, the equity of redemption (or more recently, simply a right of redemption) was the judicial invention to avoid what the courts considered the harsh remedy of cancelling the purchaser's equity because the last of many payments wasn't timely. It

gave the purchaser a period after the execution to redeem; these period if they exist, are now statutory.

The statutory provisions describing judicial foreclosure provisions appear at AS 09.35; the premise of AS 09.35 is that the mortgage has already been foreclosed judicially and "executions" are necessary to turn a judgment into assets. Note that the purchaser is given a right of redemption for a year (AS 09.35.250) and that deficiency judgments (a further judgment for the difference between the underlying debt owed and the amounts recovered at executions) are permitted (AS 09.35.100).

The statutory provisions describing nonjudicial foreclosures appear at AS 34.20.070 - 34.20.135. Generally there is no right of redemption (AS 34.20.090(a)) and deficiency judgments are prohibited (AS 34.20.100).

If I may be of further assistance, please advise.

RAB:gc
WKG1:108

By Staff H/B Committee

February 23, 1988

JUDICIAL V. NONJUDICIAL FORECLOSURE PROVISIONS:

Judicial Foreclosure - foreclosure conducted via the court system. Courts may issue a deficiency judgement against the borrower, and the borrower in turn has the "right of redemption", unless the property is sold "BFP" (to a bonafide purchaser) and not subject to the right of redemption.

Nonjudicial Foreclosure - foreclosure conducted outside the court system. No deficiency judgement or right of redemption period allowed.

Mortgage - Foreclosure proceedings can only be conducted judicially with a mortgage, because there is nothing in place in the mortgage document for default remedies. (Mortgages are rarely used in the State of Alaska.) In a judicial foreclosure, the court may give the lender a deficiency judgement for the difference of what they can sell the property for and what is actually owed on the property. This deficiency judgement is a personal obligation on the part of the borrower. The borrower has the "right of redemption" to pay what is owed and regain possession to the property in judicial foreclosures only. (See "Right of Redemption" below)

Deed of Trust - Foreclosure proceedings can be accomplished by judicial or nonjudicial means. The deed of trust document has prescribed foreclosure provisions, thereby allowing the lender to foreclose outside of court, i.e. nonjudicial foreclosure proceedings. Deficiency judgements are prohibited in a nonjudicial foreclosure however, and the lender must take what they can get. The lender does have the option to a judicial foreclosure if they feel that it is worth going after the holder of the deed of trust personally via a deficiency judgement issued by the courts. (In many cases, it is not worth the time and effort to the lender to foreclose via the court system.)

Right of Redemption - that period of time, (one year), as set by statute for the defaulting borrower to "redeem" himself and pay up on the mortgage, thereby regaining "custody" of his property. Generally, there is no right of redemption in a nonjudicial foreclosure.

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WILLIAM L. MCNALL
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DAVID RANKIN

AREA CODE 907
TELEPHONE 276-2535

February 17, 1988

I hope this helps

Representative Brown
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Re: Condominium Foreclosures and the moratorium proposed by H.B. 432

Dear ~~Representative~~ Kay Brown,

In response to your panels request, I thought I would write to make several suggestions regarding the current economic problems of the condominium industry in particular and real estate industry in general. This may help clarify my testimony of last Saturday. There is no combination of policies that can completely solve our present problem. Rather, effort should be directed toward ending factors that contribute to the downturn so that the innate resilience of our economy can take effect. What is needed is greater institutional flexibility by the players in the real estate area. I also have some suggestions regarding legislation you have under consideration.

The following factors are contributing to the continued decline in this area. First, there is the "foreclosure cycle". When a borrower gets into trouble, the lender has to make a decision whether to work with the borrower or to foreclose. When foreclosure occurs the property is then dumped on the market and the incremental increase in supply has the effect of further pushing down prices. The price decline shatters the confidence and pocket books of other owner/borrowers who then consider abandoning their property which leads to additional foreclosures and or bankruptcy.

Let me give you several examples from clients who have consulted this firm for advice. We have numerous such clients who own rental housing. They have been able to withstand the early stages of the downturn but now have to compete for tenants with foreclosed properties managed either by governmental entities who have unlimited ability to subsidize rents, or from the individuals who have purchased foreclosed properties at a great discount. Many of these individuals can afford to keep properties going but are, with increasing frequency choosing not do so. This office recently completed handling a Chapter 7 bankruptcy on behalf of an engineer who decided he would rather pocket his $80,000 a year salary rather than continue to use it to keep his rental units afloat.

His creditors did not receive anything as a result of the bankruptcy except the return of the property.

Most condo owners can live with payments and negative equity, but are increasingly deciding not to do so. One reason is that the foreclosure cycle has caused them to loose confidence in ever being able to sell their condominium unit. Other policies also contribute to owners deciding to walk away from condominiums and their mortgages. These policies include owner occupancy restrictions of AHFC that prevent rental, AHFC decertification of condo project for reasons unrelated to the credit worthiness of it's occupants, and financial difficulties born by owners associations in collecting dues. This latter factor has led to a combination of deferred maintenance and dues increases which prompts remaining owners to consider walking away from their loans. A lack of standards related to condo management firms is also a problem. The condo trade group, CAI, has proposed that managers be licensed by occupational licensing. This is a good idea.

AHFC will not provide financing to owners in projects that do not meet it's owner occupancy percentage of 70% although it will finance the sale of units it has acquired as a result of a foreclosure in such projects. In calculating this percentage it counts its own units as not being owner occupied as well as units occupied by family members of the owner but not the owner himself. Numerous condos have lost their certification for AHFC financing on this basis. A client of this firm contemplated selling her condo and had a loan balance low enough to do so. When AHFC decertified her project on owner occupancy grounds, she simply stopped paying them. The condo is now in a nonjudicial foreclosure and will be contributing to the downward cycle. Restricting rentals of condos puts condo associations in conflict with their members who would like to rent and reduces the options for owners who must for some reason move.

Each time AHFC decertifies a condominium association a new collection of owners give up hope because of the inability to finance any sale. The effect of project decertification is to deprive owners of marketable title. Despite this fact the decision to decertify projects is unaccompanied by any hearing or due process. I've heard stories of condo projects threatened with decertification because of disputes as trivial as condominium accounting practice and the dislike of the associations decision on how to manage their projects or when to repair and repaint. AHFC will also decertify a condo when too many of the members are delinquent in paying dues.

I support several bills that you have before you which seek to help to break this cycle. These include HB 432, 433, and Senator Faiks bill which gives a condo lien rights to rents on condominium units when dues are not being paid. I first want to discuss the efficacy of some of the policies that have been used already.

AHFC bashing has become a popular sport these days. I do not subscribe to the notions that AHFC is to blame for our problem. I find it to be as responsive to the public as any governmental entity. When the public wanted financing AHFC provided it. I believe AHFC can provide a major contribution to ending the existing problem.

In general AHFC's response has been a combination of carrot and stick. The stick has been a policy of judicial foreclosures. The carrot is the HOAP program. The theory of doing judicial foreclosures on a large scale has been to up the ante for an owner who decides to abandon his property. In general, I do not think the policy has met great success. Judicial foreclosures have the disadvantage of costing more in attorney's fees and have not brought in much money in return, although individual cases have been successful. It is possible for an individual to shelter from creditors just less than $40,000 in a bankruptcy by maximizing use of exemptions. This figure exceeds most peoples net worth and eliminates, in most cases the economic threat judicial foreclosures have on a homeowner. The policy of using judicial foreclosures has been a disaster for condominiums because it lengthens the period between the time the owner stops paying dues and the condo is taken over by AHFC. Also, if judicial foreclosure results in a bankruptcy, liability for condominium dues is discharged.

The HOAP program has met with success, but on a smaller scale than is needed. This program is intended to assist financially distressed owners to work out their financial problems by payment plans and adjustment to their loan payments. The program is administered by mortgage insurers. This was a smart move. In the past AHFC has been badly served by its sellers/servicers in dealing with borrowers with problems. The servicers often swept problem loans under the rug by foreclosing instead of having the patience to work with borrowers.

I was told by someone at MGIC that nationwide only 20% of mortgage loans that at some point become delinquent result in a foreclosure. In Alaska the figure is 65%. The principal drawback of the program is that it helps only people who are slightly distressed financially but not people who have suffered a steep reduction in income. It also does not address the problem of homeowners who simply can't afford their home any longer or need to get out of it for non-economic reasons.

HB 433 will go a long way towards breaking the foreclosure cycle by giving debtors the option of preventing a foreclosure conditional upon the tender of the rental value of the property. I suggest some amendment to the proposed bill. A nonjudicial foreclosure can be conducted in three months. The superior court's calendar is sufficiently crowded that a petitioner for relief under the act might not be able to get his case to hearing before the property is lost. The court could prevent this from happening by issuing a preliminary injunction against sale. A prerequisite of an injunction is that the movant has to post a bond to protect the opposing party from any loss if the injunction is improvidently issued. Alaska Public Utilities Commission the Greater Anchorage Borough, 534 P.2d 549 (Alaska 1975). I fear that if you do not include a provision setting the amount of a bond the relief you intend could be frustrated by overly large bonds being required. There are several statutes where the legislature has set restrictions on injunction bonds. For example, AS 45.55.200 permits the State to enjoin a securities offering without posting a bond. I also note that in Carol v. Eldorado Estates Division No. 2 Association, 680 P.2d 1158 (Alaska 1984) the court held that a statute providing for injunctive relief would obviate the necessity of the party seeking an injunction to show irreparable injury. This is another requirement of an injunction. I suggest as an addition to the proposed act a provision requiring the court to restrain a foreclosure based upon the debtor depositing an estimated rental with the court clerk. This would tide things over until a final hearing could be heard and the actual rental value could be determined.

As mentioned, condominiums suffer when dues are not paid. I would change paragraph (b) of sections two and three of HB 433 to include a statement that provides that condominium dues must be paid as a condition of the relief requested.

The bill as presently proposed does not address the problem of properties incumbered with multiple deeds of trust.

For example, if the rental value does not cover payments on a first deed of trust is the second deed of trust holder, or other encumberancer to go unpaid for a year or two? An equitable solution to this problem would be to apportion the rental proceeds amongst lien holders based on the ratio of the principal balance of the obligations.

The proposed statute applies to all real property. You might want to consider whether you want its coverage to extend to raw land or only to real property whose principal value is derived from improvements. Here the consideration is the fact that undeveloped land has an insignificant rental value.

Opponents of the bill may argue that a wealthy person could use the courts in all cases to reduce for one or two years their payments to rental value. I do not believe this is what would happen. In addition to the remedy of foreclosure, mortgage creditors have the option of waiving their security and sueing for the amounts owing on the note. Smith v. Shortall, 732 P.2d 538 (Alaska 1987). If a wealthy person sought to enjoin a foreclosure under the bill as written, the lender could sue the individual for the principal owing on the note and collect from the debtor's other assets. This option would be less desirable for poor debtors since the security might be their principle asset. In this way the bill, as drafted, is self regulating on this issue.

The legislative findings portion of the bill points out that one of its purposes is to hold off foreclosures during a time when there is little market for the properties and to prevent double recoveries to mortgagees. I recommend as an additional or alternative step an amendment to AS 9.45.170. This part of the judicial foreclosure statute provides that the court should set the manner of a judicial foreclosure sale and the application of proceeds of the sale. The problem here is that the lender in a judicial foreclosure can bid a very low price for the property and after the redemption period has run sell the property at a profit. The debtor receives no credit for the resale price but must satisfy the judgement by paying the difference between the amount bid by the creditor at the execution sale and the mortgage balance, even if this works a double recovery. I have argued, with mixed results, that under this statute the court can set a minimum price for the property. I fear that it may be a long time before the supreme court has an opportunity to decide this issue.

Other states have included in their statutes language that expressly provides that court can set a minimum bid in order to protect debtors from being victims of such a double recovery situation. I recommend you consider an amendment of the

statute that expressly requires courts to set a minimum bid in such situations. I enclose the Wisconsin cases of Suring State Bank v. Geese, 246 N.W. 556 (Wis. 1933) and First Wisconsin National Bank of Oshkosh v. K.S.W. Investments, 238 N.W. 2d 123 (Wis. 1985) these cases discuss how a fair market price for a judicial foreclosure execution sale can be determined in order to prevent victimizing debtors by this kind of recovery.

I strongly support House Bill No. 432 which permits trades on AHFC financed properties. This bill would provide great assistance in breaking the "foreclosure cycle" when non-economic reasons are the cause of the owner abandoning the property. Examples are individuals whose families outgrow their condo or who must move to other parts of the state.

A criticism I have heard of the program is that if everyone wanted to trade up, only poorer quality housing would remain in AHFC's inventory. Even if this were true, such a result would be a good social policy in that it would improve living standards. However, this argument overlooks the fact many people would like to trade down. Examples are where a divorce makes keeping a house impossible, one can envision numerous other situations where owners can no longer afford their houses. In those situations trading down may be a alternative to foreclosure and may permit AHFC to reduce its inventory of condos.

A trading program would work best if all parties shared the benefits and burdens. Such a program might work in this manner; suppose an individual owns a condo with a $80,000 loan balance and value of $60,000 desires to trade into a house worth $100,000. AHFC would take back the condo and " sell" the house for $110,000 including $10,000 down. Such a condo would have mortgage insurance in the approximate amount of $20,000. The $10,000 down payment would go to the mortgage insurer to compensate it for the loss on any resale of the condo. The insurer has an incentive to take this loss because it would eliminate expenses it would be incurring as a result of the house having been foreclosed. As a further incentive for insurers to participate in such a program, the "buyer" might be required to execute what is known as a "without recourse" deed of trust in favor of the insurer or AHFC. This type of instrument is a lien on the property which by its terms can be satisfied from the sale of the property rather than from the individual who signs it. The deed of trust would provide for repayment of the $10,000 lost as a result of the transfer only from a future sale of the property. To encourage individuals to take good care of their house so that it did appreciate, the

deed of trust could have a provision that provided for a split of any appreciation with the owner in a 50/50 basis with half going to the owner and half to AHFC up to the $10,000 amount. Acceptance of the return of collateral does not necessarily violate the typical mortgages insurance policy. As can be seen from the enclosed policy of Republic, paragraph 10 provides for "acceptance by the insured at any time of a voluntary conveyance from the borrower of his interest in the mortgaged real estate...shall not preclude the insured from recovery for loss under this policy."

These pieces of legislation would be of some assistance to condos but are not, with the exception of Senator Faiks bill providing a lien on rentals, tailored to the particular problems of community associations. These problems are in urgent need of being addressed. First, the owner occupancy policy is pernicious and should be abandoned. No legislation is required to accomplish this. In 1972 when the legislature created AHFC its finding section of the act stated one of the reasons for the corporations existence was to provide for the "sale and rental of dwelling units for persons of lower and moderate income..." AS 18.56.010. One can read the AHFC act from cover to cover without finding a provision empowering it to restrict owners/occupancy. Instead one finds AS 18.56.088 (i) which permits AHFC to make restrictions only for mobile homes "not in accordance with the provisions of this chapter, including conditions and terms related to owner/occupancy." From this I conclude that AHFC's owner occupancy restrictions are unlawful at present.

There was no owner occupany requirement prior to 1981. In that year AHFC switched from exclusively selling its own bonds to a policy of generally issuing bonds through entities such as F.N.M.A. These agencies have the owner occupancy and other restrictions as a way of rationing the uses for their funds. However, whenever AHFC wants to it still issues its own bonds when it sees a need to have a program that does not fit within the F.N.M.A. or Freddie Mac guidelines. The HOAP program is a result of just such a bond issue.

In 1986 AHFC bonded a program for homeowners who desired to refinance and rent their homes. AHFC could not find a mortgage insurer for the issue but pursuant to AS 18.56.095 issued its own mortgage insurance policies for which it collects premiums. I enclose a copy of such a policy. Thus all AHFC has to do to end the owner occupany restriction problem is to float a bond issue and use the mortgage insurance fund to back the bond. These bonds would only have to cover

financing need for those projects that do not meet the F.N.M.A. or Freddie Mac standards.

Other condo problems could be alleviated by AHFC being more attentive to the needs of associations. No legislation is needed for AHFC to provide associations with due process before it decertifies them. That is required by the constitution.

In 1985 you passed a new condominium law. One provision of that act, AS 34.08.470, provided for something colloquially known as the super lien. This enables associations to amend their charters to require foreclosing mortgagees to make good on unpaid assessments going back six months prior to the action to collect. This can be of great assistance in alleviating the financial disaster associations experience when an owner stops paying dues. To enact the provision the associations must achieve an affirmative vote of 70% of their owners. A number of associations have enacted the lien, but due to foreclosures few of the remaining associations can muster the votes. AHFC has supported the super lien, but refuses to cast a vote either for or against the lien in elections to enact it. A change of this policy would be of some assistance to distressed projects.

In general, the best response to the problems of the housing industry is to innovate in ways to break the foreclosure cycle. Although all of the problems will not be solved by a proposal made in this letter, they will provide a means to end the psychological, practical and financial factors which continue to damage the market. By eliminating these factors the decline is likely to stop sooner and at a higher level than it will otherwise.

Sincerely,

LAW OFFICES OF WILLIAM L. McNALL

By: William L. McNall
William L. McNall

WLM/cq
Enclosures

rmic

MASTER POLICY

No._____

Republic Mortgage Insurance Company
Winston-Salem, N.C. 27102

(A Stock Insurance Company Herein Called the Company)

AGREES TO PAY TO

_____

(Hereinafter Called the Insured)

in consideration of the premiums to be paid by the Insured as specified in the Certificate, and in reliance upon the statements made in the Application submitted by the Insured, any loss sustained by reason of the default in payments by a Borrower as hereinafter set forth subject to the following conditions:

CONDITIONS

1. APPLICATION AND COMMITMENT

The Borrower and the Insured shall furnish the Company with an Application in connection with each mortgage loan for which coverage under this policy is desired, on forms furnished by and prepared in compliance with requirements prescribed by the Company. Approval of the Application shall be at the discretion of the Company and shall be in the form of a Commitment prescribing the terms of the coverage.

2. NOTICE AND CERTIFICATE

Within seven (7) days after consummation of the mortgage loan transaction, the Insured shall forward notice thereof to the Company, together with the premium, and the Company shall immediately issue and forward a Certificate to the Insured or the Certificate previously issued to the Insured shall then become effective, binding the Company according to the terms and conditions of the Commitment and of this policy. The effective date of the Certificate shall become the date on which the mortgage loan transaction was consummated, which date shall precede the Commitment expiration date or an extension thereof approved in writing by the Company.

3. PAYMENT OF PREMIUMS

In the event that coverage includes renewal privileges, the renewal premiums shall be paid within 45 days following the anniversary of the effective date of the Certificate. Failure to pay any premium, initial or renewal, when due will terminate the liability of the Company with respect to the mortgage loan insured pursuant to the Certificate.

4. TERMINATION BY COMPANY

The Company shall remain liable under this policy with respect to such Commitments or Certificates issued to the Insured, as long as the terms and conditions herein contained are fully complied with. However, the Company reserves the right to terminate this policy, upon 30 days notice subject to its remaining liable on such Commitments and Certificates already issued.

5. CANCELLATION BY INSURED

The Insured shall have the privilege of canceling the coverage pursuant to any Certificate by returning such Certificate to the Company. On receipt thereof, the Company shall refund to the Insured such sum as may be determined to be due in accordance with the cancellation schedule set forth herein; providing however, that no refund shall be paid in the event that a claim for loss has been filed.

6. RESTORATION OF DAMAGE

As a prerequisite for the payment of such loss as may be determined to be due herein, should there be physical loss or damage to the property from any cause, whether through accidental means or otherwise, the Insured shall cause the said property to be restored to its condition at the time of the issuance of the Certificate, reasonable wear and tear excepted.

7. OPEN-END PROVISION

The Insured may increase the mortgage loan balance by making an additional loan to the Borrower, provided that an Application is made therefor subject to approval by the Company. In the event of such approval, the prevailing premium therefor shall be paid to the Company, for the additional amount loaned to the Borrower, and the Company shall issue a Certificate insuring the additional amount.

8. COMPLETED CONSTRUCTION

In the event that the mortgaged premises consists of improvements in the process of construction, the Company shall not be liable until such construction is completed.

9. NOTICE OF DEFAULT

Within 10 days after the Borrower is four (4) months in default, notice thereof shall be given to the Company by the Insured. Monthly reports indicating the default status of the Borrower's account shall be given to the Company thereafter until such time as appropriate proceedings are commenced, title has been vested in the Insured, or the Borrower is less than four (4) months in default.

10. PROCEDURE ON DEFAULT

When the Borrower's account is four (4) months in default, the Company may direct that the Insured commence appropriate proceedings as herein defined, which shall be commenced, in any event, when the Borrower's account is nine (9) months in default. Such proceedings, when instituted, shall be diligently pursued, and should applicable laws permit the appointment of a receiver, application therefor shall be made by the Insured, with the recommendation that an agent of the Company be appointed to so act. The Company shall be furnished, within a reasonable time, copies of all notices and pleadings required in such proceedings, and with any pertinent information requested by the Company. The Insured shall also furnish to the Company, at least fifteen days prior to the foreclosure sale, a statement indicating the amount anticipated to be due, at the time of the sale, to the Insured under the terms of this policy and shall be required to bid, at the sale, the amount due to the Insured under the terms of this policy. Acceptance by the Insured at any time of a voluntary conveyance from the Borrower of his interest in the mortgaged real estate or commencement by the Insured of appropriate proceedings on default of the Borrower, even though his account is less than four (4) months in default, shall not preclude the Insured from recovery for loss under this policy.

11. COMPUTATION OF LOSS

The amount of loss payable to the Insured shall be limited to the principal balance due pursuant to the mortgage agreement, accumulated interest computed through the date of the tender of conveyance, as hereinafter set forth (penalty interest excluded), real estate taxes and hazard insurance premiums necessarily advanced by the Insured, any expenses necessarily incurred by the Insured in the preservation of the mortgaged real estate, and all other necessary expenses of the appropriate proceedings, including court costs, and reasonable attorney's fees not exceeding three per cent (3%) of the principal and interest due as herein set forth.

12. WHEN LOSS PAYABLE

Any loss due to the Insured shall be payable within 60 days after filing of a claim for such loss on a form to be furnished by the Company. The claim for loss must be accompanied by a tender to the Company of conveyance of title to the mortgaged real estate together with satisfactory evidence that

such title is good and merchantable in the Insured, free and clear of all liens and encumbrances. Failure to file a claim for loss within 60 days after completion of appropriate proceedings shall be deemed an election by the Insured to waive any right to claim payment under the terms of this policy.

13. OPTION OF PAYMENT

In lieu of conveyance of title to the mortgaged premises and payment in accordance with Condition 11, the Company shall have the option of paying a percentage of such amount due to the Insured and thereafter shall have no claims to said real estate, such payment to be a full and final discharge of the Company's liability. The percentage of the amount due under condition 11 to be payable under this option will be designated in the Certificate of Insurance issued by the Company under the caption Optional Guaranty Payment.

14. WHERE NOTICE IS GIVEN

All notices, pleadings, claims, tenders, reports and other data required to be given by the Insured to the Company shall be mailed postpaid to the home office of the Company.

15. NO RIGHT OF SUBROGATION AGAINST BORROWER

The Borrower shall not be liable to the Company for any loss paid to the Insured pursuant to this policy; provided, however, that the real estate shall consist of a single family dwelling occupied by the Borrower; otherwise, the Company reserves the right to make claim against the Borrower for any loss paid or deficiency suffered by the Company.

16. TO WHOM PROVISIONS APPLICABLE

The provisions of this policy shall inure to the benefit of and be binding upon the Company and the Insured, and their successors and assigns.

17. SUIT

No suit or action on this policy for recovery of any claim shall be sustained in any court of law or equity unless all the conditions of this policy have been complied with, unless specifically waived by the Company in writing, and unless commenced within two (2) years after the loss can be determined.

18. CONFLICT WITH LAWS

Any provision of this policy which is in conflict with the laws of the jurisdiction in which this policy is effective is hereby amended to conform with the minimum requirements of such laws.

19. DEFINITIONS

Four (4) months of default is defined as the failure to pay the total aggregate amount of four (4) monthly payments due under the terms of the mortgage agreement. Similarly, nine (9) months of default is defined as the failure to pay the total aggregate amount of nine (9) monthly payments due under the terms of the mortgage agreement.

Mortgage agreement is defined to include a note, mortgage, bond, deed of trust, or other instrument used in connection with the Borrower's loan.

Appropriate proceedings are defined as any legal remedy permissible, under the laws of the jurisdiction in which the real estate is located, to vest title in the Insured, including, but not limited to, foreclosure by public or private sale.

The term Borrower, or Insured, when used herein, shall mean the singular or plural, male or female, individual, partnership, or corporation, as the case may be.

IN WITNESS WHEREOF, The Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

REPUBLIC MORTGAGE INSURANCE COMPANY

William A Simpson
President

Frank Brown
Secretary

REPUBLIC MORTGAGE INSURANCE COMPANY CORPORATE SEAL N. C.

Date

Authorized Representative

DEPOSITION
EXHIBIT
4
Lehr
2/3/83

ALASKA HOUSING FINANCE CORPORATION

Rental Program Mortgage Insurance

MASTER POLICY

Alaska Housing Finance Corporation, a public corporation and government instrumentality of the State of Alaska (herein called the "AIF" when in its capacity as administrator of amounts available within certain insurance accounts referred to in this Policy), agrees to pay, from amounts available in the Rental Program Account of the Housing Insurance Fund, to Alaska Housing Finance Corporation (hereinafter called the "Insured") in consideration of the premiums to be paid by the Insured, benefits as herein set forth upon the default by a Borrower in the payment of a loan insured hereunder, subject to the following conditions:

CONDITIONS

1. Definitions -- as used in this Policy, the term --

   A. Borrower shall mean the person or persons, firm or corporation designated as such on the face of the Certificate.

   B. Property shall mean the real property identified on the face of the Certificate, and shall include all appurtenances, rights of access, ingress and egress and improvements thereon.

   C. Loan shall mean the indebtedness of the Borrower to the Insured in the amount and for the term specified on the face of the Certificate, which is evidenced by a written obligation and secured by a Mortgage.

   D. Mortgage shall mean any Mortgage, deed of trust or other instrument creating a first lien upon the Property as security for repayment of the Loan in accordance with applicable law.

   E. Two (2) Months in Default shall mean the failure of the Borrower to have made monthly Loan payments when due so that sums equal to the aggregate of two (2) such monthly payments are delinquent.

   F. Appropriate Proceedings shall mean any practical legal remedy required or permitted after default under applicable local laws to vest in the Insured title in and to the Property, including, but not limited to, foreclosure by public or private sale or voluntary conveyance from the Borrower.

G. Merchantable Title shall mean ownership of the Property free and clear of all liens, encumbrances and rights of parties in possession excepting only: (i) the lien of current general real estate taxes not yet due and payable; (ii) easements for public utilities, recorded building restrictions and the effect of building laws or regulations with which the improvements on the premises comply and which do not impair the use of the premises and the improvements thereon for their intended purposes; and (iii) such minor imperfections of title as would not prevent the Property from being readily saleable and freely transferable.

H. Satisfactory Evidence of Merchantable Title shall mean a title insurance company's commitment to insure that Merchantable Title is vested in the Insured or that institution from which the Loan was acquired; or opinion or certificate of any attorney approved by the AIF, directed to the AIF, affirming that the Insured is vested with Merchantable Title to the Property based upon an abstract of title or comparable title evidence generally acceptable by a purchaser of real estate in the area.

I. Certificate shall mean any Acknowledgement of Mortgage Loan Insurance issued by the AIF to the Insured in accordance with the terms of this Policy to extend insurance coverage to the Loan therein described.

J. Amount of Insurance shall mean the amount of the Original Loan Amount identified on the face of the Certificate.

K. Loss Computation Date shall mean: (a) the date of the written claim for loss submitted to the AIF, or (b) the date sixty (60) days following the completion of Appropriate Proceedings, whichever is the earlier date.

2. Application and Commitment

Execution by the AIF of a Certificate shall constitute approval of the apolication for insurance and represent the form of a Commitment describing the terms of the coverage.

3. Effective Date; Policy Period

The Certificate shall become effective on the date on which the Loan is purchased by the Insured for the term of the Loan subject to payment of required premiums. The Policy may be terminated with respect to a Loan upon mutual consent by the AIF and the Insured.

4. Cancellation

The AIF may cancel a Certificate upon failure of the Insured to pay any of the premiums (including renewal premiums) within ninety (90) days after the date the same becomes due and payable, but the AIF shall not otherwise have the right to cancel a Certificate except upon consent of the Insured. The AIF's liability under individual Certificates issued pursuant to this Policy shall terminate automatically as of the due date for the payment of renewal premium, without any further act of the AIF, upon the failure of the Insured to pay any renewal premium within ninety

(90) days after the due date thereof. The Insured may, at any time, cancel a Certificate for which no claim for loss has been made by returning same to the AIF, in which event a portion of the premium paid will be refunded in accordance with the applicable cancellation schedule. The AIF reserves the right to terminate this Policy at any time, but termination shall not affect liability of the AIF with respect to Certificates outstanding at the date of said termination.

5. **Loan Modifications; Open End Provisions; Assumptions**

A. The Insured shall not make any change in the amount, interest rate, term or amortization schedule of an insured Loan other than as permitted under the original Loan documents (note and deed of trust), or release or discharge the Borrower from liability on an insured Loan, waive or modify any of its rights under an insured Loan, or authorize a change in the character or use of the Property without the prior written approval of the AIF.

B. The Insured may increase the balance of an insured Loan by making an additional loan to the Borrower, provided that an application is made therefor and approved by the AIF. In the event of such approval, the Insured shall pay the AIF a premium with respect to the additional amount loaned to the Borrower, at the then prevailing premium rate, and the AIF shall issue a rider or endorsement insuring such additional amount.

C. It being understood that the Loans insured under this Policy are being originated pursuant to a program of Alaska Housing Finance Corporation which generally prohibits the assumption of the mortgage Loan, coverage of an insured Loan shall terminate automatically if and as of the date the obligation to make payments under such insured Loan is assumed by a person other than the original or subsequently approved Borrower, unless: (i) the original or subsequently approved Borrower remains personally liable on the insured Loan, or (ii) the AIF approves of the assumption in writing, upon such information and other documentation requested by the AIF and furnished by the Insured.

6. **Completion of Construction**

If improvements on the Property are proposed or in the process of construction, no loss shall be paid hereunder until such construction is completed according to plans and specifications consistent with documentation submitted to the AIF. Any expenses incurred or sums advanced by the Insured incident to completing such construction other than as disbursements of the proceeds of the Loan shall not be included in any claim for loss.

7. Restoration of Damage

If any physical loss or damage occurs to the Property from any cause, whether through accidental means or otherwise, the Insured shall cause the Property to be restored to its condition as of the date of the consummation of the Loan transaction, reasonable wear and tear excepted, and the expenses incurred in such restoration shall not be included in any claim for loss.

8. Condemnation

If the value of the Property is reduced through condemnation (or a sale in lieu of condemnation), the Amount of Insurance shall be reduced by the amount of the entire proceeds awarded in or resulting from such taking or sale.

9. Notice of Default

The Insured shall give written notice of default to the AIF within fifteen (15) days after the Borrower is Two (2) Months in Default. Said notice to the AIF shall include copies of notices, if any, sent to the Borrower. Thereafter, the Insured shall provide written monthly reports concerning the Loan status to the AIF until such time as the Loan is less than Two (2) Months in Default or the Insured has made a claim for loss to the AIF. Failure of the Insured to give notice of default as required by this Policy shall preclude or diminish any claim for loss if such failure shall prejudice the rights of the AIF under any provision, requirement or condition of the Policy and Certificate but only to the extent of such prejudice.

10. Procedure by the Insured on Default

After the Borrower shall be Two (2) Months in Default, the AIF may direct that the Insured commence Appropriate Proceedings. Such direction to commence Appropriate Proceedings shall be at the option of the AIF, but the Insured may, in the absence of such direction, institute such proceedings at any time after said default. When directed by the AIF, such proceedings shall be instituted promptly and diligently pursued, and shall include proceedings for the appointment of a receiver, collection of rent and/or the enforcement of any rights of the Insured with respect to other security or collateral to the extent that the same are feasible for the purpose of limiting loss and permitted by applicable law. The Insured shall furnish to the AIF copies of all notices and pleadings required in any such proceedings and any additional information reasonably requested by the AIF. In any proceeding in which the Insured is required to bid at a public sale to obtain title to the Property, unless otherwise directed by the AIF, the Insured may bid any amount, in its sole discretion, provided, however, that failure to obtain title shall preclude the right to make a claim for loss, and that the amount of loss which may be claimed shall be computed in accordance with Condition 11 irrespective of the amount bid or the amount recovered by the Insured out of the proceeds of sale.

11. Computation of Loss

The amount of loss sustained by the Insured for each insured Loan shall be limited to: (a) the unpaid principal balance, not in excess of the Amount of Insurance, reduced by the amount of any rents or other recovery received or collected by the Insured; (b) accumulated unpaid interest computed at the contractual rate but not in excess of the contractual rate in effect on the date when the Borrower is Two (2) Months in Default (exclusive of late charges and penalties) through the Loss Computation Date; (c) sums advanced for payment of real estate taxes and hazard insurance premiums, prorated through the Loss Computation Date; (d) sums advanced for preservation of the Property, but expense incurred for preservation of the Property shall be limited to one thousand five hundred dollars ($1,500.00) unless the AIF shall waive such limitation in writing; and (e) all other reasonable and necessary expenses incurred in Appropriate Proceedings including court costs and attorney's fees, but expense incurred for attorney's fees shall be limited to three percent (3%) of the principal and interest due as herein set forth.

12. Payment of Claim

A. Notice of Claim -- Any claim for loss insured against this Policy shall be submitted in writing by the Insured to the AIF and must be accompanied by a tender of Merchantable Title together with Satisfactory Evidence of Merchantable Title. Failure to submit a claim for loss within sixty (60) days after the Insured has obtained Merchantable Title shall be deemed an election by the Insured to waive any right to such claim payment under the terms of this Policy.

B. Settlement Options -- The AIF in its discretion and at its option may alternatively elect to pay the Insured either: (i) the entire amount of the loss computed in accordance with Condition 11, and upon such payment the Insured shall convey Merchantable Title to the AIF; or (ii) a percentage of such loss, as specified on the face of the Certificate in accordance with the premium plan under which the Loan is insured and, in the event of payment under this option, Merchantable Title shall be retained by the Insured. The AIF shall elect its settlement option within sixty (60) days after receipt of notice of a claim.

C. Payment Procedure -- Any claim payment due the Insured shall be payable within sixty (60) days after receipt of notice of a claim and all supporting documents which may reasonably be required by the AIF. The payment of a claim by the AIF, under either of its options as provided hereinabove, shall be a full and final discharge of its liability hereunder.

13. Option to Acquire Loan

At any time that the Borrower shall be Two (2) Months in Default and before receipt by the AIF of a claim for loss, the AIF shall have the option to acquire the Loan and all of the right, title or interest of the Insured in and to the Property or any Appropriate Proceedings and other security or collateral. The Insured shall furnish to the AIF, within thirty (30) days after written notice of the exercise of this option by

the AIF, a written notice of the acquisition cost which shall be computed through the date of the exercise of this option by the AIF in the same manner as the computation of loss under Condition 11 to the extent that principal, interest and other sums and expenses are actually unpaid or incurred. Payment of the acquisition cost so computed shall be made by the AIF to the Insured within thirty (30) days after receipt of the statement of the Insured together with all supporting documents which may be reasonably required by the AIF. Upon request, the Insured shall execute and deliver to the AIF such instruments or documents which the AIF may require in order to effect or confirm the assignment, transfer or conveyance of the Loan and any right, title or interest of the Insured acquired by the AIF hereunder.

14. Duty of Cooperation

At any time, upon request of the AIF, whether or not notice of default has been given to the AIF, the Insured shall cooperate with the AIF and furnish all reasonable information and assistance in connection with any effort by the AIF to cure or avoid default or limit loss with respect to any insured Loan.

15. Subrogation

The AIF shall be subrogated to all of the rights of the Insured against the Borrower and/or all other parties liable for the payment of the Loan arising out of or connected with the Loan to the extent of the payment of benefits by the AIF under the Policy (i) in all cases where the Real Estate does not consist of a single family dwelling occupied by the Borrower, and (ii) when the Insured agrees that the AIF shall have subrogation rights. Except as herein provided, the AIF shall have no subrogation rights against the Borrower.

16. Limitation of Actions

No suit or action arising from this Policy on account of any loss shall be commenced in any court of law or equity unless the Insured has complied with all the conditions of this Policy and the Certificate, excepting conditions specifically waived or altered in writing by the AIF, and unless commenced within two (2) years after such loss was payable to the Insured.

17. Notices

All notices, reports or other documents required or permitted to be given by either party to the other shall be in writing and shall be forwarded by pre-paid postage to the recipient at the address shown on the face of the Certificate or at such other address as the respective parties may hereafter in writing specify.

18. Changes in the Agreement

This Policy together with the Certificate shall constitute the entire agreement between the Insured and the AIF. No provision, requirement or condition of the Policy and Certificate shall be deemed to have been waived, altered, amended or otherwise changed unless stated in writing and duly executed by the AIF. Each of the provisions of this Policy and Certificate are severable, and a waiver, alteration, amendment or change of one provision whether by the AIF, as aforesaid, or by operation of law, shall not be construed as a waiver, alteration, amendment or change of any other condition.

19. Beneficiaries under Policy

The provisions of this Policy and Certificate shall inure to the benefit of and be binding upon the AIF and the Insured and their respective successors and assigns. In the event that the Insured assigns an insured Loan, this Policy and the Certificate shall continue in force and effect in favor of such assignee subject to the terms thereof.

IN WITNESS WHEREOF, The AIF has caused the Corporate Seal of Alaska Housing Finance Corporation to be hereto affixed and these presents to be signed by a duly authorized officer.

ALASKA HOUSING FINANCE CORPORATION,
in its capacity as administrator
of amounts available within certain
insurance accounts referred to in
this Policy.

Ronald D. Lehr

Ronald D. Lehr
Executive Director

dence indicates that when Phillips worked, he worked unusually long hours. He also took an unusually large number of vacations. We note that the Board's computation under subsection (1) must fairly account for Phillips' irregular work schedule.

REVERSED AND REMANDED.



Steven Roy SMITH, Appellant,

v.

Helen P. SHORTALL, Appellee.

No. S-1343.

Supreme Court of Alaska.

Feb. 13, 1987.

Former husband appealed from order of the Superior Court, Third Judicial District, Anchorage, William H. Fuld, J., which divided proceeds of former husbands' lawsuit and awarded former wife deficiency judgment on note secured by apartment complex on which former wife had foreclosed. The Supreme Court, Moore, J., held that: (1) antideficiency judgment statute precluded former wife from recovering deficiency judgment after electing remedy of nonjudicial foreclosure, and (2) tax liability of former husband and wife which had resulted in levy on proceeds of former husband lawsuit should have been offset against settlement proceeds before dividing them in accordance with divorce decree.

Reversed.

1. Mortgages ⇐373

By electing remedy of nonjudicial foreclosure, secured creditor under deed of trust lost her right to recover deficiency judgment. AS 34.20.100.

2. Mortgages ⇐378

Secured creditor's motion to compel payment and reduce to judgment was the type of "further action or proceeding" following nonjudicial foreclosure precluded by antideficiency judgment statute. AS 34.-20.100.

See publication Words and Phrases for other judicial constructions and definitions.

3. Costs ⇐172

Paralegal services, if recoverable at all, are recoverable as costs rather than as attorney fees. Rules Civ.Proc., Rule 79(b).

4. Divorce ⇐254(1)

In determining net proceeds from former husband's lawsuit, which were to be divided between former husband and wife according to divorce decree, court did not err in declining to deduct costs of paralegal services in addition to attorney fees.

5. Divorce ⇐254(1)

In dividing proceeds of former husband's lawsuit in accordance with terms of divorce decree, court properly deducted amount which had been collected in trust for coplaintiff in lawsuit.

6. Internal Revenue ⇐4855

When Internal Revenue Service levied on proceeds of former husband's lawsuit which, according to divorce decree, was to be divided between former husband and wife, court should have offset tax liability from settlement proceeds rather than giving former wife 50% of net proceeds prior to levy, where levy was based on joint tax liability of former husband and wife.

Millard F. Ingraham, Anchorage, for appellant.

Laurel J. Peterson, Anchorage, for appellee.

Before RABINOWITZ, C.J., and BURKE, MATTHEWS, COMPTON and MOORE, JJ.

OPINION

MOORE, Justice.

Steven Smith and Helen Shortall were divorced on April 28, 1983. The divorce decree required Smith to execute a promissory note for $125,000 in Shortall's favor. The note was secured by a deed of trust on a warehouse apartment complex Smith owned. The note called for an initial payment of $10,000 followed by annual installments of $20,000, and contained an acceleration clause. In addition, the divorce decree required Smith to pay Shortall 50% of the net proceeds of an admiralty lawsuit then pending in the U.S. District Court, *Smith v. The ARCTURIS*.

Smith paid the initial $10,000 due under the promissory note but defaulted on the first $20,000 installment. Shortall accelerated the note. Pursuant to AS 34.20.070, the trustee elected to sell the warehouse apartment complex to satisfy her claim. At the trustee's sale, Shortall bid $139,986.11, the total amount Smith owed her under the promissory note. After acquiring title to the property, she learned that its appraised value, less encumbrances and the cost of repairs, was approximately $12,000.

Meanwhile, the *ARCTURIS* case settled. Smith received $43,000, which he deposited into a trust account established by his attorney for the purpose of receiving and disbursing the proceeds of the settlement. Before any disbursements were made, the Internal Revenue Service levied on the account for a tax liability of $22,884.42 owed jointly by Smith and Shortall. Smith's attorney paid the IRS claim from the trust account. The attorney also paid approximately $7,000 in attorney's fees for the *ARCTURIS* lawsuit, and $4,300 for a released claim that had been assigned to Smith by an *ARCTURIS* co-plaintiff for collection. The attorney divided the balance of the settlement proceeds equally between Smith and Shortall. Shortall received $4,379.80.

Shortall moved for an order reducing to judgment the balance owed under the promissory note and compelling payment thereof. In addition, she moved for an order to show cause why Smith should not be held in contempt for his handling of the *ARCTURIS* settlement proceeds. The superior court granted both motions, and subsequently entered final judgment awarding Shortall $115,000 as principal due under the promissory note; $13,706.71 for *ARCTURIS* proceeds; and interest, costs, and attorney's fees incurred in reducing to judgment the amount due under the promissory note. We reverse.

A. *The Promissory Note*

[1] The divorce decree obligated Smith to pay Shortall $125,000. The obligation was evidenced by a promissory note and secured by a deed of trust. When Smith defaulted on the obligation, Shortall had several options. She could have waived the security of the deed of trust and sued on the note. Or, she could have brought an action to judicially foreclose the deed of trust, retaining the right to recover a deficiency judgment. AS 09.45.170; *Suber v. Alaska State Bond Committee*, 414 P.2d 546, 555 (Alaska 1966). Instead, Shortall elected the remedy of non-judicial foreclosure. By electing this remedy, Shortall lost her right to recover a deficiency judgment against Smith.

[2] Alaska's anti-deficiency judgment statute, AS 34.20.100, provides that

> [w]hen a sale is made by a trustee under a deed of trust, as authorized by AS 34.20.070–34.20.130, no other or further action or proceeding may be taken nor judgment entered against the maker or the surety or guarantor of the maker, on the obligation secured by the deed of trust for a deficiency.

Shortall's motion to compel payment and reduce to judgment is precisely the type of "further action or proceeding" precluded by AS 34.20.100. *Hull v. Alaska Federal Sav. & Loan Ass'n*, 658 P.2d 122, 125 (Alaska 1983).

The effect of the trustee's sale was to discharge all of Smith's obligations under the note. Therefore, the superior court

erred in granting judgment for Shortall. We reverse the judgment and vacate the award of interest, attorney's fees, and costs incurred in reducing the note to judgment.

B. *The ARCTURIS Proceeds*

[3, 4] The divorce decree entitled Shortall to "50 percent of the net proceeds, that is, less costs and attorney's fees, if any," derived from the ARCTURIS lawsuit. The superior court calculated Shortall's share as 50 percent of the principal settlement ($43,000) less attorney's fees ($6,824.98). Smith argues that, before dividing the settlement proceeds, the court should have offset the claim assigned to Smith for collection ($4,300) and IRS levy ($22,884.42).[1] We agree.

[5] The $4,300 represented proceeds Smith collected in trust for an ARCTURIS co-plaintiff. The money belonged to neither Smith nor Shortall, and was not part of the net proceeds of the suit.

[6] Spouses who file a joint income tax return are jointly and severally liable for the full tax liability. *United States v. Tietje*, 231 F.Supp. 738, 740 (E.D.Ill.1964). By declining to offset the tax liability from the settlement proceeds, the superior court placed the full burden of the liability on Smith alone. Absent evidence of equitable reasons for such a result, this was error.

REVERSED.



1. Smith also argues that the attorney's fees offset should have included the value of paralegal services. Paralegal services, if recoverable at all, are recoverable as costs under Alaska R.Civ.P. 79(b). *Atlantic Richfield Co. v. State*, 723 P.2d 1249, 1253 (Alaska 1986). Whether paralegal services will be recognized as costs in a specific case is left to the discretion of the trial judge. There is no evidence here that the judge abused this discretion.

STATE of Alaska, Petitioner,

v.

James A. RIDGELY, Jr., Respondent.

No. S-1197.

Supreme Court of Alaska.

Feb. 13, 1987.

Defendant was convicted in the Superior Court, Third Judicial District, Anchorage, Victor D. Carlson and Ralph E. Moody, JJ., of murder and he appealed. The Court of Appeals, 705 P.2d 924, reversed. The Supreme Court, Moore, J., held that evidence sustained trial courts determination that defendant's confession was voluntary.

Reversed and remanded.

1. Criminal Law ⇐532

In determining voluntariness of confession, trial court must find the external, phenomenological facts surrounding the confession, must then infer an internal, psychological fact from those external facts, and must then assess the legal significance of that inferred mental state.

2. Criminal Law ⇐1158(4)

Trial court's determining historical facts surrounding confession is fact-finding task and reviewing court must defer to trial judge's findings unless they are clearly erroneous, but reviewing court has duty to examine entire record and make its own independent determination as to mental state of accused and its legal significance based on facts found by trial court.

3. Criminal Law ⇐531(1, 3)

State bears burden of proving voluntariness of *Miranda* waiver and of confession by preponderance of evidence.

mit the plaintiff's truck to pass in safety. Were there no testimony tending to show that the plaintiff's truck, in turning around the "sand hole," was proceeding in the ordinary way and along the usual line of travel taken by loaded trucks, we should have a different situation. We think, however, under all of the circumstances of this case, that the jury was reasonably warranted in inferring that plaintiff's driver was not negligent. This being our conclusion, we think the court erred in changing the answers of the jury and in ordering judgment for defendant.

Judgment reversed, with directions to reinstate the verdict as rendered by the jury and to enter judgment in favor of the plaintiff for the amount of the damages found.

SURING STATE BANK v. GIESE et al.

Supreme Court of Wisconsin.
Feb. 6, 1933.

1. Evidence ⇐18.

Court judicially notices fact that present economic depression has affected realty values and caused almost complete absence of market for realty.

2. Mortgages ⇐526(2).

Without statute, equity court may decline to confirm foreclosure sale where bid is inadequate and economic conditions prevent competitive bidding.

3. Mortgages ⇐526(1).

Court in ordering foreclosure sale or resale may in its discretion take notice of economic emergency and fix minimum or upset price at which premises must be bid in if sale is confirmed.

Court may after proper hearing fix minimum or upset price at which premises must be bid in if sale is to be confirmed; this being a power that courts of equity ordinarily exercise in cases of foreclosure of corporate property which is of such size and character as to preclude establishment of fair price by competitive or cash bidding.

4. Mortgages ⇐526(6).

On application to confirm foreclosure sale, court may establish property's value and require that it be credited on judgment, giving mortgagee option to accept or not.

If court has not previously fixed an upset price, and, on application to confirm sale, adopts procedure of conducting hearing and establishing value of property and, as condition to confirmation, requiring that fair value of property be credited on foreclosure judgment, mortgagee should be given option to accept or reject it, and, in event of its rejection, resale of property should be ordered.

Appeal from an order of the Circuit Court for Oconto County; Arold F. Murphy, Circuit Judge.

Action by the Suring State Bank against Ernestine Giese and others. From an order confirming a mortgage foreclosure sale on the condition that a deficiency judgment be denied, plaintiff appeals.—[By Editorial Staff.]

Reversed and remanded.

The order, which was entered on the 30th of June, 1932, confirmed the sale in an action for the foreclosure of a real estate mortgage "on the express condition that plaintiff's motion for a deficiency judgment against the defendants Giese be denied and such sale is thus confirmed and such deficiency judgment is expressly denied." The complaint in the action included a prayer for a deficiency judgment, and the judgment was in the usual form, and contained, among other things, an order for a deficiency judgment in the event that the proceeds of the sale be insufficient to pay the amounts due under the mortgage. The sheriff's report of sale contained the report of a deficiency upon the sale of $1,379.16. Plaintiff's motion for an order confirming the sale and for a deficiency judgment followed.

The defendants, in opposition to the motion to confirm the sale, produced affidavits to the effect that the premises were worth from $2,000 to $3,000, while the affidavits in support of confirmation place the value of the premises at from $1,000 to $1,500. At the sheriff's sale plaintiff had bid in the property for $600, charged against the defendants $100.08 court costs and sheriff's fees, credited defendants with $400.12, and asked for a deficiency judgment of $1,379.16 upon an original loan of $2,000.

Harold W. Krueger, of Oconto, for appellant.

Lehner & Lehner and Adolph P. Lehner, all of Oconto Falls, and V. J. O'Kelliher, of Oconto, for respondents.

WICKHEM, J.

It is the contention of the plaintiff that it is entitled to a deficiency judgment as a matter of course; the court having in the original judgment ordered a judgment for deficiency, which order was appealable and has never been appealed from. This may well be conceded without at all affecting the

merits of this case. The order appealed from confirms the sale upon the express condition that plaintiff be not entitled to a deficiency judgment. The court finds in its order that the premises were reasonably worth a sum in excess of $2,000, and it is evident, from a reading of the order, that the trial court's theory is that plaintiff, having secured the premises at the grossly inadequate valuation of $600, should be required to credit defendants with the reasonable value of the premises.

[1] The question presented is one of great importance, and one to which earnest consideration has been given. The court takes judicial notice of the fact that the present economic depression has not merely resulted in a serious dislocation of the value of real estate, but also in the almost complete absence of a market for real estate. As a consequence there is no cash bidding at sales upon foreclosure. In normal times competitive bidding is the circumstance that furnishes reasonable protection to the mortgagor, and avoids the sacrifice of the property at a grossly inadequate sale price. In the present situation the device of a judicial sale largely fails of its intended purpose because of the lack of competitive bidding, and the question arises whether a court of equity is wholly impotent to rise to the needs of justice and see that the parties are fairly and properly protected. This is not a situation in which ordinary logic with respect to values has much vitality. In theory, a thing that cannot be sold has no value, and so with a parcel of real estate that is offered for sale at foreclosure. It may be argued that it is worth what purchasers will pay for it, and no more, and that if the only price offered constitutes but a negligible part of its theretofore assumed value, it nevertheless represents the value of the real estate at that time. Such a conclusion is shocking to the conscience of the court, or, as the old equity courts said, to the conscience of the chancellor, and to all notions of justice as applied to this situation. Certainly the land has value so long as it or the buildings upon it may be used, and certainly in the case of farm lands, which constitute the homes of farmers, the premises have value in the sense of usefulness, however difficult it may be to translate this value into terms of dollars. Furthermore, this real estate, which is suffering from the consequences of a period of readjustment through which we are passing, has potential or future value which may legitimately be taken into account. Its value in terms of dollars has been affected by a general condition. No one piece of land has depreciated in value; it has all depreciated. It has all suffered from the lack of demand on the part of buyers. Under these circumstances it is within the power of a court of equity, without the aid of statute, to take one or all of three steps for the protection of the parties and the promotion of a fair solution of the difficulties. What is said here is said in the light of the present emergency, and because of the present inadequacy of a judicial sale to establish a fair value for the security.

