

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.

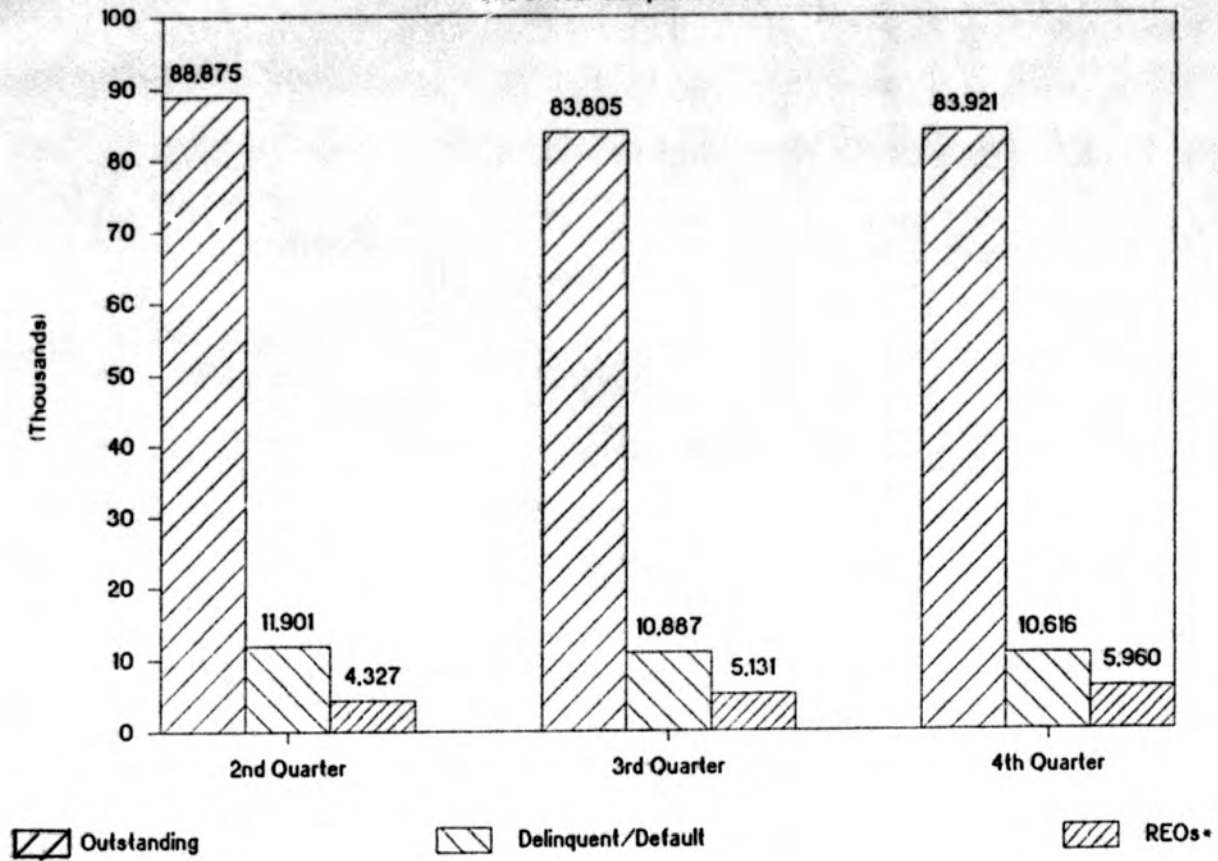
Number of Real Estate Owned (REO):

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.