[2] 1. The court may decline to confirm the sale where the bid is substantially inadequate. While it has been said that mere inadequacy of consideration is not a ground for setting aside a foreclosure sale, this rule has been rather carefully circumscribed by the court. In Griswold v. Barden, 146 Wis. 35, 130 N. W. 932, 933, this court, speaking through Mr. Chief Justice Winslow, said: "It has been said by this court that it is the settled practice of courts of equity to refuse a resale for mere inadequacy of consideration, and that this court will not depart from that rule where no other cause exists. Meehan v. Blodgett, 86 Wis. 511, 57 N. W. 291. This is doubtless a correct statement of the rule, but it seems from the argument in the present case that it may be easily misunderstood. It must be strictly confined to cases where there is absolutely no fact appearing, except that the price is inadequate. Whenever other facts appear, such as mistake, misapprehension, or inadvertence on the part of the interested parties or of intending bidders, as a result of which it seems to the court the failure to obtain a fair and adequate price for the property was due in whole or in part to such mistake, misapprehension, or inadvertence, the court will readily refuse to approve the sale. No fraud is necessary to justify the court in so withholding its approval. The question simply is, Is the sale under all the circumstances one of which the court in justice to all parties should approve?"

This doctrine is also stated in Kremer v. Thwaits, 105 Wis. 504, 81 N. W. 654, and Johnson v. Goult, 106 Wis. 247, 82 N. W. 130. What was said in the Griswold Case is applicable here, when the fact of an inadequate price is coupled with an emergency which operates to prevent competitive bidding. A court of equity is justified in refusing to confirm the sale and ordering a resale.

[3] 2. The court, in ordering a sale or a resale, may, in its discretion, take notice of the present emergency, and, after a proper hearing, fix a minimum or upset price at which the premises must be bid in if the sale is to be confirmed. This is a power that courts of equity ordinarily exercise in cases of foreclosure of corporate property which is of such size and character as to preclude the establishment of a fair price by competitive or cash bidding. Northern Pacific Railway Co. v. Boyd, 228 U. S. 482, 33 S. Ct. 554, 57 L. Ed. 931. We see no reason why the same power should not be exercised in cases

where economic conditions are such as to preclude the element of competitive bidding, and to make ineffective the ordinary and usual manner of fixing the market value of the property.

[4] 3. The court may, upon application for the confirmation of a sale, if it has not theretofore fixed an upset price, conduct a hearing, establish the value of the property, and, as a condition to confirmation, require that the fair value of the property be credited upon the foreclosure judgment. If an upset price has been established, the plaintiff may be required to credit this amount upon the judgment as a condition to confirmation. If the fair value as found by the court, when applied to the mortgage debt, discharges it, there will be no occasion for the entering of a deficiency judgment. In case this procedure is adopted by the court, the option should be given to the plaintiff to accept or reject it. In the event of its rejection, the resale of the property should be ordered.

In the instant case the court evidently took the third of the three methods of dealing with this problem. While in terms it denied the deficiency judgment, in effect it valued the property, found this value to be equal to the debt, and required that it be credited against the debt as a condition to the confirmation of the sale. This was not error, for the reasons heretofore stated. However, it is our conclusion that plaintiff should have been given the option to accept or reject the condition. In the event that the condition is rejected, the court may set aside the sale and order a resale in accordance with the principles set out in this opinion. It follows that the order must be reversed.

Order reversed, and cause remanded for further proceedings in accordance with this opinion.

In re GRANGER'S ESTATE.

CONTINENTAL ILLINOIS BANK & TRUST CO. v. WISCONSIN TAX COMMISSION et al.

Supreme Court of Wisconsin.
Feb. 6, 1933.

Taxation ⇐900(5).

Refusal to permit executor's appeal over 60 days after order fixing inheritance tax voluntarily paid by executor *held* not abuse of discretion (St. 1931, §§ 72.03(2), 324.04, 324.05).

It appeared that executor, for reasons which it deemed sufficient, notably the unlikelihood of a successful contest of constitutionality of tax statute and the unwisdom of risking further funds of estate in prosecuting such a contest, deliberately decided not to appeal, paid the tax, and closed the matter about two and one-half months before a decision of United States Supreme Court in another case relative to state's power to impose inheritance tax under similar circumstances.

Appeal from an order of the County Court of Dane County; George Kroncke, County Judge.

Proceeding by the Continental Illinois Bank & Trust Company, as executor of the estate of Sarah L. Granger, deceased, wherein the executor filed a petition, opposed by the Wisconsin Tax Commission and others, seeking permission to appeal to the Supreme Court from an order determining the amount of an inheritance tax. From an order denying the petition, the executor appeals.—[By Editorial Staff.]

Affirmed.

The order appealed from was entered on June 18, 1932, and denied the appellant herein permission to appeal to the Supreme Court from the order determining the amount of the inheritance tax in the estate of Sarah L. Granger, deceased. Application for leave to appeal was filed within one year from the date of the said order, but more than sixty days thereafter.

Sarah L. Granger was a resident of Chicago at the time of her death on July 1, 1927, and had never been a resident of Wisconsin. At the time of her death, she owned 450 shares of the capital stock of the Oconto Company, a Wisconsin corporation. Aside from this she had no estate or property in Wisconsin. The executor petitioned the county court of Dane county, Wis., for special administration for the purpose of determining the inheritance tax due to the state of Wisconsin upon the transfer of this stock. On October 8, 1931, the county court of Dane county made an order determining the inheritance tax at $1,300.48, plus interest of $305.17. This amount was paid to the county treasurer of Dane county on October 10, 1931. On January 4, 1932, the United States Supreme Court, in First National Bank of Boston v. State of Maine, 284 U. S. 312, 52 S. Ct. 174, 76 L. Ed. 313, held that a state cannot, consistently with due process of law, impose a tax upon a transfer of shares of stock in a corporation of the state, and that the situs, for succession tax purposes, of shares of stock, is at the domicile of the owner rather than at the home of the corporation.

Thereafter, in February, 1932, the executor petitioned the county court for an order per-

71 Wis.2d 359

FIRST WISCONSIN NATIONAL BANK OF OSHKOSH, Respondent,

v.

KSW INVESTMENTS, INC., a Wisconsin Corporation, Appellant, Gerald Kramer, a/k/a Jerry Kramer, et al., Defendants.

No. 628 (1974).

Supreme Court of Wisconsin.

Submitted Dec. 2, 1975.

Decided Feb. 10, 1976.

Mortgagee moved for order confirming foreclosure sale of mortgagor's property to mortgagee and for a deficiency judgment. The Circuit Court, Winnebago County, William E. Crane, J., confirmed price bid by mortgagee at foreclosure sale and ordered deficiency judgment against mortgagor, and mortgagor appealed. The Supreme Court, Day, J., held trial court's order confirming sale would be reversed where trial court erred as matter of law in criteria used to establish fair value of property; that statute providing for application for confirmation of sale and for deficiency judgment mandates that no sale shall be confirmed until court is satisfied that fair value of premises has been credited toward mortgage debt; that trial court should, when confronted with such motion, make specific finding of fair value of premises and make specific finding that such value has been credited towards debt; and that in determining "fair value," price which person willing and able to buy property would reasonably pay for it, not for purposes of speculation, but for that use to which it has been or reasonably may be put, should be considered.

Reversed and remanded.

1. Mortgages ⇐526(1, 2)

Decision to confirm judicial sale following foreclosure is vested in broad discretion of trial court, but such confirmation may be refused if there is apparent inadequacy in price which was caused by mistake, misapprehension, or inadvertence on part of interested parties or possible bidders. W.S.A. 816.165(2).

2. Mortgages ⇐526(2)

Confirmation of judicial sale following foreclosure of mortgage may be denied in discretion of trial court if bid price was so inadequate so as to shock conscience of court. W.S.A. 816.165(2).

3. Appeal and Error ⇐945, 946
Courts ⇐26

Trial court, when acting on matters resting within its discretion, must exercise legal discretion; if that discretion is abused or if court proceeds upon mistaken view of law, reviewing court will reverse.

4. Mortgages ⇐579

Trial court's order confirming judicial sale following mortgage foreclosure would be reversed where trial court erred as matter of law in criteria used to establish fair value of property. W.S.A. 816.165(2).

5. Mortgages ⇐526(1)

In determining "fair value" of premises for purpose of statute requiring that no sale of mortgaged property shall be confirmed or judgment for deficiency rendered until court is satisfied that "fair value" of premises sold had been credited on mortgage debt, price which person willing and able to buy property would reasonably pay for it, not for purposes of speculation, but for use to which it has been or reasonably may be put, should be considered by court. W.S.A. 816.165(2).

See publication Words and Phrases for other judicial constructions and definitions.

6. Mortgages ⇐526(6)

Mortgagee's expert's appraisal of value of property, in mortgagee's action for con-

firmation of judicial sale of property following foreclosure and for deficiency judgment, which was based on his opinion of fair value of building valued as vacant, empty shell, even though both he and mortgagee's vice president regarded highest and best use of property was as bar-restaurant facility, was erroneously accepted by trial court in determining validity of sale. W.S.A. 816.165(2).

7. Mortgages ⇐526(6)

Language of statute governing confirmation of judicial sale of property following foreclosure mandates that no sale shall be confirmed until court is satisfied that fair value of premises has been credited toward mortgage debt, interest and costs; language to contrary in Citizens Bank of Sheboygan v. Rose (1973), 59 Wis.2d 385, 208 N.W.2d 110, withdrawn.

8. Mortgages ⇐526(6)

Trial court should, when confronted with mortgage to confirm sheriff's sale where mortgaged premises have been sold for less than amount due on mortgage, make specific finding of fair value of premises and make specific finding that such value has been credited toward mortgage debt, even though trial court's conscience is not shocked by bid; language to contrary in Citizens Bank of Sheboygan v. Rose (1973), 59 Wis.2d 385, 208 N.W.2d 110, withdrawn. W.S.A. 816.165(2).

Brief by: Berk, Pressentin & Hoida, Green Bay, for appellant.

Brief by: Timothy M. Dempsey and Dempsey, Magnusen, Williamson & Lampe, Oshkosh, for respondent.

DAY, Justice.

This is an appeal from an order confirming the price bid by the mortgagee, First Wisconsin National Bank of Oshkosh, at a foreclosure sale, and which also ordered a deficiency judgment against the appellant in the amount of $124,458.06. The issue raised is whether the price bid by the mortgagee was so inadequate as to result in an injustice to the owners of the property, if approved. *Home Bank v. Becker* (1970), 48 Wis.2d 1, 13, 179 N.W.2d 855. After reviewing the record, we reverse the order, not simply because the bid was very low, but more accurately because the trial court erred in finding the fair value of the property based on testimony establishing the fair market value of the building as an empty, vacant shell.

KSW Investments, Inc., purchased the property which is the subject of this appeal in 1969 for the sum of $63,000. At the time of the purchase, the building, which was located in downtown Oshkosh directly across the street from a new bank building and one or two blocks from a new shopping center, was being used as a printing facility. On or about May 16, 1969, appellant KSW Investments, Inc., (hereafter KSW), executed and delivered to the respondent, First Wisconsin National Bank of Oshkosh (hereafter bank), its promissory note and mortgage for purchase money and improvement funds in the sum of $100,000. At that same time, Gerald Kramer and Ben C. Stone, officers of KSW, delivered to the bank their guaranties each in the sum of $130,000.

Approximately one year later, on May 5, 1970, KSW executed and delivered to the bank another promissory note and mortgage upon the premises in the sum of $23,000. At this time, Kramer and Stone reissued their guaranties in the sum of $153,000.

The property was purchased for investment purposes and was completely remodeled by KSW as a "Red Ram" restaurant, involving the expenditure of $160,000 to $170,000 for improvements, not including personal property, or the necessary equipment for operation as a restaurant. The property was leased to the management of the Red Ram restaurant.

Thereafter, the property underwent a number of management changes, and from

1970 to 1974, four different restaurant, bar or restaurant-bar businesses occupied the building. At the time of the foreclosure, the building was occupied by a bar known as the "Paddock Club."

KSW made no payments of principal or interest on the $100,000 note after February 16, 1971, or on the $23,000 note after January 16, 1971. In addition, real estate taxes and special assessments were left unpaid from 1969 throughout the foreclosure proceedings.

The foreclosure action was commended and KSW did not answer. Judgment of foreclosure was entered and the property was ordered sold at a sheriff's sale. The bank was the only party present at the sale and made the only bid in the amount of $23,000, subject to the delinquent real estate taxes, prorated real estate taxes, and interest due on the judgment—an additional amount of approximately $23,000.

Thereafter the bank moved for an order confirming the sale and for a deficiency judgment. A hearing was held at which the bank presented testimony of its appraiser, Gordon Kargus, who testified he appraised the property at its fair market value as a vacant building—a shell. According to Kargus, the property had a fair market value of $46,800.

KSW also presented the testimony of an appraiser who testified that in his opinion, the property had a market value of $155,000, including personal property, and a fair market value of $131,000 without the personal property.

Additionally, by stipulation documents were introduced in evidence indicating that the property had been assessed by the city of Oshkosh in 1969, the year of its purchase, at $26,900; for 1970 through 1972 at $62,600; and for 1973, the year of the foreclosure sale, at $45,500. Testimony established that this type of property was assessed by the city assessor at 40% of its market value, which translates into market values of $67,250 for 1969; $156,500 for 1970 through 1972; and $113,750 for 1973. It was not stipulated that those were in fact correct market values for this property.

After hearing the testimony, the trial court rendered its decision, stating:

"The question before the court for determination is as to the fair value at a sheriff's sale, recognizing that a sheriff's sale is a distress sale and that the full fair market value is not necessarily received, and under Wisconsin decisions, it is not required.

". . .

"Recognizing that this is a distress sale, and recognizing further that the defendant KSW Investments and Mr. Stone had notice of this sale and chose not to attend and not to bid, all in all, the court finds that the bid price bid by the First Wisconsin National Bank of Oshkosh of $23,000, assuming taxes which then amounted to $23,500 or more, and they would be more at this time, was a fair value for the premises, and the court will therefore enter an order at this time and does order that the report of the sheriff be confirmed . . ."

[1, 2] It is well settled that the decision to confirm a judicial sale following a foreclosure is vested in the broad discretion of the trial court, but such confirmation may be refused if there is an apparent inadequacy in the price which was caused by mistake, misapprehension or inadvertence on the part of the interested parties or possible bidders. *See Gumz v. Chickering* (1963), 19 Wis.2d 625, 121 N.W.2d 279. Additionally, such confirmation may be denied in the discretion of the trial court if the bid price was so inadequate so as to shock the conscience of the court. *Gumz v. Chickering*, Id.; *Citizens Bank of Sheboygan v. Rose* (1973), 59 Wis.2d 385, 388, 208 N.W.2d 110, and cases cited therein.

Sec. 816.165(2), Stats., (formerly sec. 278.105, Stats.), provides:

"Application for confirmation of sale and for deficiency judgment:

"(2) In case the mortgaged premises sell for less than the amount due and to become due on the mortgage debt and costs of sale, there shall be no presumption that such premises sold for their fair value and no sale shall be confirmed and judgment for deficiency rendered, until the court is satisfied that the fair value of the premises sold has been credited on the mortgage debt, interest and costs."

There is no claim in the instant case that the alleged inadequate bid price was the result of mistake, misapprehension or inadvertence; rather, the argument is that the price of $23,000 bid by the bank was so inadequate as to shock the conscience of the court.

[3] By finding the $23,000 bid made by the bank to be the "fair value" of the property, the trial court implicitly found that the bid was not so inadequate as to shock its conscience. Such determination if made in the exercise of the trial court's discretion ordinarily will be affirmed by this court. However, we have held that the trial court, when acting on matters resting within its discretion, must exercise a legal discretion. If that discretion is abused or if the court proceeds upon a mistaken view of the law, this court will reverse. *Churchill v. Welsh* (1879), 47 Wis. 39, 54, 55, 1 N.W. 398. See also *Beberfall v. Beberfall* (1969), 44 Wis.2d 450, 171 N.W.2d 390.

This court has stated:

"This means that for this court to affirm what is contended to be a discretionary act there must be evidence that discretion was in fact exercised. If a judge bases the exercise of his discretion upon an error of law, his conduct is beyond the limits of discretion." *State v. Hutnik* (1968), 39 Wis.2d 754, 763, 159 N.W.2d 733, 737.

Also in *State ex rel. Schulter v. Roraff* (1968), 39 Wis.2d 342, 349, 350, 159 N.W.2d 25, 29, cert. den. 393 U.S. 1066, 89 S.Ct. 716, 21 L.Ed.2d 709, this court stated:

". . . a discretionary order made by a trial court as a result of an erroneous view of the law may be reversed without establishing an abuse of discretion on the part of the trial judge . . ." (citations omitted)

[4] We conclude the order confirming the sale must be reversed because the trial court erred as a matter of law in the criteria it used to establish the fair value of the property.

In *Citizens Bank of Sheboygan v. Rose, supra*, this court noted "shocking the conscience of the court is another way of saying that the price is inadequate as a matter of law." *Id.* 59 Wis.2d at p. 389, 208 N.W.2d at p. 112. In the instant case, both sides presented testimony from their respective appraisers relating to the value of the property. The trial court accepted and adopted the appraisal made by Kargus for the bank. Kargus appraised the property at $46,800. This appraisal was based on the property as a vacant, empty shell and from Kargus' own testimony, the figure given represented his opinion of the fair market value of the building as a vacant shell even though both he and the bank's vice-president recognized that the highest and best use of the property was as a bar-restaurant facility.[1]

This fair market value of the building as a shell was followed by the trial court in determining the statutorily mandated "fair value" of the property. This court has previously stated with respect to the "fair value" of the foreclosed property as that term is used in the statutes th

1. The appraisal by Kargus was made in May of 1973. In April of 1970, the bank had the property appraised at $199,000 by Robin Jones. This gross disparity in appraisals remains unexplained in the record except perhaps by the fact that the earlier appraisal was made when the Red Ram was occupying the building. Thus presumably the earlier appraisal was made on the basis of the property being used as a bar-restaurant, while the latter appraisal was made, although the building was occupied at the time by a bar, as if the building were a vacant shell.

"'Fair value' obviously does not mean 'market value' as that term is generally understood, or that value which the property may probably have in the future under more favorable economic conditions or that value which it may have if the property be remodeled and put to other or more extensive uses which possibly may prove more profitable."

Northwestern Loan & Trust Company v. Bidinger (1937), 226 Wis. 239, 245, 246, 276 N.W. 645, 648.

The statute requires that the trial court be satisfied that the fair value of the premises sold has been credited on the mortgage debt, interest and costs prior to confirming the sale. In *Northwestern Loan & Trust Company v. Bidinger, supra,* at 247, 276 N.W. 645, this court recognized that the statute above quoted first enacted by Chapter 449, Laws of 1935, was a direct outgrowth from and almost an identical restatement of this court's opinion in *Suring State Bank v. Giese* (1933), 210 Wis. 489, 246 N.W. 556. In the *Suring State Bank* case, the foreclosed property had been bid in at a sheriff's sale for approximately one-third of its value and the mortgagee who was the purchaser at the sale was demanding a deficiency judgment for over $1,600, so that, if the sale had been confirmed, the mortgagee would have had the property and still had a claim for more than four-fifths of the original loan. In *Suring State Bank,* this court recognizing the then existing economic depression and emergency, and acknowledging the inadequacy of a judicial sale to establish a fair value for the security, because of such emergency resulting in the absence of competitive bidders, stated that the trial court when presented with a motion to confirm a foreclosure sale, could do any one of the following things:

"(1) The court may decline to confirm the sale where the bid is substantially inadequate.

". . .

"(2) The court, in ordering a sale or a resale, may, in its discretion, take notice of the present emergency and after a proper hearing, fix a minimum upset price at which the premises must be bid in if the sale is to be confirmed . . .

"(3) The court may, upon application for the confirmation of a sale, if it has not theretofore fixed an upset price, conduct a hearing, establish the value of the property, and, as a condition to confirmation require that the fair value of the property be credited upon the foreclosure judgment." *Id.* at pp. 492–493, 246 N.W. at p. 557.

Sec. 278.105, Stats., merely codified the decision in the *Suring Bank* case with respect to the establishment of the fair value of the property and its application toward the mortgage debt. The term "fair value" and "real value" were used interchangeably in the *Suring Bank* case and following cases.

In *Kremer v. Rule* (1934), 216 Wis. 331, 257 N.W. 166, this court spoke to the question of the definition of market value and real value and stated:

"'Market value', as ordinarily defined, can have little if any, application to a mortgage foreclosure sale where obviously the defendant mortgagor is forced to sell and where the plaintiff mortgagee, in the absence of other bidders, is obliged to bid if the foreclosure sale is to be consummated. So when a court is determining 'real value of the premises' for the purpose of giving to the mortgagee the option to credit the amount thereof on the foreclosure judgment as a condition precedent to confirmation of a mortgage foreclosure sale which has already taken place upon a bid deemed by the court to be substantially inadequate, it should not consider 'market value' as that expression is ordinarily used and understood, much less the value that the premises may have had at some remote time or may have in the future if the price is obtainable for farm products prevalent during such past remote period shall again prevail.

". . .

"'Real value of the premises' as used in the *Suring* case, should approximate that price which a person willing and able to buy the property would reasonably pay for it, not for purposes of speculation, *but for that use to which it has been or reasonably may be put.*" *Id.* at pp. 338–339, 257 N.W. at p. 169. (emphasis supplied)

The language of the statute that "no sale shall be confirmed and judgment for deficiency rendered until the court is satisfied that the fair value of the premises sold has been credited on the mortgage debt, interest and cost" was subsequently interpreted by this court to mean nothing more than "such reasonable value as does not shock the conscience of the court." *Northwestern Loan & Trust Company v. Bidinger, supra,* 226 Wis. at p. 247, 276 N.W. at p. 649.

[5] In the instant case, the testimony upon which the court based this determination did not establish the fair value of the premises since Kargus, the appraiser, clearly applied the fair market value test to the building as if it were a vacant shell. This is not consistent with the definition of the fair value of the premises stated in *Kremer v. Rule, supra.* In determining the fair value of the premises, as that term is used in the statutes, the trial court should have considered the price which a person willing and able to buy the property would reasonably pay for it, not for purposes of speculation, but for that use to which it has been or reasonably may be put.

[6] Because the trial court relied on the appraisal of the fair market value of a vacant building in determining the bid represented the fair value of the property, the trial court erred as a matter of law.

[7, 8] We note that certain language of this court in *Citizens Bank of Sheboygan v. Rose, supra,* appears to be inconsistent with the dictates of sec. 816.165(2), Stats., with respect to when a fair value must be found. In that case, this court said, 59 Wis.2d at pp. 388–389, 208 N.W.2d 112:

"The upset price or the fair value finding is utilized in the discretion of the court only after the court finds the price bid to be so inadequate as to shock its conscience. See *Kremer v. Rule* (1934), 216 Wis. 331, 257 N.W. 166; *Brinckley v. Sager* (1939), 232 Wis. 88, 286 N.W. 570; *Welfare Building & Loan Association v. Gearhard* (1940), 235 Wis. 229, 293 N.W. 813."

The statute itself does not speak in terms of the trial court being required to be shocked by an inadequate bid price before a fair value need be determined. Clearly, the parties and the trial court in this case did not interpret the statute that way since the trial court set the fair value of the premises at the price bid by the bank after the hearing on the motion to confirm. The language of the statute mandates that no sale shall be confirmed until the court is satisfied that the fair value of the premises has been credited toward the mortgage debt, interest and costs. For ease of administration and consistent with logical interpretation of the statute, the trial court should, when confronted with a motion to confirm a sheriff's sale where the mortgaged premises have been sold for less than the amount due on the mortgage, make a specific finding of the fair value of the premises and make a specific finding that such value has been credited toward the mortgage debt. These findings should be made even though the trial court's conscience is not shocked by the bid. The language to the contrary in *Citizens Bank of Sheboygan v. Rose, supra,* is withdrawn.

This interpretation more accurately reflects the language and meaning of this statute which has caused difficulty in interpretation for some time. For example, one commentator has stated that ever since the *Suring Bank* case, *supra,* this court ". . . has been explaining just what was meant and correcting the methods of applying the statute by the lower court." Worthing, "Real Estate Foreclosures", 34 Wis.Bar Bul-

letin 63, at 72, (Dec., 1961). See also, 1939 Wis.L.Rev. 89, The Work of the Wisconsin Supreme Court, pp. 90–91.

In the instant case, we reverse the order confirming the sale since the trial court erroneously relied on the appraisal of the fair market value of the building as a vacant shell in determining the fair value of the property. We remand the case to the trial court with directions to hold a new hearing on the motion to confirm the sale. At this new hearing, each side should be given an opportunity to present testimony to establish the fair value of the property as that term has been defined herein.

The appellant also objected to various observations made by the trial judge during the hearing as to his personal knowledge of the area. In view of the fact that this case is to be reheard, the matter of judicial notice will be subject to the new code of evidence. Sec. 902.01 covers judicial notice of adjudicative facts and provides that the parties may be heard as to the propriety of taking judicial notice and the tenor of the matter noticed.

The order is reversed and the cause remanded for further proceedings not inconsistent with this opinion.



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March 3, 1988

The Honorable Representative Kay Brown
Chairperson
House Judiciary Subcommittee
on Economic Recovery
P.O. Box V
Juneau, Alaska 99811

Re: Amendments to Foreclosure Statutes

Dear Honorable Representative Brown:

Enclosed are the proposed amendments and deletions of the foreclosure statutes. I wish to amplify the need for legislative action. In further discussion with bank counsel I am advised that lenders who now have the power as set forth in Moening and Conrad not only will use their ability to sue on the note as opposed to foreclosing, but probably have a duty to their shareholders to do so. Certainly lenders who are already aggressively persuing collection efforts will add this "new" tool to their arsenal. It is quicker, less expensive, and has much greater impact on the borrower.

Sincerely yours,

LAW OFFICES OF WILLIAM L. McNALL

By: William L. McNall
William L. McNall

WLM:sel

Enclosure - as stated.

Article 3. Foreclosure of Liens.

Delete Sec. 09.45.170. Judgment on foreclosure of lien.

Add new to read as follows:

Sec. 09.45.170. Procedure on default of deed of trust or deed of trust notes for foreclosure of lien. (a) Upon default by a borrower, a secured creditor shall pursue a foreclosure either judicially or nonjudicially.

(b) After issuance of the notice of default, the amount of applicable mortgage insurance, if available, will be applied to the note balance thereby reducing the amount of the unpaid balance of the mortgage prior to further foreclosure action being taken.

(c) In a nonjudical foreclosure, the beneficiary must at the foreclosure sale, bid the fair market value of the property as defined in Section 5 up to the mortgage balance, including costs of sale and attorney's fees.

(d) In a judicial foreclosure, the court, prior to sale, must establish the fair market value of the property.

(e) Fair market value of the property is defined as the real value of the property which should approximate the price a person acting without duress would be willing to sell the property for, and which a person willing and financially able to buy the property would reasonably pay therefore, not for purposes of speculation but for that use to which it has been or may be put. The Legislature finds such real valueshuld be equivalent to the replacement costs as adjusted for wear and tear.

(f) Beneficiary may then apply to the court for confirmation of the sale and recover a deficiency judgment together with costs and reasonable attorney's fees on the remaining balance of the debt.

Add new Sec. to read as follows:

Sec. 09.45.171. Election of remedies. At the time the foreclosure action begins, lender must elect to proceed judicially or nonjudicially. Once the election is made lender cannot re-elect.

Delete Sec. 09.25.180. Sale of encumbered property.

Add new Sec. to read as follows:

Sec. 09.45.180. Inferior deed of trusts and deed of trust note. In the event a beneficiary of a deed of trust loses the security due to a foreclosure of a superior deed of trust, the beneficiary shall have the right to bring an action directly upon the unpaid balance of the promissory note secured by the deed of trust.

Delete Sec. 09.45.200.

Delete Sec. 09.45.210.

General Information

MEMORANDUM

Division of Policy
Office of the Governor

TO: Mary Halloran, Director
Division of Policy

DATE: Jan. 28, 1988

FROM: R.A. Fineberg and Joan Kasson
Division of Policy

SUBJECT: Commercial Real Estate Background Report

This background paper provides an overview of data available on commercial real estate loans made by Alaska banks and the AIDEA bond program, the current commercial real estate market, information from other states and observations based on interviews conducted in the course of putting together this information.

A. Data on Commercial Real Estate Loans

1. As of Sept. 30, 1987, approximately 29% of all real estate loans held by Alaska banks and the Alaska Industrial Development & Export Authority (AIDEA) were non-performing or overdue by more than 90 days. One year earlier, this figure was 17% (see Table 1, attached).[1]

2. Since most residential loans are held by mortage holders rather than banks, almost all of these real estate loans involve commercial real estate.

3. Between Sept. 30, 1986 and Sept. 30, 1987, real estate owned by Alaska banks increased from $98 million to $165 million.[2]

4. These figures exclude participating shares and loans by "outside" lenders and thus provide a rough estimate of the

---

[1] As of Sept. 30, 1987, approximately $340 million of nearly $1.2 billion in loans involving commercial real estate made by Alaska banks and the AIDEA bond program were past due by more than 90 days or classified as "non-accruing" or non-paying by banks, according to data provided by the Division of Banking, Securities and Corporations and AIDEA. (Note: These figures include real estate loans that subsequently passed into the hands of the Federal Deposit Insurance Corporation due to bank failures.)

[2] "Other real estate owned," compiled from Division of Banking, Securities and Corporations reports. This figure represents real estate that banks have taken over but have not liquidated (see note 1).

dimensions of the commercial real estate problem Alaska institutions face at this time. According to the Division of Banking, Securities and Corporations, commercial real estate is essentially uninsured.

5. These figures include a relatively small but unknown portion of residential real estate in the possession of banks, as well as construction loans secured by real estate. Additionally, it is estimated that less than one percent of the loans secured by real estate were made for business operations.[3]

6. The lending bank has not reserved or written off an unknown percentage of non-accruing loans because the borrower, in the estimation of the bank, has sufficient collateral to pay off the loan if and when required.

7. State-wide data on the breakdown of commercial real estate debt by region, type of real estate, lender and current status are not readily available.

8. AIDEA past-due debt on loans underwritten by bond sales is $48.7 million. A break-down of those loans by area and type (Table 2, attached) indicates that 69 loans averaging about $705,000 each are delinquent. Of these loans, 56 are in the Anchorage and south-central region. By dollar amount outstanding, these loans total 90% of AIDEA's delinquent debt. By dollar amount and by number of loans, over 80% of the delinquent AIDEA loans are offices, shopping centers or retail structures, warehouses or multi-family dwellings. Ten percent are restaurants and hotels or motels. Thus over 90% of AIDEA's troubled loans involve commercial real estate. Several informed observers said AIDEA's portfolio may be representative of bank commercial real estate loans.

9. Telephone interviews with loan officers or senior representatives of eight banks revealed a wide range of problems and attitudes concerning commercial real estate loans.

== One bank estimates that it has only six loans involving commercial real estate, none over $400,000.00.

== Two banks have no problems with commercial real estate.

== Two banks acknowledged problem loans in this area but apparently have adequate reserves to handle their problems.

== One bank said most of its problems were in multi-family residential and retail properties, but that it had few multi-family property loans.

== One bank acknowledged serious problems in this area.

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[3] Information from the Division of Banking, Securities and Corporations.

10. By virtue of its position as receiver or liquidator for failing banks, the Federal Deposit Insurance Corporation (FDIC) has become a major player in the Alaska commercial and residential real estate markets. The FDIC recently expressed its interest in selling its property. Its portfolio comprises 658 pieces of real estate acquired from three banks with a book value of over $30 million. More than 500 pieces are single-family housing, condominiums or lots; less than 50 pieces are commercial structures. The FDIC property list includes:

== 330 single family residence lots,
== 56 single family residence dwellings,
== 167 condominiums,
== 26 multi-family dwellings,
== 30 trailers and commercial lots, and
== 49 commercial buildings.[4]

B. The Alaska Real Estate Market

1. Compared to the early 1980's, commercial real estate rental rates and property assessments are down, while vacancy rates are up. Nevertheless, if Anchorage data are any indication (see paragraph B.3., below), the sharp decline of 1986 did not continue in 1987.

2. Reduced rental prices provide renters with an opportunity to move up to higher quality facilities. When they do so, they forsake older, less well-appointed buildings that are liable to remain empty. Due to the upgrading phenomenon, rental and vacancy problems are markedly more severe in lower-quality real estate than in relatively high-rent real estate.[5]

3. Both of these trends can be seen in Anchorage rental market surveys by Shorett and Riely., by mid to late-1987, both the decline in rental prices and the increase in vacancies had slowed markedly. The vacancy rate in lower-qualities commercial properties was still increasing rapidly, but the vacancy rate for higher-quality commercial vacancies was only slightly higher than the figure six months earlier (86% occupancy in January 1987 to 84% occupancy in July). Apartment vacancies in both the third

[4] FDIC, "Real Estate Owned as of December 24, 1987" (attachment to letter from Thomas B. Ruch, Assistant Specialist in Charge, FDIC, to Commissioner of Admninistration Tony Smith, January 14, 1988).

[5] The highest class of commercial real estate is known as "Class A." These structures are generally modern, concrete and steel multi-story buildings with elevators. Class "B" real estate includes less expensive structures that offer less in the way of amenities such as landscaping and parking. Class "C" structures tend to be older, frame construction.

and fourth quarters of 1987 were down slightly from those of the same quarters one year earlier (23.8% in fourth quarter 1987 to 24.7% twelve months earlier). A decrease in high-rent apartment vacancies stood in contrast to the continued increase in vacancies at the lower end of the spectrum.[6]

C. Other States

1. A canvass of other states and national organizations specializing in state and local government affairs indicates that other states with economic problems have not tried or have not been significantly successful in dealing with the commercial real estate aspect.

2. Some state banking divisions have relaxed statutory requirements that non-performing real estate loans be reserved and written off as bad loans. The Division of Banking, Securities and Corporations feels that it already has sufficient latitude in this regard.

3. Where farm states have been hit with real estate problems affecting banks, the problem has generally been found to be beyond the means of state governments.

4. In 1987, Governor Henry Bellmon of Oklahoma sought a General Fund bail out of marginal banks through creation and funding of a bank investment authority that could, among other things, provide capital through purchase of stock in those banks. Bellmon also tried to set up a bank consortium to purchase and refinance troubled commercial real estate loans. According to Bellmon's staff, the legislature did not enact the legislation, while Oklahoma banks and real estate investors could not reach agreement on a price for purchase of the assets held in that state by the FDIC.[7]

D. Observations

1. Alaska real estate owners who borrowed at high interest rates to buy or build during the boom of the late 1970's and early 1980's now face a basic problem: in many communities, the real estate supply exceeds the demand. The effects of this problem have been exacerbated by lower interest rates and lower construction costs for new buildings and a general economic downturn. These three factors add to the basic

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[6] Shorett & Riely, Anchorage Apartment Vacancy Surveys (1987 Fourth Quarter [December 31, 1987] and Third Quarter [November 5, 1987]) and Anchorage Office Space Market Analysis Summary (mid-year, 1987).

[7] "Belmon Bank Plan Flops," Oklahoman, Aug. 7, 1987 (information from banking liaison Melissa Nager and Assistant Press Secretary Wendy Johnson).

over-supply problem, further increasing vacancies and lowering rental prices.

2. While the state can play a role in bringing private parties together to deal with entities such as FDIC, direct aid to a narrow class or geographic segment of investors might fail fundamental public policy tests of equity.

3. Many observers believe that an infusion of money from state sources would tend to prop up real estate prices at artifically high levels, thus prolonging the problems of market imbalance without alleviating them.

4. Several informed observers suggested that the imbalance between supply and demand may drive prices still lower. However, some economists believe effects of the real estate imbalance are likely to be limited. Scott Goldsmith of the Institute of Social and Economic Research, for example, believes the results of the Alaska real estate decline may resemble those of the October 1987 stock market crash, which wiped out $1 trillion in wealth but is expected to have a very modest effect on the national level of aggregate demand. Additionally, some economists suggest that the effect of a real estate collapse will be to lower the costs of doing business in Alaska, making it easier for entrepreneurs to establish a business or expand operations. Some areas have turned falling real estate prices into an integral selling point for economic recovery programs.

6. One possible solution to the commercial real estate problem is a quasi-public entity that would seek external sources of capital to purchase distressed real estate, remove it from the market and hold it as a long-term, speculative investment.[8] This approach would have beneficial effects on supply and on price because some property would be taken off the market and prices would not be subsidized (and hence propped up artificially). At the same time, it must be recognized that the sellers of distressed property would not be made whole. Additionally, when the quasi-public entity put its property back on the market, it would be liable to have a negative effect on real estate prices.

[8] The Department of Commerce & Economic Development is exploring this possibility along with concepts such as real estate investment trusts.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1590 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1387

E. List of Attachments

1. Table 1. Alaska Commercial Real Estate Loan Data
   [Summary of data from bank reports and AIDEA]

2. Table 2. Delinquent AIDEA Bond Loans by Area and Type
   [Data compiled by AIDEA]

3. History of Class "A" Office Rents and Historic Office Occupancies
   [graphs from Shorett & Riely mid-1987 Anchorage survey]

4. Synopsis of 1987 Fourth Quarter Anchorage Apartment Market Vacancy Survey
   [Shorett & Reily Anchorage survey]

Table 1

Loans Involving Alaska Commercial Real Estate ($ Millions)

As of:	9/30/87	6/30/87	3/31/87	12/31/86	9/30/86	6/30/86	3/31/86	12/31/85
Loans by Alaska Banks								
1. Total Estimated Commercial Real Estate Loans /1	$956.9	$1,015.4	$1,031.2	$1,037.0	$1,096.1	$1,104.1	$1,088.2	$1,059.7
2. Past-Due & Non-Accruing Comm. R. E. Loans /2	$292.3	$295.2	$258.8	$221.7	$212.0	$145.5	$100.1	$97.6
Loans from AIDEA Bond Sales								
3. Total Commercial Real Estate Loans /3	$227.5	$238.8	(N.A.)	(N.A.)	$245.0	(N.A.)	(N.A.)	(N.A.)
4. Delinquent Commercial Real Estate Loans /4	$47.5	$41.8	(N.A.)	(N.A.)	$16.8	(N.A.)	(N.A.)	(N.A.)
5. Total Commercial Real Estate Loans (1 + 3)	$1,184.4	$1,254.2	(N.A.)	(N.A.)	$1,341.1	(N.A.)	(N.A.)	(N.A.)
6. Total Troubled Comm. R. E. Loans (2 + 4)	$339.8	$337.1	(N.A.)	(N.A.)	$228.8	(N.A.)	(N.A.)	(N.A.)
7. % Troubled Comm. R.E. Loans (6 / 5)	28.69%	26.87%			17.06%			
8. Real Estate Owned by Banks / 5	$165.2	$148.0	$136.3	$108.5	$98.3	$86.5	$64.9	$46.9
9. % Increase in R.E. owned over previous quarter	11.65%	8.53%	25.68%	10.33%	13.60%	33.36%	38.3[illegible]%	(N.A.)

1/ Compiled from quarterly call reports of state and national banks (items 1a and 1e); excludes residential loans purchased by other entities; includes loans for land, construction loans and business loans secured by real estate.

2/ Compiled by Division of Banking, Securities and Corporations; includes loans past due 90 days or more and all non-accruing loans.

3/ Estimated by Division of Policy from AIDEA data; AIDEA financed 80-90% of these loans, Alaska banks the remaining 10-20%.

4/ Estimated by Division of Policy from AIDEA data; these loans are delinquent 90 days or more.

5/ Compiled by Division of Banking, Securities and Corporations ("Other Real Estate Owned"); real estate in bank possession as a result of non-performance by borrower.

Note: These data include assets now held by the Federal Deposit Insurance Corporation (FDIC).

Division of Policy, 1/4/88 [rev.]

Table 2

Delinquent AIDEA Bond Sale Loans by Area

Region:	Number of Loans	Loan Amount ($ Millions)
North Slope	3	$ 1.2
Interior	5	2.2
Southwest	1	0.3
Anchorage	44	37.8
South Central	12	5.9
Southeast	4	1.3
Total	69	$ 48.7

Delinquent AIDEA Bond Sale Loans by Type

Type:	Number of Loans	Loan Amount ($ Millions)
Commercial Real Estate:		
Office	18	$ 11.8
Warehouse	14	8.7
Retail/Shopping Center	15	13.2
Hotel/Motel	3	1.7
Restaurant	6	3.2
Multi-Family	8	9.0
Subtotal:	64	$ 47.5
Other:		
Industrial Manufacturing	1	0.6
Equipment	2	0.3
Vessel	2	0.3
Total	69	$ 48.7

Source: AIDEA (12/23/87)

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

02-576(2/77)

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Equipment	2		0.3	
Vessel	2		0.3	
Total	69		$ 48.7	

Source: AIDEA (12/23/87)

SHORETT & RIELY
REAL ESTATE APPRAISERS & CONSULTANTS
310 K STREET, SUITE 501, ANCHORAGE, ALASKA 99501-2046

ANCHORAGE (907) 276-1851
SEATTLE (206) 441-4900
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:

	Fourth Quarter 1986 Vacancy Rate	Fourth Quarter 1987 Vacancy Rate	% Change
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

Ken E. Kincaid, Appraiser

KEK/lh

OFFICE OF
MANAGEMENT & BUDGET
JAN 19 1988
STRATEGIC PLANNING

ANCHORAGE OFFICE SPACE
MARKET ANALYSIS SUMMARY
MID-YEAR, 1987

Prepared by

Ronald W. Bunn, MAI
Shorett & Riely
310 "K" Street, Suite 501
Anchorage, Alaska 99501

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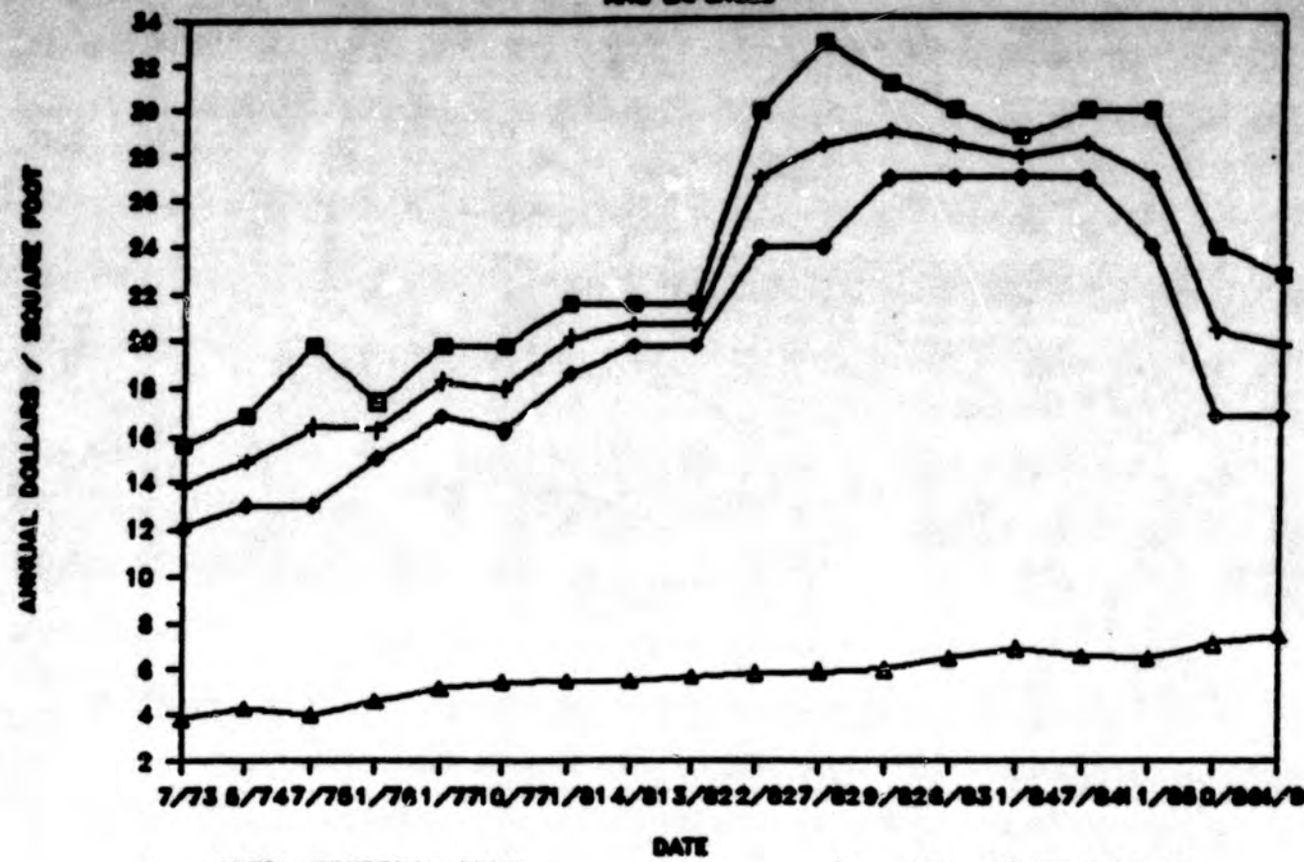
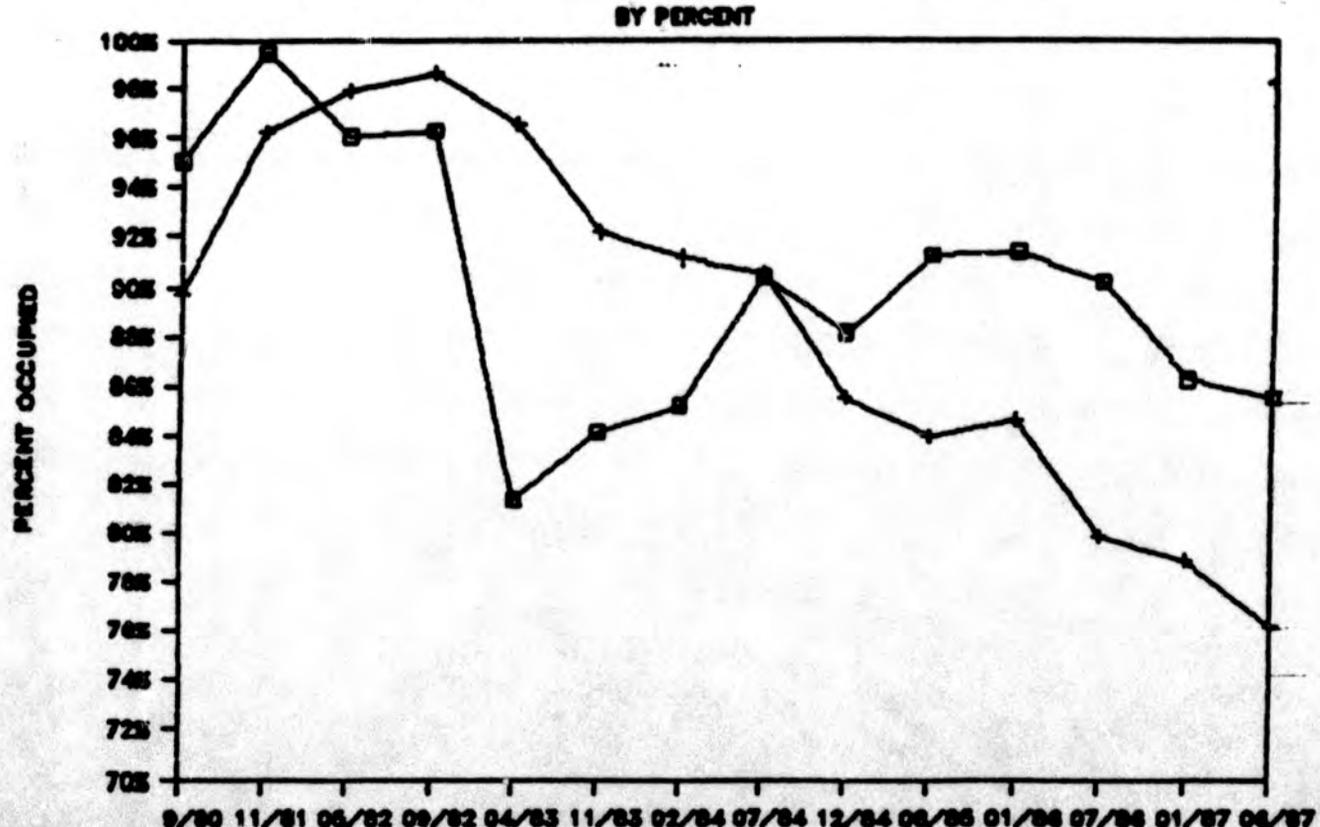
HISTORY OF CLASS "A" OFFICE RENTS

AND EXPENSES



HISTORIC OFFICE OCCUPANCIES

BY PERCENT



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Chapter IV. THE HOUSING MARKET AND POLICY OPTIONS

In earlier chapters we described the grim effects of the recession on Alaska's economy and housing market. We believe that the recession will end in 1988 and a gradual recovery begin. But some of the effects of the recession, including effects on the housing market, will not disappear overnight. A crucial question for AHFC and other major lenders is whether they can do anything that will speed the recovery of--or at least stabilize--the housing market.

This chapter assesses how a number of different policies that AHFC might try would influence the Anchorage housing market over the next five years. We don't have enough information to make such assessments for housing markets in other areas of the state, but movements in the Anchorage market will reflect general trends in housing markets throughout Alaska--with some obvious regional differences.

To project the effects of different policies we use a housing market model developed by ISER. These projections are of likely change in the Anchorage housing market, based on certain assumptions about future economic activity and specific housing policies. They are not "forecasts" of what is going to happen in the housing market. Chapter II assesses the likely range of economic activity in Alaska through the mid-1990s. The level of economic activity will of course be the most important influence on the housing market during the coming years. But the next most important influence on the housing market will be the housing policies that AHFC and other lenders choose. We could only forecast the path of the housing market if we knew for certain the state economic future and the policies lenders will choose.

The crucial policy choice AHFC and other lenders must make is how fast and at what prices to sell the thousands of foreclosed properties they have acquired and continue to acquire. As Table 3.6 in Chapter III shows, AHFC and other lenders were holding more than 4,000 houses, condominiums, and mobile homes as of June 1987, and in the preceding 18 months they had sold an additional 1,600 foreclosed units. Under what we consider the most likely level of economic activity, sales of foreclosed properties (particularly condominiums) will strongly influence the stability of the Anchorage housing market--including the numbers of future foreclosures--in the next few years.

More than 60 percent of the foreclosed properties in Alaska in mid-1987 belonged to AHFC, and most were concentrated in Anchorage and nearby areas. Of the state's major mortgage lenders, AHFC will continue to be hardest hit by defaults until the recession ends, because it holds about eight out of ten new mortgages written in Alaska in the first half of the 1980s. Decisions of AHFC about how to handle its inventory of foreclosed properties will therefore be

critical to Anchorage's housing market in the next few years, as will decisions of other lenders whose foreclosure holdings are smaller but still substantial.

Below we br'efly explain why sales of foreclosed units will so strongly influence the condition of the Anchorage housing market over the next few years. Next we outline the structure of housing markets in general, discuss our model, and then assess the relative effects of selected housing policies.

Sliding Prices and Rising Defaults: A Vicious Circle

The faster AHFC and other lenders and insurers put foreclosed properties on the market--at the extreme, through auctions similar to one a major lender held in Anchorage last fall--the more prices will be depressed and the more defaults will persist, if not increase. The result will be that the lenders will end up holding more properties through foreclosures.

Why selling large numbers of foreclosed properties in a short period results in more borrowers defaulting is easy to explain. Putting a great many foreclosed properties on the market quickly pushes prices down. As prices go down, more and more homeowners find themselves with negative equity--that is, their mortgages are larger than the market prices of their properties. When owners with negative equity are forced to sell, they will likely default because they are unable or unwilling to make up the sometimes substantial difference between what they owe and what the properties will sell for.

Holding foreclosed properties off the market is of course also expensive for lenders and insurers: they pay in the neighborhood of $18 to $30 per day for each unit, depending on the size of the outstanding mortgage and the interest rate. What AHFC and others must weigh are the relative costs: what choices will turn out to be most costly and the most beneficial in the next few years and in the longer term?

Sliding property values and rising defaults have already cost Alaska lenders, insurers, and borrowers tens of millions of dollars. In addition to the costs we've already noted, the foreclosure process that follows default can cost thousands of dollars in administrative and legal fees that are borne by borrowers, lenders, and taxpayers. Costs of judicial foreclosures--in which the lender goes to court to try to have the borrower declared liable for losses when the property is re-sold--are particularly high. And falling property values also have other social costs; for example, some homeowners who could find better jobs elsewhere don't move because they can't sell their houses for what they owe on them and they don't want to default.

A continuing cycle of dropping prices and growing defaults will also make national lenders and insurers and bond investors less willing to put money into the Alaska housing market in the future. That lack of confidence will translate into higher costs for AHFC and other lenders and therefore higher costs for Alaska homeowners in general--higher costs for insurance, for instance, or higher interest rates on bonds AHFC sells to finance mortgages.

As a government entity, AHFC is also justified in intervening to limit the effects of falling prices on the quality of Alaska housing. When there is more housing than there is demand, some houses sit vacant or may be rented at rates that aren't adequate to pay maintenance costs. Deterioration sets in. If just the poorest quality stock deteriorated, government intervention might not be justified, because we could assume that the poorest stock was being eliminated and Alaskans in general were moving into better quality housing.

But there are two reasons why deterioration might spread to better housing. First, when poor-quality houses deteriorate, that deterioration may reduce the value of nearby higher quality housing. Second, even though declining prices mean buyers can afford better quality housing, many potential buyers are also borrowers who already own lower quality housing with negative equity--and therefore they can't sell their current homes and buy better ones. So again, better housing might sit vacant and deteriorate. Nonetheless, refined AHFC policies might be able to limit the extent of such deterioration.

Given the situation we've just described, public policies that could stabilize prices and decrease both present and future defaults and foreclosures merit serious consideration. Below we describe housing markets in general and how we have modeled this market.

Structure of Housing Markets

The housing market, like all markets, can be described in terms of supply and demand. In fact the housing market is not a single market but rather a number of markets with similar but not identical goods: housing varies in size, location, and construction type; it may be occupied by owners or renters. While at any given moment a person can live in only one type of housing--for instance, an owner living in a single-family house--the various markets are related and the price in one market affects demand in all the others.

The market clearing process for housing--the process by which supply and demand come into balance--is complicated by imperfect

information, price floors imposed by mortgages, and costs associated with moving. These market imperfections make it hard to observe the housing market in equilibrium, where prices clear the market. Buyers and sellers have only limited information about what price houses will sell for. They may know what specific houses sold for in the recent past, but they may know little of overall market adjustments since those sales. Also, because there are so many different types of houses, information about the selling price of one particular house may not be relevant to the selling price of others. Over time, as many buyers and sellers adjust their asking and offering prices, the market moves toward a market clearing price.

Two other elements hinder movements toward a market clearing price, particularly in a market where prices are falling. Prices might not fall as low as they otherwise would because loan amounts limit how low they can go: a seller who accepts a price that is less than what he still owes on the property would have to make up the difference--so the mortgage amount may set a floor for the selling price. Also, there are other monetary and social costs involved in moving from one type of house to another. These moving and transaction costs may make families or individuals less willing to move to houses that might be better for them, even in the face of declining prices.

These complexities notwithstanding, the housing market still operates like most other markets. The demand for housing in a given community depends mainly on how many households there are in the region. The demand for particular types of housing determines how households are distributed among the various types. The most important determinants of housing demand are household income, wealth, family size, mortgage rates and terms, and prices.

At any given time there will be a supply of newly constructed houses and older houses up for sale. When builders can construct a house and sell it for more than the building and selling costs, they will build any type of house. Thus builders respond to the expected price of homes and the construction costs. They also consider how long it would take to sell or rent a new house. Another important element affecting the supply of housing is the number of sellers who are either leaving the state or moving into a different type of housing. Generally such changes are tied to changes in the economic positions or the demographic characteristics of households. Thus, the overall level of economic activity affects the supply of housing.

Modeling the Housing Market

Our housing market model, and other housing models developed in the U.S. over the past 25 years, are described in detail in Chapters II and III of ISER's November 1986 report, The Effect of Changes in the Alaska Housing Finance Corporation Mortgage Programs, Final

Report. Appendixes C and D of this report provide model documentation. Below we briefly discuss some of the difficulties inherent in modeling the housing market.

Housing markets are extremely complex. Our housing market model reflects this complexity; it is designed to take into account relationships between dozens of variables, and it is built on hundreds of assumptions about future economic activity and about how housing markets work. The three major economic variables we use in the housing market model are (1) the number of Alaska households; (2) the per capita income of Alaskans; and (3) the Alaska cost of living. The number of households and per capita incomes affect the demand for housing, while changes in the cost of living affect the costs of construction and the supply of housing. The housing model incorporates the economic assumptions and projections presented in Chapter II.

Our model provides a good picture of how the Anchorage market may react to different policies. But it is after all a computer simulation model--not a crystal ball. It is impossible for a model to capture all aspects of a market as complicated and as subject to so many forces as the housing market. Furthermore, it is limited by lack of information about some aspects of the economy and the housing market. We can not, for instance, project the effects of various policies on Alaska housing markets other than Anchorage.

Projections made with the model are of course only as accurate as what goes into the model. We believe our assumptions about likely economic activity between now and 1992 are good ones, but we all know the Alaska economy is volatile: no one can be entirely sure what will happen. To create a computer model, we have to build in relationships between many variables--and we have constructed those relationships by looking at what they have been historically. In the future those relationships could be different from what they have been in the past. The fact that most of our historical data is from a period when the Anchorage housing market was on the upswing posed a particular difficulty--although we were able to incorporate some historical information from the early part of the decline. Another complexity is that computer models do not generally reflect changes immediately; changes often show up only after some time lag.

Finally, no computer model can ever precisely incorporate people's expectations. What Alaskans believe is going to happen to the economy will affect their spending and investment decisions and therefore influence what does happen in the economy. This is not to say that Alaskans can end the recession by spending and investing more, but rather that Alaskans' perceptions about the economy can have some effect on just when the economy begins turning around: Alaskans acting on their beliefs about the future might end the recession a bit sooner or somewhat later than we expect.

General Policy Options

This section talks broadly about what options AHFC has for influencing the Anchorage housing market, and some of the ways those policies might be implemented. Any policy AHFC undertook that increased or decreased housing prices would have broad effects on other lenders, insurers, homeowners, renters, landlords, and others with interests in the Alaska housing market. Our computer model can't project specific effects of different policies on all those groups, but we can talk in general terms about how AHFC policy choices could affect others, and about some other broad policy considerations that the model can't capture. In the next section we use our housing market model to look more narrowly at how some specific policies would affect housing prices and other market variables.

Policies can affect either the supply or demand side of the housing market. In addition, policies may improve the market adjustment process. Five possible strategies are: allowing prices to adjust to clear the market; increasing the demand for owner-occupied housing; reducing the stock of housing; using market power to maintain a floor price; and limiting mortgage liability. Each of these general strategies would be implemented differently, would have effects on several housing objectives, and would have various costs and benefits.

Allow Prices to Adjust to Clear the Market

Under this policy, AHFC would auction off its foreclosed units. If auctions were held regularly, AHFC could clear its inventory of foreclosed properties and the prices paid would provide information for the rest of the sellers in the market. An important consideration in this type of program would be the rate at which foreclosed properties were auctioned. If all properties were auctioned at one time, prices would drop sharply. To prevent that, AHFC could clear its accrued properties over a period of time.

Such a program would lower the price of homes offered for sale and reduce the number of private (non-auctioned) homes sold. The price decline required to clear the foreclosures would depend on the relative elasticities of demand and supply for the various types of housing and the rate at which houses were auctioned. Since owner and rental housing are substitutes, this policy would also result in a decline in the price of rental housing.

This policy would increase the default rate. Reducing the price of owned homes would increase the number of households at risk of default, since it would increase the number of homes with negative equity.

How much prices would fall and how many new defaults would be created by auctions would depend on the economy. The demand for housing will depend on future population and income growth. The number of those at risk who actually default will also depend on economic conditions.

By auctioning foreclosed properties, AHFC and other mortgage holders would be trading potential losses on the mortgages--selling at prices lower than the mortgage amounts--for reductions in holding costs. Whether selling at depressed prices would be more or less costly than holding on to the properties would depend on expectations about future price changes. If prices were expected to rise enough so that holding costs would be less than loan losses, it would pay to hold the units. If price declines encouraged future defaults, auctioning properties could increase both future loan losses and holding costs.

Mortgage insurers would also be affected by auctions of foreclosed properties. The liability of mortgage holders depends on the extent to which their mortgages are covered by insurance. If the mortgage on an auctioned property were fully insured, the insurer would bear the losses described above. If the mortgage were not fully insured, the loss might be shared by the lender and the insurer, although the insurer would be liable for the first portion of the loss.

Property owners would see a decline in their home equity if such auctions took place. For certain home owners, this decline would result in negative equity. Homeowners wouldn't realize actual losses unless they were forced to sell.

Owners of rental property would suffer a decline in rents paid and in the value of their properties, because owning and renting are substitutes. Renters, on the other hand, would gain from this program, since it would reduce their rents and make it cheaper to buy houses.

By reducing the cost of housing, an auction program would allow buyers to get better quality housing for less money.

Increasing the Demand for Owner-Occupied Housing

In periods of limited population growth or even decline, stabilization policies can be aimed at increasing the rate of homeownership. Homeownership can increase in a stable population as the population ages, household income grows, and family size increases. In declining markets, uncertainty about future economic status or expectations of future price declines may keep people from buying homes. Additional factors that may limit housing demand are required down payments, restrictions on AHFC loans, and the level of

interest rates. AHFC and Mortgage Guarantee Insurance Company (MGIC)--the insurer for a large number of AHFC loans--have recently undertaken condominium marketing programs that reduce down payments, loosen loan restrictions, and offer interest rates that are generally below those of other lenders.

Lower mortgage rates in general increase the demand for owner-occupied housing. Both the overall number of houses bought and the types purchased will change with changes in the mortgage rates. But any nonproportional offer of subsidies may simply shift the demand between types and not increase the overall demand. In addition to the lower interest rates AHFC and MGIC are now offering through their condominium sales program, AHFC also has a program (the HOF program) that effectively subsidizes interest rates for lower income buyers.

Some Alaskans who might want to buy homes may be able to meet the monthly payment on a loan but not make the required down payment--and AHFC and other lenders have recognized that by reducing required down payments in some cases. A variation on these reduced down payments would be a lease option program. AHFC could establish this program with its foreclosed properties; the corporation could lease these units with an option to buy. A portion of the lease payment each month could go toward the down payment. Such a program would counter the effects of uncertainty on the housing market; lease holders would not suffer the long-term risks of a change in their economic status or a decline in the price of housing.

AHFC's 70 percent ownership rule for condominium complexes may have limited demand until recently; that rule says that AHFC loans will be available only in complexes where 70 percent of the units are occupied by owners rather than renters. By loosening that ownership share requirement, AHFC has increased the portion of condominium stock eligible for AHFC loans. AHFC might also consider replacing the ownership requirement with long-term leases that included an agreement to pay the condominium association fee; these lease agreements could be enforced by the condominium association.

AHFC's recent policy changes sharply increased the number of condominiums AHFC sold in Anchorage in the summer of 1987, and the other kinds of actions described above might increase demand more. Increased demand should tend to shore up prices. AHFC and MGIC are of course bearing extra costs for these new marketing measures, and any additional measures would mean more costs. For example, additional rate subsidies would require funds from either AHFC's reserve or additional state appropriations to buy down market interest rates. Additional funds might also be necessary if reducing the ownership requirement in condominium projects results in increases in the rates AHFC pays on bonds. Second, AHFC may have to establish an insurance fund to support the lower down payment

program. The cost of a lease option program with foreclosed units would be the lost capital gains if housing prices rose in the future.

But if these measures help stabilize prices, AHFC and others will also benefit. The rate of defaults and therefore foreclosures should be reduced, reducing future loan losses and holding costs.

Property owners should also ultimately benefit from these types of programs, if the programs help increase the value of their homes and improve their chances of selling them. Owners of rental property, however, could be made worse off. By reducing the costs of owning and increasing the access to homeownership, these programs could reduce the demand for rental units. That in turn would reduce rents and the value of rental property.

By reducing the costs of both renting and owning homes, these programs could also improve the quality of housing Alaskans live in and increase the rate of homeownership. One general problem with programs that reduce the value of rental property is that this reduction could result in long-term declines in the quality of the stock, because landlords are more likely to defer maintenance.

The total effects and costs of such programs would depend on the future level of population. If the economy grows faster than expected, the cost of the programs would increase and add to the upward pressure on prices.

Removing Housing Stock

The most direct strategy for stabilizing the housing market in the face of "excess" supply is simply removing a portion of the supply. This reduction in supply would put upward pressure on prices. Two types of housing would lend themselves to removal: mobile homes and poor quality multi-family housing.

Mobile homes could be shipped to other markets; at some price, it would pay to export at least some of the newer mobile homes. Removing other types of units would be more difficult. The state's urban areas have few poor-quality units, and most that exist are rental units. Taking those poor-quality units out of the housing stock would require the state to buy them--or trade for foreclosed units--and tear them down. If AHFC traded foreclosed units with private owners, a number of steps would be involved. First, the remaining condominium owners in the selected complexes would have to be relocated (this would require refinancing) to foreclosed units in other complexes. Second, the condominium complex would have to be traded for the apartment unit; the trade might involve additonal cash. Finally, the tenants of the rental unit would have to be relocated and the building demolished. One variant of this strategy would be to trade foreclosed property with the Alaska State Housing Authority (ASHA). On a smaller scale, single-family units on lots zoned for other uses might be removed through trade.

Removing stock in this manner should help stabilize prices in the owner-occupied market and have a limited effect on the rental market. The extent of the increase in prices would depend on the proportion of excess stock removed; the smaller the share removed, the smaller the effect. The small quantity of poor-quality housing available for use in such a program suggests that the effects would be limited.

The costs of such trades to AHFC would be the market value of the traded property, the relocation costs of renters and condominium owners, and the demolition costs. There would be a number of benefits for AHFC, including a reduction in the loan loss and holding costs of foreclosed properties and a reduction in the rate of future foreclosures.

Depending on their level of participation, the insurers would have to be paid market values of the properties. Their participation might be based on how much they would benefit if their future losses were limited.

Property owners would be better off to the extent that this program stabilized housing prices. Owners of rental property would be no worse off, since the rental stock would remain the same and owner stock would be reduced. Renters should likewise see no change, since the amount of rental stock would be the same.

The overall quality of the housing stock would be improved through this program, because it would concentrate renters and owners in better quality housing and limit deterioration of the stock.

The costs of this program would depend on the economic future; further declines in the value of the housing stock would reduce the costs of improving the quality of the stock. Eliminating stock would also increase inflationary pressure should there be a surprise rapid turnaround in the economy.

Using Market Power to Maintain a Floor Price

AHFC's stock of foreclosed properties makes it, as we have noted, a major seller in the housing market. This control of a large share of the market gives AHFC power to influence prices. AHFC could act to prevent a decline in prices simply by establishing a floor price for its units and holding them until they could be sold for that price. The floor price could be established to minimize the average loan loss on foreclosed properties.

If AHFC were able to stabilize prices by establishing a floor price, there would be various costs and benefits. AHFC and its mortgage holders would see two benefits: reduced loan losses on

sales of foreclosed property, and fewer defaults in the future. However, holding costs would be higher, since maintaining the price above the market clearing level would increase the length of time foreclosed properties were held. But as we noted earlier, AHFC and its insurers face large expenses in holding foreclosed properties off the market--in the range of $18 to $30 per day for each unit. Whether the holding costs would outweigh other benefits would be the critical issue for AHFC and its insurers. The policy would save money overall if the holding costs up until the time of the sale were less than the loan losses would have been if a property had been sold earlier at a lower price.

For those loans completely covered by mortgage insurance, the costs and benefits outlined above would accrue to the insurers. On loans only partially covered by insurance, the costs and benefits would be distributed between the insurers and the lenders.

Owners of both homes and rental units would benefit if this program stabilized prices. Homeowners who wanted to sell would have a better chance of doing so simply by offering their houses below AHFC's floor price. Renters could be hurt by this program, because it would increase the costs of buying and renting.

Limiting Mortgage Liability

Falling prices over the past eighteen months have left many Anchorage homeowners--particularly those who bought when prices were at their peak--with negative equity: that is, they owe more on their houses than the houses can be sold for. That negative equity is a market barrier with serious consequences. First, it pushes many borrowers into default if they are forced to try to sell and are unwilling or unable to make up the sometimes substantial difference between what they owe on their houses and what the houses will sell for. Second, it prevents some homeowners from taking advantage of lower prices and buying better quality houses--because they are unable to sell their existing houses for what they owe on them.

AHFC and other lenders might mitigate the market barrier posed by negative equity--and thereby reduce defaults and increase demand--if they limited borrowers' mortgage liability in some circumstances. There are a number of ways lenders could go about limiting mortgage liability.

One way would be for AHFC and its insurers to negotiate write-downs of loan liability for borrowers who had to sell. Such write-downs would be similar to the pre-foreclosure sale agreements currently being used by mortgage insurers. Steps involved in such a process might include having the home appraised by a certified appraiser approved by AHFC; forgiving the borrower some percentage or all of the amount owed above the appraised value (or

the sale price); having the seller pay closing costs; and splitting the loan losses between AHFC and its insurers, in shares proportionate to their total liability on each loan.

Of course the lenders would establish guidelines for determining when they would write down mortgage liability rather than pursue foreclosure: a blanket policy of writing down liability for borrowers unable to sell their houses for what they owed on the houses would encourage more defaults. And, such a blanket policy of not pursuing foreclosures could in turn make mortgage insurers and bond investors reluctant or even unwilling to buy or insure mortgage loans in Alaska in the future.

But in some circumstances mortgage write-downs could save lenders and insurers money, if the alternative were going through foreclosure proceedings, taking possession of the house, holding it for re-sale, and taking a loss on the re-sale. A single judicial foreclosure can cost the state in the range of $5,000 to $10,000--plus costs of holding foreclosed units ($18 to $30 per day for each unit). In addition, potential losses on re-sale of a property could be as great as the amount of a loan write-down. AHFC would have to weigh the relative costs and benefits in making its decisions about whether and when to write-down mortgage liability.

Another possible method of limiting mortgage liability in some circumstances would be to allow homeowners who wanted to sell their existing houses and move into better ones in Alaska to defer a part of their mortgage liability until prices went back up. These homeowners would, in a manner of speaking, be taking their negative equity along with them. A homeowner with negative equity on his current house would be allowed to sell that house for less than the outstanding mortgage and buy another house in Alaska, with the proviso that he had to repay the lender later, when property values and incomes increased. That repayment could be handled in a number of ways--the borrower could, for instance, carry the negative equity to the new house in the form of a second mortgage, or repay the lender out of his capital gains when he sold the second house. Still another way the lender could recoup the loan loss on the first house would be to build a graduated payment schedule into the mortgage on the second house--so that after a few years, a portion of the borrower's higher payments would be used to repay the lender his loss on the first loan. However the transfer was handled, it would be a means of helping stabilize the Anchorage market by increasing sales.

Effects of Selected Policies

We now use our housing market model to assess the relative effects of specific policy options on the Anchorage housing market between now and 1992. All the policy cases discussed below assume

the level of economic activity projected in the medium (base) case in Chapter II. We believe that case represents the most likely rate of economic growth over the next five years, but it is always possible that the economy will grow faster or slower than we expect. In the final section of the chapter we discuss how faster or slower economic growth would affect the Anchorage housing market.

Aside from the assumptions about future economic activity, the crucial variable in all the policy cases is the rate of sale of foreclosed condominiums and single-family houses--but particularly of condominiums.

It is much easier to re-sell single-family houses than condominiums. Most buyers prefer single-family houses when they can afford them, and when prices are down more buyers can afford houses. Buyers are scarce in the Anchorage market today, but more of those fewer buyers are choosing houses over condominiums. As we noted earlier, we anticipate that the existing stock of condominiums and other multi-family units (including rental units) will likely exceed the projected demand for multi-family housing in Anchorage through 1992. Condominiums are more difficult to re-sell because they are the second choice of many buyers and because there are so many of them out there.

We do not attempt to project future prices for mobile homes under the different policies; we don't have enough information on the mobile home market to make such price projections. We expect that the existing supply of mobile homes will more than meet demand from now through 1992, and that AHFC may in fact ship some mobile homes outside the state for sale.

We can group the policy cases this way: the three main cases (base, hold-all, auction) assume different rates of sale of the total inventory (AHFC's and other lenders') of foreclosed houses and condominiums in Anchorage. Three additional cases (limit liability, remove, and subsidy) assume the same rate of sale of foreclosed inventory as in the base case, but also look at the effects of additional policy changes. The limit liability case looks at how limiting mortgage liability of borrowers or allowing them to defer a portion of mortgage liability until later would affect defaults and the lenders' inventory of foreclosures. The remove case assesses the effects of simply removing--not re-selling--some condominiums from the inventory of foreclosed condominiums. Finally, we also assess how subsidizing mortgage interest rates would affect some aspects of the Anchorage condominium market, which is much more depressed and where re-sales are much more difficult than in the market for single-family houses. We present results from these last three cases only when they are significantly different from base case results.

Variables and Their Relationships

We examine the relative effects of the various policies on prices, private sales, inventory of foreclosed properties, and construction of condominiums and single-family houses between now

and 1992. We also assess how each is likely to affect equity of homeowners and rental rates. We will of course use some numbers in discussing these various effects, but what we consider most important is not the specific numbers--which are approximations--but rather what the numbers show about the relative effects of different policies. For instance, we don't pretend to know that the average price of single-family houses would be precisely $139,265 in 1989 if the lenders sold a given number of foreclosed units--but we can say whether prices would tend to be higher or lower if the lenders sold more of fewer houses.

The housing market variables we examine are of course related, and change in one affects the others. In general, our housing market model says that higher prices tend to reduce defaults, increase equity, encourage construction, and increase private sales. Conversely, lower prices mean more defaults, lower equity, less construction, and fewer private sales.

Base Case: We use this case as a benchmark against which to assess the effects of the auction and hold-all cases, where we assume that more or fewer foreclosed units are sold. This is not a "forecast" case in the sense that we consider it the most likely to actually happen; it incorporates a rate of sales that is neither extremely fast nor extremely slow.

In this case we assume that AHFC and other lenders sell 1,000 houses per year from their inventories of foreclosed single-family houses until the inventory falls below 1,000, and then sell off whatever is left in the next year. For condominiums the case assumes that lenders sell a constant percentage of their stock of foreclosures in any given year; in this case that amounts to between 400 and 700 condominiums annually from 1988 through 1992.

Auction Case: The title essentially describes the case: here we examine the effects of lenders selling a very large percentage of their stock of foreclosed condominiums each year--three to four times as many condominiums (between 1,000 and 2,800 per year) through 1992 as under the base case. The case assumes roughly double the number of sales of single-family houses as under the base case--from 1,000 to 2,200 annually until the stock is exhausted.

Hold-All Condominiums Case: Under this case we assess what would happen in the housing market if the lenders sold no foreclosed condominiums at all between 1988 and 1992, and restricted sales of foreclosed single-family houses to just 400 per year during the same period.

Limit Mortgage Liability Case: Here we look at how future defaults and other market variables would be affected if lenders or insurers limited or deferred mortgage liability of property owners who were forced to sell or wanted to move to better homes in Alaska but were constrained by having negative equity in their current houses. The

borrower's liability in such cases would be limited to the sale price of the property, even if the outstanding mortgage were higher. (Assumptions about rates of sale of foreclosed inventories are the same as in the base case.) This case represents an extreme: it shows the results if lenders limited mortgage liability of all those with negative equity who wanted to sell.

Remove Condominiums: This case differs from the base case only in that we look at what would happen if AHFC or other lenders simply took 400 units out of their inventory of foreclosed condominiums in each of the years 1988, 1989, and 1990; these 1,200 units would not be sold but would be demolished or otherwise removed from the market.

Subsidize Interest Rates: This case examines the effects on just the condominium market of subsidizing interest rates and holding rates of sale of foreclosed units the same as in the base case.

Policy Effects on Prices

A key measure of market stability is price. Figures 4.1 through 4.4 show the effects that faster or slower sales of foreclosed properties would have on house and condominium prices--both nominal (not adjusted for inflation) and real (adjusted for inflation) prices--in Anchorage over the next several years. The figures also compare the projected prices with historical prices from 1980 through 1986. Under all the cases, prices of condominiums and houses reach lows in 1987 or 1988 and then begin climbing--but condominium prices drop much further than house prices and take much longer to recover to their historic highs.

Base Case Prices: Under the base case nominal and real average prices of houses would bottom out in 1987 and average prices of condominiums in 1988. Nominal house prices would reach a low of around $109 thousand in 1987 and then begin to rise steadily, rebounding to their nominal 1985 levels by 1989. Real prices--prices in 1986 dollars to account for projected future inflation--would also rise beginning in 1988, but their course would be more jagged: real prices by 1992 would be about 13 percent higher than in 1987.

Average nominal condominium prices under the base case would reach a low of about $73 thousand in 1988 and then begin slowly rebounding, but not reaching their 1985 levels until 1992. Real condominium prices would bottom out at around $68 thousand in 1988 and increase about 19 percent by 1992.

Auction Case Prices: High sales of condominiums in this case would push nominal prices to a low of $58 thousand in 1988--20 percent below projected base case prices in that year. Average condominium prices in 1992 would still be below their nominal 1985 levels. Real condominium prices in this case would also bottom out in 1988 before beginning a slow recovery that would still leave real prices by 1992 about 5 percent lower than they would have been under the base case.

Figure 4.1 Nominal Prices, Anchorage Condominiums, Under Five Cases, 1980-1992
(In Thousands of Dollars)

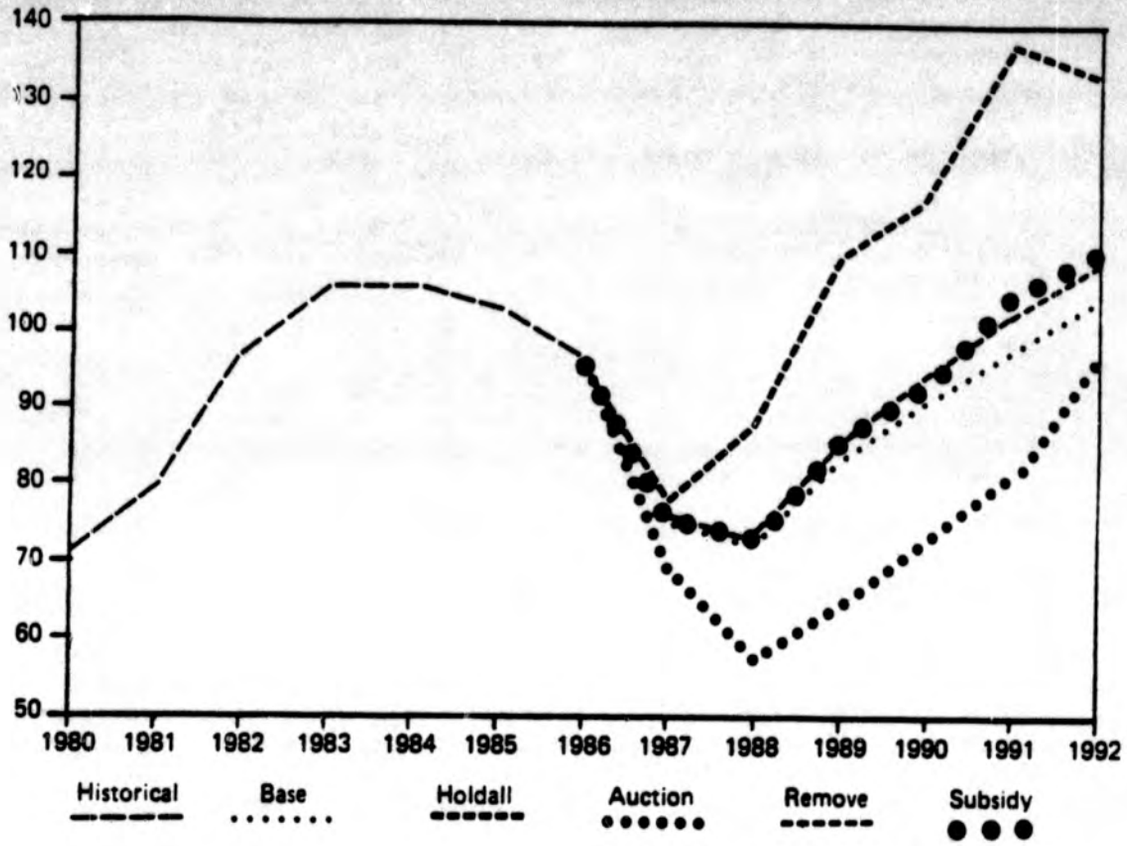


Figure 4.2 Real Prices, Anchorage Condominiums, Under Five Cases, 1980-1992
(In Thousands of 1986 Dollars)

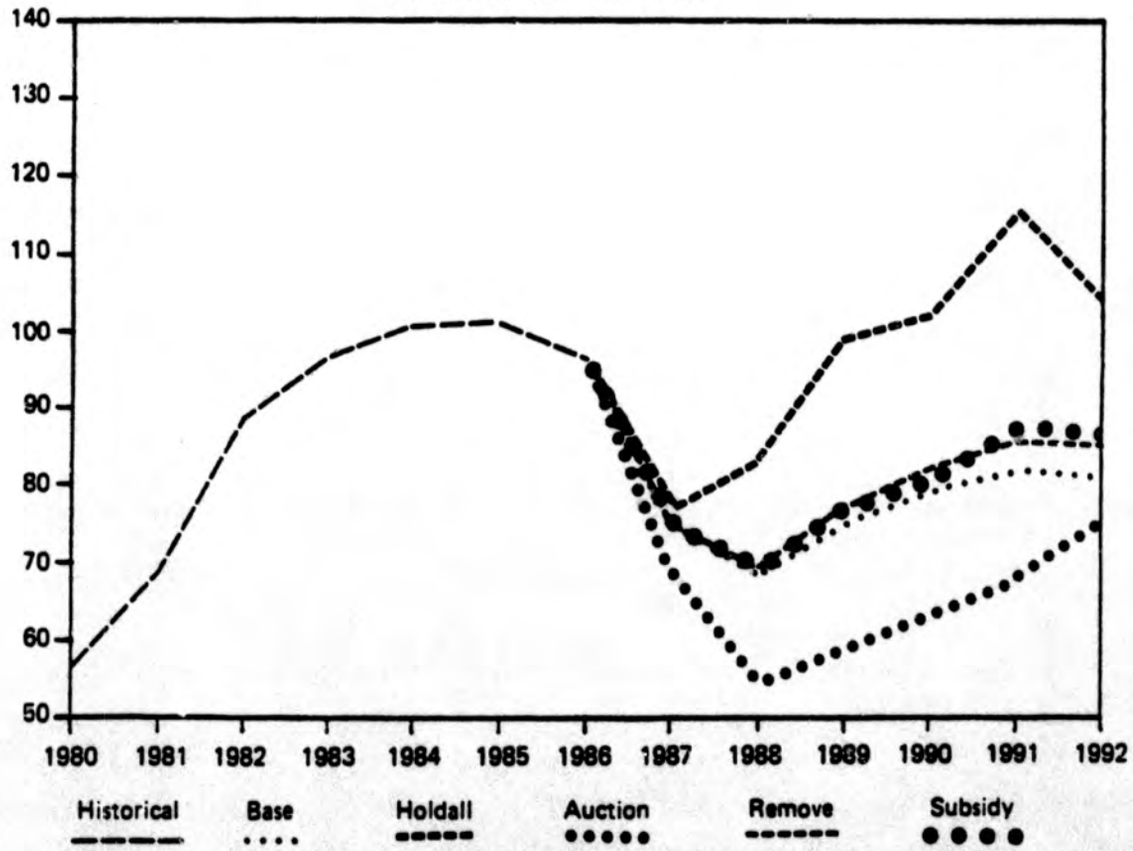


Figure 4.3 Nominal Prices, Anchorage Single-Family Houses
Under Three Cases, 1980-1992
(In Thousands of Dollars)

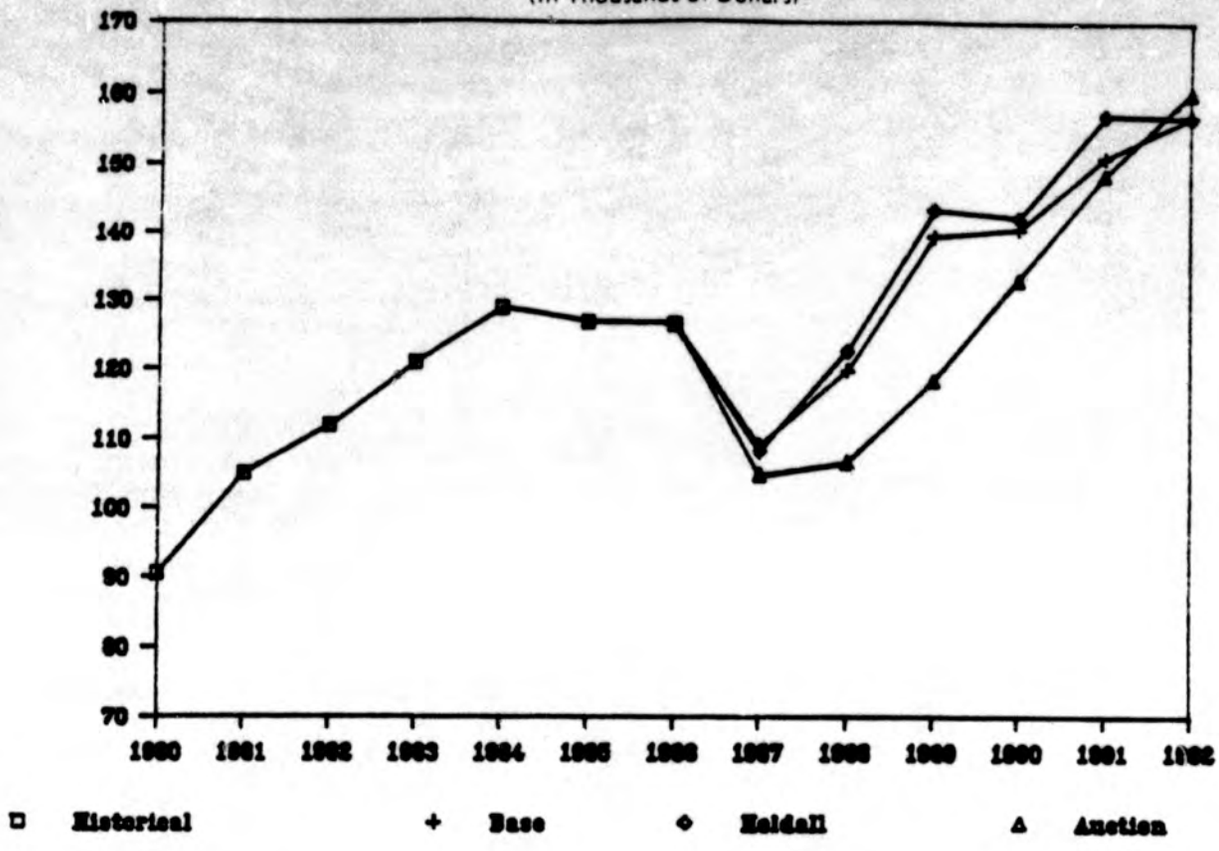
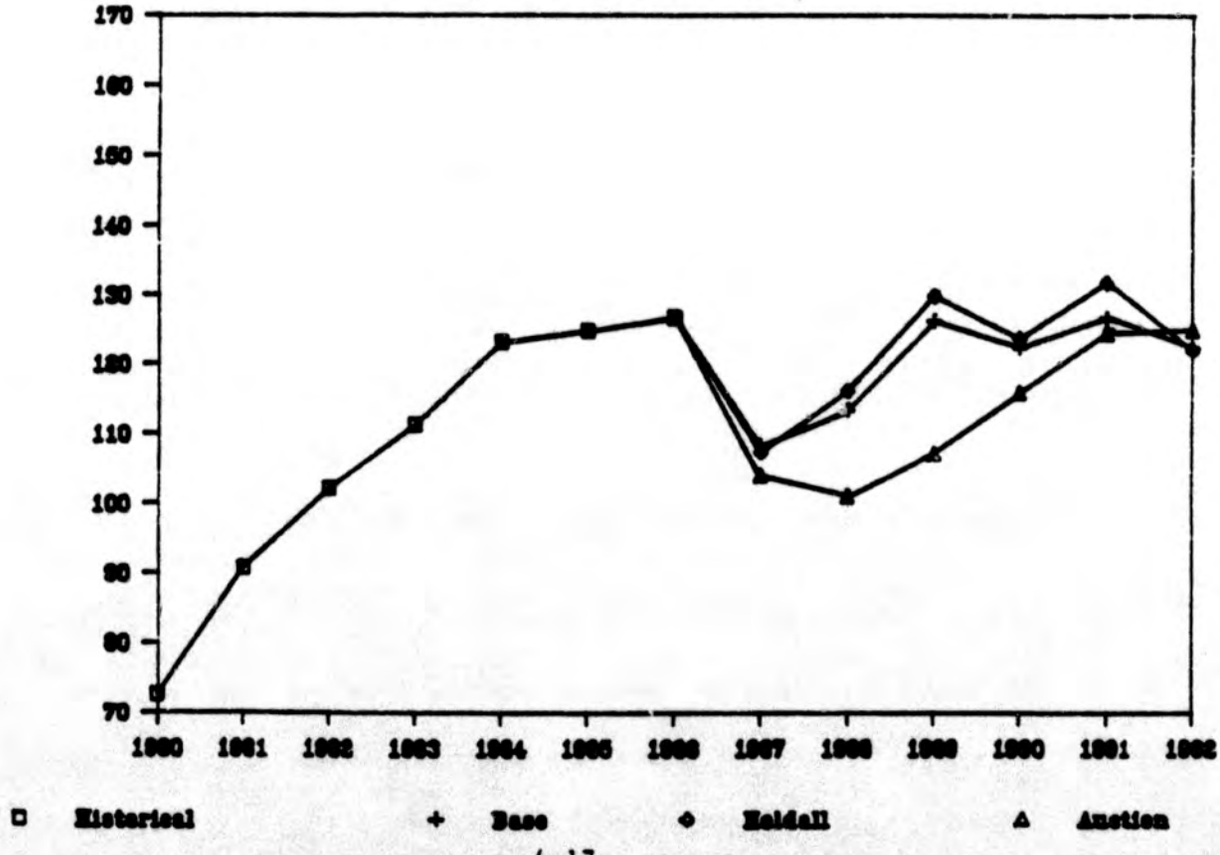


Figure 4.4 Real Prices, Anchorage Single-Family Houses
Under Three Cases, 1980-1992
(In Thousands of 1986 Dollars)



Prices of single-family houses would also be pushed down in the late 1980s by faster sales of foreclosed houses, though not as much as condominium prices; house prices would also rebound more quickly. Under this case average nominal house prices would be around $104 thousand in 1987 and would change little in 1988--but by 1990 they would reach their nominal 1985 levels. Real prices (in 1986 dollars) of houses would hit bottom in 1988 and increase about 23 percent by 1992. So in the short run (through 1989) auctioning houses would depress prices, but clearing that inventory quickly would make house prices slightly higher than they would be under the base case by 1992.

Hold-All Case Prices: This case assumes that lenders simply hold onto (or even, at the extreme, demolish) all their stock of foreclosed condominiums, selling none between 1988 and 1992, and reduce sales of single-family houses through the period. Keeping all foreclosed condominiums off the market would have a dramatic effect on both nominal and real prices: prices would bottom out sooner, fall much less, and recover faster. Nominal prices under this case would reach a low of around $78 thousand in 1987, rebound to their 1985 levels by 1989, and continue to well above their historic highs by 1992. Real prices would increase 35 percent between 1987 and 1992.

The effect of holding more single-family houses off the market would be relatively small; prices would increase slightly faster than under the base case in the next few years, but would be about the same by 1992. We assume that the Anchorage market could readily absorb more than 400 houses from the inventory of foreclosures each year, because the supply of single-family houses--unlike the supply of condominiums--will not exceed the projected demand in the next five years.

Subsidize Case: Subsidizing mortgage interest rates would increase prices of condominiums just slightly over base case levels; for instance, in 1989 nominal average prices of Anchorage condominiums would be about $85 thousand as compared with $83 thousand in the base case--or about two percent higher.

Remove Condominiums and Limit Liability Cases: The results of taking some condominiums out of the inventory of foreclosures or limiting liability of sellers are not shown in Figures 4.1 through 4.4; those measures would have little effect on prices as projected under the base case.

Policy Effects on Inventory of Foreclosures

The thousands of defaults and foreclosures in Anchorage and other areas of Alaska in 1986 and 1987 have been the most visible signs of distress in the housing market. Figures 4.5 through 4.8 show the effects of various policies on the inventory of foreclosures in the hands of lenders and insurers over the next five years in Anchorage. Projecting future defaults and foreclosures is particularly difficult and risky--so please keep in mind that what

is significant in these figures is not the precise numbers but rather the relative ways that different policies would affect foreclosures.

Base Case Inventories: Under this case--which assumes moderate rates of sale of condominiums and houses--the inventory of foreclosed condominiums would build until it reaches about 2,400 in 1989 and then begin to fall, but still stand at around 1,000 by 1992. The inventory of foreclosed single-family houses would peak at just under 2,000 in 1988 and then decline briskly--so that the inventory would disappear by the end of 1991.

Auction Case Inventories: In this case lenders try to reduce their inventories quickly by selling condominiums and houses much faster than under the base case. But the short-run effect of such rapid sales would be to increase rather than to decrease inventories--because auctioning off so many units would increase defaults, as we noted above. After 1988, however, such large sales would bring the inventories down much faster than under the base case. So in 1988 the inventory of condominiums would be at around 2,800 (as compared with 2,200 in the base case) but in 1989 would begin dropping sharply so that there would be no inventory of foreclosed condominiums by 1992--as compared with an inventory of 1,000 under the base case.

The inventory of foreclosed single-family houses would also be higher in this case in 1988 (more than 2,000) than under the base case, but the difference is not large--and the inventory would disappear by 1990, a year sooner than under the base case. Selling houses at a faster rate does not have as marked an effect on defaults and foreclosures as does selling condominiums rapidly--because, as we noted before, we believe the Anchorage market can more easily absorb houses than condominiums.

Hold-All Case Inventories: Keeping all foreclosed condominiums and a large share of foreclosed houses off the market would reduce defaults in 1988, but the inventory of foreclosures would become extremely large if none or few of them were re-sold. By 1992 there would be about 3,300 condominiums and almost as many houses still in the inventory of foreclosures.

Limit Liability Case Inventories: This case combines a moderate rate of foreclosure sales with limiting mortgage liability of sellers with negative equity to the market value of their properties. The figures show that this combination would reduce inventories of both condominiums and single-family houses far below their base case levels: in 1988 the inventory of condominiums would be only 60 percent as large as under the base case and by 1992 it would be roughly one-third as large. The inventory of houses would be only 30 percent as large in 1988 as under the base case, and would have almost disappeared by 1989.

Figure 4.5 Inventory of Foreclosed Anchorage Condominiums, Under Six Cases, 1987-1992
(In Thousands)

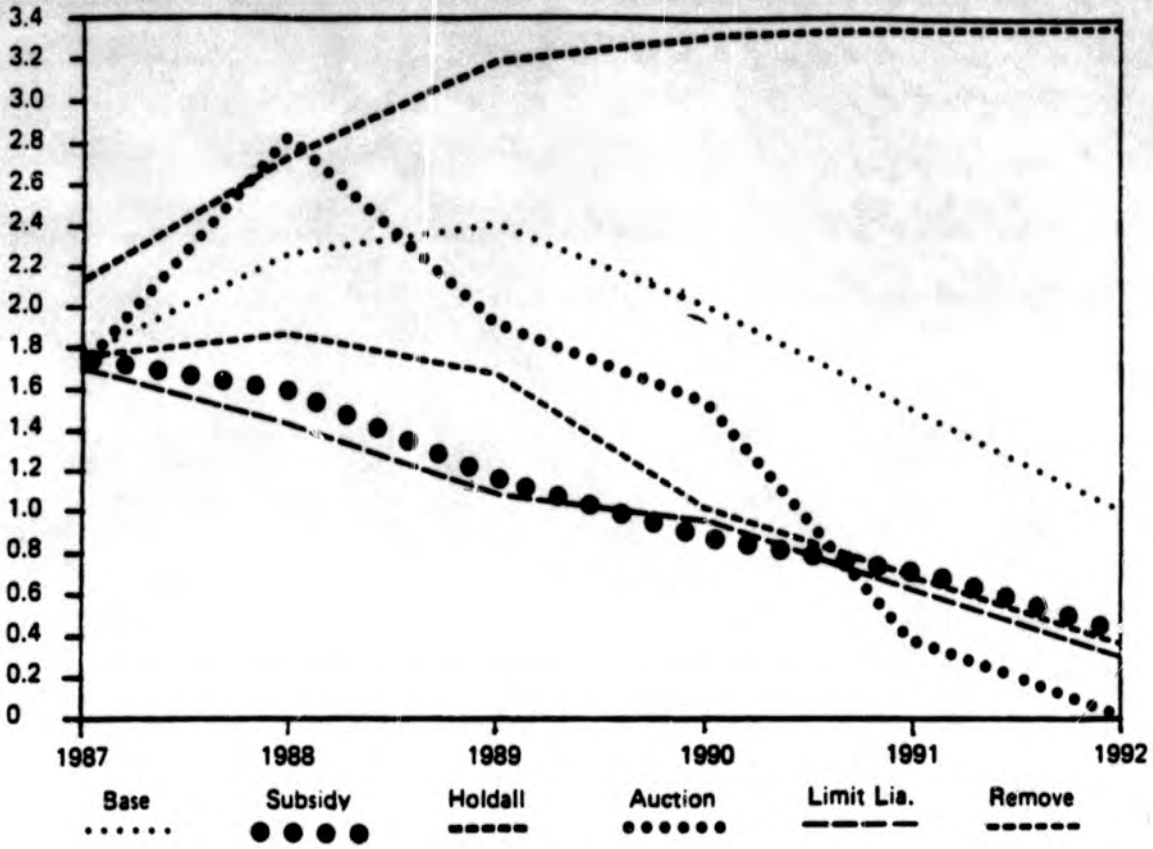


Figure 4.6 Inventory of Foreclosed Condominiums, Under Six Cases, 1988 and 1992
(In Thousands)

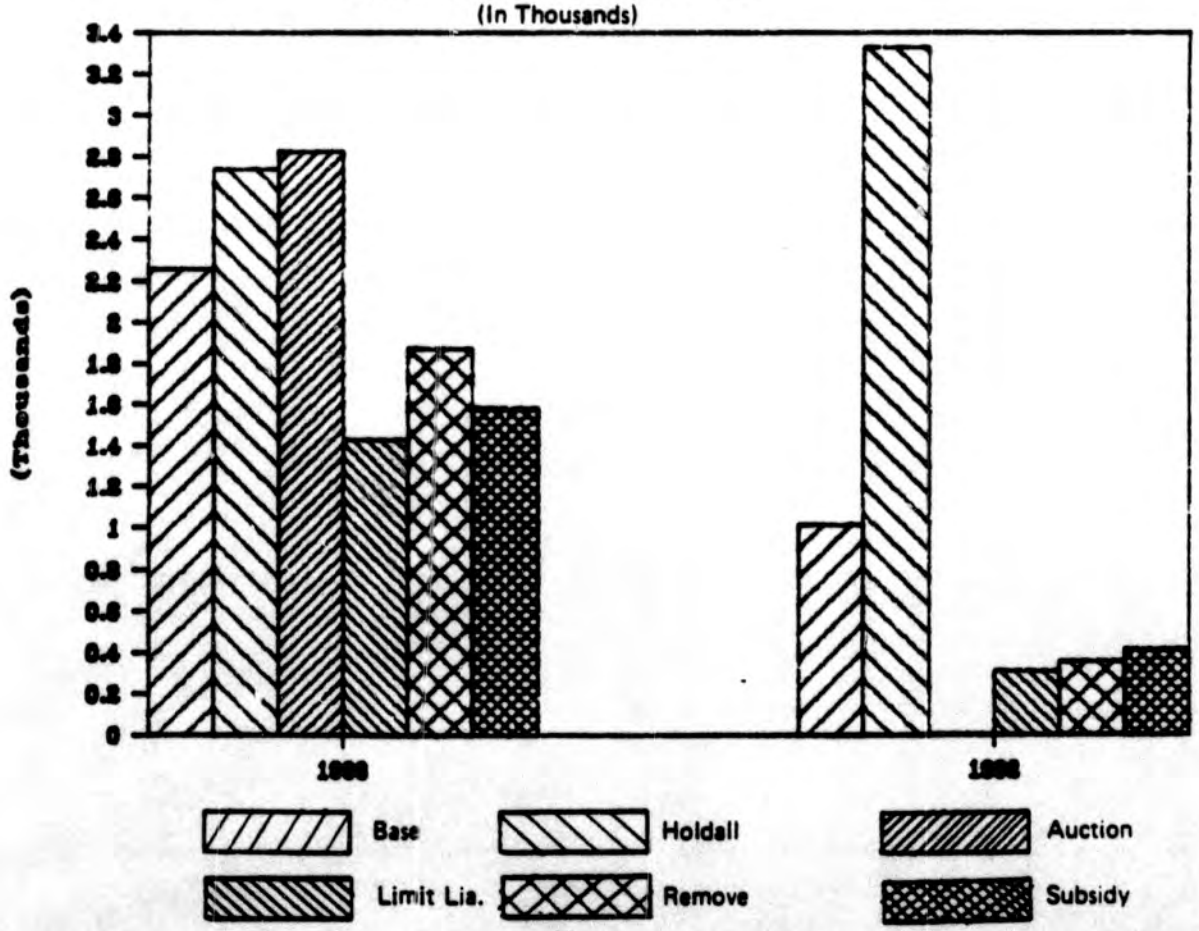


Figure 4.7 Inventory of Foreclosed Anchorage Single-Family Houses Under Four Cases, 1987-1992

(In Thousands)

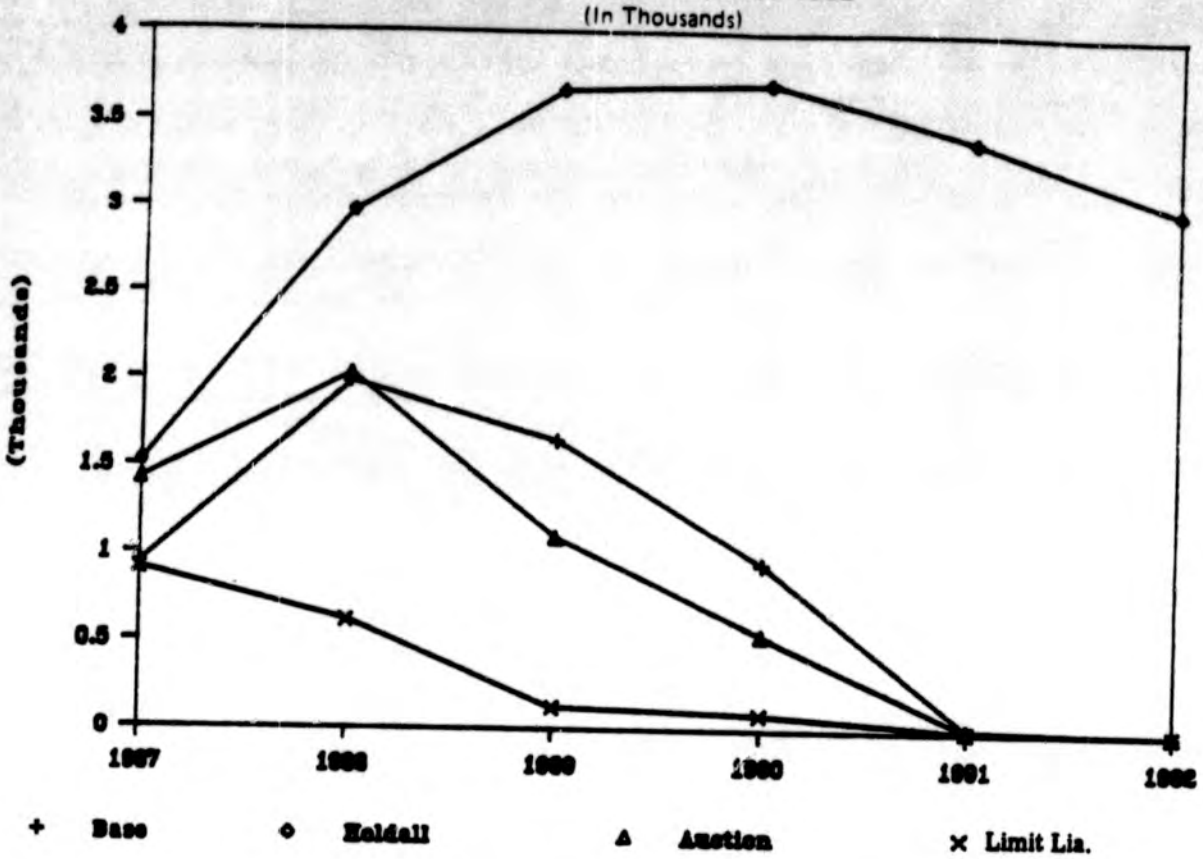
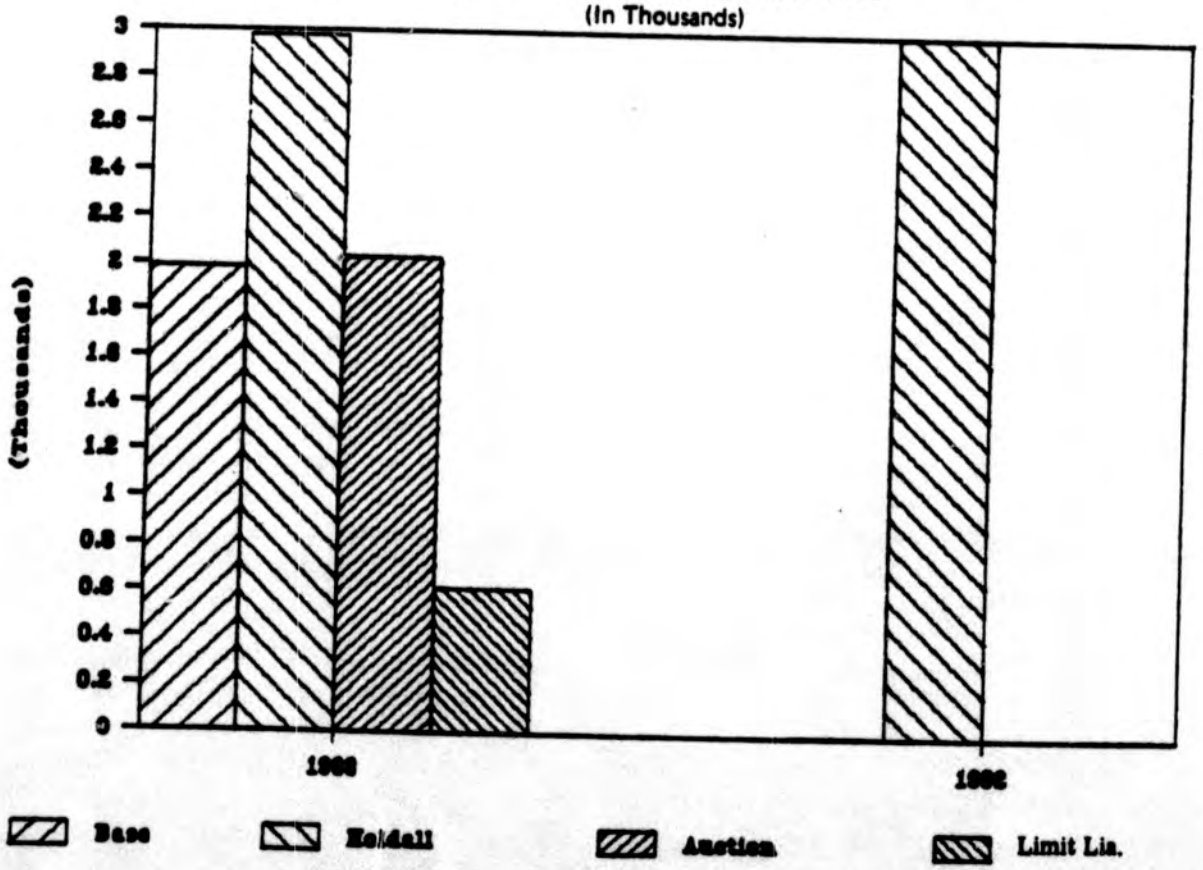


Figure 4.8 Inventory of Foreclosed Anchorage Single-Family Houses Under Four Cases, 1988 and 1992

(In Thousands)



Remove Case Inventories: Removing 1,200 condominiums from the foreclosed inventory would of course reduce that inventory--so that by 1992 it would be about one-third the size projected under the base case. Taking condominiums out of the foreclosed inventory would have no effect on the inventory of foreclosed single-family houses.