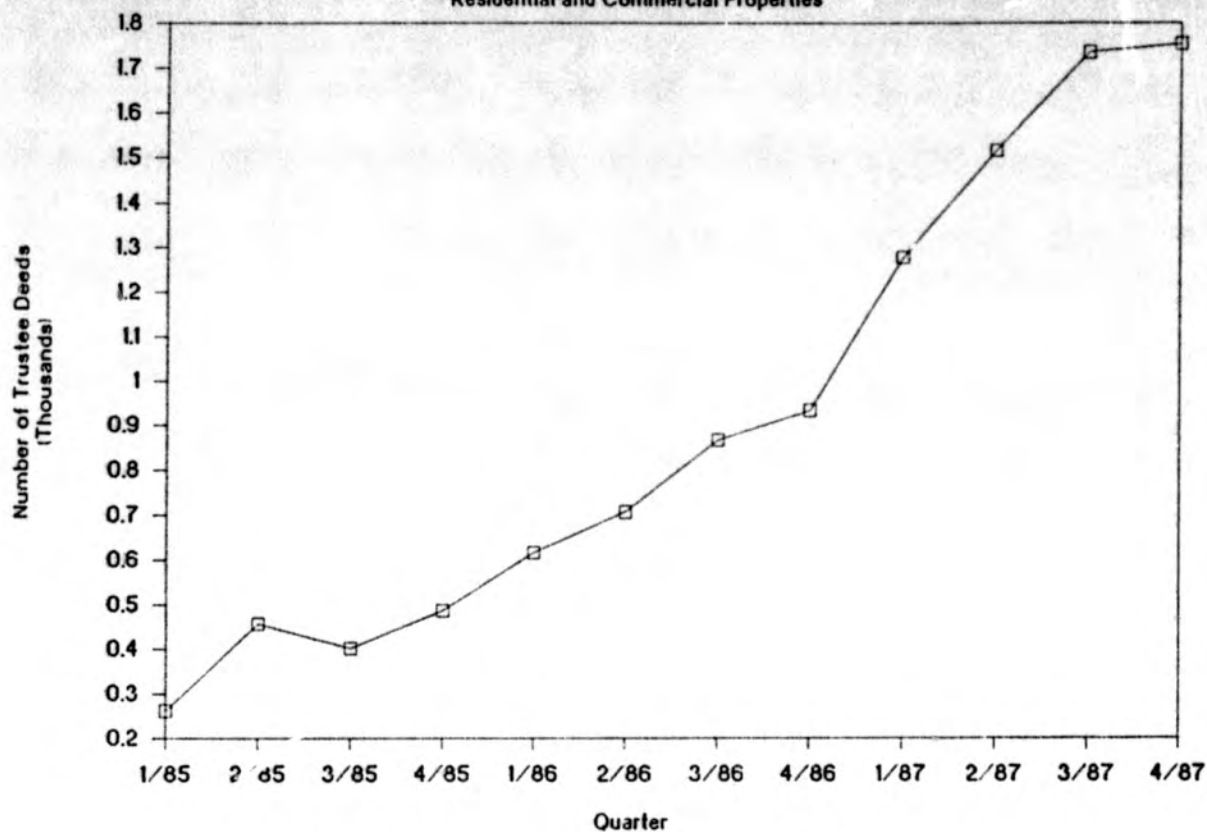
The fact that the number of loans in delinquency and default are decreasing would be encouraging if it weren't for the sharp increase in the number of REO properties. It's probable that the number of loans in delinquency and default are falling because they are going through foreclosure and becoming 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

Residential and Commercial Properties



Source: Motznik Computer Services, Anchorage, Alaska.