Subsidy Case: By increasing demand, subsidizing interest rates for condominiums would have the effect of reducing defaults and therefore the inventory of foreclosures. Figures 4.5 and 4.6 show that the inventory of foreclosed condominiums would be substantially smaller under the subsidy than the base case; for example, in 1988 the inventory would be 30 percent smaller under the subsidy than under the base case and in 1992 60 percent smaller.

Policy Effects on Private Sales

How are sales of foreclosed units under the various policy options likely to affect private owners trying to sell their condominiums and houses in Anchorage in the next few years? Figures 4.9 and 4.10 show historical and projected total sales (both private sales and foreclosure sales) of condominiums and houses in Anchorage under the base, hold-all and auction cases; figure 4.9 also shows projections under the subsidy case. Keep in mind that these projected total sales assume that specific numbers of condominiums and houses are sold each year--so they do not represent projections of likely housing demand, but rather show how prominent a role sales of foreclosed units will play in the market in the next several years. Sales would of course be highest under the auction case, because that case assumes fast sales of foreclosed houses and condominiums.

Figures 4.11 and 4.12 show how the projected total sales of condominiums and single-family houses would be divided between institutional and private sellers under the base case, auction, and hold-all cases in 1988 and 1992; Figure 4.11 also shows subsidy case projections.

Base Case Sales: Total condominium sales under this case would be between 350 and 700 annually through 1992. Few private owners (at best, fewer than 100 in any year) would sell their condominiums through 1992: sales by institutional sellers are projected to dominate the market throughout the period. For owners of single-family houses, the picture would be brighter: of total projected annual sales of between 1,700 and more than 2,000 houses, private owners would have about half the market through 1990 and virtually all by 1992, when the stock of foreclosed houses would be exhausted.

Hold-All Case Sales: If lenders kept most foreclosed condominiums off the market in the balance of 1987 and all off the

Figure 4.9 Historical and Projected Total Sales of Anchorage Condominiums, Under Four Cases, 1980-1992

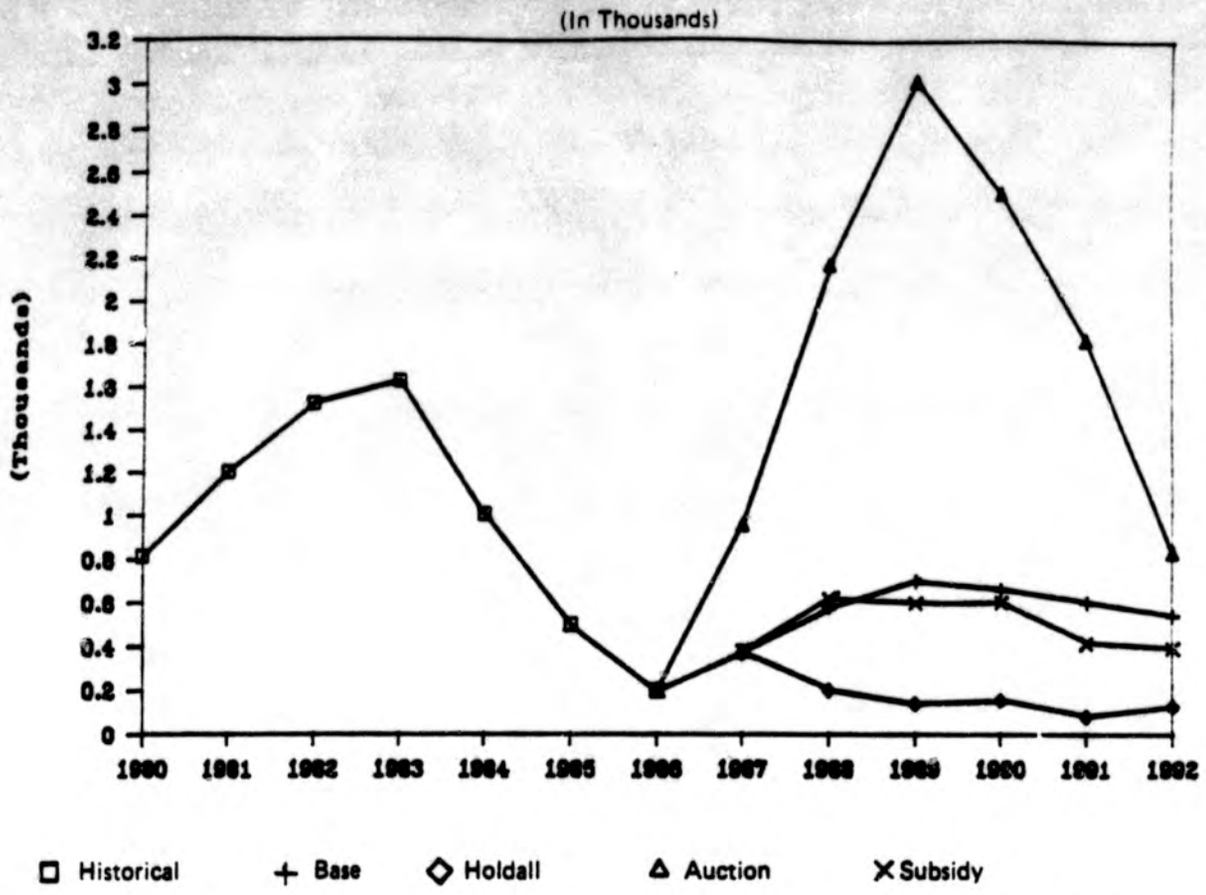


Figure 4.10 Historical and Projected Sales of Anchorage Single-Family Houses Under Three Cases, 1980-1992

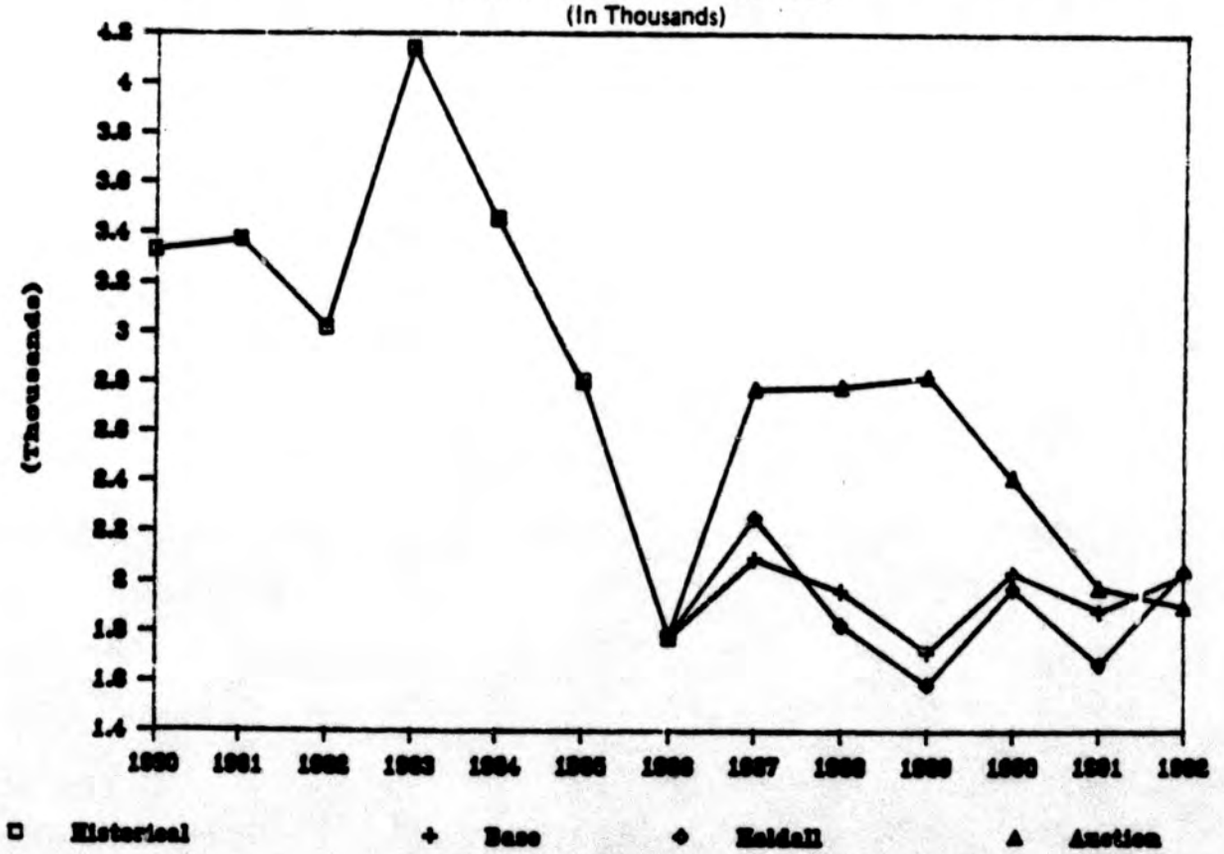


Figure 4.11 Projected Private and Institutional Sales, Anchorage Condominiums Under Four Cases, 1988 and 1992

(In Thousands)

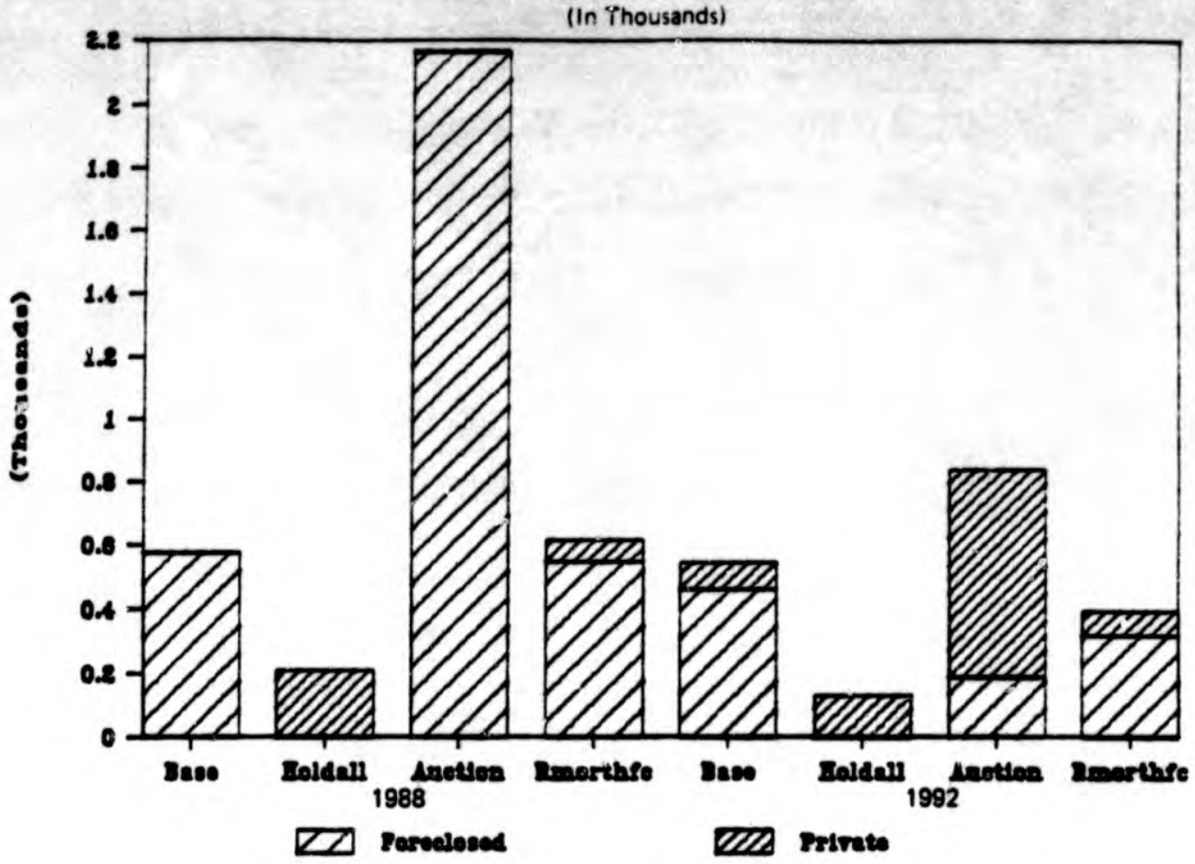
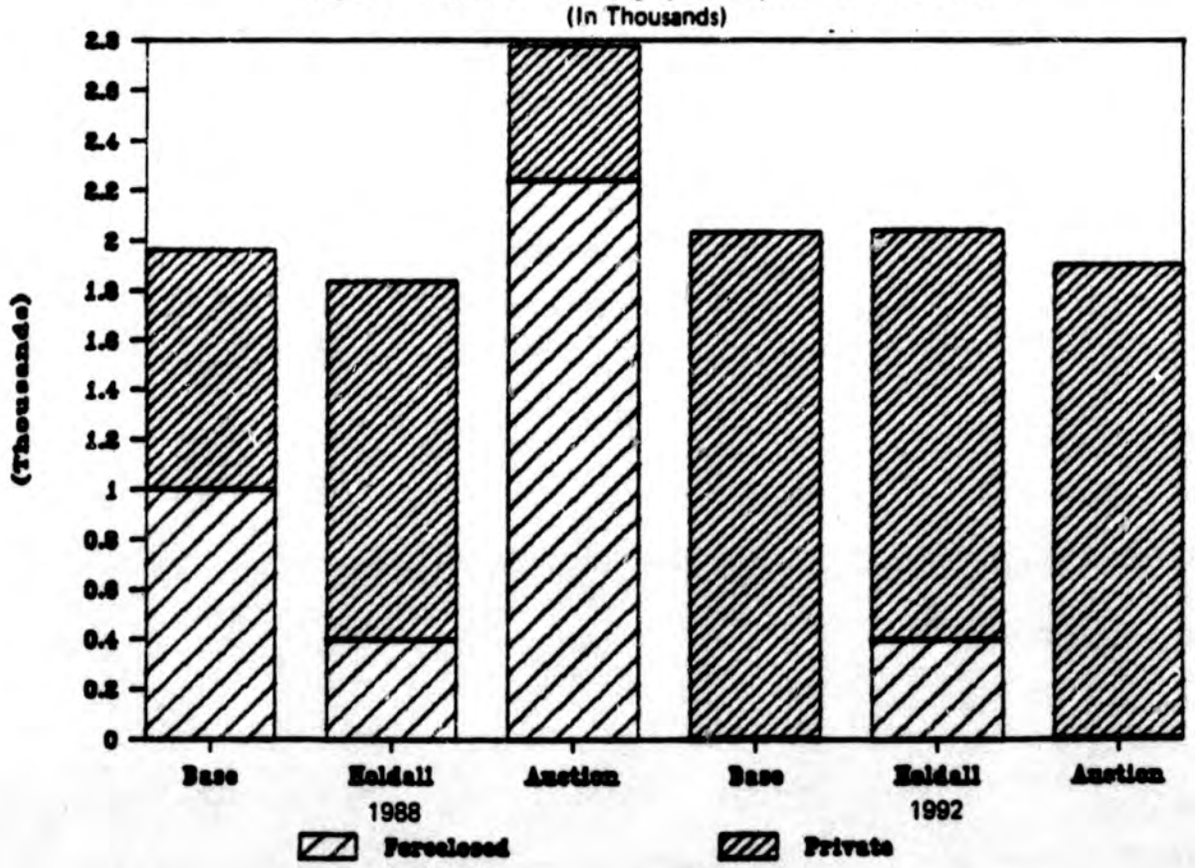


Figure 4.12 Projected Private and Institutional Sales, Anchorage Single-Family Houses, Under Three Cases, 1988 and 1992

(In Thousands)



market from 1988 through 1992, leaving the field open for private owners, private sales in the late 1980s would be substantially higher than if they were competing with institutional sellers--but still very low as compared with sales in the first half of the 1980s. Private owners would sell a projected 500 total units in 1987 and 1988 and roughly from 100 to 150 per year through 1992. By contrast, in the base case, private sellers would sell only a handful of condominiums in the whole five-year period.

Total sales of single-family houses are projected to be lower under this case than under the base case--because less than half as many foreclosed houses are sold--but private sellers have a bigger share of the market: at least 75 percent of sales in each year through 1992.

Auction Case Sales: Total sales under this case would be higher than under the base case, because lenders would be putting more units on the market--but private sellers of condominiums would be largely squeezed out of the market until 1992, when the inventory of foreclosed condominiums would be gone. Likewise, private owners would be able to sell few houses until 1990, when they would regain about half the market; by 1992 private sellers would have the whole market.

Notice that such very large hypothetical auction sales would put more condominiums on the market than were actually sold in Anchorage during the boom years of the early 1980s; as we noted in the section on prices, such large sales of condominiums could only be made at much lower prices.

Subsidy Case: Private sales of condominiums in Anchorage would be substantially higher under the subsidy than under the base case; between 1987 and 1992, cumulative private sales under the base case would be just 180 as compared with about 550 under the subsidy case. Figure 4.11 shows that in 1988 roughly 65 condominiums would be sold by private owners as compared with virtually none in the base case; by 1992 the number of private sales of condominiums would be about the same under the two cases.

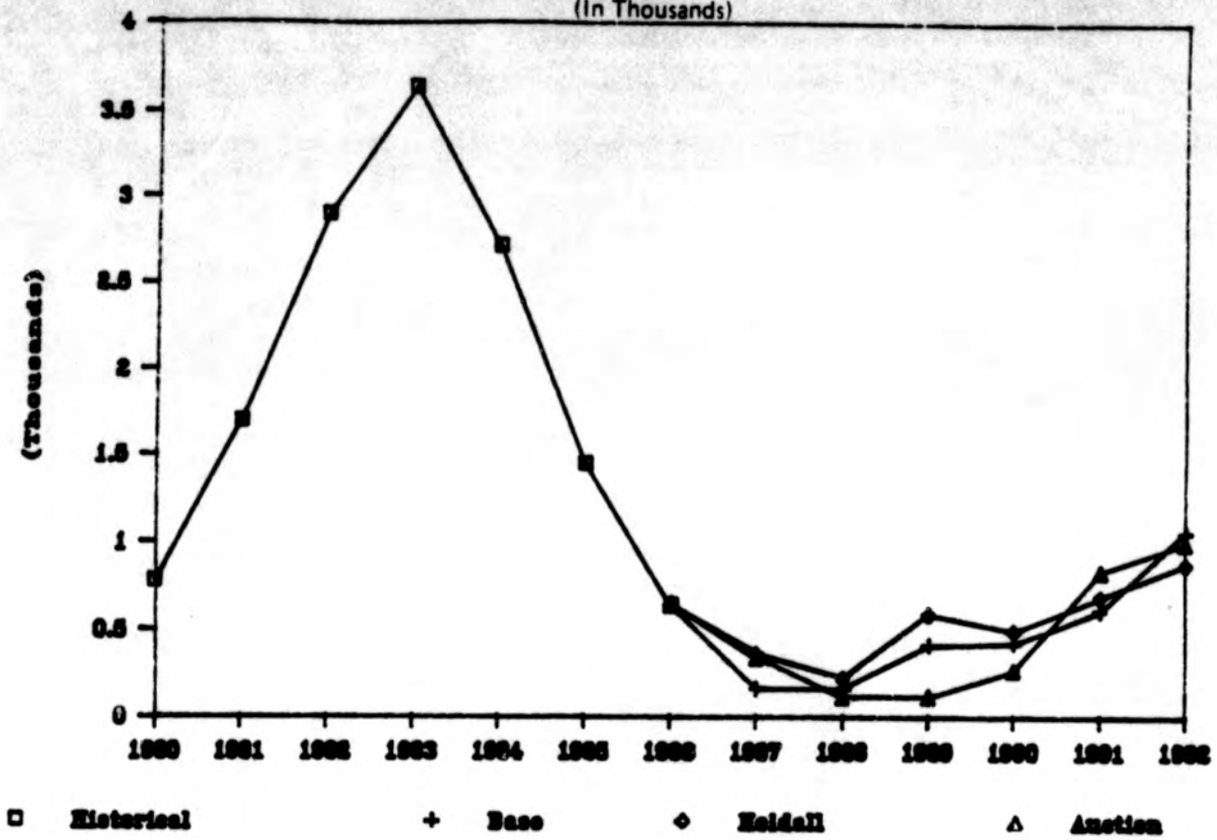
Limit Liability and Remove Case Sales: Limiting mortgage liability of sellers with negative equity and taking some condominiums out of the inventory of foreclosures would have relatively little effect on private sales of condominiums or single-family houses through 1992.

Policy Effects on Construction

We project that under any of the policy options, there will be very little construction of condominiums in Anchorage through 1992. This is true because under any of the options we examine, the existing supply of condominiums will meet expected demand. If the

Figure 4.13 Historical and Projected Building Permits, Anchorage Single-Family Houses, Under Three Cases, 1980-1992

(In Thousands)



economy grows faster than we anticipate, demand would be higher. Figure 4.13 shows historical numbers of building permits issued and projected numbers of permits for single-family houses in the Anchorage area under the various cases.

Base Case Construction: Under this case about 165 permits for new single-family houses would be issued in 1987 and about the same number in 1988. Numbers of permits would pick up sharply to around 400 in 1989 and build steadily to about 1,000 in 1992. By comparison, in the peak construction year of 1983, more than 3,500 new houses were built in Anchorage and in 1984 about 2,700.

Hold-All Case Construction: Under this policy, with fewer foreclosed units coming onto the market, total construction of new houses from 1987 through 1989 would be substantially higher than in the base case--with in the neighborhood of 1,200 new houses built over that three-year period--about 40 percent more than in the base case. But numbers of new units would still be small when compared with even 1985 totals, when more than 1,400 houses were built in one year.

Auction Case Construction: This policy would slightly reduce the number of new houses built from 1988 through 1990, because larger numbers of foreclosed houses would be on the market in those years. But after that, foreclosures sales would be smaller and more houses would be built.

Limit Liability and Remove Case Construction: Taking some condominiums out of the stock of foreclosures would have no effect on numbers of new single-family houses built throughout the period, and limiting mortgage liability of sellers with negative equity would have only a slight effect.

Policy Effects on Equity

Throughout this report we've talked about the problem of homeowners with negative equity--homeowners owing more on their properties than their market value. Figures 4.14 and 4.15 show the projected effects of the various policy cases on equity of condominium and house owners. We also include figures on historical levels of equity. (These are nominal equity figures--meaning they have not been adjusted for the effects of future inflation.)

Base Case Equity: In this case, the average equity of condominium owners in Anchorage would hit bottom in 1987 and 1988, when the average owner would owe $20 thousand more than his condominium was worth. Rising prices would begin increasing equity by 1989, but the average equity would not be positive until 1991. For owners of single-family houses the outlook is better: average equity of homeowners would hit a low in 1987, when homeowners on

Figure 4.14 Historical and Projected Average Equity of Anchorage Condominium Owners, Under Three Cases, 1980-1992
(In Thousands of Dollars)

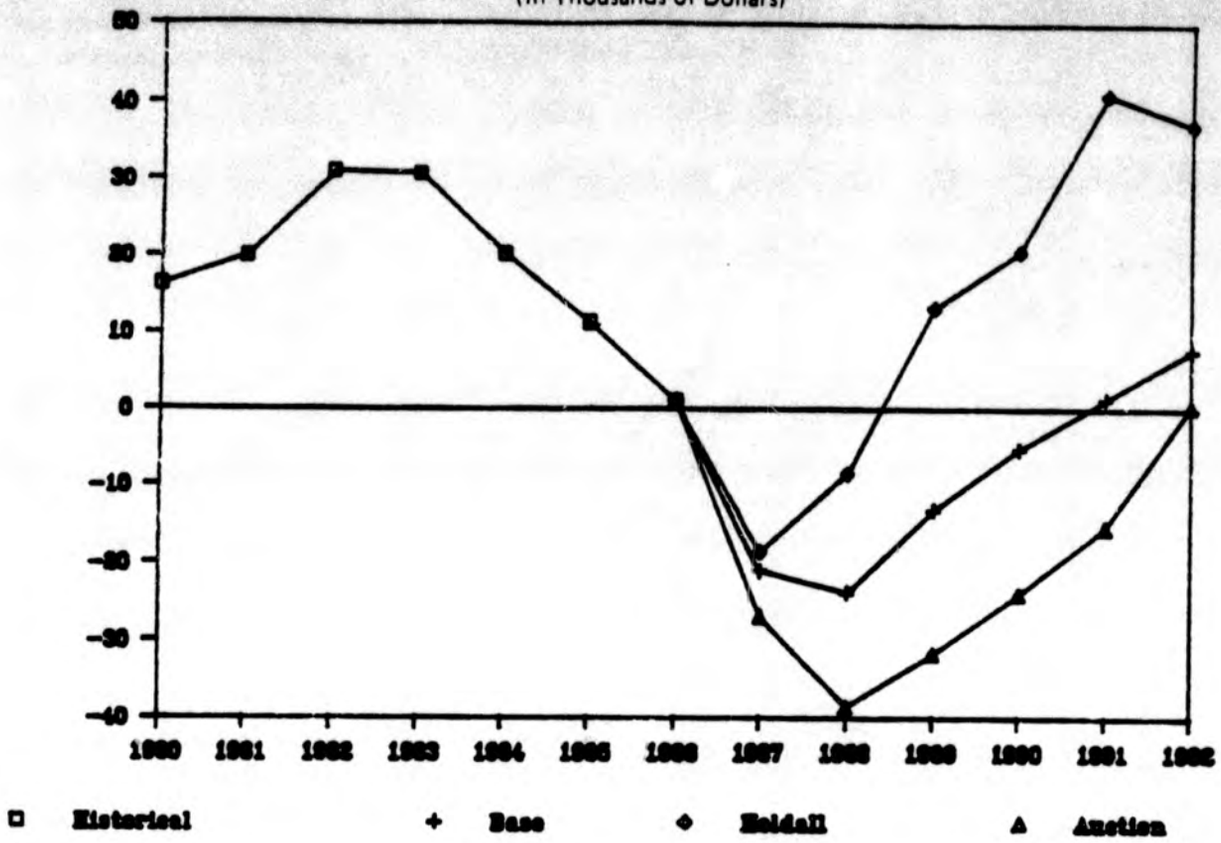
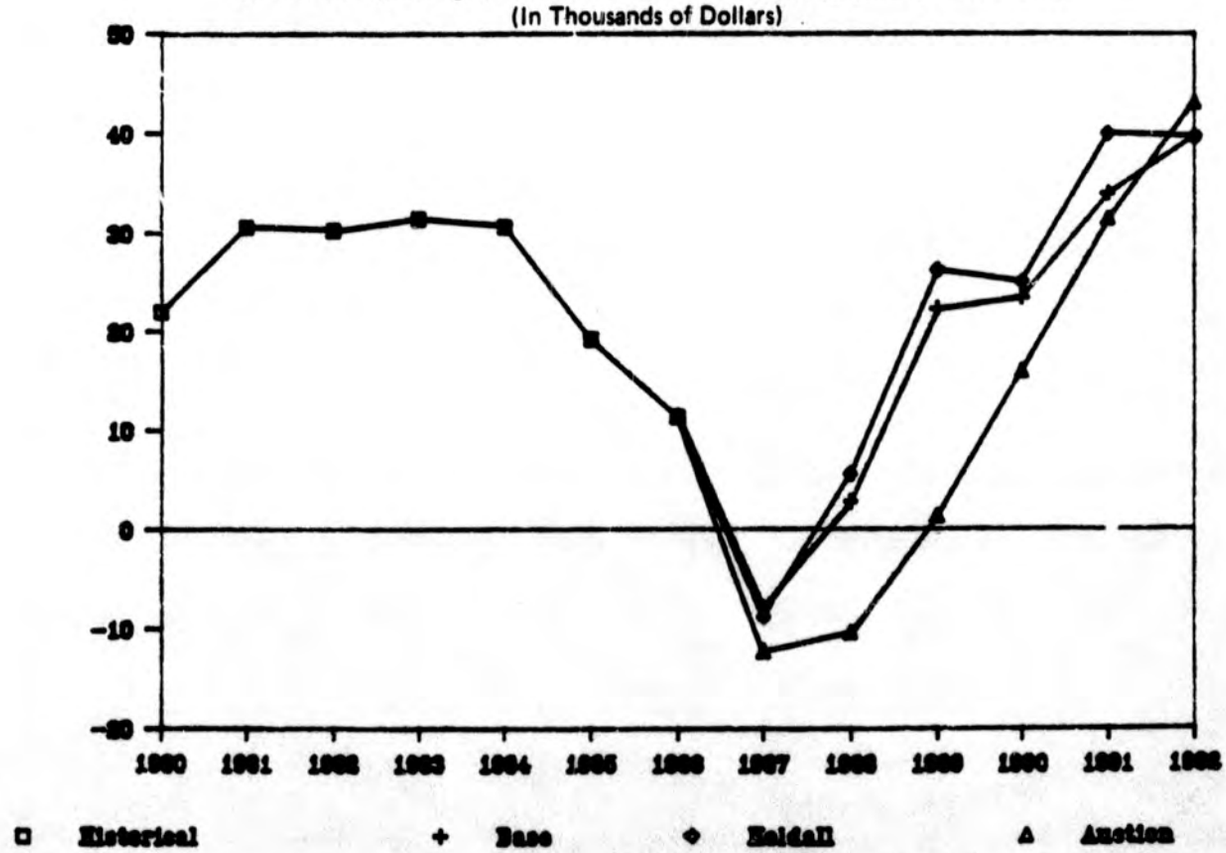


Figure 4.15 Historical and Projected Average Equity of Owners of Anchorage Single-Family Houses Under Three Cases, 1980-1992
(In Thousands of Dollars)



average would owe $7,000 more than their properties were worth. But in this case equity would begin improving in 1988, and would have reached more than $20,000 by 1989 and nearly $40,000 by 1992.

Auction Case Equity: Auctioning houses and condominiums off rapidly has a clear effect on equity of house owners and condominium owners alike, although the effect is larger on condominium owners: such sales would push equity much further into negative territory in the late 1980s. Average equity of condominium owners would drop to minus $38,000 in 1988; it would rebound very gradually, but would just be around zero by 1992. Homeowners would fare better: average equity of single-family houses would drop to around minus $12,000 in 1987, stay at roughly that level in 1988, and become just barely positive in 1989. After that it would rebound briskly, to reach around $40,000 by 1992.

Hold-All Case Equity: Under this policy condominium owners would see their average equity bottom out at minus $18 thousand in 1987 and be a positive $13 thousand by 1989--climbing upward to around $35 to $40 thousand by the early 1990s. This policy would improve equity of owners of single-family houses just slightly over what it is projected to be in the base case.

Limit Liability Case Equity: Allowing sellers to take market prices for their homes, even if their mortgages were larger, would help improve average equity, particularly for condominium owners, but the differences under this policy and under the base case are not large.

Subsidy Case: Subsidizing interest rates for condominiums would improve average equity of condominium owners slightly over base case levels; by 1992 average equity under the subsidy case would be roughly $13 thousand as compared with $8 thousand under the base case.

Remove Case Equity: Taking some condominiums out of the foreclosed inventory in the late 1980s would help improve average equity of all condominium owners somewhat but not a great deal over projected base case levels. It would have no effect on equity of those who own houses.

Policy Effects on Rental Rates

We project that none of the policy options we assess here would have significantly different effects on rental rates in Anchorage over the next few years. What will have a substantial effect--and what will likely keep real rents below their 1986 levels throughout the period--is the fact that the existing supply of multi-family housing will probably exceed the projected demand through 1992.

Figure 4.16 Projected Anchorage Real Rent Index
1987-1992
(1986 = 100)

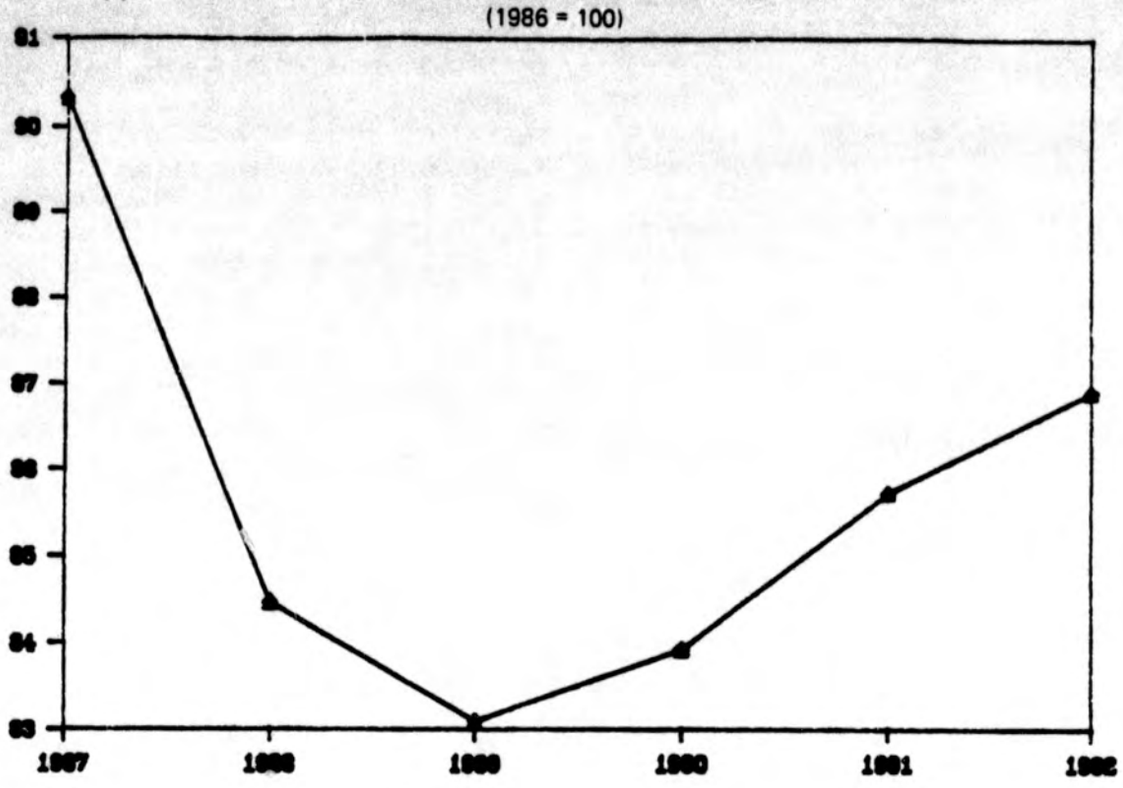


Figure 4.16 shows a projected real rent index through 1992. This is an index that measures real rents in Anchorage--rents adjusted for inflation--with 1986 rents as a base. Under any of the policies we examined, rents would bottom out at about 83 percent of the 1986 level in 1989 and then begin a very slow rise--but by 1992 they would still be (once adjusted for inflation) just 87 percent of their 1986 levels. If the economy grows faster than we project under our base case in Chapter II, rents would rise faster.

Summary of Policy Effects

Overall what our housing market model tells us is straightforward: if lenders sold large numbers of foreclosed condominiums very quickly over the next few years, prices would drop substantially, defaults would remain high, foreclosures would continue to beset the market, equity of the average condominium owner would be pushed further into negative territory, and prices would be slow to recover.

The same general findings also apply to rapid sales of foreclosed houses, but house prices and equity would not be depressed nearly so much as would condominium prices and equity--because the demand for houses in Anchorage is greater. And house prices would recover and exceed their historic highs much more quickly than would condominium prices.

How much difference might different policies for re-sale of foreclosed properties make in average prices over the next several years? Our model projects the extreme cases for condominiums--selling none and selling all quickly. We project that 1988 average prices for a standard condominium, for instance, could go as low as $58 thousand or as high as $87 thousand--a difference of 50 percent. Condominium prices in 1988 under a more moderate rate of sale (our base case) could be 20 percent higher than under the case where condominiums are auctioned rapidly. Again, the dollar values we refer to are less important than relative price levels.

The potential range of house prices under the various cases is much smaller; for example, 1988 prices under the case where houses are sold most quickly could be about 15 percent below prices in the case where houses are sold much more slowly. Still, 15 percent is a significant difference.

But what about the longer-term effects of getting rid of the inventory of foreclosures quickly? Might prices in the 1990s rebound faster if the inventory of foreclosures were cleared faster? Our model runs indicate that very fast sales of foreclosed condominiums would depress prices well into the 1990s; real

prices--prices adjusted for inflation--in 1992 would still be about 5 percent below projected base case prices. At the other extreme, keeping all foreclosed condominiums off the market would boost real prices by 35 percent between 1987 and 1992.

For single-family houses the story is different. Rapid clearing of foreclosed properties would depress prices in the late 1980s, but by 1992 prices would be as high or higher than they would have been if the houses had been sold more slowly. House prices would recover faster because the demand for single-family houses over the next several years will exceed the existing stock--unlike the case with condominiums.

Quick sales of large numbers of condominiums would also substantially increase defaults in the short run--increasing rather than decreasing the inventory of foreclosures. As we showed in Figure 4.6, auctioning thousands of condominiums could actually make the inventory of foreclosed condominiums bigger by the end of 1988 than it would be under any of the other options we examined. But by 1992 the inventory would have been eliminated by quick sales--while under the more moderate rate of sale assumed in the base case there might still be 1,000 foreclosed condominiums in 1992.

Subsidizing mortgage interest rates for condominiums would sharply reduce defaults, as would limiting mortgage liability of homeowners who are forced to sell and find that their houses are worth less than what they owe on them. As Figure 4.6 shows, the projected inventory of foreclosed condominiums would be much smaller in 1988 and 1992 under either the limit liability or the subsidy cases than under the base case.

Many homeowners in Anchorage today do owe more on their properties than they can be sold for. Our model projections show that quick sales of condominiums and houses--but particularly of condominiums--would push prices and therefore average equity of homeowners even lower. Under all the cases we examined, average equity of condominium owners in Anchorage would be negative in 1988--but the negative numbers could be nearly twice as large (minus $38 thousand as compared with minus $20 thousand) if lenders auctioned off condominiums rapidly. And prices and equity would be very slow to recover after large-scale auctions: equity would barely move out of negative territory by 1992. Average equity for those who own houses would not go nearly as low and would improve much faster after 1990--under all the options we examined, average equity among house owners could be as much as $40 thousand by 1992.

How will private property owners fare in the market place against the big institutional owners of foreclosed properties over the next few years? Under all policy options we examined except the case where all foreclosed condominiums are kept off the market,

private owners trying to sell condominiums in Anchorage through 1992 will find few opportunities: they will be hard-pressed to compete against the prices and the incentives the big lenders will be able to offer in a market with limited demand and an ample supply.

Private owners of single-family houses will fare better; under slow or moderate sales of foreclosed houses, private sellers would be able to capture half or more of the sales market in the late 1980s and more in the early 1990s.

We expect little construction of multi-family housing in Anchorage over the next five years--under any policy option--because we think the existing stock will meet the likely demand. Some new single-family houses will be built over the next few years, but not nearly as many as were built during the early 1980s. For example, the base case projects that in the neighborhood of 2,700 new single-family houses might be built in Anchorage between now and 1992--about the same number as were built in Anchorage in 1984 alone.

Another effect of the ample supply of multi-family housing will be to keep down rents in Anchorage over the next several years. Our real rent index--an index adjusted for inflation and keyed to 1986 rents--projects that real rents by 1992 will be about 10 percent below 1986 levels. Faster economic growth than we expect would push rents up faster.

Policy Considerations

We've seen that the thorniest problem for lenders and insurers is their inventory of foreclosed condominiums. The market for single-family houses has not been depressed as much, and we expect it to recover much faster. We know that Alaska lenders are not going to keep the condominiums they own off the market for years. We know that it costs lenders and insurers in the neighborhood of $20 a day in holding costs for each unit they own. We know it is not reasonable to propose a policy that leaves AHFC and other lenders sitting on hundreds of vacant properties so that other property owners can enjoy higher prices. We know that in Anchorage today some lenders want to get rid of foreclosed properties even if they have to take very substantial losses on re-sales. Lenders and insurers are offering prizes, reduced down payments, lower interest rates, and more to lure buyers.

Our policy case that looks at the effects of keeping all the foreclosed condominiums off the market is intended not as a policy proposal but as an illustration of the powerful effects foreclosure sales will have on the Anchorage market in the next few years. The case at the other extreme--in which we assume lenders auction off their thousands of properties at the cost of much lower prices--also

illustrates that power. That case not only shows that lenders have the power to push prices further down but that they could in the process bring even more foreclosures into their inventories.

In reality of course lenders don't just pick some fixed number of units to sell, without regard to market conditions. Demand ultimately determines how many properties lenders can sell, particularly if they attempt to maintain some price floor. The economic forecasts in Chapter II say that after mid-1988 the recession will likely end and an economic recovery begin. Figures 4.17 through 4.19 show how reducing the number of condominiums sold in the short run--from now through 1988--would change prices, equity, and inventories of foreclosed condominiums from base case levels. After 1988 numbers of units sold would be the same as under the base case. What these figures show is that this short-run change in selling policies (labeled the "sell fewer" case in the figures) would prop up prices and equity for the balance of the recession and that in the longer run inventories of foreclosed units would be at roughly the same level--because selling fewer units through 1988 would reduce defaults.

Lenders in a down market face many costs. Figures 4.20 through 4.22 compare some of those kinds of costs. The relationship between numbers of foreclosed condominiums sold and real average prices of standard condominiums in 1988 and 1989 is shown in Figures 4.20 and 4.21. With price and sales figures from the six policy cases analyzed earlier, we plotted the relationship between the two. As the figures show, high sales are linked with lower prices, low sales with higher prices, and moderate sales with prices between the extremes. At the extremes, prices vary by more than 50 percent and numbers of units sold by more than 2,000.

Figure 4.22 weighs estimated costs of holding a single foreclosed condominium against projected average price increases under the base and the auction cases. We assume that the hypothetical condominium in this figure was taken under foreclosure at the start of 1987, so that holding costs accrued all year. The bottom line on each half of the figure represents holding costs, estimated at $7 thousand per year for each year the lender holds the unit. The top line is the average price for a standard condominium, with 1986 prices as a benchmark--so for example in 1987, the average condominium price under the base case was about $20 thousand below 1986 prices. The third line is the sum of the first two, and where the holding cost line and the third line cross is the point at which prices have risen enough to offset holding costs.

The figure shows a grim picture for the lenders. Under either case, 1987 prices are tens of thousands of dollars below 1986 prices--so lenders begin with a substantial loss. On top of that loss are holding costs estimated at $7 thousand per year for this single condominium. Prices are slow to recover in either case: in

Figure 4.17 Real Prices, Anchorage Condominiums
Under Two Cases, 1988 and 1992
(In Thousands of 1986 Dollars)

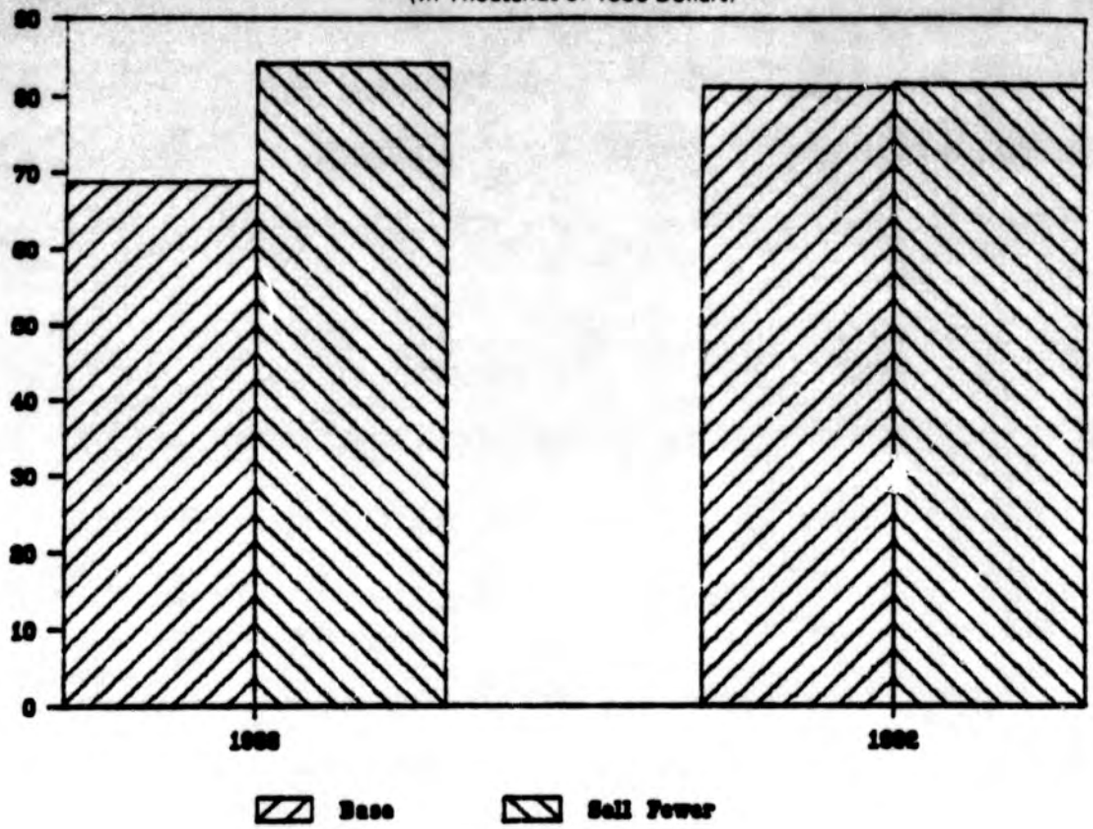


Figure 4.18 Average Equity, Anchorage Condominiums,
Under Two Cases, 1988 and 1992
(In Thousands of Dollars)

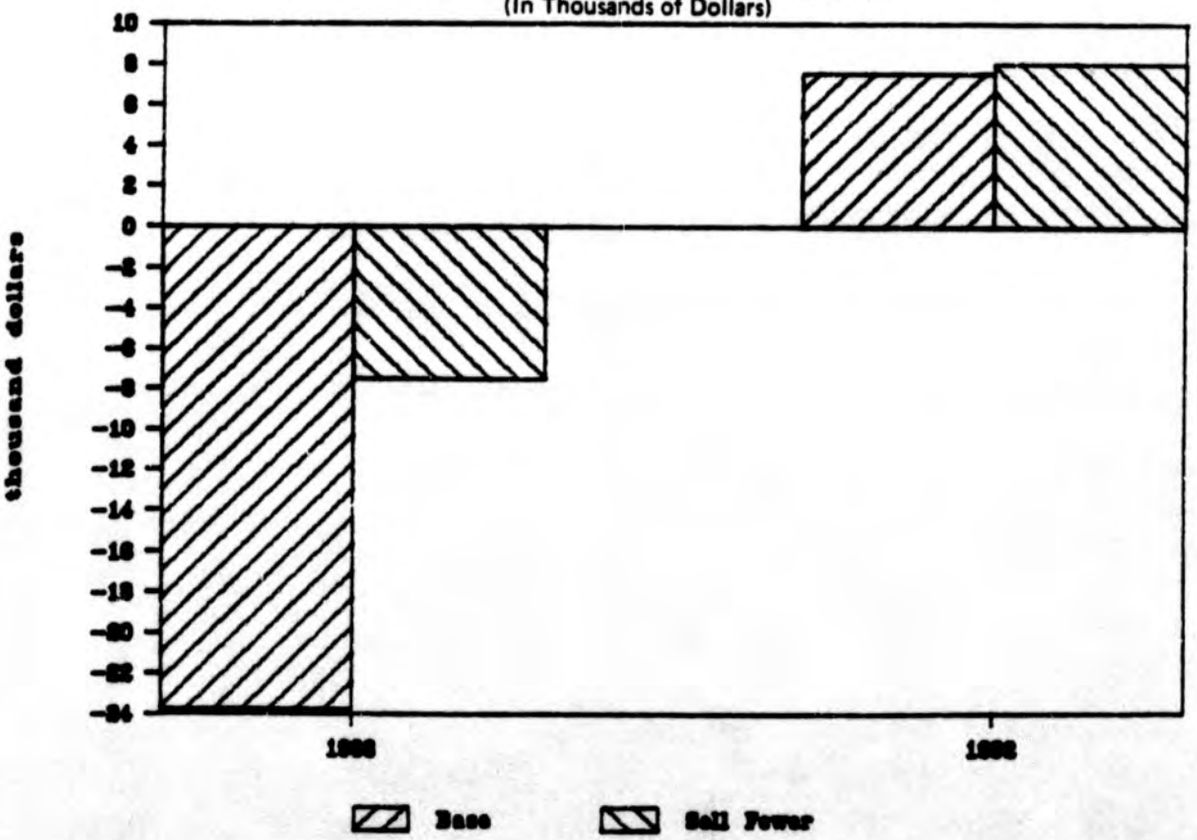
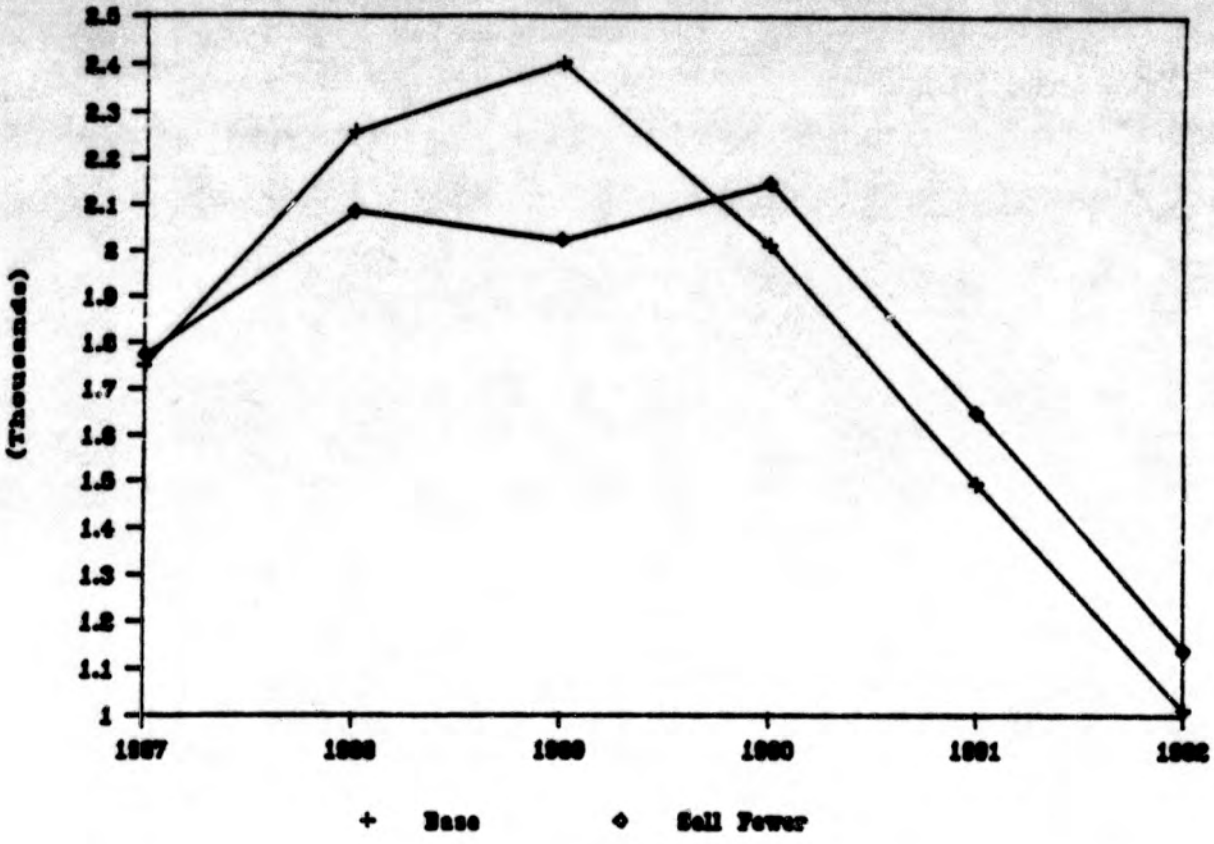


Figure 4.19 Inventory of Foreclosed Anchorage Condominiums
Under Two Cases, 1987-1992



the base case prices exceed 1986 levels by 1991 and under the auction case prices just regain their 1986 level by 1992. Holding costs increase $7 thousand every year the condominium goes unsold. Prices rise enough to offset holding costs by 1991 under the base case and by 1992 under the auction case.

In either case lenders face significant losses--but those losses are even larger under the auction case, because prices are more depressed. For example, a lender could see losses (as measured by combined price declines and holding costs) in the neighborhood of $50 thousand on this hypothetical condominium in 1988 under the auction case, as compared with losses of about $28 thousand under the base case. The figure tells us that lenders are in a tough spot in any case, but that their losses can be made even worse if they auction large numbers of condominiums.

Another policy option that we assessed with the model was simply demolishing a portion of the inventory of foreclosed condominiums. We assessed the effects of taking 1,200 condominiums out of the inventory over a three-year period, and found that removing that many units from the stock would of course reduce the inventory faster and would modestly improve prices and other measures of market stability. At the extreme, the effects of demolishing all foreclosed condominiums would be the same as we projected in the case where all condominiums are kept off the market through 1992.

Demolishing condominiums would be very costly in a number of ways, and we are not advocating it. But all options in a depressed housing market are costly, including costs of holding onto condominiums that may be very difficult to sell at any price--and which, if sold at very low prices, could create a vicious circle of more foreclosures by putting more owners at risk of default. We are advocating that lenders carefully consider the overall costs and benefits of any policy they undertake.

Another measure we looked at for reducing defaults and increasing demand was limiting mortgage liability of homeowners who are forced to sell at prices below their outstanding mortgages, or who would like to take advantage of lower prices to move into better houses but are constrained by negative equity on their current houses. We found that limiting mortgage liability for those with negative equity would sharply reduce the future number of defaults. However, our limit liability case represents the extreme: it reports how defaults could be reduced if lenders' limited mortgage liability of all would-be sellers with negative equity to the market values of their properties. In reality, lenders would not offer such blanket limits on liability--they would establish critieria for determining when and how to limit mortgage liability. In the <u>General Policy Options</u> section we discussed some of the possible ways lenders could limit mortgage liability, and the costs and benefits of those methods.

Figure 4.20 Relationship Between Real Prices and Sales of Foreclosed Condominiums, 1988
(In Thousands of 1986 Dollars and Thousands of Units)

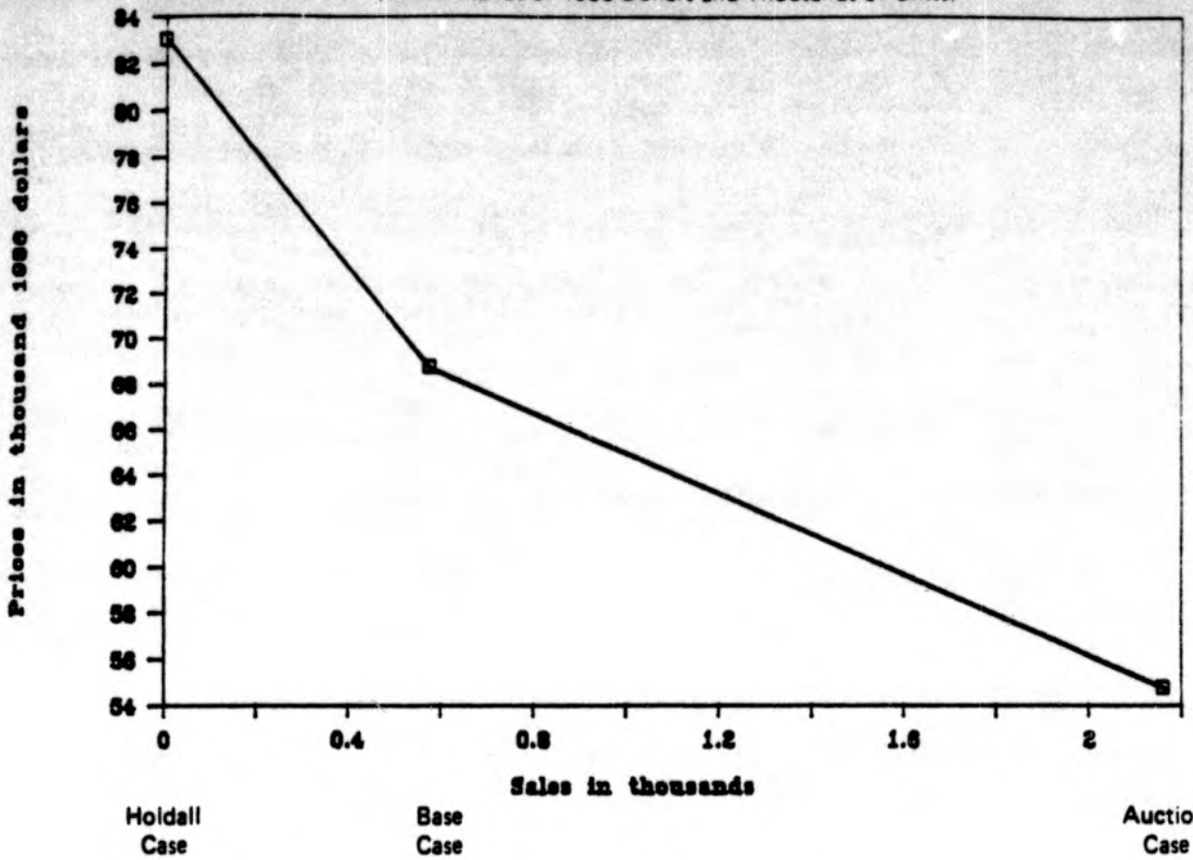


Figure 4.21 Relationship Between Real Prices and Sales of Foreclosed Condominiums, 1989
(In Thousands of 1986 Dollars and Thousands of Units)

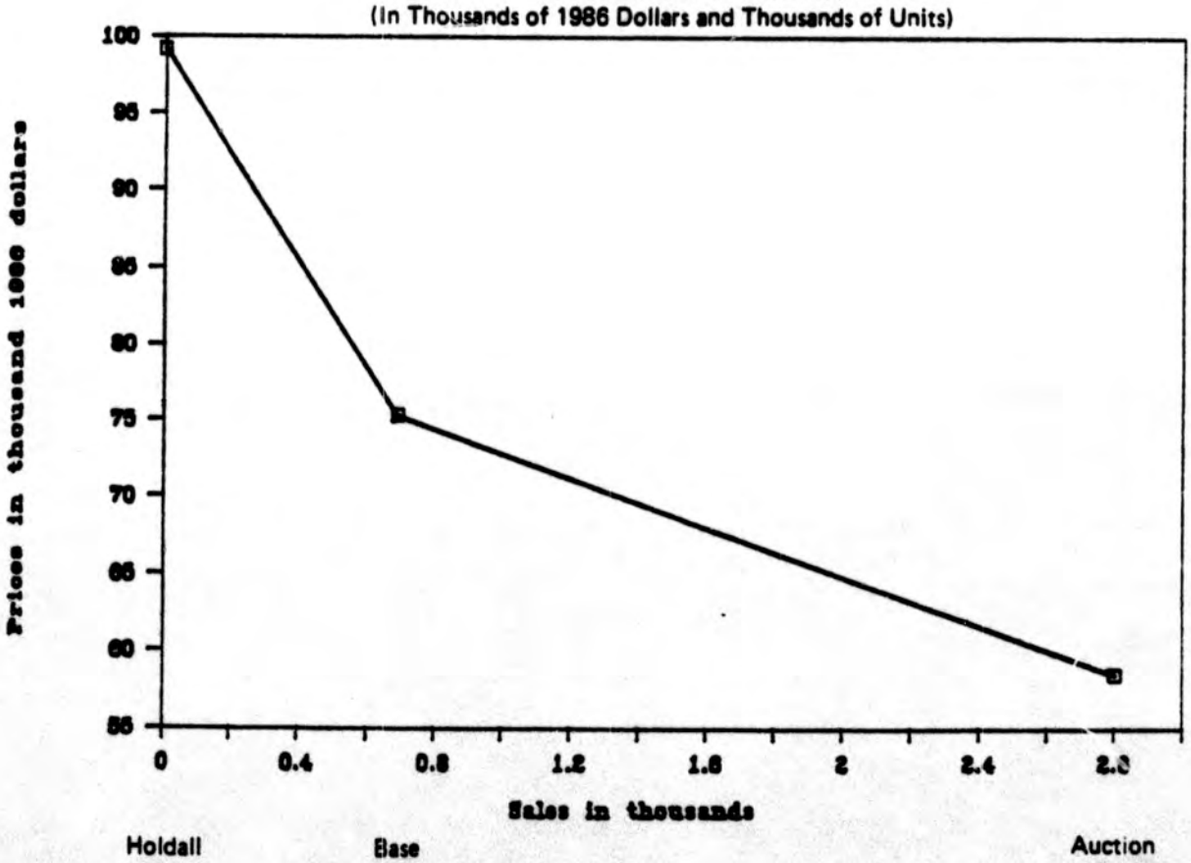
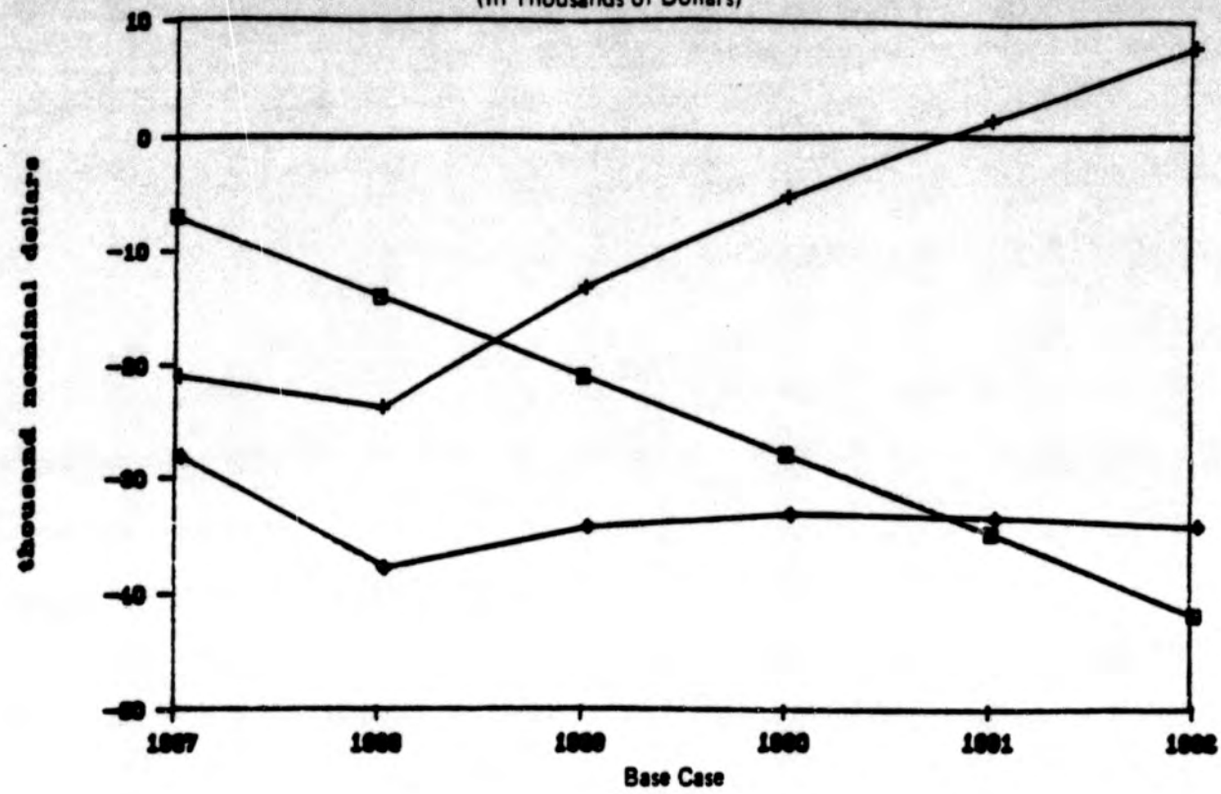
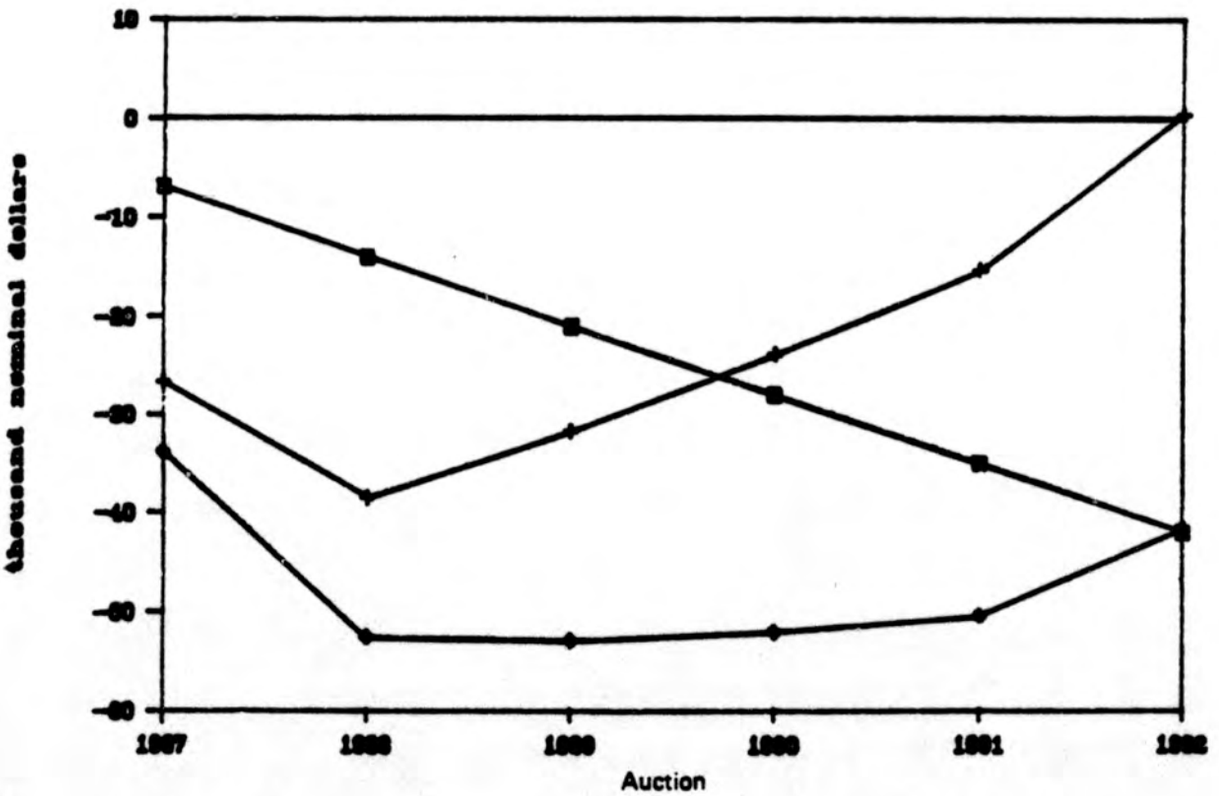


Figure 4.22 Relative Price Changes and Holding Costs
for One Condominium, Under Two Cases
(In Thousands of Dollars)





□ Holding Costs + Price Changes ◇ Net Benefits

Our policy analyses also showed that subsidizing mortgage interest rates on condominiums could help that market in several ways: it would help improve prices and average equity, it would help private owners sell more condominiums (although sales by institutional owners would still dominate the market), and it would help reduce defaults. Subsidizing interest rates would of course be an additional cost to lenders; lenders would need to weigh the benefits of such subsidies against the costs.

Faster or Slower Economic Growth

All our policy analyses assume the moderate rate of economic growth projected in the base case of Chapter II. The economy may grow more or less than we expect in the next few years. Such faster or slower economic growth would of course also affect the housing market. Figures 4.23 though 4.26 show how some aspects of the Anchorage house market would be affected if the economy grew at the rates projected under the high and the low cases in Chapter II.

Real prices--prices in 1986 dollars--for Anchorage condominiums and single-family houses under the low, base, and high cases through 1992 are shown in Figures 4.23 and 4.24. (These cases assume the same rate of sales of foreclosed houses and condominiums as in the base case; only rates of economic activity are different.) Real average condominium prices could vary by as much as 25 percent between the high and the low cases in 1989 and remain nearly 20 percent apart by 1992.

Real average prices for single family houses would also vary under the three cases, but not so dramatically as would condominium prices. For instance, the difference between prices in the high and low case would be greatest in 1991, but the difference would be less than 10 percent. The very slow economic growth projected under the low case would be harder on condominium owners than on house owners.

Figure 4.25 shows another measure of housing market activity under the three case: projected numbers of building permits for new single-family houses. The figure compares the cumulative projected number of building permits from 1987 through 1992 under the high, medium, and low cases. Projected permits under the high case would be in the neighborhood of 3,400, under the base case roughly 2,800 and under the low case just over 2,000. Looked at another way, the number of building permits for new houses in Anchorage could be about 70 percent larger under the high case than under the low.

Still another measure of housing market activity is sales; Figure 4.26 shows cumulative projected private and foreclosure sales from 1987 through 1992 under the high, medium, and low cases. The number of foreclosure sales depends on how many homeowners default

Figure 4.23 Real Prices, Anchorage Condominiums, Under Three Cases
(In Thousands of 1986 Dollars)

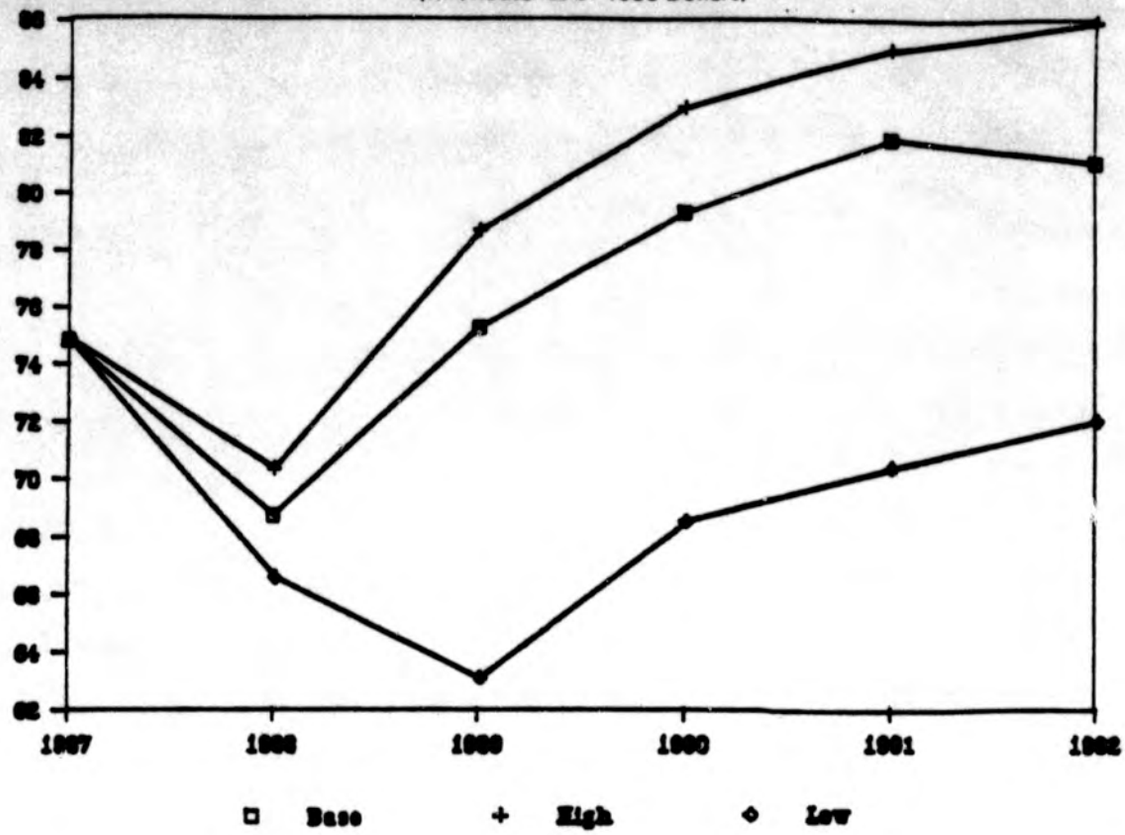


Figure 4.24 Real Prices, Anchorage Single-Family Houses, Under Three Cases
(In Thousands of 1986 Dollars)

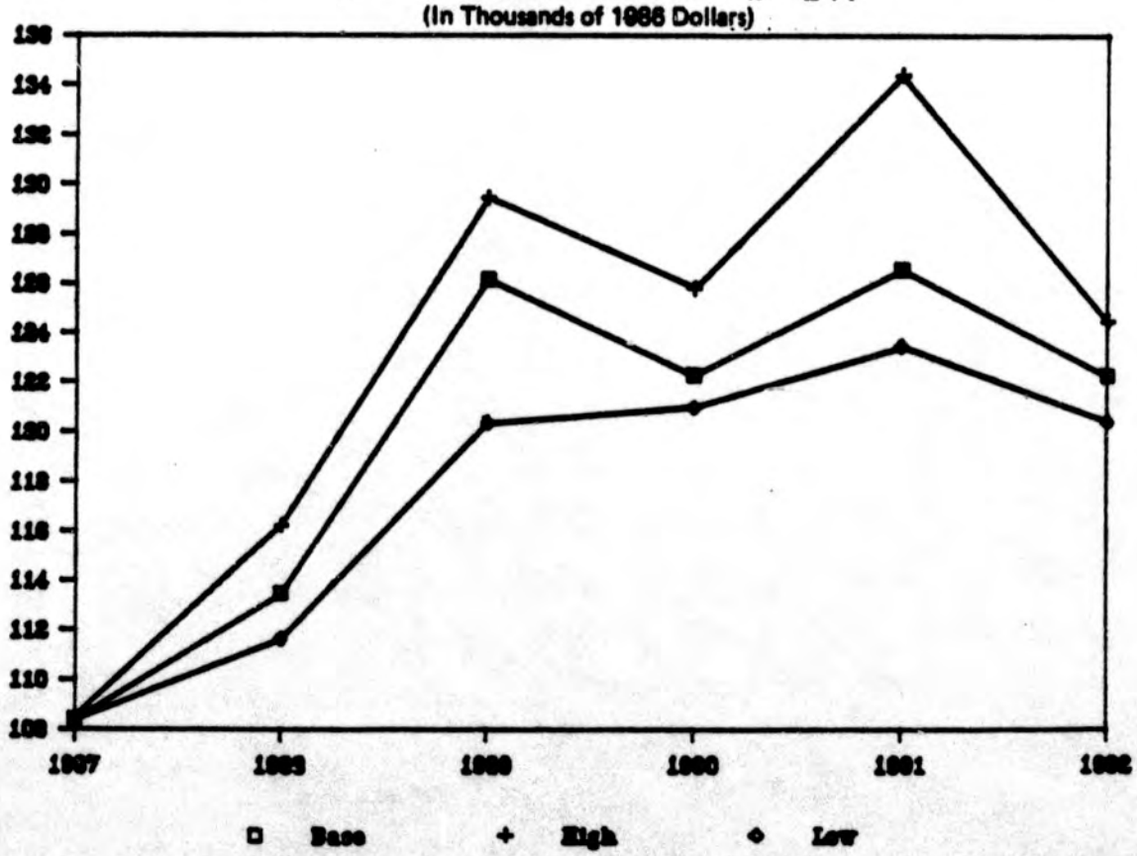


Figure 4.25 Projected Cumulative Building Permits for Anchorage Single-Family Houses, Under Three Cases
(In Thousands)

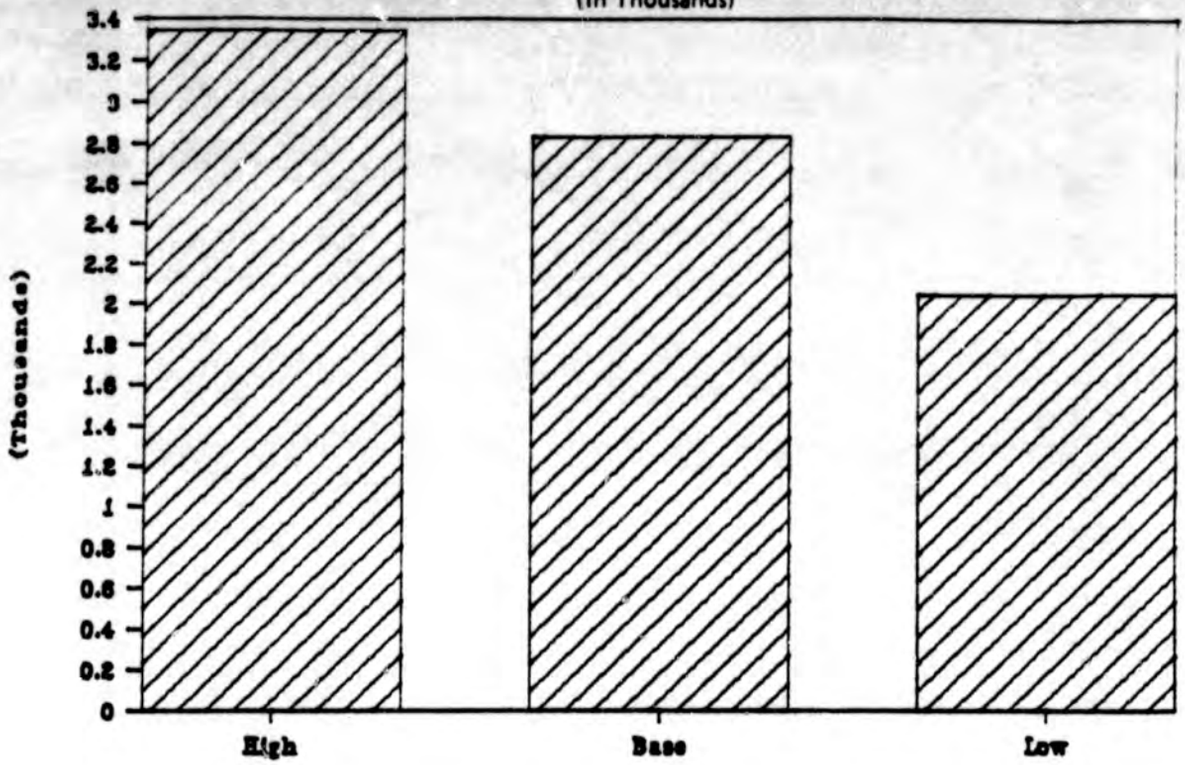
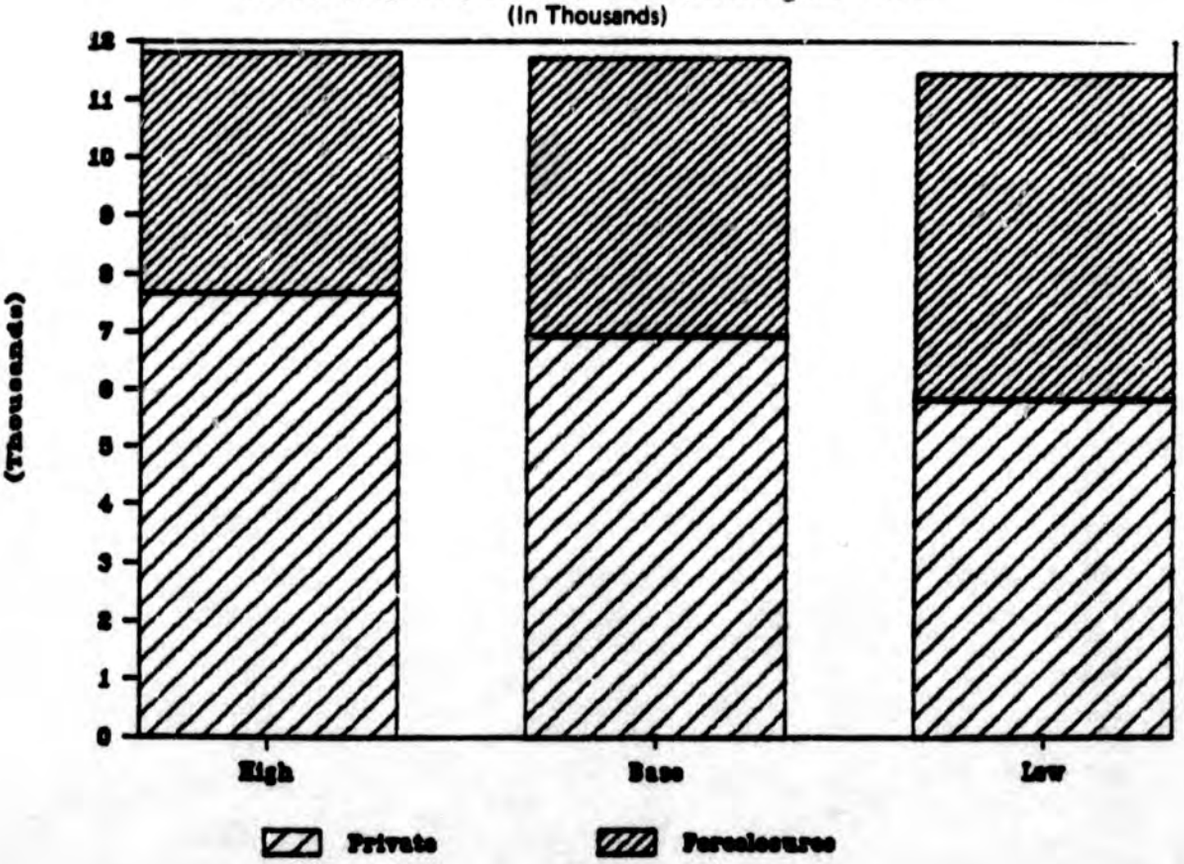


Figure 4.26 Projected Private and Foreclosure Sales of Anchorage Single-Family Houses, Under Three Cases
(In Thousands)



on their mortgages; the high case projects fewer foreclosure sales because under better economic conditions fewer homeowners would default. In all the cases foreclosure sales are projected to make up a significant share of total sales, but under the poorer economic conditions in the low case they would make up more than half of total house sales from 1987 through 1992. Better economic conditions would improve the sales market for private sellers--private owners would be able to sell about 30 percent more houses under the high than under the low case.

Other indications of how the housing market would respond if the economy grows faster than we expect can be found in earlier ISER reports that assessed the effects of AHFC programs during the housing market boom of the early 1980s. (The Effects of Changes in the Alaska Housing Finance Corporation Mortgage Programs, Interim and Final Reports, 1986.)

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX S
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.

04-02LH

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:mll
88-46

cc: Members, Joint Committee on Economic Recovery

A. overviews

Comment Draft 2/18/88

Comments should be addressed to: Gregg Erickson, senior economist, Division of Policy, P.O. Box AD, Juneau, AK 99811-0164 phone (907) 465-3568

The Recession, The Real Estate Crash, and Alaska's Economic Prospects

Introduction

Many Alaskans have been surprised by the severity of the current recession, and the speed with which it engulfed the state's economy. The collapse of the real estate market has been a shock, particularly in Anchorage. As long as anyone there can remember, investment in Anchorage real estate has been about as sure a thing as one could hope to find in this uncertain world. Granted, there have been ups and downs, but Anchorage real estate always held its value when the economy was doing poorly. When the economy was expanding -- during the Korean War, again after statehood, after the $900 million North Slope lease sale in 1969, during the pipeline boom, and in the biggest boom of all in the early 1980s -- an investor could achieve extraordinary returns. In the intervals when the economy was stagnant, a real estate investor in Anchorage felt protected. "You never sold a piece of property for less than you paid for it," recalls John Rader, Anchorage lawyer and investor whose experience in Anchorage dates to the early 1950s. "It was almost a religious statement."

The benefits of real estate appreciation weren't just restricted to the very rich. Anyone wealthy enough to buy a home was able to play the game. The more a family borrowed to buy a home and the less of their own cash they used in the purchase, the faster their home equity would compound. Over the years, ordinary folks and major investors alike came to believe that there some rules of investing were better ignored. In Alaska, it always paid to be highly leveraged. In Alaska, the more an individual borrowed, the more an individual stood to make. And in Anchorage, one would never need to sell a piece of real estate for less than one paid for it.

No single event swept away this folklore, but it vanished nonetheless. In January 1986 Anchorage taxable real estate had an assessed value of $13.9 billion, up 38 percent from two years earlier. In January 1988 municipal assessors estimated it at $8.3 billion, down 41 percent in two years. Because a half billion in new construction was added to the tax rolls over the '86-'88

period, the average property in Anchorage took an even bigger beating.

This kind of collapse would spell trauma in any community, but because of Anchorage's demographics, growth pattern, and the policies of an activist state government, the distress has touched an especially large number of households. Anchorage's population is relatively young, and the town has been growing fast. In any other state most of the young families that dominate Anchorage's demographics would still be renting; a crash in real estate values would then be to their advantage since it would mean falling rents. In Alaska, though, the state has actively encouraged home ownership by providing mortgage credit at subsidized rates. The booming market made it look foolish not to participate, and in Anchorage about 29,000 households now owe about $2.5 billion on subsidized residential mortgages.

According to Anchorage real estate broker Brooke Marston, these subsidized mortgages are now virtually all "underwater," e.g., the principal owed on the mortgage exceeds the market value of the home. The average family's equity in its home is one of its major repositories of savings. In Alaska, for most urban households, the value of that asset has been erased or become a net liability. The probability is that many now have negative net worth.

The purpose of this analysis is to examine these painful events in the broader context of Alaska's overall economic performance, addressing five questions: What caused the recession? When will it end? What sort of recovery can we expect? How will the real estate crash affect the recovery? And what are the economic policy options for state government?

The Inevitable Recession

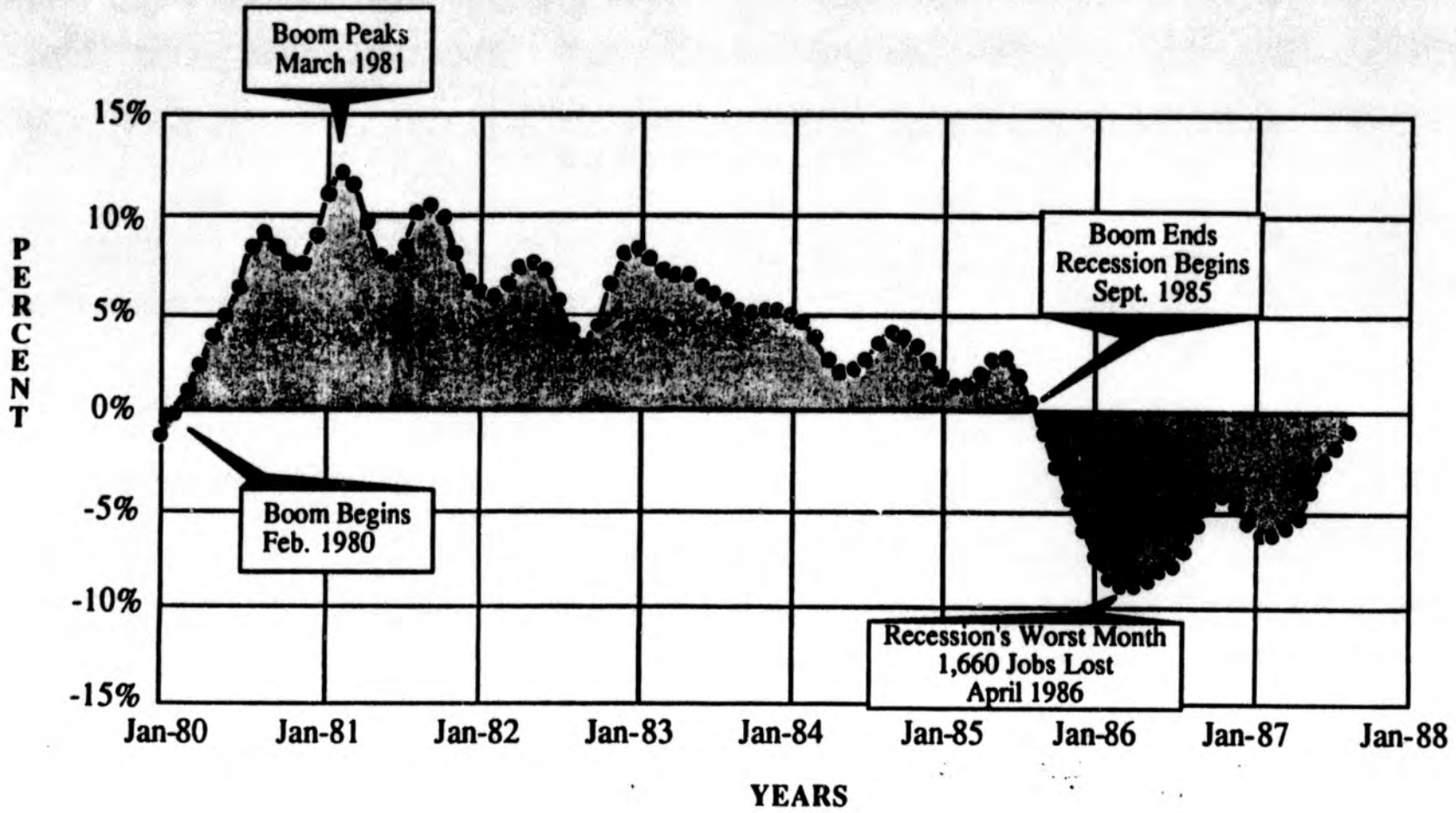
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. ***When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable***. Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott Goldsmith, economics professor at the University of Alaska's Institute of Social and Economic Research, measures the peak of the boom in early 1981, when jobs were being added at the phenomenal 12 percent annual rate.[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]

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[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 shakey technical assumption underlying the vulture/Phoenix fund idea -- that purchasing distressed properties will stabilize the market for holders of other properties. The Anchorage market has seen a "distinct flight to quality." She argues that the demand for mid- and high quality property is largely independent of the demand for the low quality properties that constitute virtually all the distressed assets. According to Yoshimura, removing those assets by demolition might make sense as an urban renewal strategy, but will have no effect on prices or demand for anything except the the very lowest quality properties, most of which are already in foreclosure. Professor Green expresses similar concerns.

Loss of Confidence

Despite economists belief that the direct economic effects of the real estate crash will be positive, the regional recession in Alaska is at least partly beyond the range of economic experience. It is a reason for caution.

An event this encompassing could conceivably have non-economic effects that could feed back into the economic system in unanticipated ways. Anchorage real estate broker Chris Stephens has suggested that most severe effect of the market crash could be the loss of entrepreneurial talent. Most economists scoff at this idea. "Heck," ISER's Lee Huskey remarks, "lower costs are going to make it *more* likely entrepreneurs will succeed."

Arlon Tussing, a Seattle economist and frequent visitor, thinks the odds are good that the loss of confidence won't last very long or extend very deep into the fabric of Alaska society. So far, the evidence seems to favor this view. Anchorage's municipal demographer Michael Breedlove estimates that 59 percent of the households lost in Anchorage since 1985 have been male headed, non-family households, a category that accounts for only 18 percent of total households. Moreover, 80 percent of the population loss has been in 20-30 age group, and two-thirds of the loss is accounted for by males. These numbers don't suggest a broad-based exodus.

But what about the attitudes and intentions of those who remain? Population movements tend to lag changes in the economy, so a collapse of confidence could have already happened, with the resulting wave of out-migration only now beginning. As far as attitudes are concerned, the answers given by Dittman's Railbelt respondents don't reflect any sense of crisis: 44 percent say the economy will get better over the next two years,

compared with 16 percent who see things getting worse.

What about the 18 percent of Dittman's respondents who reported they were "very likely" or "quite likely" to leave Alaska within two years? For some observers the number was "shocking." Gregg Williams, the state's chief demographer, doesn't see it that way. "Every year, in good times and bad, about 15 percent of the people in Alaska leave. The [poll] results are about what I'd have expected." According to Dr. Williams, the number of people coming to Alaska is much more variable than the number leaving, and much more sensitive to economic conditions. Unfortunately, surveys of people already in Alaska, whether the results are "shocking" or "expected," tell nothing about the intentions of those not yet here. The guessing among experts like Breedlove and Williams is that population isn't in for any collapse in Anchorage, and certainly not in the balance of the state.

Alaska's Policy Options

Many of the experts who are saying there is no economic justification for using public money to prop up the real estate market are also owners of homes and other real estate. A few of them suggest that there may be some *moral* justification for state government involvement. "After all," one asked rhetorically, "doesn't everyone agree that the state government was responsible for getting us into this?" But even those who see a moral basis for state intervention sense that whatever state government's guilt, indemnification of those who have taken losses would be beyond its means. And proposals to assist only a segment of the market, say the commercial real estate market, are hard to take seriously when so many others have also been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford.

Besides, excess capacity in investment goods and services (like construction) has dissipated, and it seems likely that the state will arrest the decline in public spending. If this happens, the recovery will occur regardless of what else the state does or does not do. That doesn't mean that prompt, informed government action would not save a lot of pain. Unfortunately, what the government should do, apart from not trying to corner the real estate market, is not nearly so clear. It would make sense to allow people to carry their negative equity along with them to a different house. Whether the public and private bureaucracies involved are able to handle these transactions remains to be seen. It doesn't make sense to have a moratorium on foreclosures. The rights of condominium associations may need to be strengthened. The policies and role of the state's lending agencies -- especially AHFC, need review. Millett Keller, an Anchorage business consultant, suggests that the real estate collapse provides Alaska communities with "opportunities to accomplish ... public sector projects at bargain rates," including acquisition of property for parks, greenbelts and rights-of-way for

future transportation facilities, assuming government can avoid carelessly mixing in subsidies and economic recovery. That may be an optimistic assumption, but Commerce and Economic Development Commissioner Tony Smith was surely on target when he testified that "we can't spend ourselves out of this one, we have to manage ourselves out of it."

Borrowed Time

With management -- and a little luck -- the real estate crash will do no lasting damage to Alaska's economy. Years hence Alaskans may look back at the recession and post-recession period as a time of renewal and opportunity. If so, it will probably be because Alaskans learned the lessons that this self-inflicted recession had to teach.

On this point, however, the returns are still to be counted. Alaska did cut its spending in FY 1985-88, but not enough to erase the fundamental imbalance that Drs. Goldsmith and Reaume first described ten years ago. In a speech early this year Goldsmith described the imbalance as a problem

> which always takes a back seat to concerns which are more immediate or pressing, but it is the most pervasive issue we will face in the next decade. *In the long run the economy is still living on borrowed time.* We continue to artificially stimulate the economy by selling off the assets of the state -- our petroleum wealth. How we adjust to a sustainable level of government will affect us all as surely as this recession. [emphasis added]

Unless Alaska controls its public spending, the state will be buying a ticket to a rerun of its present recession. Showtime will be within the decade, and probably sooner.

Another old imbalance also remains. Alaska has developed a mature economy, but parts of rural Alaska have increasingly been left behind. Disparities in income, employment, educational success, health, and a host of other measures all are all widening. Some economists say that this is the kind of problem that economics shouldn't have much say in solving, but all agree that the growing disparities are already a drag on economic development *throughout* Alaska, and that these disparities will become an even greater burden in the future. Economic solutions that might work seem unacceptable on other grounds, and solutions acceptable on other grounds clearly don't work economically. It is a tough issue that won't be ignored.

Alaska's economist emeritus George Rogers wrote in 1962 of how many Alaskans subscribe to the view that economic forecasting "should be a projection of present hopes, that prediction should bolster self assurance. Forecasting in this view is only valid if it agrees with a popularly held dream of the future and makes its realization appear likely."

Today, economists' believe that the real estate collapse will not produce dangerous consequences for the economy as a whole. This view runs counter not to a popular hope, but to a popular fear. A lesson from the recession and

real estate crash may be that hopes and fears, like dreams, are better servants when they are firmly founded on a hardheaded respect for history.

Reference Notes (Incomplete)

If not otherwise cited, quotations are from personal conversations with the author.

Taxable Anchorage real estate values are from Phil Webber, municipal assessor's office, Municipality of Anchorage. Data on the number of Anchorage AHFC mortgages are from AHFC. State spending data are Division of Policy figures.

Goldsmith's seasonally adjusted employment figures have not been published, but are available from him or the author. Goldsmiths 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. Goldsimth 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 spce 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.

MEMORANDUM

State of Alaska

TO: See Distribution

DATE: March 7, 1988

FILE NO:

TELEPHONE NO:

THRU:

SUBJECT: Comments on Various Economic Recovery Proposals

FROM: J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.

2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

   The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate $25 million if we are to do $100 million in guarantees for the program to have the impact desired. We recommend a $100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.

4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.

5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential $3 million item. Hence, a threshold question is identifying a source of funding.

   In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

   There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of $75-80,000, with an interest rate of 10-12%. Consider the following figures:

Loan Amount	Interest Rate	Payment
$ 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 nonjudicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

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

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January 8, 1988

Governor Steve Cowper
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

During the past several weeks an Economic Recovery Task Force has been meeting to discuss the status of the Anchorage economy and proposed solutions. The attached listing of members of the Task Force indicates the breadth and depth of the community participation. The Task Force was initiated by the Anchorage Chamber of Commerce and the Task Force recommendations will be submitted to the Chamber of Commerce Board of Directors at its meeting on January 15, 1988. However, the Task Force wanted to submit to you its findings and recommendations at the earliest possible date, whether or not they are approved by the Chamber Board of Directors.

The findings of the Task Force were passed unanimously by the Task Force members. I must add that not every member agreed with every specific recommendation. However, there was no exception to the finding that the economy in Anchorage is depressed and there is no immediate indication there will be an economic rebound. While there is tremendous support for letting the market forces guide the economy, there is the strong belief that appropriate government intervention can assist without further aggrevating the functioning of the economy.

The Task Force members recommend you adopt the recommendations as your own, and the members pledge their support for you in implementing any of the recommended programs. We look forward to working with you as we navigate through these troubled waters.

Very truly yours,

Signed

Joseph E. Heintz

ECONOMIC RECOVERY TASK FORCE

The task force recommendations are based upon a general consensus that Anchorage is suffering from an economic recession and, while the economic decline may be slowing, there is no immediate turnaround in sight. In fact, the recession may result in the loss of another 10,000 to 15,000 people from Anchorage during 1988, further disrupting many of the basic sectors of the local economy.

The task force concluded that the economic recession is not limited to a specific interest group. For example, it isn't only the banks that are suffering from the economic decline. Virtually every homeowner in 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 circumstnaces. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

* Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's $1.5 billion in equity.

* The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.

* The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

Real Estate Market

The real estate market in Anchorage, both commercial and residential, is characterized by a significant imbalance of supply and demand. The excessive supply cannot be reasonably absorbed in the near or mid-term (say next five years) and will have the ongoing effect of depressing real estate prices. The impact is not limited to real estate speculators but is pervasive to most citizens in that most have major investments in real estate. So as personal and business income decline, the ability to continue to function is jeopardized by the debt service with the resulting effect in foreclosures, bankruptcies, etc.

We believe the imbalance in supply and demand can be partially adjusted by reducing the supply of real estate. Specifically, we would recommend the following:

* For residential property:

  ** Remove sub-standard housing from the market and destroy the properties. Convert other property to low income housing so there is no additional cost to the low income person.

  ** Ship mobile homes that have been vacated out of the state.

  ** Convert existing condo or similar units to University of Alaska student housing.

* For commercial property:

  ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

to an REIT which would acquire FDIC-owned property and other obsolete property at a nominal price simply for the purpose of holding the property off the market.

** Consider use of the Permanent Fund as a "Vulture Fund" to finance the property acquisition in conjunction with Heritage Land Bank.

AIDEA

AIDEA should be instructed to adopt restructuring policies that provide a cushion to commercial borrowers. For example, these procedures should include interest rate reductions when loss of jobs would occur if the loan defaulted. AIDEA should be allowed to take an equity participation in consideration for restructuring the terms and conditions which result in the survival of a business.

AIDEA should modify its requirements so that banks can participate even if their loan delinquency rate exceeds two percent.

AIDEA should expand its lending activities to provide for a new guaranteed loan program modelled after the federal SBA program. The essentials of the program should include:

* Bank administered with AIDEA guarantee.

* Loans would be available to finance existing AIDEA debt; other debts could not be refinanced.

* $1,000,000 limit on loan.

* Funds could be used for new construction if the project had an economic benefit analysis.

The revisions to the AIDEA programs should result in the survival of the viable small businesses, thereby maintaining statewide employment and minimizing the effects of the current recession.

Employment Incentives Fund

The State should identify a portion (say $50 million) of the construction fund budget to be used as a venture capital fund. The fund should be used somewhat along the following guidelines:

* An applicant could apply for capital funds up to

$10 million. Matching funds would be available on a dollar-for-dollar basis. In other words, an applicant could receive $1 of State funds to the extent the applicant put in $1 of private sector funds.

* The private sector project would need to create new jobs for the state of Alaska to qualify. These new jobs would need to be permanent positions as a result of the project and not as a result of any capital construction.

* The criteria for qualifying may be that for each $1 million of State participation, five new positions must be created.

* The criteria might also include that the project results in new dollars coming into the state of Alaska and the economy. In other words, it will result in exporting local products or services.

The State and local municipalities have no specific program incentives to entice business. While this would be a onetime subsidy program, it would create new jobs throughout the state and provide a sustaining boost to the economy.

Public Forum

Town hall meetings should be held wherein members of the public are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).

QUALITY: Sells

Continued from Page B-1

condo market shouldn't distort other areas of the market, which are getting healthier. Take for example the upper-end residential marketplace, homes costing between $200,000 and $220,000. Presently, there are only 31 properties for sale in Anchorage in that range. In fact, residential inventory above $100,000 has declined 35 percent between 1986 and 1987, while at the same time sales declined only 10 percent. That amounts to a healthy absorption rate.

There is no doubt about it. The low-end of the market is suffering from poor quality housing and an oversupply, including condos, single-family and zero-lot-line homes. Unfortunately, no state bailout program or moratorium is going to change those two factors. The state, if it opts for a foreclosure moratorium, will do nothing more than create a brief time-out.

The poor quality and condition of the bottom of the real estate market is not going to be helped by state interference, whether it is in the condo market or the commercial real estate market. The issue is really one of quality.

A recent survey by Shorett & Riely demonstrated that better quality apartments have a 13 percent vacancy rate while lower quality have a 40 percent vacancy. Another survey just completed by Alaska Valuation demonstrates the same thing in retail mall space. Those strip malls with anchors have a substantially lower vacancy than those without. This points to the fact that better properties, those developed with foresight into the market, are going to survive while those in poor neighborhoods and not designed to meet the market might fail. Not all properties were created equal. When the market improves, new housing will be built that will make today's poor quality housing unsellable.

It also should be noted that this flight to quality is great for consumers. Although apartment owners may be complaining about low rents, tenants have been able to improve their quality of life substantially in the past two years.

The issue here is quality



connie yoshimura

The Anchorage real estate market has a black eye but it certainly shouldn't be pronounced out of the fight by any means. Rather, the condition of the market is more like a technical knockout. The black eye of course, is the condominium market. With an increasing amount of inventory due to foreclosures, the absorption of excess condos is going to need more than fancy sales promotion. There is the beginning of talk about conversions back to apartments, the razing of certain functionally and cosmetically obsolete units, the conversion of condos to low-income rental units, among other innovative ideas. All of these suggestions need to be considered very seriously because it is apparent that if we just leave the condo market to the buyers out there, Anchorage has a nine-year suppl[illegible] inventory.

However, the black eye of [illegible]

See Page B-6, QUA[illegible]

Daily News 2/13/88

ALASKA PERMANENT FUND CORPORATION
VERBATIM MEETING MINUTES

February 10, 1988
Alaska Permanent Fund Corporation Offices
Juneau, Alaska

PRESENTATION BY CONNIE YOSHIMURA

YOSHIMURA: I guess I need to identify myself. I'm Connie Yoshimura. I'm an Anchorage real estate broker and, unfortunately, developer at this point in time, although I used to be proud of that fact. As far as any conflicts of interest are concerned for what it is that I have to say, I do want to divulge that I owe my mortgage to the Alaska Permanent Fund. But other than that, I am speaking as an individual and I'm not representing any other groups.

The reason that I am here is because I am concerned about the topic which was just discussed, which is the use of the Permanent Fund earnings or principal to shore up the real estate market in the railbelt energy communities, for which I am extremely opposed.

I have to tell you that I first became interested in the Permanent Fund because I served on a committee on the Permanent Fund who will be issuing a report next week having to do with Commonwealth North, and that was over two years ago. So I started attending these meetings. When I started attending these meetings I was very angry because I felt that the Permanent Fund should have a vehicle for investing in the State of Alaska and, in particular, real estate more than the extent to which they do with their home mortgages and through the banks in terms of deposits and securities on first deeds of trust that may involve some real estate. As I sat and listened to these presentations over the past two years, I became convinced that you should not be investing in real estate in the State of Alaska. I really had a complete reversal of my opinion as I began to become educated as a member of the public in terms of what your investment criteria was and as I looked at what your rates of return were in shopping centers and in apartment complexes outside the State of Alaska. Although politically I may have had some problem with it, I felt that you were absolutely on the correct investment track and that, with few exceptions, there was no opportunity for that type of investment within the State of Alaska. And if there wasn't

any opportunity for that type of investment in the State of Alaska two years ago, certainly there is not any opportunity for that today. So whether it is using the principal or using the undistributed earnings of the Permanent Fund, or coming in the back door vis-a-vis a pension plan and a vulture fund that's created in Seattle for the express purposes of buying real estate in the State of Alaska that's depressed for a long-term potential, I am adamantly opposed that the Permanent Fund do not participate in any way, shape and form with anything outside of what they're presently doing.

I'd like to take this opportunity to explain my position a little bit and I have some charts and graphs that I want to distribute to you. I want you to understand that I am a residential broker. I am not a commercial broker. But what I'm going to demonstrate to you residentially and in apartment complexes and briefly in malls, shows a distinct flight to quality that you're not going to get rid of, irregardless of who owns the distressed properties, because so many of the distressed properties that were built in Anchorage and Alaska in particular were so ill-conceived. For example, strip malls without anchors or properties or apartment complexes located on the east side of town or on the north side of town where there has been substantial loss of population because there's a flight to quality on the south side of town. So really, unless you're interested in getting into the urban renewal issue, which is what Anchorage is really all about at this point in time, since it has more supply than it has demand and you have properties that irregardless of whether or not they're one year old or thirty years old are functionally and cosmetically obsolete from the day they came out of the ground because they're ill-conceived by greedy developers, you don't have much of an opportunity to invest in commercial real estate in Anchorage, Alaska. And I think that I can prove and demonstrate this flight to quality, so to speak, throughout all segments of the market.

Well, the alternative to that is, if you don't want to buy distressed property, then you could take vulture funds and maybe you could buy quality property at distressed prices. But the quality properties are not for sale because the quality properties are the ones that have already had their loan modifications and their workouts already accomplished. You don't want to buy them for the amount of their loan balance and an owner, if he has loan modification and he's got a mortgage that now cashflows, is not particularly

interested in selling to you and making that difference up in cash out of pocket. So, unless you're interested in buying raw land, which we have plenty of since we've had a ten percent decline in population, there's not much opportunity, despite what the mayor may say or despite what the poll may say or despite what a vulture fund may say. There isn't any opportunity for investment that's going to give you the type of return that you presently have in real estate in other parts of the country.

Secondly, one of the problems that the commercial real estate market faces in Anchorage, Alaska is not simply an over-supply versus demand and a depressed local economy, but we've had massive changes in our tax laws which no longer make it beneficial for small investors to join in syndications and to purchase large commercial pieces of property in partnership form. Although Anchorage has not been overly syndicated, there are significant syndications both in raw land and in income-producing properties that have gone belly up in recent months because the partners no longer want to continue to pay into a partnership that has no immediate return and that has no tax benefit. One of the problems that we find in the commercial real estate market, from my own personal experience of owning a couple of hundred apartments, and unless those apartments cashflow today I have absolutely no tax break, which they were created for three and four years ago. I have no tax break whatsoever today for owning those apartments. So unless I can get a 10% return on them, or whatever, there is no reason for me to continue to own those properties. So it's not just the economy that's causing people to walk away from all of these commercial real estate investments, it's because they were overvalued because depreciation and interest write-off were added into them and made them an attractive investment vehicle, which the tax laws changed last year.

Briefly I have some information here which I would like to give to each one of you. One of the things that I would like to demonstrate to you is that the market is not nearly as bad as what you may think that it is in the better quality properties.

The first chart that I have is residential homes for sale by price range, and although you may not be particularly concerned with houses, you probably are concerned with jobs and you probably are concerned with the overall economy. I would like to point out that in the Anchorage area there has

been a substantial decline in all areas of residential properties after you reach the $100,000 price range. This is an incredible number, but you will see that between $200,000 and $220,000 there are only 31 homes for sale in the entire Municipality of Anchorage bowl, as of January 1988. That's an incredibly small number. Three or four years ago there would be 300 houses in that price range for sale. So we've had like a 90% decline in inventory in that price range. On the other hand, under $80,000 we've had a tremendous increase in the number of homes. And the first two numbers, under $80,000 and $80,000 to $100,000, are the only two categories that have increased, and that's due to the REO market. That's due primarily to the job loss and to the exit of the 20,000 people that's happened in Anchorage.

SCHAIBLE: When you're talking about residential homes, are you talking about stand-alone homes?

YOSHIMURA: Single family and zero-lot lines.

So you will see that indeed we don't need a building moratorium as Mr. Rose suggested in one of his position papers, except for what we probably do need are stricter zoning laws which will prevent the building of condominiums that are 600 square feet and that have no car storage and are two bedroom, because it's the lower price range that's facing the tremendous problem. And with 31 homes for sale between $200,000 and $220,000 and 41 between $220,000 and $240,000, there is not much of a problem in the marketplace. As a matter of fact, there is not enough inventory.

What really gives the Anchorage real estate market, in the broad picture, such a bad name is the condominium marketplace. As you can see, we have a vast number of condominiums and from January of 1987 to January 1988 the condominium market increased by over 50%. All of that can be attributed to the REO inventory that's held by the Alaska Housing Finance Corporation and MGIC. Your investments, as far as in single-family homes, because you do mostly high end mortgages, I would think that you are relatively safe and secure and could continue on in a program doing that without much problem.

Under residential inventory and sales, I've tracked 1986 versus 1987, and this is a very important chart, because what this demonstrates to you is, first of all, that inventory in general has declined 35% in the Anchorage area and sales activity has only declined 10%. Virtually on the

chart it looks like it's almost identical. So what you see here is that you have a healthy absorption, that inventory is declining and absorption is remaining virtually the same. So you don't have a problem, except under $100,000, in the Anchorage real estate market.

You do have a problem, however, in the condominium market and you have 1,800 units this year, 1,800 units last year. Approximately the same amount of sales. And the condominium market is really being addressed now on an institutional basis by all the institutional sellers. MGIC, for example, controls 56% of all of the repossessed condominiums in Anchorage. There is talk of bulldozing units. There is talk of turning properties back into rental properties. In other words, to solve the condominium market which generally is giving the entire real estate market a bad name in the railbelt communities, you are going to have to do more than give away fur coats and fancy trips to the Caribbean in order to sell property. I mean, they did all that and they generated 237 sales, but at that rate you still have a nine year supply of condominiums.

MALLOTT: Give away condos.

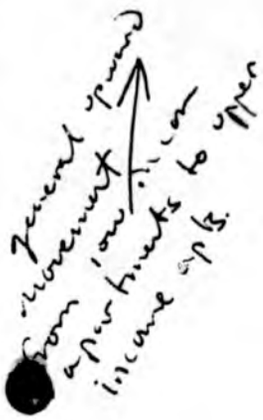
YOSHIMURA: You could give away condos. Well, you know, you've heard the story that the banker, if he did a good job, got one condo and if he did a bad job he got two for his bonus. I'm not exactly sure how that worked. For whatever bankers there are that are left in Anchorage.

In the condominium sales price, the most telling statistic is in December of 1986 the average condo was worth $113,000 in Anchorage and now in 1987 it's worth $50,000. That's a 44% decline and I used December to December as opposed to the weighted average statistic for the entire year to tell you that the condo market is still declining in Anchorage and needs serious attention.

The next two charts have to do with population and housing statistics, which shows you that in single-family, for example, how it breaks down into housing type. In the 5-plexes, there are 21,582 physical units -- doors -- and it doesn't matter if they're condos or apartments, and they represent 26% of the entire housing market. Then if you look at the next chart, you'll find that they have a vacancy of 25%, where single-family houses only have a vacancy of 5.9%. And, of course, we have mobile homes and there's

nothing you can do about those, despite what the trailer park owners say.

Getting a little bit into an area that you might be a little more interested in because you own apartment complexes in the lower 48, and demonstrating what I feel is the commercial flight to quality, there has been a 40% increase in low-cost apartment vacancies. Apartments in the lower price range, their vacancies have increased 40%, whereas mid-cost apartments have decreased 21% in their vacancy factor, and high-cost apartments have decreased 37%. High-cost, quality apartments in Anchorage only have a vacancy factor of about 13%, which is about 5% more than what we'd like it to be, but it's not a bad percentage to work with. The problem is that there has also been a decrease in rental income, so what is a high-quality apartment today may only get $550 a month rent, whereas two years ago it was probably getting $950 a month rent. Now the only person that's angry about that is the apartment owner, and I am an apartment owner and I own 200 apartments. However, I have 200 tenants that are absolutely delighted that my income has gone down.



So if you talk about the commercial real estate market being a political issue, it is a political issue. But you've got a much broader-based constituency for those people who are business owners and who now pay $1 a square foot as opposed to $2 a square foot. I lease 6,000 square feet in Anchorage for my business. My rate was supposed to be, according to my lease, $2.35. I now pay $1.71 a square foot. I am delighted by that. But in many instances what you have in the commercial real estate market is you have a very articulate, well-financed and very politically astute constituency as far as real estate developers and investors are concerned and you have sort of the silent majority. You have all the tenants who live in all of the apartments, all of the small business owners, and they're delighted that things have gone down, because they are able to live better in a better house, in a better apartment. They're able to go out and rent class A square feet instead of class C for either their shop or their office, and they're absolutely delighted by the turn of events.

I have to say that in all real estate markets what you have are winners and losers. In Anchorage you had a lot of real estate developers who didn't know what they were doing. The last chart probably demonstrates that, without naming any names. You have Anchorage retail inventory and vacancies by type of mall. This is a new study that has just been done

by Fred Ferrara, who is the president of Alaska Valuation Services. You have major malls, which include 5th Avenue and the Diamond Mall, and you have their vacancy factor. You have strip retail with anchor having a very small vacancy factor, and you have strip retail with no anchor. But everybody knows that you should never have strip retail with no anchor to begin with. It doesn't make much sense unless you're in a ski resort area in Nevada around Lake Tahoe or something like that where you've got small space and you have to deal with it and you can have a lot of little shops. But Anchorage doesn't have those types of demographics.

So, in my opinion, the people that are in trouble -- the good properties you are capable of doing a loan modification and a workout on. And the bad properties, the ones that are ill-conceived to begin with, like the strip retail with no anchor, you don't want those properties to begin with. Nobody wants them. If the owner couldn't make them work through a loan modification and they have to go back to the bank, and the bank fails as a result of having too many of those properties because they can't handle them either because they're functionally and cosmetically obsolete, and so then that bank goes belly up and a new bank comes in and they cherry-pick the loan portfolio and they don't want that piece of property anyway, and the FDIC ends up with it, why would anyone want to bail out the FDIC after four people can't make this property work and can't make this loan performing? It just doesn't make any sort of real estate sense, although it makes political sense.

MALONE: If I understand what you're saying, it is that, as far as you can tell, and from the information put together both apparently in the area of the retail type real estate and the residential real estate, the fact that these properties exist and they're not being used and maybe the FDIC or somebody else is holding onto them, is not depressing the real estate market because nobody is going to go in and buy them anyway.

YOSHIMURA: No one is going to go in and buy them anyway.

MALONE: They're not going to be able to beat down the prices of the higher quality properties because they're just not a marketable item today.

YOSHIMURA: They're not a marketable item today, and they're not a marketable item tomorrow. Because when we do start having

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1591 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988
1388

population and we do start having growth again, there will be real estate developers who have learned a lot of good lessons from all of this and they're going to go out and they're going to build better product to compete, unless Dave Rose's suggestion happens that there's a building moratorium, which I will fight to my dying day. But this bad product is going to remain bad product, because when the economy turns around and we have population and we have jobs again, there will be more opportunities for growth and those properties are just going to fall by the wayside because they were functionally obsolete properties to begin with. Whether they're new or not is immaterial. Yes, I agree with that.

MALONE: So, in other words, one of the big scares that people hold up saying, well, if this outfit or the FDIC or somebody else dives in and dumps everything on the market, they're just going to submerge the Anchorage real estate market. What they're probably going to do is find out there either aren't any buyers or, if there are buyers, they're going to be very low prices, but that the better quality properties -- the ones that people want -- are not going to be greatly affected by that one way or the other.

YOSHIMURA: The better quality properties are full. They have a low vacancy factor. You may not have the rental income that you'd like from those properties, but they're full. They don't have that bad a vacancy factor.

Anyway, those are my comments and I appreciate the opportunity to speak before you.

MALLOTT: Good. Thank you very much.



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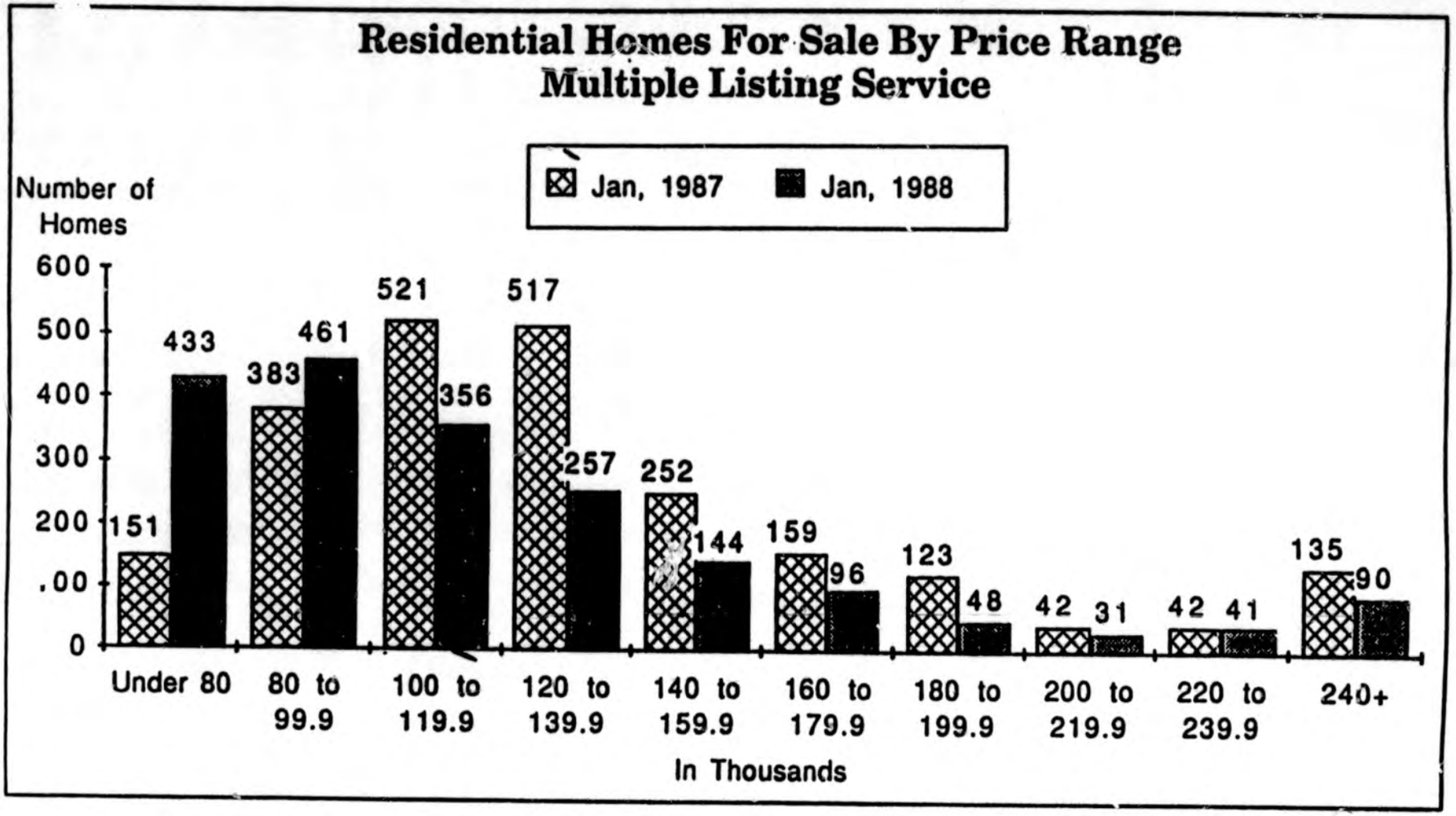


Chart Preparation: FORTUNE PROPERTIES, INC.

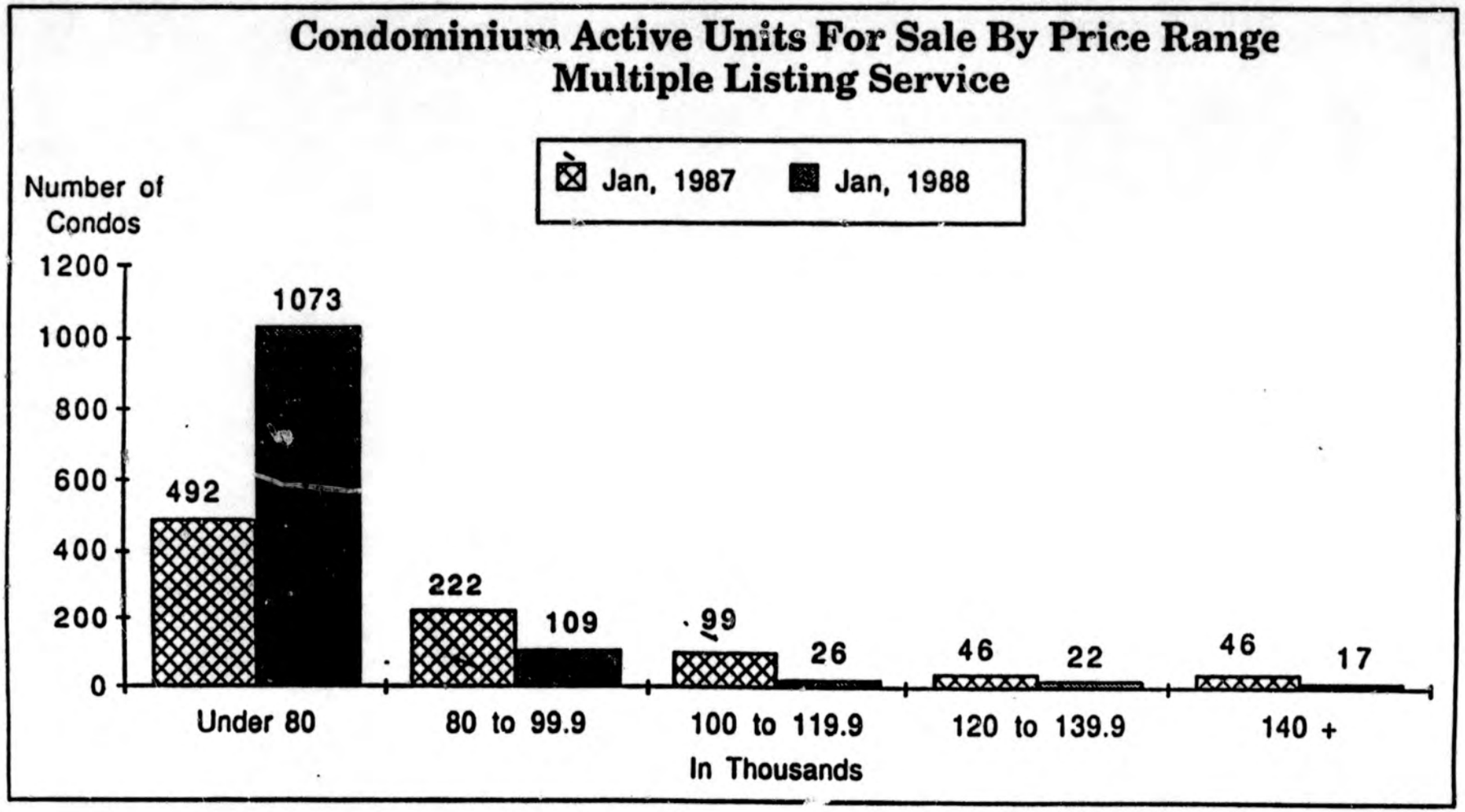
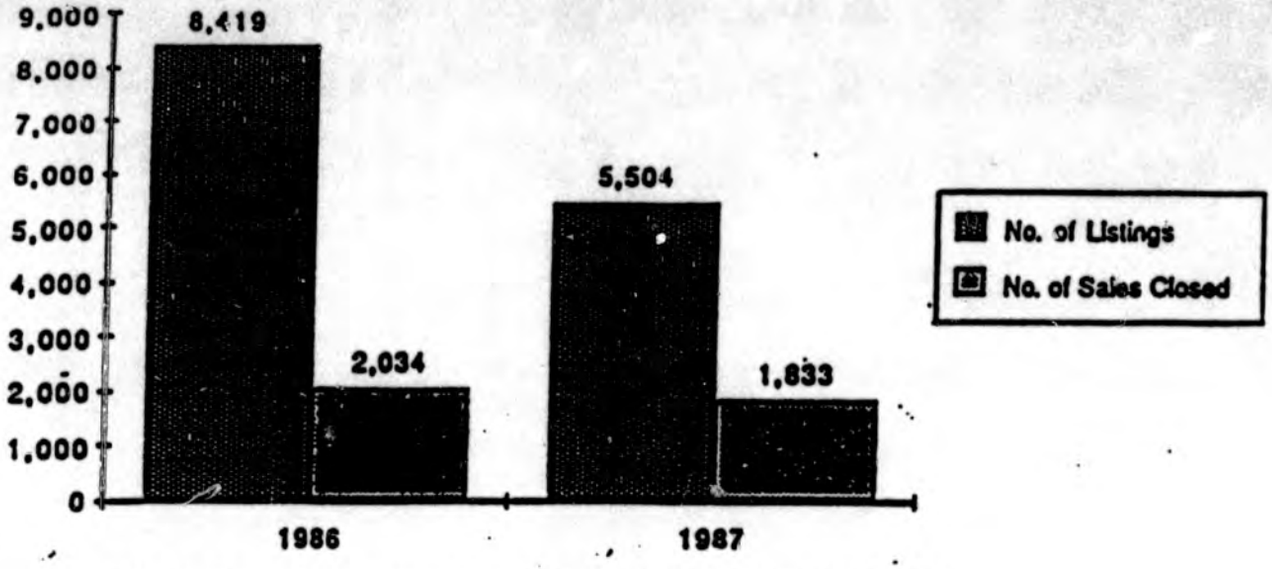


Chart preparation by: FORTUNE PROPERTIES

Residential Inventory and Sales
1986 vs. 1987



35% decline in inventory vs. only a 10% drop in sales units.

Source: Multiple Listing Statistical Year End 1987

COMMENTS:

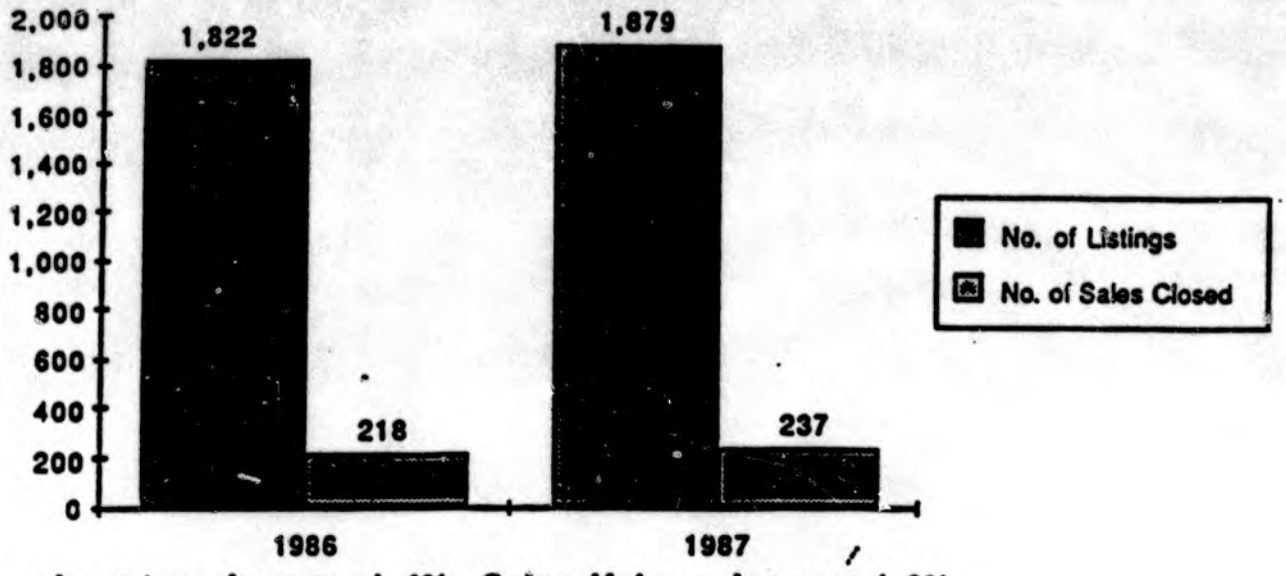
If there is any good news in the Anchorage real estate market, it is the fact that residential inventory (classified as single family and zero lot line properties) had a significant 35% drop in number of units available.

This figure is particularly significant in the fact that sales, measured by unit count, and not dollar value, declined by only 10%. This indicates a fairly healthy absorption of property in Anchorage.

There is no problem selling property in Anchorage according to these statistics. The only problem is in the value that is obtained for residential properties. This value, however, has indicated considerable stability and it is anticipated that little, if any, further decline will take place in value for single family and zero lot lines.

This market, if left alone, will continue its absorption. There is no recommended action for the single family and zero lot line market. Given all the economic circumstances of the times, it is functioning well.

Condominium Inventory and Sales
1986 vs. 1987



Inventory Increased 4%; Sales Volume Increased 9%

Source: Multiple Listing Service Year-End Statistics

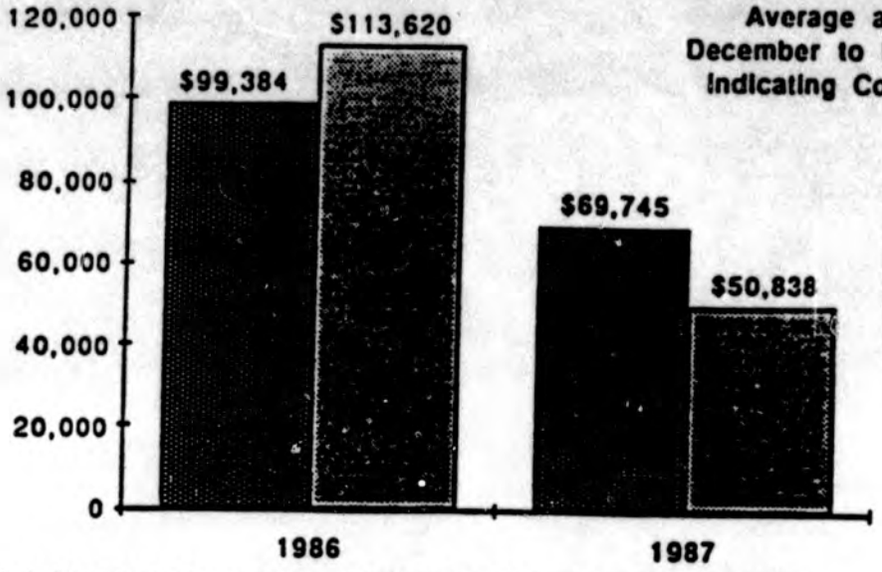
COMMENTS:

From the above chart, it is obvious that the condominium market is virtually stagnant. Neither inventory nor sales have increased or decreased a significant amount.

It is an interesting note, however, which is not on the graph that closed sales for the month of December 1987 was exactly double that of 1986, or 34 compared to 17. Doubling the number of closed condominium sales is admirable, which was accomplished primarily through the marketing efforts of MGIC, but it does not address the basic problem of oversupply. Other action must be considered.

At the current absorption rate, assuming no new inventory, there is a nine year supply of condos within the Municipality of Anchorage.

Condominium Sales Prices
1986 vs. 1987



Average annual price dropped 30%; December to December price dropped 44% indicating Condo market is still declining

Additional Information: 17 Condo Closed Sales in 1986; 34 Closed Condo Sales in 1987

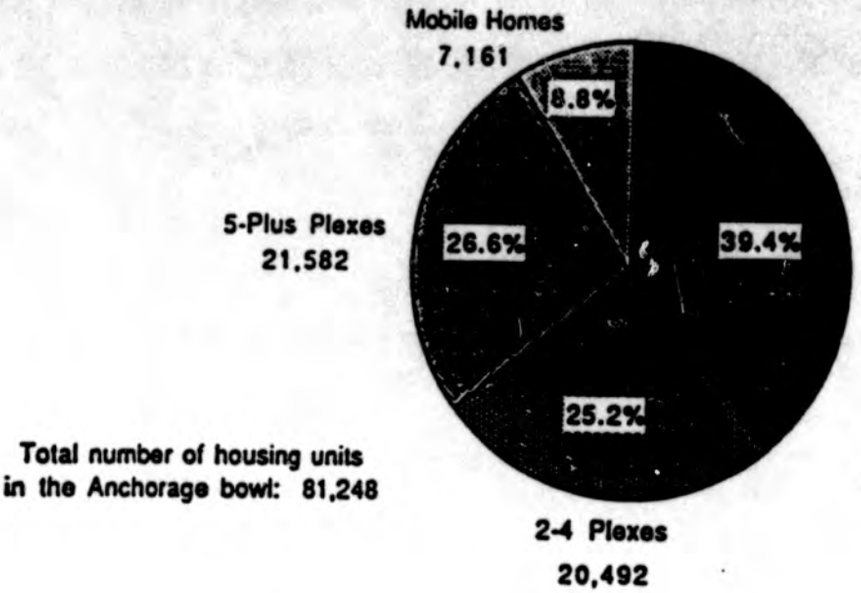
Source: Multiple Listing Service Year-End Statistics

COMMENTS:

By comparing December 1986 to December 1987, it is obvious that the condominium market is still in its downward spiral. The year end statistics show a drop of 30% in value from 1986. However, the December comparison shows that the drop is 44%. Since the December statistic is not averaged and is the most current, it is obvious that the present value is 44% of last year's value and not the 30%.

There is no reason to think with the oversupply that exists that all condominiums will not continue to decline in value unless steps are taken to take properties off the market, either through warehousing or rentals.

1987 Population and Housing Unit Statistics
Housing Unit Types



Total number of housing units in the Anchorage bowl: 81,248

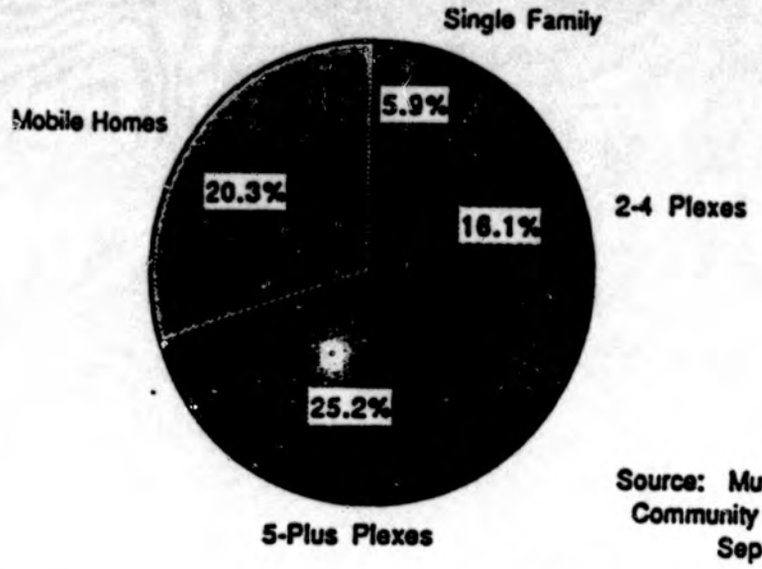
Source: Municipality of Anchorage
Community Planning Department
September, 1987

COMMENTS:

Nobody knows for sure how many condominiums there actually are in Anchorage, Alaska. The reason for this is that the Municipality of Anchorage counts housing units by physical building type. This means that condominiums fall within the 2-4 plex category, if they are in a building of that size or in the 5-plus category if located in a larger structure. The majority of condominiums fall within the 5-plus structures.

AHFC has over 7,000 condominium loans, the vast majority of which are in Anchorage. Condominiums could probably best be counted by taking a survey of investors because most condominiums were financed at the time of purchase.

1987 Population and Housing Unit Statistics
Census Vacancy Rates--Anchorage Bowl



Source: Municipality of Anchorage
Community Planning Department
September, 1987

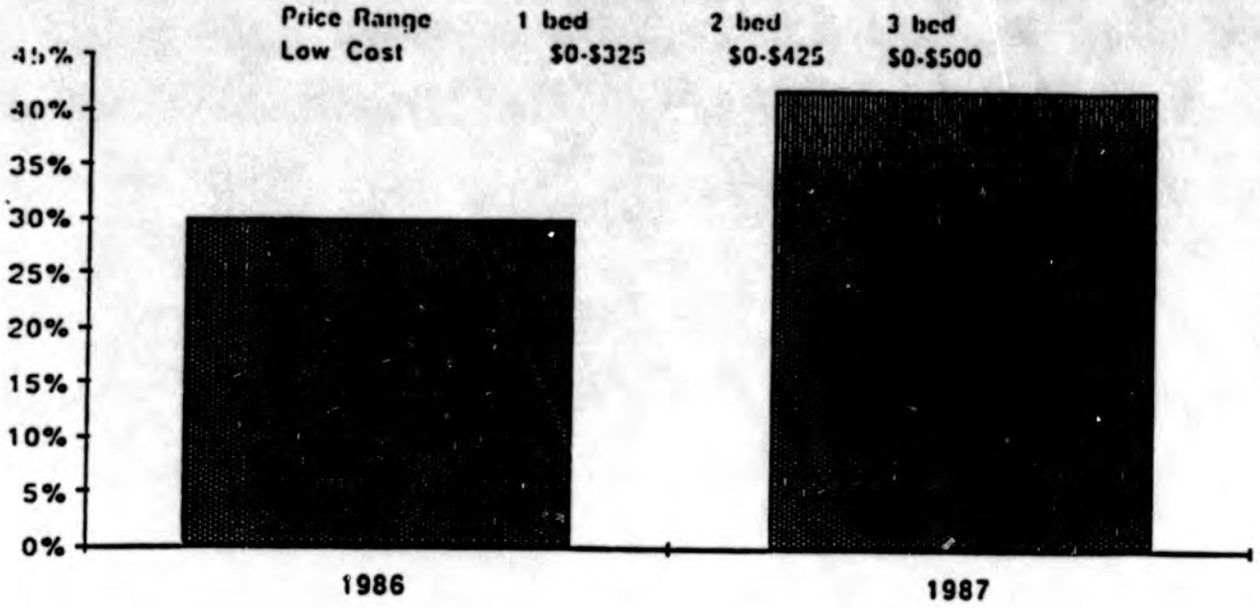
COMMENTS:

This pie-chart shows a 25% vacancy in the 5-plus categeory, which demonstrates that renters prefer to live in as low a density as possible.

This chart measures physically vacant properties which were inspected by the Municipality during the second quarter of 1987. As you can see, it indicates all product type.

The overall vacancy for the Anchorage bowl is 14.9% taking into consideration all product type. The chart breaks down this overall vacancy into percent of product type.

Fourth Quarter Low Cost Apartment Vacancy Rates
1986 vs. 1987



There has been a 40% increase in low cost apartment vacancies.

Source: Shorett and Riely Appraisers, Ken Kincaid

COMMENTS:

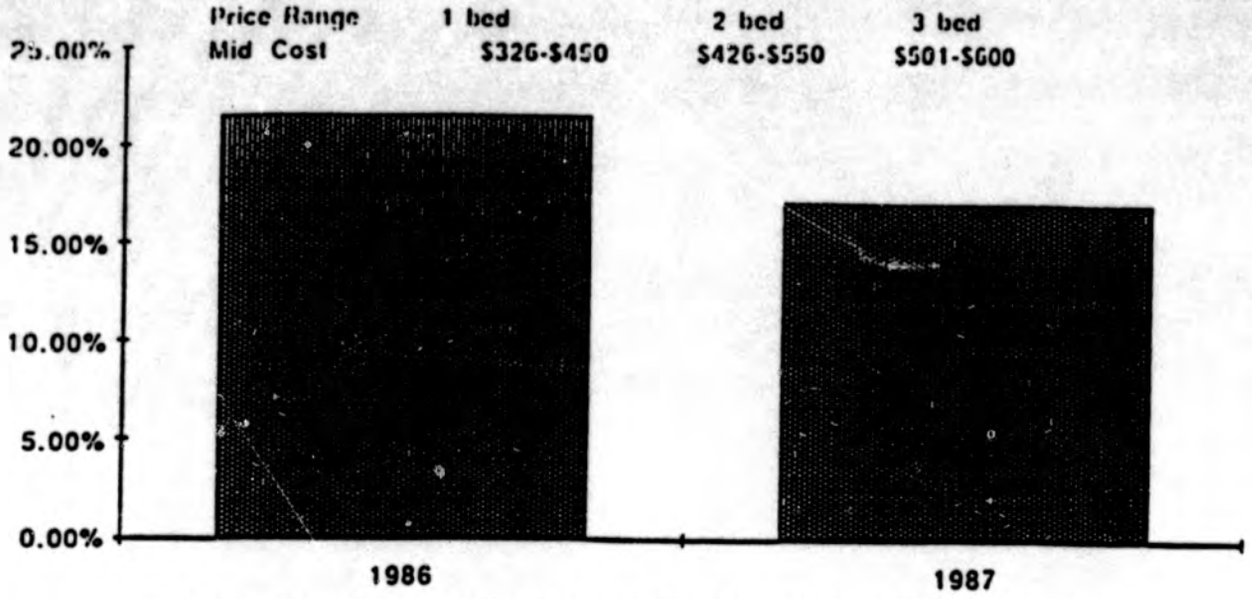
The most revealing statistic from the 5,000 unit survey completed by Shorett and Riely was the fact that there had been an increase of 40% in the vacancy of low cost apartments.

This substantiates a flight to quality that is being taken advantage of by savvy renters, as well as upgrading home buyers. There are certain areas of Anchorage which, without extensive urban renewal projects, are not going to be repopulated for many years. These areas include Mt. View, parts of Spenard, some pocket areas of the Eastside, as well as areas in Muldoon.

The apartment projects in these areas are functionally and cosmetically obsolete and with loss of rental income are in dire need of maintenance and repair which the owners cannot afford to make at this time. Many of these properties should probably be torn down. Even the newer four-plexes, etc., which were built in these areas suffer from higher vacancy factors.

There is a definite flight to the southside of Anchorage. Although Anchorage lost 10% of its population in the past two years, the southside of Anchorage, defined as being south of Tudor Road, has had an increase in population. In fact, the elementary schools on the southside of town, such as Rabbit Creek, O'Malley, Huffman, and Spring Hills are considered to be overcrowded, and there has been purchase of a new elementary school site off Huffman Road.

Fourth Quarter Mid Cost Apartment Vacancy Rates
1986 vs. 1987



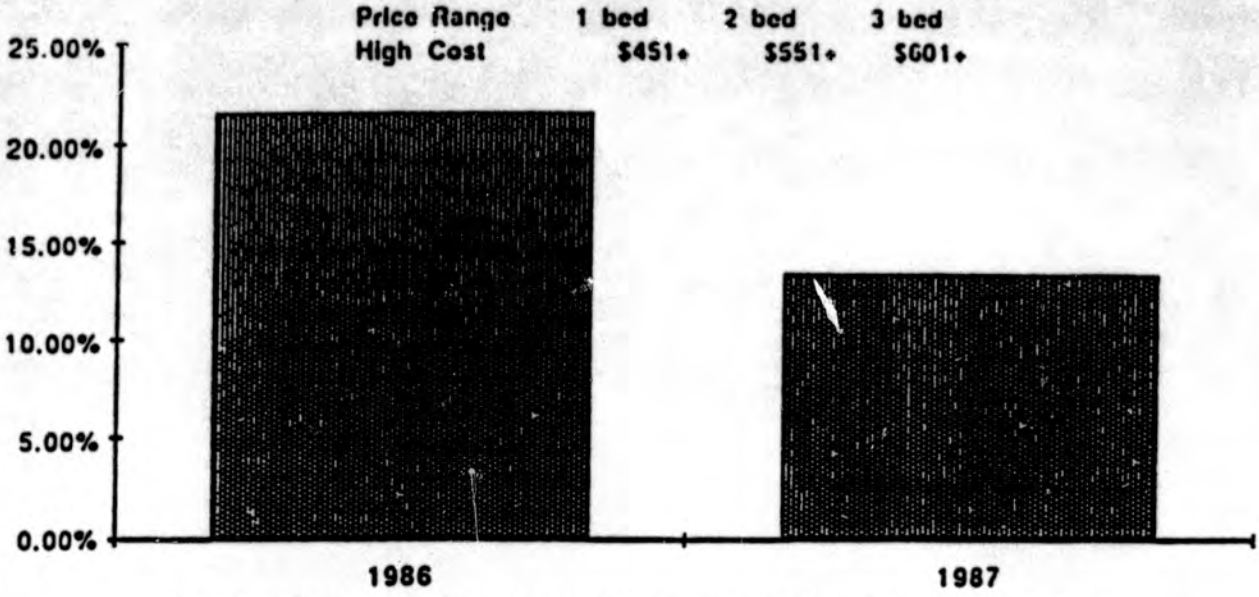
There has been a 21% decrease in mid cost apartment vacancies.

Source: Shorett & Riely, Real Estate Appraisers

COMMENTS:

Although there has been a substantial decrease in mid-cost apartment vacancies, it is important to note that these apartments were probably at one point in time considered high cost. In other words, just as vacancies have declined in this price range so as the rental rate. This is the flight to quality in rentals previously commented upon.

Fourth Quarter High Cost Apartment Vacancy Rates
1986 vs. 1987



There has been a 37% decrease in high cost apartment vacancies.

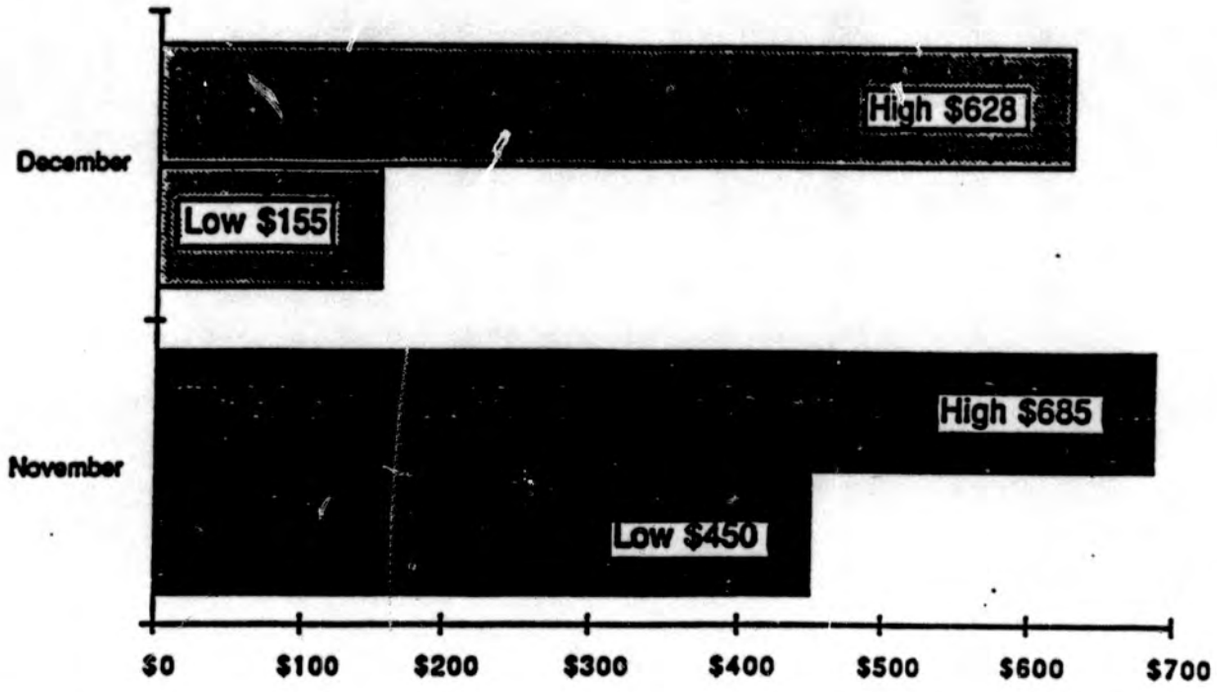
Source: Shorett & Riely, Real Estate Appraisers

COMMENTS:

The decrease in vacancies for pricey apartments is signification. Again, however, it must be pointed out that this decrease in vacancy is a result of only lower rents being charged for these apartments.

These charts point out, however, that the trend to quality is overwhelming and that there is probably no market force great enough to deter it except more population.

Analysis of Rental Rates for 2 Bedroom Condos
As Advertised in the Anchorage Daily News and Anchorage Times
November, 1987 vs. December, 1987



Information Provided by Kay E. Eliason

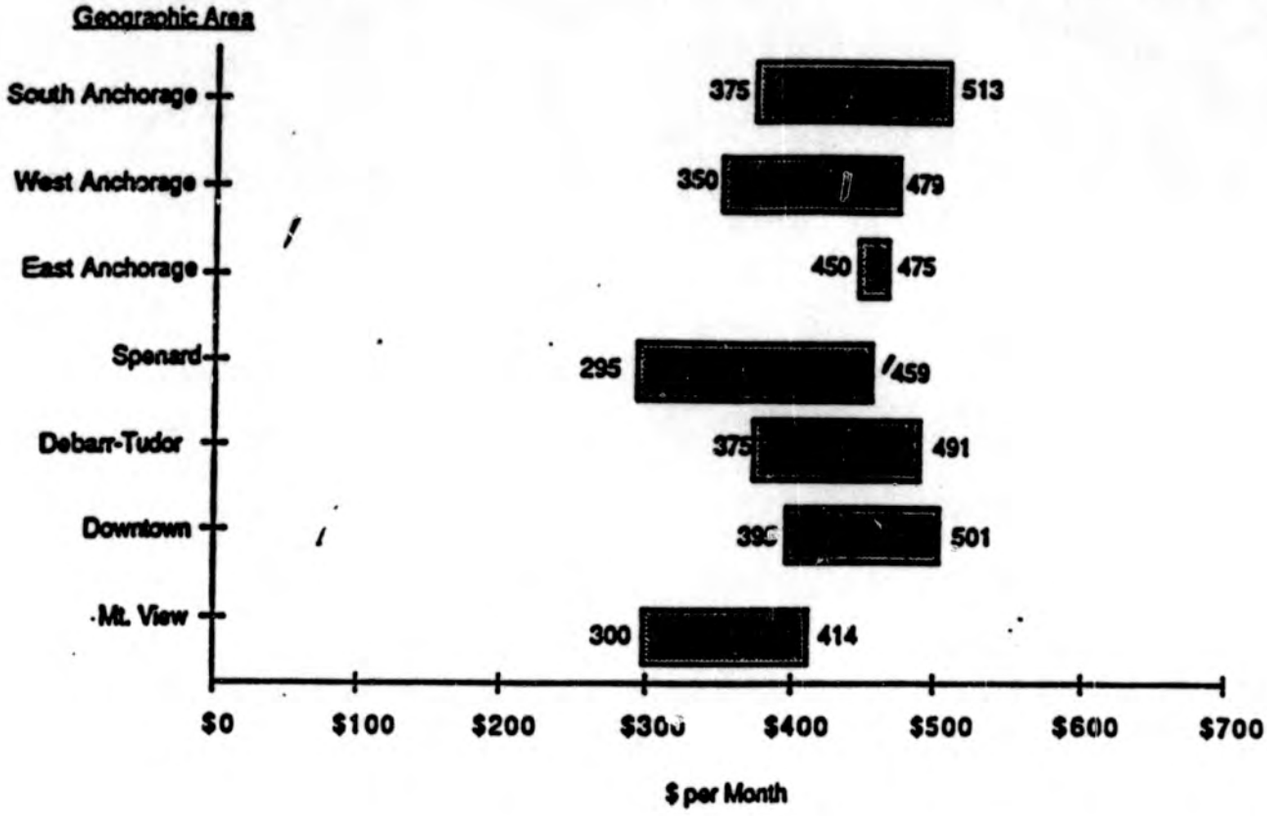
COMMENT:

This newspaper survey was done by a private consultant who used Sunday's Anchorage Times and News to do a comparison of rental rates...

This chart demonstrates from November to December that rental rates fell for two bedroom condos a significant amount. The high rate in November advertised in the paper was $685. In December that rate dropped to $628.

The number of ads for November was 39; for December 41.

Rental Rate Analysis
of Two-Bedroom Unfurnished Apartments
Acccording to Classified Advertising
Anchorage Daily News and Times Classified Ads
December 6, 1987



Information Provided by Kay E. Eliason

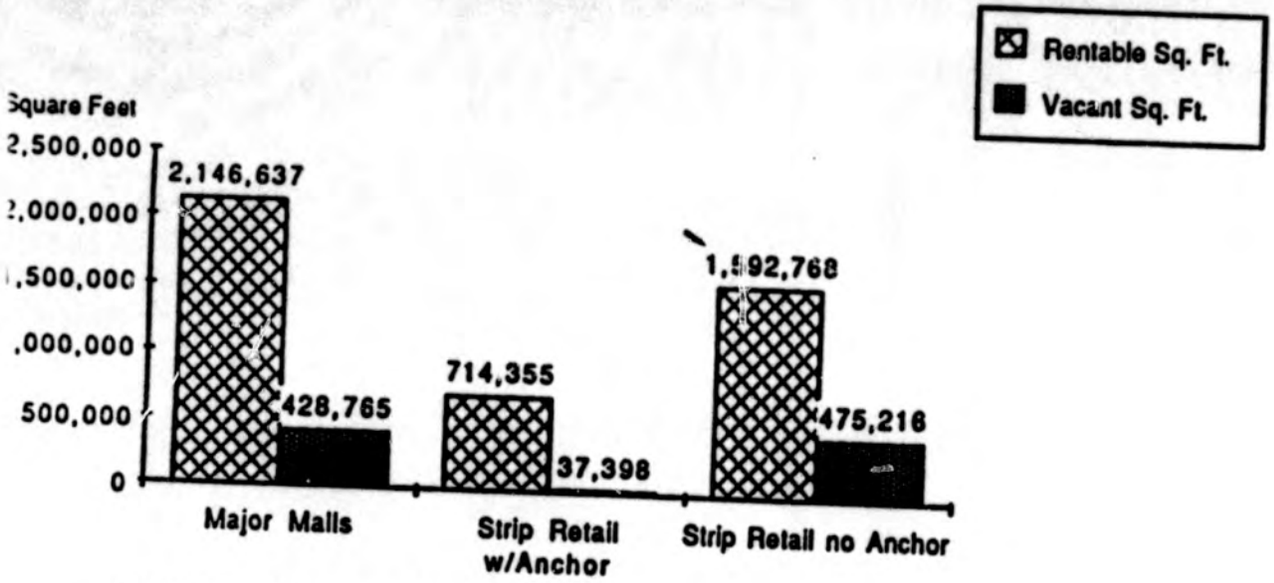
COMMENTS:

This chart demonstrates the asking rental rates for two-bedroom unfurnished apartments as advertised for sale on Dec. 6, 1987.

The two-bedroom unfurnished apartments were selected for analysis because MGIC condos fall into the two bedroom, unfurnished classification as rental properties.

This chart, therefore, gives you an idea of what can be expected for rental income in the various geographical locations. Utilities are not factored into these asking rental prices.

Anchorage Retail Inventory and Vacancies by Type of Mall



SOURCE: Alaska Valuation Services
Fred Ferrara, President

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX S
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.

04-D2LH

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:mll
88-46

cc: Members, Joint Committee on Economic Recovery

ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

March 10, 1988

Honorable Kay Brown
State of Alaska
House of Representatives
P.O. Box V
Juneau, Alaska 99811

Dear Representative Brown:

Below is the additional information I promised to forward to you which explains the Small Business Administration (SBA) charts sent to you on March 7, 1988. (Those same charts are attached for your convenience.)

First of all, the chart, MARS 526, illustrates SBA's loan performance measurement system. This chart accounts not only for SBA loan guarantees, but also for SBA direct loans. Thus, on the chart , there is no distinction made between the direct loans or the guarantees which SBA has made over the last few years. However, you should be aware that SBA direct loans are minimal. The majority of business SBA sees is for loan guarantees.

The terms used in MARS 526 mean:

Cases Disbursed -	means the number of direct and guaranteed loans made in that year by SBA.
Failures (#'s) -	means the number of direct or guaranteed loans originated in that year which have failed. E.G. of 227 direct or guaranteed loans originated in 1986, 11 of those loans failed, not necessarily in 1986.
Percentage (by #'s) -	equals failures divided by cases disbursed, within the State of Alaska.
Region 10 Average -	refers to the SBA's Region 10 which includes Boise, Idaho; Portland, Oregon; Seattle and Spokane, Washington; and Alaska.
National Average -	refers to the average using the nation as a whole.
Cases Charged Off -	means actual number of loans that have been charged off as losses.
Dollars Disbursed -	means number of dollars for SBA's direct or

guaranteed loans originated for the particular year.

Dollars Charged Off - means number of dollars that have been charged off as a loss.

Percent (by $'s) - equals dollars charged off divided by dollars disbursed, within the State of Alaska.

Region 10 Average - refers to the SBA's Region 10 which includes Boise, Idaho; Portland, Oregon; Seattle and Spokane, Washington; and Alaska.

National Average - refers to the average using the nation as a whole.

The second chart, MARS 515, illustrates the number of direct loans and guaranteed loans extended by SBA during the years 1978 through 1987. This chart refers to Region 10 and the numbers you will see on the left hand side under the word "Office" correspond to each locale within Region 10. "1040" refers to Fairbanks; and "1084" refers to Anchorage. Here again, the chart is easier to understand when you consider that:

Disbursed in Dollars - means that direct loans or loan guarantees were extended by SBA in the amount of dollars shown for each corresponding year.

Purchase in Dollars - means that the SBA has had to disburse funds to honor guarantees. "purchase in dollars" does not necessarily mean that SBA is seeing a loss. E.G., the loan may have been rewritten.

Purchase Rate in Dollars - equals purchase in dollars (i.e. buy backs) divided by the total dollar amount of disbursed dollars to show the rate in dollars bought back by SBA.

I hope that this information helps you to more fully understand the SBA charts. I believe that this information is helpful in that it shows that AIDEA should approach any loan guarantee program with caution. This is because loans guarantees are not a profitable business. In reality, the Authority is lending its balance sheet and taking on a future liability.

If you have any questions, please feel free to call me in Anchorage at 274-1651.

Sincerely,

Bertram L. Wagnon
Executive Director

BLW/ga

Attachments

DATE RUN 10/16/87

SMALL BUSINESS ADMINISTRATION
LOAN PERFORMANCE MEASUREMENT SYSTEM
AS OF 09/30/87
(DOLLARS IN THOUSANDS)

Alaska Works, Including Direct

ANCHORAGE, ALASKA

	YEAR OF APPROVAL										FIVE-YEAR SUMMARY		
	YR-1 1986	YR-2 1985	YR-3 1984	YR-4 1983	YR-5 1982	YR-6 1981	YR-7 1980	YR-8 1979	YR-9 1978	YR-10 1977	YEARS 86-82	YEARS 81-77	YEARS 76-72
FAILURE RATES (LOANS IN LIQUIDATION OR CHARGED OFF)													
CASES DISBURSED	227	298	466	342	283	125	107	181	133	132	1616	678	760
FAILURES (#'S)	11	40	82	51	33	17	20	18	22	18	217	95	81
PERCENTAGE (BY #'S)	4.8	13.4	17.6	14.9	11.7	13.6	18.7	9.9	16.5	13.6	13.4	14.0	10.7
REGION 10 AVERAGE	3.5	11.5	16.6	15.5	21.0	26.8	26.7	23.0	16.7	15.3	14.0	21.8	13.7
NATIONAL AVERAGE	3.1	10.2	16.1	16.8	21.7	26.2	29.7	26.5	23.7	21.9	13.6	26.0	22.7
CHARGE-OFF RATES													
CASES CHARGED OFF	1	12	24	14	11	6	12	13	17	13	62	61	72
DOLLARS DISBURSED	55623	67353	98401	73656	56502	20149	15540	19253	17140	18596	351536	90680	72035
DOLLARS CHARGED OFF	39	1231	1644	1389	1055	1264	1112	617	1250	445	5561	4690	1[illegible]
PERCENT (BY $'S)	0.1	1.8	1.9	1.9	1.9	6.3	7.2	3.2	7.3	2.4	1.6	5.2	2.4
REGION 10 AVERAGE	0.3	1.4	2.8	3.1	6.9	14.5	12.7	10.1	6.3	4.4	2.8	9.9	4.9
NATIONAL AVERAGE	0.1	1.1	3.2	4.3	8.0	13.5	14.6	11.7	10.5	9.7	3.0	12.1	11.4

REGION 10

PERIOD ENDING FY 87

(S IN THOUSANDS)

DISBURSED IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0	39,257	46,846	44,084	21,199	21,867	34,313	39,429	26,257	14,681
F 1040 > Anchorage	0	1,303	1,229	1,955	1,397	380	0	0	0	0
A 1084 > & Fairbanks	0	17,624	17,462	17,056	54,487	71,215	90,442	63,752	54,258	17,715
1086	0	34,480	55,600	42,277	21,891	24,888	21,222	18,530	14,985	13,345
1087	0	22,466	24,367	20,604	18,424	25,985	22,050	16,237	16,752	11,574
1094	0	18,608	19,128	16,335	6,367	10,377	13,955	12,155	17,598	10,788
TOTAL	0	133,739	164,633	142,311	123,764	154,712	182,022	150,104	129,850	68,103

PURCHASE IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0	2,121	5,513	5,684	2,061	1,363	2,592	4,035	485	0
F 1040 > Fairbanks	0	0	0	0	0	0	0	0	0	0
A 1084 > & Anchorage	0	1,050	677	1,552	4,536	6,421	9,793	5,161	2,642	0
1086	0	2,696	3,869	1,801	2,545	3,008	982	2,079	282	157
1087	0	932	1,952	659	1,759	2,468	1,648	1,607	800	24
1094	0	614	1,313	338	449	745	640	345	199	0
TOTAL	0	7,413	13,324	10,034	11,350	14,006	15,655	13,228	4,409	181

PURCHASE RATE IN DOLLARS

OFFICE	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1013	0.0	5.4	11.8	12.9	9.7	6.2	7.6	10.2	1.9	0.0
F 1040 > Fairbanks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
A 1084 > & Anchorage	0.0	6.0	3.9	9.1	8.3	9.0	10.8	8.1	4.9	0.0
1086	0.0	7.8	7.0	4.3	11.6	12.1	4.6	11.2	1.9	1.2
1087	0.0	4.2	8.0	3.2	9.5	9.5	7.5	9.9	4.8	0.2
1094	0.0	3.3	6.9	2.1	7.1	7.2	4.6	2.8	1.1	0.0
TOTAL	0.0	5.5	8.1	7.1	9.2	9.1	8.6	8.8	3.4	0.3

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University of Alaska Anchorage, Institute of Social and Economic Research February 1988, Vol. XXV, No. 1

Alaska Housing and the Recession

The recession that started at the end of 1985 turned the Alaska housing market on its head. Prices of houses, condominiums, and mobile homes—especially the last two—have come down so far that Alaskans have been left queasy and disbelieving. Recent ISER economic projections are for the recession to end in 1988, and a *gradual* economy recovery to begin—*if* oil prices remain stable in the $16- to $20-per-barrel range. Oil prices are the crucial element in ISER's projections. But if the Alaska economy does begin to recover in 1988, the effects of the recession on the housing market will not disappear overnight.

Since the end of 1985 Alaska has lost jobs, population, and income.[1] We now have much more housing than there is demand for. In Anchorage alone in 1987 nearly 14,000 housing units—including both owner-occupied and rental units—were vacant.[2] Thousands of Alaska houses, condominiums, and mobile homes have been foreclosed on over the past two years. Even after the economy bottoms out, the housing market will be slow in recovering. This is particularly true of the market for condominiums and mobile homes in Anchorage.

Recent ISER work indicates that it will likely be well into the 1990s before real—adjusted for inflation—condominium prices in Anchorage regain their 1985 levels. There are hundreds more mobile homes in Anchorage right now than are likely to be occupied by 1992. Very few condominiums or apartments will be built in Anchorage over the next few years: the units that already exist will more than meet the projected demand.

Single-family houses should fare better—because most buyers prefer houses when they can afford them. Lower prices in the past two years have put single-family houses within the reach of some buyers who in the early 1980s might have bought condominiums or mobile homes.

Economic conditions will of course be crucial in determining the future health of the Alaska housing market. But after economic conditions, how the major lenders handle their big inventory of foreclosed properties will make the most difference to the stability of the Anchorage housing market in the next few years. If they try to quickly sell large numbers of those properties, they will further depress prices and increase loan defaults.

Depressed prices and large numbers of loan defaults are serious problems for all Alaska homeowners and mortgage lenders—but particularly for AHFC, which holds more than 60 percent of the outstanding residential mortgages in the state.

This publication has two main parts. The first part describes conditions in the Alaska housing market in 1987, and contrasts them with conditions during the economic boom of the early 1980s. Those descriptions set the stage for the second part, which

This **Review** *is the second of two publications based on* **Alaska's Economy and Housing Market**, *a report ISER recently prepared for the Alaska Housing Finance Corporation (AHFC). AHFC commissioned the report to help the corporation in its efforts to stabilize the Alaska housing market. The first publication summarized the economic forecasts in the ISER report; this one discusses the report's findings on the housing market.*

[1] See "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions*, December 1987, Vol. XXIV, No. 2, University of Alaska Anchorage, Institute of Social and Economic Research.

[2] Vacancies as of July 1987, as reported by the Municipality of Anchorage's Community Planning Department in *1987 Anchorage Population Profile*, December 1987.



Winter scene in a residential area of south Anchorage. *Photo: Bob Hallinen/Anchorage Daily News*

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Alaska Housing and the Recession

This publication is based on several chapters of *Alaska's Economy and Housing Market*, an October 1987 report by O. Scott Goldsmith, Matthew Berman, Lee Huskey, Linda Leask, and Teresa Hull. All the authors except Huskey are ISER faculty and staff members. Huskey is associate professor of economics with UAA's School of Economics and Public Policy.

reports on how various policies available to AHFC and other lenders might affect the housing market.

ALASKA MORTGAGES AND FORECLOSURES

National Secondary Lenders

Alaskans planning to buy houses generally apply for mortgage loans at banks or savings and loans or mortgage companies. These institutions—known as primary lenders—process the applications, approve or disapprove the loans, and collect the monthly mortgage payments. But very rarely do the banks themselves actually hold the mortgages: they sell almost all of them on the secondary market. In fact, primary lenders as a rule won't make a mortgage loan without first determining that a secondary lender will buy it. This system greatly reduces the risks for primary lenders in making long-term loans and frees their money for other uses.

The biggest secondary lenders nationally were created by the federal government to help increase the amount of home mortgage money available—on the grounds that a healthy housing industry is important to the U.S. economy. Of these, by far the biggest is the Federal National Mortgage Association (FNMA)—widely known as Fannie Mae—which holds about $100 billion in mortgage loans. Another—much smaller—secondary lender is the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac).

The Federal Housing Administration (FHA) and the Veterans Administration (VA) are federal agencies that do not actually buy mortgage loans but rather insure or guarantee them. Loans insured by FHA or guaranteed by the VA sell easily on the secondary market because they carry government backing. Most FHA-insured or VA-guaranteed loans go onto the secondary market through mortgage-backed securities that are issued by yet another federal organization--the Government National Mortgage Association (Ginnie Mae)—and are sold to investors. FHA and VA are often thought of as secondary lenders, because their backing for a loan generally insures its marketability.

The Farmers Home Administration is another federal agency that makes home loans, but only to farmers and to low-income Americans living in rural areas. This agency holds its own mortgages.

Alaska Housing Finance Corporation

The national lenders and insurers described above all operate in Alaska, but here the state government has also created several secondary lenders. The biggest is of course the Alaska Housing Finance Corporation, which holds more than $4 billion in Alaska residential mortgages, or about 60 percent of the outstanding home mortgage debt in Alaska in 1987.

AHFC is a public corporation created by the

Alaska Legislature in 1971. As a public corporation, AHFC is under the control of the state government, but it has more autonomy than traditional state agencies, and it can sell bonds to raise mortgage money.

The state legislature originally established AHFC to help Alaskans with low or moderate incomes get housing at reasonable costs. Alaska officials said that the high cost of housing in the state, the lack of mortgage money in many rural areas, and other factors was making it hard for many Alaskans to buy houses.

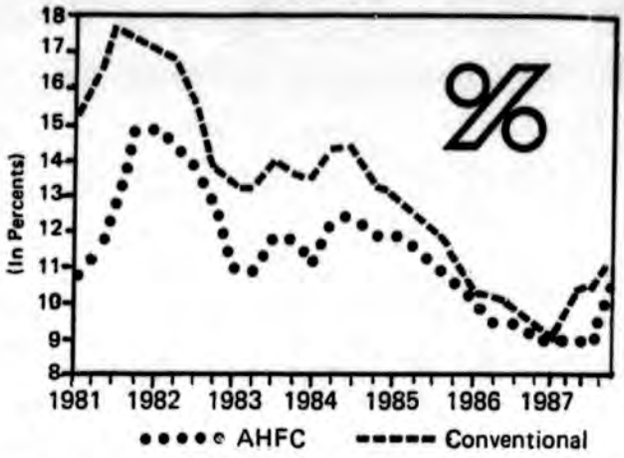
At the start of the 1980s the state legislature made several decisions that quickly transformed AHFC into the dominant mortgage lender in Alaska. National mortgage interest rates were at all-time highs, peaking above 17 percent. The legislature decided to begin subsidizing home mortgage interest rates. As Figure 1 shows, in 1981 Alaska borrowers could get a $135,000 loan from AHFC for less than 11 percent—or they could go to a national lender and pay more than 15 percent. AHFC's interest rate advantage narrowed in later years as the legislature tied AHFC's rates closer to its costs of borrowing money, but through 1985 AHFC loaned money at significantly lower rates than the national lenders.

The legislature also decided to open AHFC's lending programs to virtually all Alaskans by removing the income ceilings for borrowers, and to establish special new programs that would make it easier for more Alaskans to buy houses. Examples of those programs are the mobile home program that makes long-term mortgages available for mobile homes in trailer parks, and the Home Ownership Assistance (HOF) program that pays part of monthly mortgage payments for borrowers whose incomes aren't high enough to qualify them for conventional loans.

AHFC's lower interest rates and special programs drew 80 percent of Alaska borrowers to AHFC in the first half of the 1980s. In the past several years AHFC's share of Alaska mortgages has declined steadily. Market interest rates began dropping off sharply in 1985, and in 1987 they reached their lowest point since the 1970s. At one point in 1987 rates under AHFC's biggest loan program were the same as those of other lenders (see Figure 1).

As national interest rates fell, special conditions and restrictions on AHFC loans prompted more borrowers to look to other lenders. For example, most AHFC loans written before 1985 couldn't be assumed, and before 1986 AHFC didn't have the authority to refinance loans. Also, in 1982 the corporation had adopted the Alaska Building Equity (ABE) payment system that increases mortgage payments five percent a year from the fourth through the ninth year of the loans. Still, in 1987 AHFC remained the biggest single buyer of mortgages written for home sales.

Figure 1. Home Mortgage Interest Rates, AHFC Taxable Program and Conventional,* 1981-1987



*Mortgage rates for a $135,000 loan under AHFC's taxable program and under FNMA's 30-year, fixed-rate mortgages.

Since 1980 AHFC has raised several billion dollars in mortgage money by selling bonds. The legislature appropriated about $1 billion for AHFC mortgage subsidies between fiscal years 1981 and 1984. For the past several years, AHFC has had a revolving loan fund and received no subsidies.

Other Sources of Mortgage Money

The Alaska Department of Community and Regional Affairs also acts as a secondary lender, but it buys loans only in the most remote areas of Alaska. Its operations are small as compared with AHFC's, and it gets its loan money not through bond sales but through state appropriations.

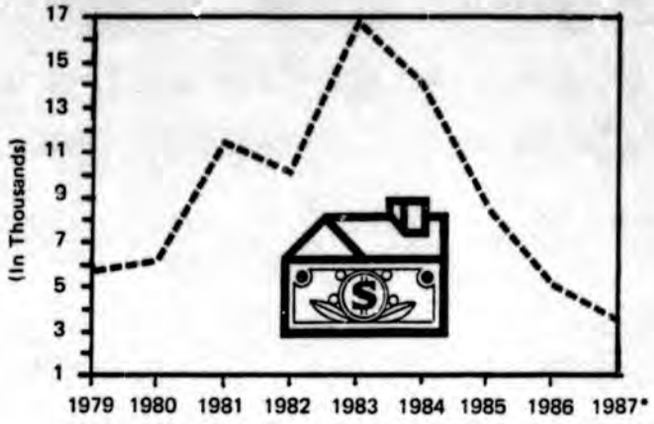
The managers of the Alaska Permanent Fund and the state pension funds (the Public Employees Retirement System and the Teachers Retirement System) also buy some residential mortgage loans—but not many as compared with the other secondary lenders, and frequently those that exceed the loan limits of other lenders. In recent times, however, those agencies have bought very few loans.

There are a variety of others who hold some Alaska mortgage loans. Credit unions hold rather than sell some mortgages. Individuals sometimes finance the sale of their own houses. Figures on mortgages held by those and others are not available, but they are few compared with those held by the big lenders.

Mortgage Activity, 1979-1987

Figure 2 marks the ups and downs of housing sales in Alaska from 1979 through 1987: it shows the numbers of mortgages written for home sales. (The figure excludes mortgages for refinancing, which are shown in Figure 3.)

Figure 2. Alaska Mortgages Written for Home Sales, 1979-1987*



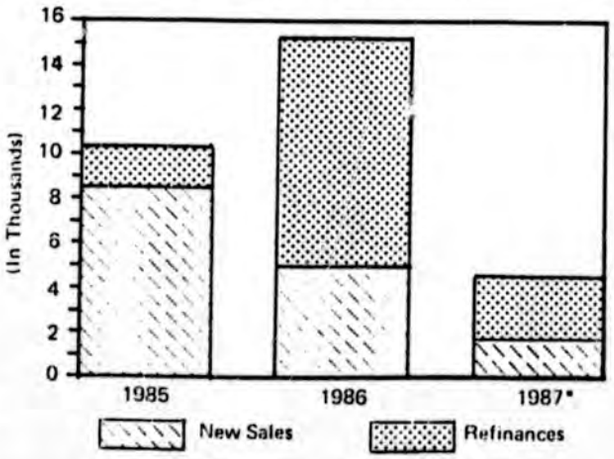
*1987 figure is an estimate based on numbers for the first six months of the year.

About 5,500 mortgages worth $380 million were written in Alaska in 1979. That was a slow year as compared with what was to come. The economic boom created by construction of the trans-Alaska pipeline was over; some people were leaving the state; and mortgage interest rates were on their way up. Mortgage activity in 1980 was not much higher, but the stage was set for the next boom. High oil prices were fattening the Alaska treasury. The state government began spending its oil revenues in many ways that sparked unprecedented economic growth. At the same time, the legislature also voted to subsidize mortgage interest rates.

The economic boom created by state spending drew tens of thousands of people into the state. The combination of a burgeoning population, growing incomes, and special programs tripled numbers of new mortgages between 1979 and 1983, when more than 16,500 mortgages for home sales were written. Numbers of new mortgages began dropping in 1984, but it was in 1985 that the really sharp decline started.

The recession began toward the end of 1985, as state spending declined. In 1986 the recession worsened as oil prices plummeted. Fewer than 5,000 mortgages for home sales in Alaska were written in 1986—fewer than had been written in 1979. And in 1987 an estimated 3,000 mortgages were created for home sales in Alaska.

Figure 3. Alaska Mortgages Written for Home Sales and Refinancing, 1985-1987*



*The 1987 figure is just the first six months.

Home Refinancing

In 1985 national interest rates began dropping sharply, and many Alaskans who held home loans at much higher rates refinanced their houses. As Figure 1 shows, AHFC's subsidized rates in 1982 were as high as 14 percent; by late 1985 conventional and AHFC rates were below 11 percent. And in 1986 and early 1987 rates were near 9 percent.

Firm figures on how many mortgages are written for Alaskans refinancing their homes are hard to get. Figure 3 shows our estimates of how many mortgages written in Alaska in 1985, 1986, and the first half of 1987 were for refinances and how many for sales. Presumably there was very little refinancing before 1985, when interest rates were much higher.

The figure shows that in 1985 less than 20 percent of the 10,000 mortgages created in Alaska were for refinancing. In 1986, 15,000 mortgages were written—but more than 10,000 of those, or 70 percent, were for refinancing. In the first half of 1987, more than 60 percent of new Alaska mortgages were for refinancing.

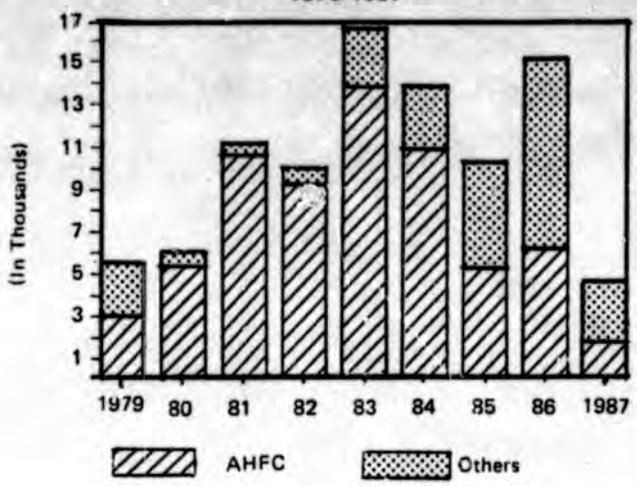
AHFC's Market Share

Figure 4 clearly shows why AHFC is the biggest mortgage holder in Alaska: it identifies shares of total mortgages (including those for sales and for refinances) AHFC and other lenders bought each year from 1979 through the first half of 1987. From 1980 through 1982, when AHFC's rates were several percentage points below those of other lenders, AHFC bought 90 percent or more of new mortgages. Through 1984 AHFC still had 80 percent of the market. In the past several years interest rates and terms of other lenders became more competitive. AHFC's share dropped from about 50 percent in 1985 to less than 40 percent in the first half of 1987.

1987 Mortgage Holdings of Major Alaska Lenders

What is at stake in the Alaska housing market? How much home mortgage debt is there in the state? Table 1 shows the mortgage holdings of major Alaska lenders as of mid-1987.

Figure 4. AHFC's Share of New Alaska Mortgages,[a] 1979-1987[b]



[a]Includes mortgages for sales and for refinances.
[b]Figures for just the first six months of 1987.

In 1987 the major lenders in Alaska held more than 84,000 home mortgage loans worth $7 billion dollars. The biggest mortgage holder is AHFC, which as of June held more than 52,000 home mortgages with an outstanding balance of about $4.3 billion. Other state government entities held another 3,000 loans with a balance of $230 million.

National lenders and insurers are also carrying tens of thousands of loans. AHFC holds some FHA-insured and VA-guaranteed loans; to avoid double-counting, those are included in AHFC's holdings and excluded from FHA's and VA's. In addition to those held by AHFC, there were nearly 8,500 FHA-insured loans and 8,600 VA-guaranteed loans in Alaska in 1987, with a combined unpaid balance of $1.6 billion. FNMA and FHLMC were each carrying more than 5,000 mortgage loans with a combined balance of nearly $900 million.

Table 1

Residential Mortgage Holdings of Major Alaska Lenders, June 1987[a]

	Number of Loans Outstanding	Unpaid Principal Balance ($ millions)
AHFC		
Mobile Homes	4,760	$ 151
AHFC/FNMA[b]	10,722	1,170
AHFC/Other	36,686	2,967
Total	52,168	$4,288
FNMA[c]	5,471	$400
FHLMC[d]	5,152	479
FHA-Insured[e]	8,437	844
VA-Guaranteed[f]	8,602	763
Alaska Dept. of CRA[g]	1,194	123
Farmers Home Admin.[h]	1,322	106
Alaska Permanent Fund	300	42
Alaska Pension Funds[i]	NA	NA
AIDA & Div. of Invest.[j]	1,565	68
Total	84,211	$7,113

[a]As of June 1987, unless otherwise noted.

[b]These are loans financed with FNMA money from early 1984 through 1986; AHFC makes principal and interest payments to FNMA on collateralized notes. FNMA is, however, liable for any losses not covered by private mortgage insurance if borrowers default.

[c]Excluding loans cited in note b; these are loans purchased from banks and other primary Alaska lenders.

[d]Figures are for FHLMC loans serviced by Alaska lenders as of June 1987; they may include some loans on homes outside the state but serviced by Alaska lenders and exclude some loans on Alaska homes that are serviced by lenders outside the state.

[e]Outstanding loans as of December 31, 1986, excluding AHFC loans insured by FHA. The unpaid principal balance is an estimate, based on average size of outstanding loan. Although FHA is an insurer rather than a lender, FHA-insured loans are included here because most of those loans go to lenders other than those listed in this table. Most FHA-insured loans go into mortgage-backed securities (MBSs) issued by the Government National Mortgage Association (GNMA) and sold to various investors.

[f]Figures as of March 31, 1987, excluding VA-guaranteed loans held by AHFC. A very large share of new VA-guaranteed loans in Alaska in the first half of the 1980s were purchased by AHFC. Most VA-guaranteed loans not purchased by AHFC go into MBSs issued by GNMA and sold to various investors.

[g]As of March 1987.

[h]Outstanding loans as of May 1987. Unpaid principal balance is an estimate based on average size of outstanding loan.

Good estimates of cumulative Alaska residential mortgage holdings of the pension funds are not available because figures on such holdings are combined with figures on other mortgage holdings of the funds.

[i]These are mortgage loans made under a state veterans' loan program that no longer exists; it was replaced in the early 1980s by the state veterans' program administered by AHFC. Most of these loans are now held by the Alaska Industrial Development Authority (AIDA); the Division of Investments in the Alaska Department of Commerce and Economic Development holds a few and services those held by AIDA.

Source: *Alaska's Economy and Housing Market*, ISER Report, October 1987, Tables 3.1 and 3.3.

Mortgage Liabilities

The current recession has pushed thousands of Alaska homeowners into default and foreclosure. Before we look at 1987 figures on properties in foreclosure, we'll broadly outline liability on mortgage loans when borrowers default. When we say "mortgage liabilities," we mean just losses lenders and borrowers take when individual borrowers default. There are of course other kinds of liabilities—for instance, AHFC is liable for payment on the billions of dollars in bonds it sold to finance mortgage loans. We don't discuss that or other potential liabilities here.

Table 2 summarizes insurance requirements and liabilities of home buyers and major lenders. When agreeing to make a mortgage loan, lenders generally require two kinds of protection against default. The first step is requiring a down payment, generally 5 to 10 percent of the sales price. The chief exception is the Veterans Administration program, under which qualified veterans can borrow up to a specific amount with no money down.

Second, lenders typically require borrowers to carry private mortgage insurance (PMI) on loan amounts above 70 to 80 percent of the purchase price. If the borrower defaults, the private mortgage insurer pays the lender any losses on the insured portion of the loan. Loans in remote areas of Alaska generally don't carry private insurance because it usually isn't available in those areas. Loans held by the Alaska Department of Community and Regional Affairs and the Farmers Home Administration are uninsured. Also, some loans made before 1980 under various state loan programs are uninsured.

So what happens when a borrower defaults and his property goes into foreclosure? First, borrowers who default lose their down payments and any additional amount they've paid on the loan principal.

Another liability borrowers face is that lenders may institute what is known as a judicial foreclosure. If a lender believes that a borrower who defaulted could have continued to make his payments but chose not to, he may go to court to try to make the borrower liable for any losses when the property is re-sold. In a non-judicial foreclosure, the lender accepts that the borrower has neither the income nor the assets to meet his payments and does not press for any further liability. (Damage that defaulting does to a borrower's future credit is also certainly a loss, but a less measurable one.)

The losses that lenders and insurers face when properties go into foreclosure are complicated to calculate. The biggest factor is the condition of the housing market. If prices are rising, insurers and particularly lenders don't generally lose money—because they can expect to re-sell the relatively few properties that go into foreclosure for enough to cover the outstanding mortgage and foreclosure costs. But when prices are falling—as they have been in Alaska over the past two years—it's a different story: there are thousands of foreclosed properties and they frequently sell for less than the outstanding mortgage, especially if the mortgage was written when prices were at their peak.

In Alaska's housing market today, insurers face the first losses when properties with private mortgage insurance go into foreclosure. They try of course to keep those losses to a minimum, and they have two broad choices. The insurer can take a foreclosed property and re-sell it, or the insurer can let the lender re-sell it and pay the lender a claim up to the maximum insured amount.

Say for example that a property with a $100,000 outstanding mortgage goes into foreclosure, and that private mortgage insurance covers $20,000 of that mortgage.[3] Estimate the foreclosure costs at $5,000. Suppose the insurer thinks the property will be hard to re-sell (which means that there will also be substantial interest and other holding costs) and that it might command only $70,000 when it does sell. If the insurer took the property, held it, and re-sold it at a depressed price, his costs could easily exceed $35,000. On the other hand, if the insurer let the lender take the property and simply paid the maximum insurance claim, he would limit his costs to $20,000. Only in cases where the insurer thinks he can keep his costs below the maximum insurance claim will he be likely to try to re-sell it himself.

What about lenders? What losses do they take in foreclosures? Again, in a market where prices are rising, lenders who require down payments and mortgage insurance don't generally take any losses. But in the Alaska market today, values of many properties are so much lower than the outstanding mortgages that insurance doesn't cover all the losses. And on loans not covered by insurance, lenders take all the losses.

AHFC's liability on mortgage loans varies considerably among loans made at different times and under different programs, as Table 3 shows. But AHFC has better protection than most lenders on the majority of loans it made between 1981 and 1986. Most AHFC loans made during that period carry private mortgage insurance and additional features that limit AHFC's liability.

Most AHFC loans made between 1981 and early

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[3]These figures are simplified to make the example straightforward. To show precisely how much private insurance covered of any given loan we would have to know original purchase price, size of down payment, subsequent payments on principal, and amount of insurance the lender required.

Table 2

Liability* in Home Foreclosures

Lender	Insurance Requirements	Liability of Borrowers in Foreclosure	Liability of Lenders in Foreclosure
FNMA/FHLMC	Borrowers required to carry private mortgage insurance (PMI) on loan amounts above 80% of the house price.	*Borrowers in all cases lose their down payments, which can be as low as 0-5% but are generally 10% or more of the purchase price. Also forfeited is any amount subsequently paid on the loan principal. And, in some cases, lenders will undertake judicial foreclosures, in which they go to court to try to make borrowers who default liable for losses on resale of the properties.*	Lender liable for any losses not covered by PMI.
FHA-Insured Loans	Borrowers pay premium for government insurance, either in lump sum or as part of monthly payments.		FHA liable for all losses.
VA-Guaranteed Loans	The federal Veterans Administration guarantees up to $27,500 on mortgage loans to veterans as a benefit of military service; this guarantee takes the place of private mortgage insurance.		VA liable for losses up to $27,500 on each loan, additional liability falls on primary or secondary lender.
Farmers Home Administration	This federal agency makes loans to low-income households in rural areas; no private mortgage insurance.		Farmers Home Administration liable for all losses.
State of Alaska			
AHFC	Most borrowers required to carry private mortgage insurance on loan amounts above 75% to 80% of the house price; on mobile home loans, borrowers must carry private credit insurance on 40% of the loan amount.		Varies substantially among different types of loans; see Table 3.
DCRA	Loans in rural areas; no private mortgage insurance required (because it is not available in many cases).		DCRA takes all losses.
Ak Permanent Fund	Borrowers required to carry private mortgage insurance on loan amounts over 70% of the house price.		Permanent Fund bears any losses not covered by PMI.
Division of Investments and AIDA	These loans were made to veterans before 1981 through the former Division of Veterans Affairs; no private mortgage insurance required.		Losses accrue either to Veterans' Revolving Loan Fund or AIDA.

*Includes just losses the various parties may be liable for when individual loans go into foreclosure; does not include AHFC's liability for repayment of bonds and notes financing the loans, or other kinds of liabilities.

1984 carry pool insurance—insurance that covers any losses not covered by private mortgage insurance. Mortgage Guarantee Insurance Company (MGIC) provided that pool insurance as a provision of bonds AHFC sold to finance loans during that period. So AHFC has virtually no liability when borrowers default on those particular loans.[4]

From 1984 through 1986, the national lender FNMA financed a large share of AHFC loans—and on those particular loans, FNMA rather than AHFC is liable for any losses not covered by private insurance. (AHFC is, of course, liable to re-pay principal and interest to FNMA on the notes that financed the loans.)

AHFC's liability on other loans varies, as Table 3 shows. Some loans it took over from earlier state loan programs carry no insurance. Mobile home loans made before 1983 carry no insurance; loans made after that time carry private credit insurance on 40 percent of the value of the loan. AHFC takes losses beyond what private credit insurance covers.

[4]However, the pool insurance is in effect only until the bonds financing the loans have been paid off—when the bonds are paid off, AHFC becomes liable for losses not covered by private mortgage insurance.

Homes in Foreclosure

We've seen the mortgage holdings of major lenders and how the losses are divided up when borrowers default. Now we turn to the grim evidence of Alaska's battered housing market: properties in foreclosure.

Table 4 shows foreclosed properties held by the major lenders and insurers as of mid-1987. In June 1987, lenders and insurers were holding more than 4,200 foreclosed properties. During the preceding 18 months, they had sold an additional 1,600 properties that had been foreclosed on. Taken together, the foreclosed properties still in inventory and those re-sold during the preceding year and a half totaled nearly 5,900—or 7 percent of outstanding residential mortgages in Alaska in mid-1987. And there were doubtless other foreclosures not recorded on Table 4—properties held by individual banks and private mortgage insurers other than MGIC, for instance. Reliable figures on such foreclosures are hard to get.

Table 3

AHFC's Liability* in Foreclosures

All Loans Except Mobile Homes	AHFC Liability
Loans with private mortgage insurance and pool insurance; include most loans made from 1981 to early 1984.	None, until bonds carrying pool insurance provision are paid off; then AHFC liable for any losses not covered by PMI.
Loans with private mortgage insurance that were financed by FNMA, 1984-1986; include most loans made during that period.	None. FNMA is liable for any losses not covered by PMI on loans it financed for AHFC during this period.
Loans with just private mortgage insurance; include some loans made throughout AHFC history and almost all loans made since January 1987.	AHFC is liable for any losses not covered by PMI.
Loans with no insurance; include loans made under several special programs that no longer exist.	AHFC liable for all losses.
Loans with federal government insurance or guarantee; include loans made throughout most of AHFC's history.	FHA takes all losses on FHA-insured loans. VA takes liability only up to $27,500 on each VA-guaranteed loan; AHFC liable for additional losses.
Mobile Home Loans	
Loans before 1983 with no insurance.	AHFC liable for all losses.
Loans since 1983 with private credit insurance.	AHFC liable for losses not covered by PCI.

*Includes just losses AHFC is liable for when individual borrowers default.

It's no surprise that AHFC held about 65 percent of foreclosed properties in mid-1987. AHFC bought most of the new mortgages written in Alaska in the 1980's and in particular most of those written when prices were at their peak. Also, from 1980 on, AHFC bought almost all the mortgage loans on mobile homes—which have seen tremendous losses in value during the recession.

FNMA, FHA, and VA were also holding several hundred properties each in the middle of the year. Other lenders held fewer. The 100 properties that the insurer MGIC was holding at that time were just properties it had actually taken title to; remember that MGIC carries substantial liability on properties that are in AHFC's inventory.

We don't have foreclosure figures more recent than mid-1987 for most individual lenders, but we do have them for AHFC through the end of 1987. We know that, like AHFC, other lenders continued to add to their inventory of foreclosures in the second half of the year.

Table 5 and Figure 5 document the relentless climb in AHFC's inventory of foreclosures from 1984—before the start of the recession—through 1987. At year-end in 1984, AHFC held just 129 properties. By the end of 1985 that had grown to more than 500, and in 1986 to more than 1,600. At the end of 1987 AHFC held 3,700 properties. If we compare those figures with the mid-1987 figures in Table 4, we see that at the end of 1987 AHFC held 1,000 more properties than it had six months earlier.

Table 6 shows a more detailed breakdown of properties in AHFC's inventory as of the end of 1987: 1,325 single-family houses and duplexes, 1,171 condominiums and townhouses; 1,192 mobile homes; and 13 triplexes and fourplexes.

It's easy to see why the problems in the condominium and mobile home markets are more severe than in the market for single-family houses: there are a great many more single-family houses in Alaska

Table 4

Inventory of Foreclosed Properties Held by[a] Major Alaska Lenders and Insurers, June 1987

	Held in Inventory June 1987	Foreclosed Properties Sold 1986-June 1987
AHFC		
Mobile Home	965	143
Other	1,793	1,075
Total	2,758	1,218
FNMA	394	160[e]
FHLMC[b]	78	–
FHA-Insured	385	87
VA-Guaranteed[c]	366	80
MGIC	105	25[f]
Alaska Dept. of CRA	40	1
Farmers Home Admin.	100	30
Alaska Permanent Fund	23	11
AIDA and Div. of Invest.	5	6
Others[d]	NA	NA
Total	4,254	1,618

[a]Properties "held by" each lender or insurer include just those to which each already held title or was in the process of acquiring title as of June 1987.

[b]Includes both completed and nearly completed foreclosures.

[c]Includes both properties the VA had already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

[d]Some foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies other than MGIC. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

[e]Properties sold 1986–May 1, 1987.

[f]Estimated sales from November 1986–June 1987.

Sources: See Sources, Table 3.1, *Alaska's Economy and Housing Market.*

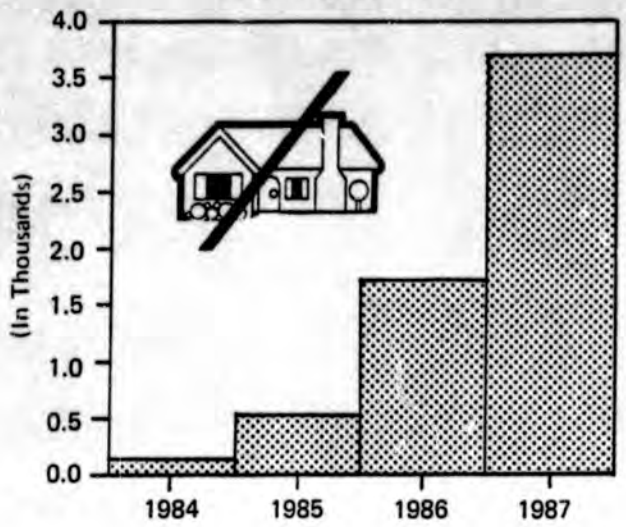
Table 5

AHFC Cumulative Inventory* of Foreclosed Properties, Year-End, 1984-1987

	1984	1985	1986	1987	% of 1987 Total
Mobile Homes	38	186	610	1,192	32%
Other	91	322	1,061	2,509	68%
All	129	508	1,671	3,701	100%

*The year-end inventories are total properties foreclosed on minus those resold. These figures are AHFC's statewide inventory.

Figure 5. AHFC Year-End Inventory of Foreclosed Properties, 1984-1987



than there are either condominiums or mobile homes, but there are just about as many mobile homes and condominiums in foreclosure as there are single-family houses.

As the last column of the table shows, houses and duplexes made up more than 75 percent of active AHFC loans in 1987, but just 36 percent of foreclosures. By comparison, condominiums and townhouses made up 15 percent of total loans but 32 percent of foreclosures. Mobile homes, while making up just 7 percent of active AHFC loans, accounted for 32 percent of foreclosures.

Table 6

AHFC Inventory of Foreclosed Properties, Year-End 1987

	Number of Foreclosures	Percent of Total Foreclosures	Active AHFC Loans by Type
Single-Family Houses & Duplexes	1,325	36%	77%
Condominiums & Townhouses	1,171	32	15
Mobile Homes	1,192	32	7
Triplexes & Fourplexes*	13	1	1
Total	3,701	100%	100%

Source: AHFC.

*Although AHFC loans by type give us a good idea of the composition of housing stock in general, this is not true of triplexes and fourplexes, of which AHFC finances few. Most are financed by other lenders.

POLICY OPTIONS

Future economic conditions will be the biggest force in the recovery of the Alaska housing market. But the next biggest force will be the mortgage lenders and insurers with big inventories of foreclosed properties. They can help stabilize the market by selling their holdings at a moderate pace rather than selling large numbers quickly—which would further depress prices and put more homeowners at risk of default.

What is the Problem?

The problem in the Alaska housing market today is that we have more housing than we have households: too many condominiums, mobile homes, houses, and apartments. Having too big a supply and too little demand has created an unstable market, where prices have already fallen dramatically and there is great anxiety about the future.

Thousands of homeowners have defaulted on their mortgages over the past two years. Some lost their jobs and were unable to keep up the payments; some had to move and were unable to sell the houses for what they still owed on them. Still others simply walked away from their properties because they had lost value. Many thousands more Alaskans are still making their payments but have negative equity—that is, their homes are worth less than their outstanding mortgages.

The big lenders and insurers are holding depressingly large inventories of foreclosed properties. They have already taken tens of millions of dollars in losses.

The worst thing for the housing market right now would be panic. If the big lenders decided to dump their inventories of housing on the market at any price in an attempt to cut their losses, they could create panic among homeowners with negative equity. Large numbers of homeowners might simply walk away from basically sound properties that will appreciate in value in the future. The result of such panic would be a continuing downward spiral of prices and many more foreclosures.

What would help the housing market most is a move toward stability: a leveling-off of prices and a reduction in defaults. Such a move toward stability would boost confidence among homeowners, and make them more likely to try to stay in their homes. Fewer defaults would ease the pressure on the lenders. Stability would help buy time toward solutions of the housing problems and eventual recovery of the market.

We are not saying that lower prices are bad for everyone and that higher prices are universally good.

Lower prices are obviously good for some Alaskans who might not have been able to buy houses a few years ago. What we are saying is that a *stabilization* of prices would be good. If prices became stable, the stage would be set for the recovery of the market and Alaskans could become more confident that housing is a good investment.

If, on the other hand, prices continue to fall and defaults persist in such disheartening numbers, investors will be reluctant to put money into the Alaska housing market in the future. That reluctance will translate into more expensive mortgage money for Alaskans. AHFC's ability to sell bonds could be hampered. Mortgage insurers might pull out of the Alaska market entirely, or charge much higher premiums for staying in.

So how can the market be stabilized? The biggest factor in the recovery of the housing market will of course be economic conditions. ISER projects that if—a crucial qualifier—oil prices remain stable in the $16-to-$20-per-barrel range, the state economy should bottom out in 1988 and begin a gradual recovery. This is our medium-case projection, and we consider it the most likely, if oil prices stay in that range. The economic recovery would be faster over the next several years if oil prices suddenly rose to around $25 a barrel (our high-case projection) and stayed that high. At the other extreme, if oil prices dropped to $15 a barrel or less and stayed that low for many months, the economy could continue to decline into 1989 and we would see very little growth over the next few years (the low-case projection).[5]

The next biggest factor in stability of the housing market will be—for reasons we describe below—sales of foreclosed properties. In the following pages we assess how rates of foreclosure sales and other factors could affect the Anchorage housing market between now and 1992.[6] We don't have enough information to make such assessments for housing markets in other areas of the state, but movements in the Anchorage market will reflect general trends in housing markets throughout Alaska—with some obvious regional differences.

An important point to keep in mind is that we cannot forecast what is going to happen in the Anchorage housing market. To do that we would have to know how many foreclosed units the institutional sellers are going to put on the market and at what rate. What we can show are effects on the market of various rates of sale.

[5]Those economic projections appear in "Alaska's Economy: What's Ahead?" *Alaska Review of Social and Economic Conditions*, Vol. XXIV, No. 2, December 1987.

[6]Anticipating what may happen is of course complicated by the fact that each lending institution has its own interests in and constraints on holding foreclosed inventory.

Sliding Prices and Rising Defaults: A Vicious Circle

Figure 6



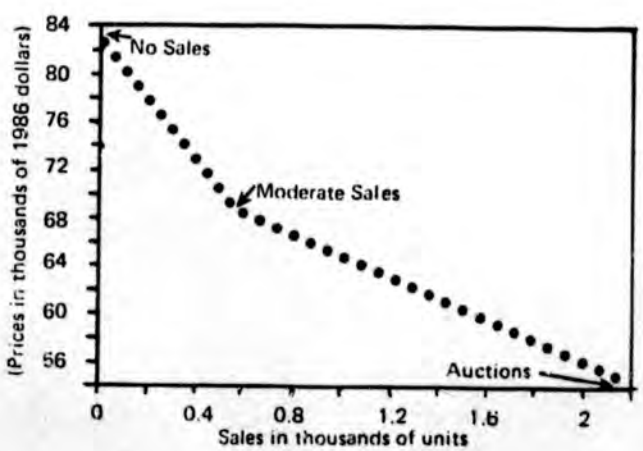
The faster AHFC and other big lenders and insurers put foreclosed properties on the market—at the extreme, through large auctions without bid floors—the more prices will be depressed and defaults persist, as illustrated by Figure 6. More defaults will mean the lenders will end up with even more foreclosed properties.

Flooding the market with housing pushes prices down. As prices go down, more and more homeowners find themselves with negative equity—that is, their mortgages are larger than the market prices of their properties. If owners with negative equity are forced to sell, many will likely default because they are unable or unwilling to make up what can be a very substantial difference between what they owe and what the properties will sell for

Also, a continuing downward spiral of prices erodes confidence among would-be buyers and existing homeowners. Alaskans who might be attracted by lower housing prices won't buy if they think prices could go much lower. Demand for housing could dry up. Existing owners with negative equity become more likely to walk away from their properties if the value continues to drop and they can see no turnaround in sight.

Figure 7 illustrates how prices of Anchorage condominiums are related to the number of fore-

Figure 7. Relationship Between Real Prices and Sales of Foreclosed Anchorage Condominiums, 1988



closed units on the market. The prices shown on the vertical axis of the figure are for a particular kind of unit and are *not* intended to represent average prices of all condominiums on the Anchorage market. (We know that in recent months condominiums in Anchorage have sold for as little as $25,000 and as much as $100,000.) What we are showing here is how different rates of sale could affect the price of the same condominium. So it is more important to look at the difference in the prices at various rates of sale than at the dollar figures.

As the figure shows, if all foreclosed condominiums were kept off the market—a very unrealistic scenario—condominium prices could be nearly 50 percent higher than if the market were flooded with condominiums through large auctions. At more moderate rates of sale, prices would be about 25 percent higher than if large auctions were held.

Holding properties off the market is of course very expensive for lenders and insurers: they pay in the neighborhood of $18 to $30 a day for each unit, depending on the size of the outstanding mortgage and the interest rate. We are not suggesting that lenders and insurers should hold onto all their foreclosed units: that simply is not feasible. We are pointing out that lenders should consider the future costs they might face if their selling policies contribute to more defaults.

Sliding property values and rising defaults have already cost Alaska lenders, insurers, and borrowers tens of millions of dollars. The foreclosure process itself is expensive. Costs of judicial foreclosures—under which the lender goes to court to try to make borrowers liable for any losses when the property is re-sold—are particularly high. And falling property values also have other social costs. For example, some homeowners who could find better jobs elsewhere don't move because they can't sell their houses for what they owe on them, and they don't want to default.

What Can Be Done?

We examined a number of policies AHFC and other lenders might try to increase demand, reduce supply, stabilize prices, and reduce defaults. Those include loosening down payment and other loan requirements; easing restrictions on owner-occupancy in AHFC-financed condominium complexes; subsidizing interest rates; removing housing stock; and limiting or transferring mortgage liability in some circumstances.

We made our analysis with a complex computer model that simulates the Anchorage housing market and incorporates ISER's medium-case economic projections. Our findings about how various policies might affect the Anchorage housing market are detailed in ISER's recent report, ***Alaska's Economy and Housing Market.*** Below we summarize our main findings:

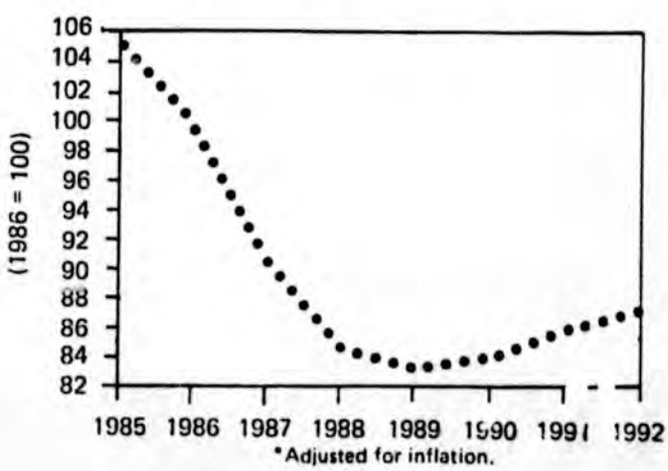
- How the big lenders manage their large inventories of foreclosed properties will be far more important than anything else they do to try to stabilize the market. If they sell those properties very quickly—at the extreme, through big auctions without bid floors—and push prices further down, the housing market will continue to be unstable and defaults will persist.

- The market for single-family houses will recover more quickly than the market for condominiums. Most buyers prefer houses when they can afford them—and today's lower prices mean houses are within the reach of more buyers. Once the economy turns around, the market should be able to absorb the inventory of foreclosed single-family houses relatively quickly. And there will be some construction of single-family houses in Anchorage over the next several years—but the total number of new houses built between now and 1992 will likely be smaller than the number built during the peak construction year of 1983.

- Very few condominiums or apartments will be built in Anchorage between now and 1992, if our medium-case economic projections prove correct. The existing supply will be more than ample to meet demand. Under that same case, real rents—rents adjusted for inflation—in Anchorage in 1992 will still be below 1985 and 1986 levels (see Figure 8).

- Because such a large proportion of Anchorage condominiums are in foreclosure, it will likely take several years beyond 1992 to sell the inventory of

Figure 8. Projected Anchorage Real* Rent Index



foreclosed condominiums without further depressing prices.

- For some Alaskans there is a silver lining in the real estate cloud: lower prices will mean that they can move into better-quality housing than they could afford before. But a big barrier for those who already own homes is that many now owe more on their houses than the houses will sell for. Lenders may want to consider a policy that allows those who want to buy better houses in Alaska to transfer a portion of their current mortgage liability to new homes.

Faster or Slower Economic Recovery

We consider our medium-case economic projections most likely, if oil prices stay in the range of $16- to $20- per barrel. The findings outlined above are based on those medium projections. But it's always possible that the economy could grow faster or slower than we expect: the Alaska economy is often surprising. If oil prices were significantly higher or lower than we assume in the medium case, the housing market would of course be affected. Figures 9 and 10 illustrate the possible range of change in two housing market variables under the low, medium, and high economic cases.

Figure 9. Real Prices, Anchorage Condominiums Under Three Cases, 1985-1992

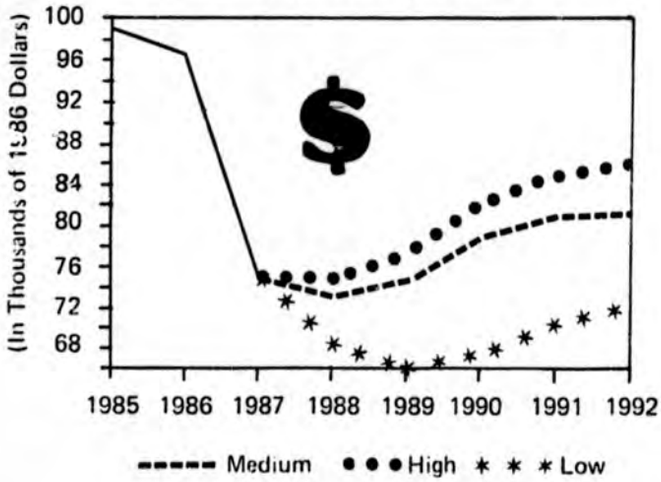
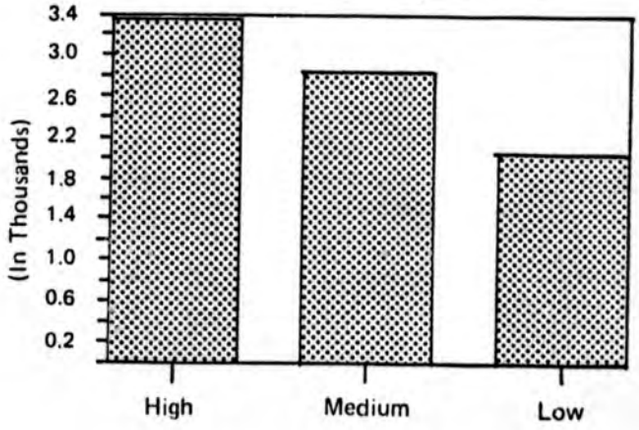


Figure 9 shows how real—adjusted for inflation—prices of Anchorage condominiums would be different under the high, medium, and low economic projections. All three cases assume the same moderate rate of sales of foreclosed properties. If more or fewer foreclosed properties were sold, the projections would change.

In the medium and the high cases, average real prices for a standard condominium would bottom out in 1988 and in the low case in 1989. Prices would then begin a very gradual recovery. But even under the most optimistic case, 1992 average condominium prices when adjusted for inflation would still be far below their 1985 peak of around $100,000.

Real prices of single-family houses should rebound faster, and—unlike the case for condominiums—a number of new houses will likely be built in Anchorage in the next few years. Figure 10 shows projected cumulative numbers of building permits for new single-family houses in Anchorage from 1987 through 1992 under high, medium, and low economic projections. Under any of the cases total construction over the next few years would be modest as compared with the frenzied building of the early 1980s: under the medium case, a total of fewer than 3,000 new houses would be built in Anchorage between now and 1992. By contrast, in 1983 alone 3,500 new houses were built in Anchorage.

Figure 10. Projected Cumulative Building Permits for Anchorage Single-Family Houses, Under Three Cases, 1987-1992



Proposals (Bridge Bank)

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 "fundamentalist 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:

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- 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:

Entity	Corporation Unit	Corporation Subsidiary	Joint Venture	Investment Bank	Commercial Bank
Control	Most				Least
Economies of Scale	Least				Greatest
Financial Risk - Spreading	Least				Greatest
Capital Requirements	Low				High
Complexity and Cost of Implementation	Least				Most
Degree of Government Regulation	Least				Greatest

Peter McDowell
June 1987

RBG

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

	Pre-plan	Post-plan
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

02/05/88 05:46 ELIAS & MATZ 007

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

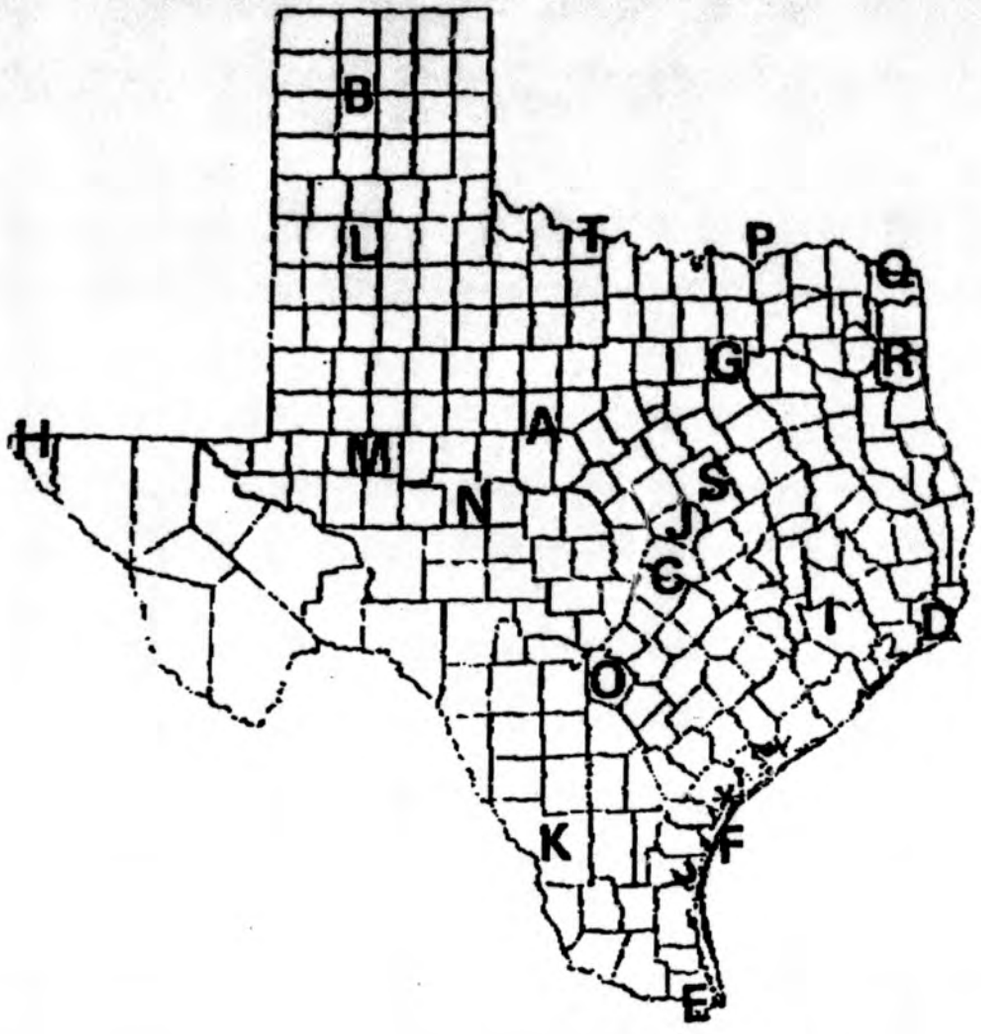
02/05/88 05:47 ELIAS & MATZ 009

SIZE OF THRIFTS

	PRE-PLAN	POST-PLAN
0 - $100 MILLION	45%	53%
$100 - $500 MILION	39%	29%
$500 MILLION - $1 BILLION	8%	6%
OVER $1 BILLION	8%	12%

02/05/88 05:48 ELIAS & PHIZ 010

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/	1, 2, 3
	FORT WORTH	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

02/05/88 05:48 ELIAS & MATZ 011

TEXAS MAJOR METRO AREAS
IN PROPOSED REGIONS

REGION	ANCHOR AREA	GEOGRAPHIC DESCRIPTION
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)

02/05/88 05:49 ELLIS & PHIZ

Non-viable thrifts should be *"packaged"* with creative FSLIC financial and regulatory assistance to create marketable entities.

02/05/88 05:49 ELIAS & MHIZ 013

CONCLUSION

- Consolidation Works
- FSLIC Can Afford
- Thrift Benefit Nationwide

02/05/88 05:50 ELIAS & HAIZ 014

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 _____.

ADDENDUM

PRE-SCREENING REQUIREMENTS

The following information must be submitted in order to ascertain the identity and legal form of a potential acquiror 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

D

ALASKA INVESTMENT BANK & TRUST

A Real Estate Holding Company
for the people of Alaska

Proposal by:
John M. Bashaw, Jr.
12746 Reata Drive
Anchorage, AK 99516
office 278-4556
home 345-3212

CORRECTED COPY FEBRUARY 15, 1988

OVERVIEW

We have, at this moment in time, one of the greatest opportunities for all citizens of the State of Alaska to participate in an investment that should help to provide stability in our economy and, in turn, a profit to themselves.

Most people realize we have an increasing loss of demand and an escalating overabundance of supply of real estate. There is not much that can be done in the near future to move the demand curve to a more favorable position. One that will have a dynamic impact on our economy ($40/barrel oil excepted). This is not true; however, of the supply side.

Simply put - we now have the opportunity to buy low, deposit in savings, and (hopefully) sell at a profit in the near future - as with any investor. Also, I might add, I think we can safely say that we may never see this opportunity again.

Essentially, I see the current situation in three distinct categories.

1. The individual investor who is now buying properties and loans on the open market and from institutional owners such as FDIC. This is ideally where the market should remain, however, it does have enough positive impact on the current economy.
2. Institutional and strong individual investors who have been, and are continuing, to look for bulk purchases at large discounts. These buyers speculate (for cash) that these properties and loans can be "worked" until the economy improves and the assets sold at a profit. Simply said - high risk, cash intensive, with potentially large losses or gains. Please note, when we speak of assets we are talking about

two separate types. One is the buying of the actual real estate and the other is the purchase of loans and mortgages. The latter generates fair interest from potential buyers, however, I am not aware of any investors who are seriously interested in buying Alaska real estate in bulk.

3. The third approach, which seems to be the most touted and certainly the one getting the most attention, is the exclusive use of public funds or public debt to purchase speculative and selective real estate. We should strongly oppose any such plan!

JURY APPROACH

This plan of attack is simple, easy, and just takes one key participant or agency to coordinate the initial effort.

Lets get any and all ideas out on the table and come up with one recommended course of action that has a reasonable probability of being acceptable to the people first, and in turn public representatives and private industry. At the present time we have a number of proposed solutions and recommendations in various degrees of quality and territorial imperatives. Now is the time to draw all these efforts into one cohesive plan.

JURY SELECTION...The Department of Commerce recommends, and the Governor invites key participants to a conference to develop a workable economic plan. The jury will consist of one representative from the following areas and agencies with consideration to be on a statewide basis.*

Native Corporations
Private Industry
Legal Profession
Corporation Taxation
University of Alaska
Banking Industry
Legislature
Department of Commerce
Permanent Fund
AIDA
AHFC
Real Estate Industry
Local Government

*Names available upon request.

These representatives are to be invited with only a few rules to the game.

1. Only the final plan will be made public. Any ideas expressed or explored during the conference are to be totally confidential and will not be discussed outside of the "jury" room.
2. Nothing is sacred. Any and all sources of funding, participation, and structure will be looked at and there will be no dumb ideas Of course, some ideas may be rejected sooner than others.

3. There is no designed final plan, up to and possibly a final recommendation to do nothing.
4. All attendees must be willing to participate full time and continue until a majority agrees on a published plan or disband as a "hung jury".
5. All attendees must be willing to accept input from the public. This includes related professionals, as the "jury" has been limited to insure a workable number of participants.

EVERYONE CAN PARTICIPATE

As Dr. Hayden Green pointed out the other day - "Everyone wants to go down in history as the slayer of the economic dragon."

Question? Is there a way we can turn our current economic situation into an investment opportunity that will:

1. Not increase public debt.
2. Minimize the use of public funds.
3. Spread any use of public funds over a number of sources (risk management).
4. Cultivate and attract private capital to the maximum extent possible.
5. Establish a profit motivated entity that will benefit all participants and investors.
6. Assist in stabilizing our economy and stop or slow the erosion of property values.
7. Cease operation when no longer required.

YES!

Before I continue, I'd like to give credit to some of the clear thinkers on this issue. Thank you for your thoughts and ideas.

Dave Rose
Buz Hoffman
Hayden Green
Ken Gain

<u>Establish a holding bank with the clear purpose of buying foreclosed real estate at discount prices, moth balling the real estate, and liquidating these assets, at a profit, in the near future.</u>

Seed money for development to be obtained by grants from

1. Municipality of Anchorage
2. State of Alaska
3. Federal funds (grant application)
4. Railbelt Energy Fund

The holding bank is to be profit motivated and structured.
The institution is to be chartered for no more than a 10 year life.

The Bank & Trust is to be (initially) equity financed with three basic stock issues.

1. Preferred stock (cumulative, first out, non voting) to be made available to any and all private investors, large or small, institutional* or individual. Issue to be at a $1 par and, (as an additional incentive to attract private capital) for each share of preferred the stock holder automatically receives one share of Class A common stock.
2. Class A common stock (second out, voting) to be issued at a $10 par and to be purchased with public funds from all of the following (spread the risk):

   AHFC
   AIDA
   Permanent Fund earnings
   Railbelt Energy Fund
   Legislative appropriation from:
      operating budget
      capital budget
   ASBA
3. Class B common stock, (last out, non voting) at a $100 par to be purchased through an exchange of real estate at discounted values. These purchases (exchange of real estate for stock) are to be limited to real estate owned by institutional investors (lenders or mortgage insurance agencies) such as:

   Banks
   FNMA
   HUD
   AIDA
   AHFC
   MGIC
   FDIC (may require cash only)

*examples: Native Corporations, Alaska Railroad, Banks, Alascom, ARCO, North Slope Borough, Municipality of Anchorgae, Alaska Airlines.

It is important to stop and point out that these proposed numbers have not been fine tuned to computer accuracy and are only conceptual in nature. For example: if the holding company purchases a piece of real estate currently appraised for $100,000 and expects to hold that property for ten years and sell it for $100,000, then, at a 7% desired annual return on invested dollars the holding company should pay $50,000 (actual $49,759.63) less anticipated holding costs. Of course, if the property can be sold earlier at the same price, then the yield to the investors increases accordingly. Also, before I receive a rash of "boy is that a good deal for someone" then let me also point out that "someone" is anyone who is willing to put their dollars down and take the corresponding risk for a possible profit - someday. Also, this concept addresses the supply side only and I leave the demand side solutions to other experts.

All plans must have some game rules, so let me throw some of these on the consideration table.

1. The Commission of Banking and Securities contract an external consulting firm to create the financing and accounting functions.
2. The Commission of Banking and Securities contract an external annual audit (published).
3. Purchases to be negotiated at a best buy price with significant discounts for bulk buys. No seller would be forced to sell and may certainly elect to keep their inventory (FDIC included).
4. Establish a moratorium on issue of Class B stock (real estate exchange) - say three years.
5. Establish guidelines (not limitations) on liquidation of assets, at less than face or appraised values, - example:

year 1	0%
2	5%
3	10%
4	15%
5	20%
6 - 10	as market dictates

6. Do not purchase loans or mortgages. These investments should be owned and operated from the private sector only.
7. Defer profits until liquidation.

8. The Governor appoints the chairman of the board and the legislature confirms the board members who will come from the following investment areas:

AHFC	Department of Commerce
AIDA	Appraiser
Real Estate Broker	Banker
Public at large	

9. The president and CEO plus all other employees to be private sector type hires with salary commensurate with the limited employment period, complexity, trust responsibilities and lack of retirement opportunities.
10. Earnings are not to be reinvested in anything other than a sinking trust fund and liquidation of equity position.
11. Asset liquidation to be accomplished through the real estate industry on a open listing type basis similar to HUD's current operation - selling commission only.
12. Place all acquired assets on the market at face or appraised value to allow the market to catch up with the price.
13. Establish a watch dog procedure to monitor appraisals, building permits, foreclosures, bankruptcies, etc. so that assets can be sold in the most favorable market conditions and at the earliest opportunity.
14. Do not close on property that is occupied. The selling agency must relocate all tenants, hopefully to other properties they own, prior to closing. The Bank and Trust should function as a holding company, not a competitor for property management.
15. Pursue unique markets such as sale of condos to the University of Alaska for use as dorms and the bulk sale of condos to Pacific Rim countries (at discount prices) for use as cultural exchange homes.
16. Yes, it might be necessary to obtain additional funds through debt financing. If so, then consideration should be given to bonds (not convertible) that could be raised on the strengths of the corporation alone. If that is not possible, then consider loans from either the public and/or private sectors. However, lest we forget, the creditor is now the first out and the equity owners take second position in case of forced liquidation.

EXTERNAL COMMITMENTS

No entity can operate in a vacuum or in isolation from its surrounding economic influences. Therefore, it is important that in developing this holding bank we also obtain written commitments to:

1. Demolish marginal and unsafe properties whenever possible.
2. Place a moratorium on any rezoning that results in a higher density.
3. Place a moratorium on expansion of utilities, at least until there is a better utilization of highest and best use of our present land.
4. Mothball or export all excess mobile homes.

CONCLUSION

I doubt that my plan, which is really a conglomerate of my ideas and other proposals, will slay the economic dragon (wounded - maybe). However, after a stop, look and listen posture for the last three years, I am now convinced that the time is right to bring together some of the best talent in the state who will, in turn, analyze the problem, evaluate alternative courses of action, and develop a proposal that WILL WORK!

If there is a problem in our economy, and that problem is an excess in the supply of real estate and we have decided that something must be done - then let's do it right!

1. a combined effort from the private and public sectors.
2. put our money down and accept the risk and profit.
3. spread the risk.
4. and most importantly do not debt finance with public funds. Let's treat this problem as an investment opportunity not a bail out program.

P.S. If we are going to moth ball real estate, let's start with the PAC! It's a little silly to walk around town in a mink coat and no shoes.

Alliance Bank

March 19, 1988

Mr. Gumbiner has asked us to transmit the enclosed updated "PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST" to you in an effort to keep you informed.

Should you have questions or comments, they could be directed to him through my office.

Sincerely,

Fred H. Burrow
President

Enclosure

Alliance Bank
A Financial Service of Alliance Bancorporation
1500 W. Benson Boulevard • P.O. Box 99003
Anchorage, Alaska 99509-9003 • (907) 258-7890
Member FDIC

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecedented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few

office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases, the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirement of the Procedures Agreement will assure the Beneficiary Institutions

that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets.d Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will

first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made, then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and, as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Assets.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:

   1. 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.

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1592 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1389

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

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE

STATE OF ALASKA

SENATOR TIM KELLY

P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-3822

P.O. BOX 210001
ANCHORAGE, ALASKA 99521
(907) 561-7612

Feb. 9, 1988

To: All Senators
From: Senator Tim Kelly TDK

re: The Alaska Stabilization Assistance Program (ASAP)

I am introducing the attached legislation. It's essentially a "generic" bridge bank concept as originally proposed by Dave Rose.

Several different proposals for helping to slow the decline of property values throughout Alaska, and particularly Southcentral, have surfaced. I can support any number of these. If, however, the Legislature cannot within the next 90 days agree upon a more specific proposal, this legislation would enable AIEDA to contract with a separate entity to help maintain a floor on real estate values.

The problem is not just the portfolio the FDIC has assumed in Alaska, but also the Alliance Bank portfolio, which could be an even larger problem, as well as several other institutions and banks with similar serious concerns. If a separate entity can be created to pool these problem properties and effectively prevent competitive "dumping", I believe a service will be done. I understand that both the FDIC and Alliance Bank would be interested in exploring such a concept.

I have initially capitalized the ASAP through a $15 million loan from the Railbelt Energy Fund. I'm not wed to this source of funding. Either AIEDA or General Fund money might be used, but as the problem, while statewide, appears to be predominately a railbelt problem, I'm not shy about proposing borrowing the money from the Railbelt account.

Both private industry and the FDIC have been extremely active in trying to solve this serious problem. I believe the State should also become a limited player at this time.

I urge your co-sponsorship.

MEMBER
TENTH ALASKA LEGISLATURE
ELEVENTH ALASKA LEGISLATURE
TWELFTH ALASKA LEGISLATURE
THIRTEENTH ALASKA LEGISLATURE
FOURTEENTH ALASKA LEGISLATURE
FIFTEENTH ALASKA LEGISLATURE

STATE OF ALASKA

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JUNEAU, ALASKA 99811
(907) 465-3822

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(907) 561-7812

SENATOR TIM KELLY

February 8, 1988

TO: Tam Cook
FROM: Sen. Tim Kelly TDK

re: Alaska Stabilization Assistance Program (ASAP)

- -

Please draft legislation which:

1) Creates a distinct "Alaska Stabilization Assistance Program" within the Alaska Industrial and Export Development Authority (AIEDA);

a) stating that the purpose of the program is to facilitate the development of a separate organization to promote the stabilization of real estate values in Alaska;

b) placing the account under the direction of the Board of Directors of AIEDA;

c) authorizing AIEDA to contract with an entity to assume management of foreclosed upon property held by financial institutions and loans collateralized by real estate, for the purpose of reorganizing and stabilizing that property, and;

d) stating that AIEDA shall contract to retain management of said property until such time as it is determined that property market values have stabilized and improved.

2) Appropriates $15 million from the Railbelt Energy Account to the "Alaska Stabilization Assistance Program" of the Alaska Industrial and Export Development Authority, for the purpose of paying operational costs involved in the management of foreclosed property;

Attach a letter stating:

It is the intent of the Legislature that these funds shall be construed as a five year interest bearing loan to AIEDA, with the interest to be determined by the annualized prime rate.

As funds are recovered from the management of this property, these funds shall be returned to the Stabilization Assistance Program which will distribute these funds first to the General Account of the State of Alaska, with appropriate notice to the legislature as to the derivation of these funds so they can be returned to the Railbelt Energy Fund, then to the lending institutions from whom the property management was assumed.

Effective Date: Immediate

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

February 26, 1988

The Honorable Kay Brown
House of Representatives
P.O. Box V
State Capitol
Juneau, AK 99811

Dear Representative Brown:

The Board of Directors and Staff of the A.E.D.C. regret, but very much respect, the decision of the House Subcommittee on Housing and Banking to deny our request for $250,000 to evaluate the FDIC's Alaska loan and real estate portfolio. We understand that several committee members felt that to do so would have been the first step on a path that would lead the State to backing a bond issuance for the purchase of the FDIC portfolio.

If that was the perception, then we understand your misgivings. There is presently not enough evidence to support the need for a "moral obligation," and there is insufficient information with regard to the portfolio itself.

Our raising the notion of a "moral obligation" was only in the spirit of keeping you informed as to what might be requested of the Legislature at a future date <u>if</u> we find that State assistance is required to structure a viable transaction. We have since learned through our research and negotiations that State assistance may not be necessary.

At the present time we are continuing our talks with the FDIC and are exploring various financing alternatives. We will keep you informed of our progress.

550 West 7th Avenue
Suite 850
Anchorage, AK 99501
Telephone (907) 258-3700

In the meantime, please accept our sincere thanks for the time and effort you have devoted to this issue. We are confident that most legislators share our desire to keep the decision-making authority for such a large percentage of Alaska's assets in the hands of Alaskans and are divided only on how best to encourage that, and whether State government should play a role. Those are serious, legitimate questions and we salute you for addressing them.

Respectfully,

S. Hawkins

Scott E. Hawkins
President

cc: A.E.D.C. Board of Directors

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 largly 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 ~~now~~ near term profit is the overall goal.

PURCHASE OF ASSETS

1. The assets will be purchased from the proceeds of a bond issue. Cash flow must be sufficient to service debt and operating expenses. Negotiated price must not require subsidy.

2. Terms of sale will depend on appraisal of portfolio.

3. Financing will require a) credit enhancement, or b) FDIC to take part cash, part subordinated debt or c) both.

4. Credit enhancement can take the form of a State "moral obligation".

$250,000 REQUEST

The purchase cannot proceed without a thorough assessment of the FDIC portfolio with banking, real estate and financial experts. The $250,000 will fund such an assessment. If the sale take place the $250,000 will be repaid from bond proceeds. If it does not it becomes a grant.

ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

ANCHORAGE ECONOMIC

DEVELOPMENT CORPORATION

$250,000

Appropriation to Review FDIC Properties

- BUDGET -

$ 150,000	Accountants
65,000	Banking Consultants
25,000	Legal Fees
10,000	Administrative Expenses
$ 250,000	TOTAL

Time to complete study after award - 30 days.

550 West 7th Avenue
Suite 850
Anchorage, AK 99501

FDIC: 'No fire sale'

Continued from page A-1

Assembly last June to attract new business and expand existing businesses. Although it is funded largely by the city, it enjoys considerable freedom in pursuing its development goals.

The AEDC has the authority to create subsidiaries and to issue revenue bonds to back its projects.

Under AEDC's proposal, a subsidiary would be formed to invest in loan portfolios previously held by failed banks.

This non-profit subsidiary would issue long-term revenue bonds of $50 million to $60 million to purchase, at a deep discount, the loan portfolios now managed by the Federal Deposit Insurance Corp. and the Federal Savings and Loan Insurance Corp.

The FDIC has offered to sell those loans for between 25 cents to 40 cents on the dollar, he said.

The AEDC wants the state to issue a "moral obligation" backing the bonds, but not direct underwriting.

No money from the permanent fund would be used, Hawkins said.

Rose had opposed Fink's plan to use the fund to invest in commercial real estate.

"That is the beauty of it," Hawkins said. "Ideally, in concept, it would not involve any state money. Anyway, we would not need massive amounts."

The FDIC would prefer to sell its loans to a non-profit corporation rather than a private, profit-making investment trust.

A non-profit corporation would be more likely to hold properties off the market rather than sell them quickly. That in turn would shore up the shaky loan portfolios of other Alaska banks, according to FDIC officials.

The deal also would dispel Fink's fears that the FDIC might "dump" its portfolio and trigger further erosion of the commercial property sector.

But FDIC liquidation specialist Reid Judd ruled out any fire-sale of the hundreds of millions in loans the federal agency took over when two Alaska banks flopped last year.

The FDIC stepped in to manage the assets of the federally chartered Bank of the North in October. The First Interstate Bank of Alaska shut its doors in December.

Assets from both banks were offered to the National Bank of Alaska. Under the takeover agreements signed by NBA, the bank had the right to pick through the portfolios of the failed banks, keep the strongest loans and return the rest to the FDIC.

NBA President Bob Gray said earlier the bank would return about 50 percent, or $24 million, of the Bank of North portfolio, and about 75 percent, or $74 million of the First Interstate loans. The FDIC did not even offer about $165 million in problem loans to NBA, he said.

Hawkins said the AEDC investment probably would yield a high return because most of the loans are delinquent and extremely undervalued.

He also wanted to dispel a misperception that all the FDIC loans involve foreclosed commercial property.

"Better than half those portfolios are in business loans," Hawkins said. "And a longer period would give small businesses more time to work through their problems."

Bill Blessington, a spokesman for Fink, said the mayor was invited because he presides over the city with the worst real estate crunch in Alaska.

Loan buy-up plan touted in Juneau

By George Frost
Times Writer

Anchorage's Economic Development Corp. may venture where the Alaska Permanent Fund fears to tread. It is proposing to prop up the city's sagging commercial real estate market by buying about $200 million of bad loans held by bank regulators.

Mayor Tom Fink and members of the AEDC were to meet with Gov. Steve Cowper, permanent fund director Dave Rose and other state officials at noon today to discuss state participation in the scheme.

A draft bill has been presented to the governor for his consideration, press spokesman David Ramseur said Tuesday.

Scott Hawkins, director of the AEDC, said he thought up the idea only last week. He called the proposal "tentative, but promising."

The development corporation was created by the Anchorage

See FDIC, page A-8

ANCH. TIMES 2/3/88



Scott Hawkins
. . . proposal 'promising'

Alaska State Legislature
House

Official Business

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Report to the Joint Committee on Economic Recovery
by the
House Subcommittee on Housing and Banking
February 22, 1988

Introduction

The House Subcommittee on Housing and Banking has begun investigating these threshold issues and questions: Should state government act to prop up the real estate market (residential or commercial)? Would proposed actions be effective? Who benefits and who loses? How would the overall economy, and the recovery from recession, be affected? How will active commercial loans (performing, non-real estate) be treated under various alternatives?

The Subcommittee also has begun investigating specific legislation.

The Subcommittee will continue its review on these questions and proposals, and will bring recommendations to the full committee as rapidly as possible.

Recommendation on AEDC Proposal

The Subcommittee was asked by the House chairman of the Joint Economic Recovery Committee to review and recommend whether to appropriate $250,000 to the Anchorage Economic Development Corporation (AEDC) for

assessment of the FDIC portfolio. The assessment would provide information needed to decide whether to purchase the portfolio with the proceeds of a bond issue, perhaps supported by the state's "moral obligation."

The Subcommittee conducted more than 12 hours of hearings on the AEDC proposal and other related issues during the past week.

The Subcommittee recommends against appropriation of $250,000 to AEDC for FDIC portfolio assessment at this time.

However, the Subcommittee believes there is a need to acquire additional information about the FDIC portfolio, particularly about the so-called "orphaned" commercial loans -- performing, non-real estate loans which may need a continuing line of credit. Investigations into the extent of this problem may lead to recommendations regarding the FDIC portfolio or those specific loans.

The Subcommittee has not taken a position on other proposals or legislation which need further investigation, such as the "real estate stabilization trust" described in the Hallwood Group proposal of Feb. 18, and other bridge bank concepts.

Agenda for Week of Feb. 22-29

The Subcommittee hopes to bring forward by next week additional recommendations on items that could be immediately pursued or enacted by the Legislature, such as:

- Early funding of 10 additional positions for AHFC.

- Early funding for demolition of Willow Park and Hollywood Vista projects in Anchorage.

- Resolution requesting assistance from federal agencies.

The Subcommittee has scheduled the following meetings:

Thursday, Feb. 25, 8 a.m., House Finance Committee Room

Bert Wagnon, AIDEA

Barry Hulin, First Federal Bank

Thursday, Feb. 25, 5 p.m., Room to be announced

*Willis Kirkpatrick, Division of Banking, Securities and Corporations

Saturday, Feb. 27, noon, House Finance Committee Room

Work session on residential issues

Monday, Feb. 29, 8 a.m., Room to be announced

Report to full Committee on Subcommittee recommendations

*unconfirmed

Submitted by:

Rep. Kay Brown, co-chair

Rep. Steve Rieger, co-chair

cc: House Subcommittee on Housing and Banking

Rep. Mike Davis

Rep. Fran Ulmer

Rep. Mark Boyer

Rep. Pat Pourchot

Rep. Steve Frank

Rep. Henry Springer

Rep. Dave Donley

Rep. Virginia Collins

Rep. Randy Phillips

Rep. Mike Navarre

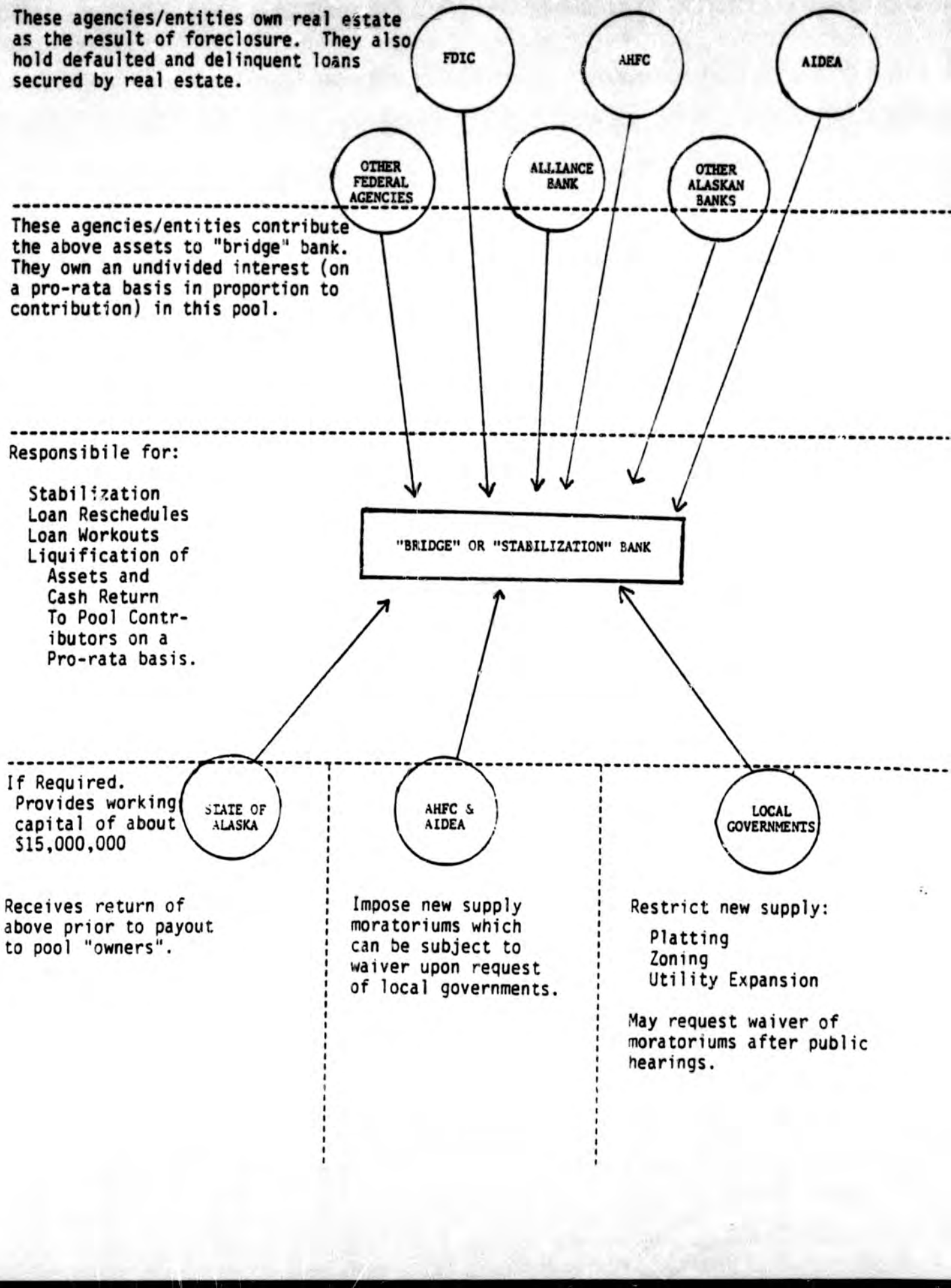
H. Brit. Ex.

A CONCEPTUAL PLAN FOR AN ALASKA STABILIZATION ASSISTANCE PROGRAM

A FEDERAL, STATE, LOCAL GOVERNMENT AND PRIVATE SECTOR PARTNERSHIP

This paper expands, clarifies and combines some options set forth in a White Paper entitled "Options to Improve the Alaskan Economy" dated January 1988 and attached hereto.

DAB/FEB 88


These agencies/entities own real estate as the result of foreclosure. They also hold defaulted and delinquent loans secured by real estate.
FDIC
AHFC
AIDEA
OTHER FEDERAL AGENCIES
ALLIANCE BANK
OTHER ALASKAN BANKS
These agencies/entities contribute the above assets to "bridge" bank. They own an undivided interest (on a pro-rata basis in proportion to contribution) in this pool.
Responsibile for:
Stabilization
Loan Reschedules
Loan Workouts
Liquification of Assets and Cash Return To Pool Contributors on a Pro-rata basis.
"BRIDGE" OR "STABILIZATION" BANK
If Required. Provides working capital of about $15,000,000
STATE OF ALASKA
AHFC & AIDEA
LOCAL GOVERNMENTS
Receives return of above prior to payout to pool "owners".
Impose new supply moratoriums which can be subject to waiver upon request of local governments.
Restrict new supply:
Platting
Zoning
Utility Expansion
May request waiver of moratoriums after public hearings.

1. This concept requires the combined efforts of federal, state, local and private entities.... A partnership to address mutual problems and solve them on a cooperative basis.

2. It does not "bail out" anybody. No purchases of assets occur, no checks are written. Those entities who "own" problems continue to own them through pro-rata interests in a common pool.

3. Valuation of assets does not present a problem because no purchase takes place. All assets are valued at municipal assessment levels as of a given date. Valuation is utilized only to determine pro-rata share of the common pool.

4. The pool holds assets to stabilize values, eventually liquifies these assets and returns proceeds to pool owners.

5. The State provides a loan (up to $15,000,000) for working capital which is repaid prior to distributions to pool owners. This working capital may not be needed if there is adequate cash flow generated by pool assets but it is evidence of the State's interest and intent to help address and solve this problem.

6. State agencies such as AHFC and AIDEA place moratoriums on financing new supply. These can be waived if local governmemts so request. (General, statewide moratoria may not be in the best interests of those communities which do not have excess suplly of all -- or certain types of -- real estate.)

7. Local governments cannot exacerbate the supply problem by encouraging new construction. Therefore they may consider local moratoria on rezones, replats and utility extensions in order to discourage new construction in those categories of real estate where there currently is excess supply.

NOTE: AHFC = Alaska Housing Finance Corporation is an instrumentality of the State.

AIDEA = Alaska Industrial Development and Export Authority is an instrumentality of the State.

EXECUTION

The establishment of the "Bridge" or "Stabilization" bank is coordinated by a State agency which also serves as the recipient of the State appropriation.

The State agency, using the appropriation (and subsequent loan) as a lever, binds the parties together by contract. It does not operate the bridge bank but does insure that it is contractually obligated to hold assets for stabilization.

The bridge bank is operated by a Board of Directors who set policy and appoint officers who select and direct staff. The Board of Directors of the bridge bank are chosen by the pool participants who vote their pro-rata share of asset contribution.

Gregg E. H 1

MEMORANDUM State of Alaska

TO: Milt Barker
Deputy Commissioner, Treasury
Department of Revenue

DATE: February 12, 1988

FILE NO:

TELEPHONE NO:

THRU: Vincent Wright 2/25
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 [illegible]

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'

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 reacned 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 program[2]. 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 weaken 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 tho other citizens of the State.

FOOTNOTES

1. Memorandum to Mary Holloran, "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso, Table 1, Jan. 28, 1988.

2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.

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To David Rose Alaska Permanent Fund By Fax 907 586 2057
18th Feb 1988

re Hallwood Alaskan Real Estate Stabilisation Trust

Dear David,
Herewith a clean ammended copy of the Trust Proposal.Please feel free to circulate the document at your discretion.I will be available for meetings in Alaska or elsewhere at any time after the 6th March next.
I have already copied the following on the proposal...
Governor Cowper
Tony Smith
Max Gruenberg
Senators Kelly and Sturgulewski
The Members of the House Subcommittee on Housing and Banking
Ashley Reed
I have also copied all our own people and the FDIC,FHLBB,MGIC, AHFC,AIDEA,Fannie Mae,N.Y.Life and any other Alaskan lending institutions which we feel may be interested in participating.
I look forward to speaking to you again before I leave for my holiday on Monday.
Regards,

Anthony.J.Gumbiner

PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST

A liquidating trust formed to liquidate on an orderly basis at stable appraised prices in the best interests of the Beneficiary Institutions, the supply of distressed real estate properties and loans currently overhanging the Alaskan market.

Background

As a result of the current severe recession in the Alaskan economy which followed a period of strong economic growth in the commercial and residential real estate market, Alaskan lending institutions and certain state and government agencies who have assumed the obligations of failed institutions, are today burdened with an unprecendented holding of "bad" real estate loans, some of which have been foreclosed and all of which are at least partially non-performing. Real estate values have been declining monthly. Although the decline in real estate values has been slow and the recession is seen to be bottoming out, the recovery is extremely fragile and prices could be precipitously collapsed if the overhanging real estate were offered back into the market at distressed prices for forced sale.

Alliance Bancorporation ("Alliance") was recently formed by the merger of Alaska Mutual Bank, United Bank Alaska and United Bank Alaska South Eastern and was recently recapitalized by the Hallwood Group Incorporated ("Hallwood") and the FDIC. Alliance currently holds some $300 million of bad real estate loans of which about $80 million has already been foreclosed and the balance being in the form of classified and non and partly performing real estate loans. The FDIC, as Receiver of the failed First Interstate Bank of the North, holds about $200 million of "bad" loans of which at least half are property related. Additionally, Fannie Mae, the Federal Home Loan Bank Board, Alaska Housing Finance, MGIC, New York Life and other Alaskan lending institutions all hold similar "bad" loan portfolios.

If any of the above institutions were to "dump" their real estate holdings into the local market they would collapse the fragile price structure and ensure the continuation of the current recession to the detriment of not

only themselves individually and as a group, but all Alaskan citizens and property owners.

The objective of "The Hallwood Alaskan Real Estate Stabilization Trust" is to prevent a further decline in real estate values by allowing the Trustee of the Trust to manage the liquidation of the trust assets so as to prevent an oversupply of property in the local marketplace such as would cause further declines in the price of residential or commercial properties.

The Proposal

In order to maintain a stable market and to encourage a recovery, Hallwood proposes the establishment of "The Hallwood Alaskan Real Estate Stabilization Trust" (the "Trust") to be formed as a liquidating trust with the purpose of liquidating trust property by sale or other disposition as promptly as shall be economically feasible in the best interests of the Beneficiary Institutions and to distribute the distributable proceeds to the Facilitating Beneficiary Institutions solely and exclusively in accordance with the provisions of a Distribution Agreement.

The Board of Alliance Bank has already agreed to subscribe its distressed portfolio of real estate assets to the Trust and we intend to invite the FDIC and the other concerned institutions mentioned above to become subscribers to the Trust prior to its formation date of March 31, 1988. Following subscription of assets to the Trust, beneficiary institutions will own an undivided interest in the Trust.

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be

considered as a more accurate indication of fair market value Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees.Additionally, the Trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the $15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust.

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust

beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution Agreement.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:-

a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Trust.

b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.

c) A semi-annual stummary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.

d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.

e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:-

i. that the sales and distributions made during the preceding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

ii. with respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of $15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

While it is anticipated that this $15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes of non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette,the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all of the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern

and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of $300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the US. Sales Brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only, basis utilising the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage and the Trustee will employ and/or retain employees, real

estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of Trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:-

1. Subject to receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.

2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.

3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.

4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Institutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement , Procedures Agreement or Distribution Agreement.

Distributions to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance

80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds from the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18th 1988

The Hallwood Group Inc.
767 Third Avenue
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Sealaska eyes FDIC properties

By [illegible]

JUNEAU — The Sealaska native corporation has taken the lead in forming an investor group to buy real estate taken over by the Federal Deposit Insurance Corporation in the failure of two Alaska banks.

Sealaska president and chief operating officer Bill Howe confirmed Monday the corporation has hired Juneau consultant Peter McDowell to research whether a private group could profitably buy and hold the properties until the market improves.

The FDIC holds more than 600 properties worth an estimated $28 million from the failures of the Alaska National Bank of the North and First Interstate Bank.

It also owns another 3,000 troubled commercial and consumer loans valued at about $320 million.

Commerce and Economic Development Commissioner Tony Smith began the process several weeks ago by talking with several native corporations and "major investors."

Smith said he is seeking to prevent an outside investor from picking up the properties from the FDIC for a fraction of their value, then dumping them on the market; forcing other property values down.

Smith said he could "facilitate" the formation of a Real Estate Investment Trust by making the initial contacts, but said a private entity would have to lead the group.

"It's time for someone to get this thing focussed," said Sealaska's Howe, "so we're picking up the ball."

Howe said the corporation is putting up about $30,000 to explore the idea.

McDowell is meeting with other potential investors to measure interest in the concept.

"It's bigger than Sealaska, there has to be a lot of other players, too," Howe said.

McDowell also touched base with the FDIC to get an accurate accounting of the properties in its hands.

FDIC official Herbert Chin said it will take the agency another couple of weeks to inventory and value the property it holds.

Chin said the FDIC is interested in selling the assets and would "look at any offer that comes in to us."

Howe said McDowell will add experienced real estate professionals, including an appraiser to his study team.

Howe said he expects the results of McDowell's study in about six weeks.

"If it's possible to structure a REIT on an economically sound basis, we would have some fairly significant dollars to invest," said Howe.

But Howe said the native corporation doesn't plan to lead the group once it's formed.

"We aspire to be an investor, not necessarily the manager," said Howe.

Sealaska is familiar with the state's real estate and banking industries. It was a major owner of United Bank Alaska before its consolidation with Alaska Mutual Bank into to form Alliance Bank.

See Properties, page D-8

Properties: 'We're picking up the ball'

Continued from page D-6

If Sealaska is successful in its efforts, it could pre-empt a Senate proposal to form a "bridge bank."

Sen. Tim Kelly, R-Anchorage, is drafting a measure that would set up a corporation to buy and hold commercial real estate until the market improves.

As initially proposed by permanent fund Corporation Executive 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 Sealaska 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

Alaska Continental Bank

January 6, 1988

A SUGGESTED PLAN FOR AIDEA TO ACQUIRE AND LEASE PROPERTIES

SECTION 44.88.080 "POWERS OF THE ALASKA INDUSTRIAL AND EXPORT AUTHORITY" under (5) & (6) states the following. (5) "to acquire an interest in a project as necessary or appropriate to provide financing for the project whether by purchase, gift or lease. (6) to lease to others a project acquired by it for the rentals and upon the terms and conditions the authority may consider advisable including, without limitation, provisions for options to purchase or renew".

During these tough economic times it is suggested that if a servicing lender and the existing borrower concur, AIDEA would acquire properties currently financed, in lieu of the outstanding debt, provided that the originating lender maintains either its 10 or 20% share of the project as originally provided and further provided that the seller agree to lease that property back for three to five years at a 6% cap rate. The seller would have an option to re-acquire the property within three to five years by paying the original amount the property was transferred for in satisfaction of the debt plus an option premium of 2½% per year up to the time of repurchase.

AIDEA and the participating lender would take title to the property in their joint names with the servicing lender continuing to collect the rent and service the lease. The servicing lender would have the second right of refusal to acquire the property at the option price in the event the seller chose not to and could finance that project through AIDEA under the original terms of the bonds sold to support the project in the first place.

AIDEA would offer to work with lenders to purchase any commercial project for up to 75% of the latest appraisal used to support any loan against the project and would agree to purchase projects in conjunction with the lender whether within or outside of the state so as to help all commercial borrowers on a broad basis.

This program could acquire an estimated $1 Billion of properties. It may be necessary for AIDEA to go to the bond market to raise additional funds to support their purchases. AIDEA has the capital and reputation to allow for additional bond sales. It has statutory authority to provide this type of financing. Implementation would require no legislation, only a regulation change as approved by the AIDEA Board on an emergency basis.

The benefits would be many and this could be a "win-win" situation. A borrower could sell a project to AIDEA and the participating lender for its outstanding debt and immediately reduce its monthly overhead by 50%. The seller may also be able to show a tax loss on the sale of the property and apply for a tax refund. A 6% cap rate on the lease would effectively lower the cost of operation and avoid foreclosures. The lender could assist its borrower and eliminate a non-performing loan by converting the loan to Other Real Estate Owned (OREO) and supporting the investment in OREO by the lease paying 6%, which should cover the lenders cost of funds. AIDEA would be able to expand its program and bring more outside capital into the area. The borrower will benefit by knowing that when the market improves, the property can be re-acquired at a pre-determined price.

AIDEA and lender would agree not to lease the property for less than 6% nor sell for less that its capitalized cost. This could strengthen lease and resale rates on commercial projects.

Finally, AIDEA would have to adopt a moratorium on financing any new projects to be constructed unless a broad need was shown for that project.

H. A. BUZ HOFFMAN
PRESIDENT

HAH/jwb

Alaska Continental Bank

VALUE OF THEIR REAL ESTATE PLUMMET TO WAY BELOW ITS DEBT.

HOW ABOUT THE COMMERCIAL PROPERTY OWNERS?

HOW ABOUT THE BUSINESS PERSON WHO CREATES JOBS THAT WON'T BE ABLE TO MEET PAYROLLS?

HOW ABOUT THE PERSON WHO LOSES THEIR JOB - CAR - FURNITURE - HOME?

HOW DEEP IS THE AGONY GOING TO GO?

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AS A STATE, WE HAVE TREMENDOUS FINANCIAL RESOURCES BUT LACK THE POLITICAL WILL AND LEADERSHIP TO USE THEM.

I DO EXPECT TO SEE SEVERAL "BAND-AID" PACKAGES PASS THE LEGISLATURE. BUT WILL IT BE ENOUGH?

IT MIGHT BE IF THEY RECOGNIZE THAT THEIR OWN PENSIONS ARE AT RISK DUE TO THE PENSION FUNDS INVESTMENT.

SOME OF OUR LEGISLATORS LIKE TO **SNEER** ABOUT BANK BAIL-OUT'S.

THE BANKS DON'T NEED A BAIL OUT

NBA?

FNBA?

KEYBANK? **DEEP OWNER POCKETS**

RAINIER?

ALLIANCE AND FDIC BAILED OUT ALASKA MUTUAL AND UNITED BANK.

ONLY ALASKA CONTINENTAL BANK AND ALASKA STATEBANK LEFT - OUR CLOSURES WOULDN'T CREATE A RIPPLE.

NO - THE REAL NEED FOR A BAIL OUT IS EVERY HOMEOWNER WHO HAS SEEN THE

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TOTAL EQUITY CAPITAL OF ALL BANKS ON 9/30/87 WAS $207,477,000.

ON 9/30/87 ALL BANKS HAD A TOTAL OF $165,189,000 IN FORECLOSED REAL ESTATE.

TOTAL DEPOSITS IN ALL BANKS DROPPED $105,985,000.

STATE DEPOSITS DROPPED $220,320,000.

BANKS WERE USING $341,465,000 IN FED FUNDS - ONE DAY BORROWINGS.

TOTAL PAST DUE AND NON ACCRUAL LOANS TOTALED $407,740,000 OF BANKS TOTAL ASSETS OF $5,206,702.

THE BANKS BY THEMSELVES WILL NOT BE ABLE TO PROVIDE THE CREDIT AND FINANCING NEEDED TO FUEL ANY NEAR TERM RECOVERY - THEY WILL NEED HELP.

THE STATE OWNS MOST OF THE RESOURCES - DOES NOT REINVEST MOST OF IT HERE.

PERMANENT FUND	$9 BILLION OUTSIDE
AIDEA	$400 MILLION OUTSIDE
AHFC	$1,200,000,000 OUTSIDE
RAILBEST ENERGY FUND	$350,000,000 OUTSIDE

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WHO KNOWS WHAT ELSE!

AIDEA ALONE HAS A COMBINED NET WORTH OF $519,600,000, MORE THAN 2 1/2 TIMES THE NET WORTH OF ALL BANKS COMBINED. HAD PROFITS OF $24,500,000 - UNUSED CASH ON HAND OF $420,000,000.

AIDEA COULD CUT THE INTEREST ON ALL OF ITS LOANS TO 6% - WOULD ONLY COST THEM $18,000,00 PER YEAR - LESS THAN TWO THIRDS OF ONE YEARS PROFITS.

AIDEA COULD OFFER TO PURCHASE AND LEASE BACK COMMERCIAL PROJECTS.

AHFC HAS AN EQUITY OF $1,521,000,000 ALMOST EIGHT TIMES THE EQUITY OF ALL OF THE BANKS IN THE STATE. HAS OVER $1,256,000,000 CASH AND INVESTMENTS ON HAND - HAD PROFITS OF $21,000,000 AFTER RFBD AND EARLY RETIREMENT OF DEBT.

COULD HAVE OFFERED A SIMPLE MODIFICATION OF NOTE AND DEED OF TRUST FOR $30.00 FOR ANYONE THAT HAD REDUCED INCOME AND REVISED THE NOTE TO 25% OF INCOME. DID NOT NEED TO DO A REFUNDING BOND ISSUE.

OUR BANKS DO NOT HAVE EVEN A SMALL PERCENTAGE OF THE RESOURCES THAT THE STATE AGENCIES CONTROL.

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THE GOOD - THE BAD & THE UGLY

1987 WAS A DISASTROUS YEAR FOR ALASKA BANKS AND OTHER FINANCIAL INSTITUTIONS.

FIVE BANKS FAILED WITH THREE CLOSED AND TWO MERGED.

TWO CREDIT UNIONS FAILED.

TWO SAVINGS & LOANS FAILED.

YEAR END FIGURES ARE NOT AVAILABLE FOR ALL BANKS BUT IT APPEARS ONLY FNBA & NBA SHOWED A PROFIT.

ALL OTHERS COMBINED LOST MILLIONS.

IN THE FIRST NINE MONTHS OF 1987, ALL STATE BANKS COMBINED HAD A MINUS NET WORTH OF $130,971,000.

SINCE THEN 1ST INTERSTATE CLOSED.

ALL NATIONAL BANKS HAD A COMBINED NET WORTH OF $330,276,000.

SINCE THEN, BANK OF THE NORTH CLOSED. COMPARED TO 9/86, ALL BANKS IN THE STATE LOST A TOTAL OF $297,177,000 AND THE FIGURES THROUGH 12/31/87 WILL BE WORSE.