Foreclosures Statewide: 1982 - 1987

Residential and Commercial Properties

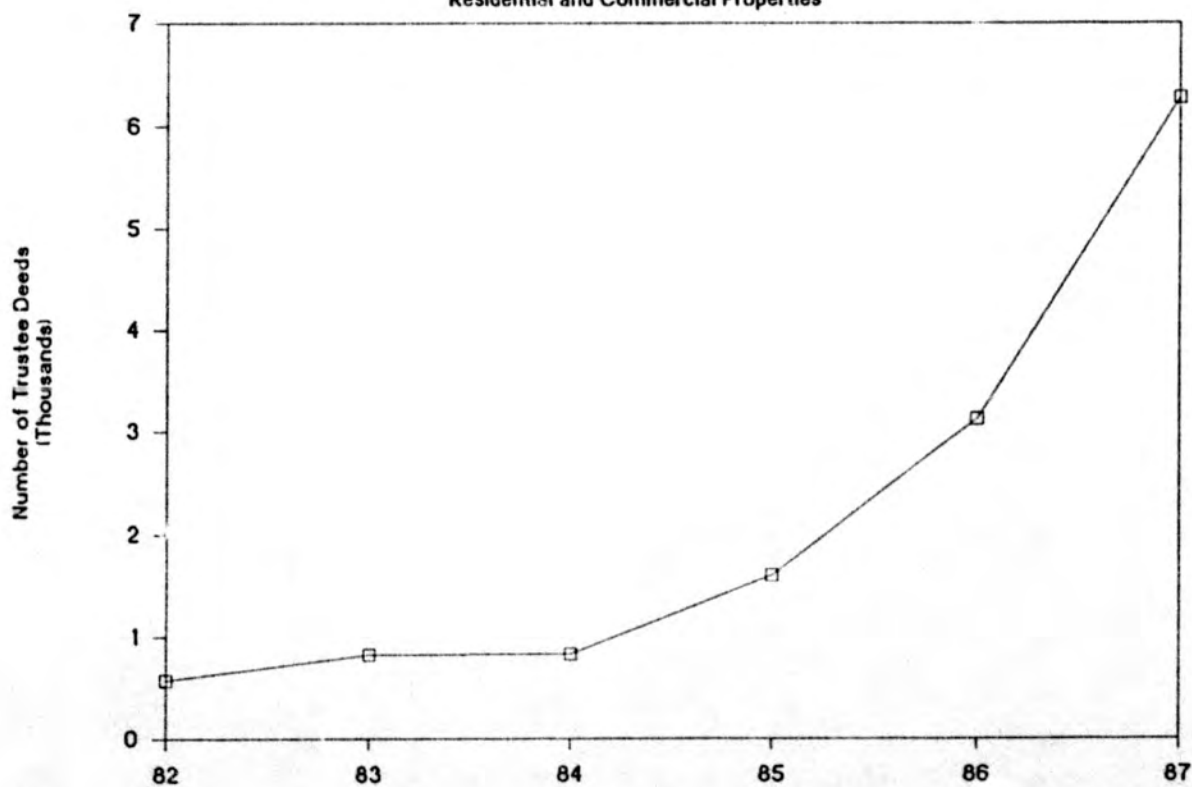


TABLE 1. NUMBER OF FORECLOSED PROPERTIES HELD AND SOLD

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".

[b]- Most entities determine this value to be the unpaid principal balance of the loans on the properties foreclosed.

[c]- This figure reflects the total number of loans "owned". It 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]- Figures based on average loan balance of \$95,500.

[i]- Based on average loan balance of \$95,000.

[j]- Does not include mobile home loans.

[k]- Based on average loan balance of \$80,500.

[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.

[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 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)	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 \$50,000.

[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

<u>PROJECT/LOAN</u>	<u>TOTAL \$</u>	<u>ANHS Loan \$</u>	<u>PRIVATE \$</u>	<u>CONST. JOBS</u>	<u>PERM. EMP.</u>
<u>LOANS CLOSED</u>					
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	<u>1,098</u>	<u>1,098</u>	<u> </u>	<u>2</u>	<u>Residence</u>
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 <u>Lease</u>
Northland Soy	300,000	270,000	30,000	12	8
House of Harley	420,000	84,000	336,000	4	7
Wm. Southworth	<u>130,000</u>	<u>100,000</u>	<u>30,000</u>	<u>4</u>	<u>4</u>
TOTAL	4,233,000	799,000	3,434,000	38	42

OTHER PROJECTS

	<u>CONST. JOBS</u>	<u>NEW PERMANENT EMPLOYMENT</u>
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

<u>TOTAL INVESTMENT</u>	<u>ANHS \$</u>	<u>PRIVATE \$</u>	<u>CONST. JOBS</u>	<u>PERM. EMP.</u>
\$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 Neighborhood 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 be 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	<u>22,600</u>
	\$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	<u>1,200</u>
	\$ 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	<u>-0-</u>
	\$ 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

Tyler Jones, Director
Port of Anchorage

Dan Dixon, Director
State Office of International Trade

Tom Scott, Executive Director
South Region Emergency Medical
Services

Will Walker, Mathematics Teacher
Service High School

Bert Wagon
Alaska Industrial Development
Authority

Nick Rodes
Graduate Student

Julie Liska, Volunteer Coordinator
Anchorage Arts Council

Dan O'Connell
Federal Deposit Insurance Corp.

Lois Reed
Department of Transportation

David Leppanen, General Contractor
Leppanen Construction

Donald Keil, Anchorage Director
Federal Aviation Administration

Veronica Slager
Marketing Specialist

Ex-Officio Board of Directors

Jim Kubitz, President
Kubitz Construction

Jim Cash, President/CEO
Cash's Machine and Welding

Connie Parker
Anchorage Resident

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

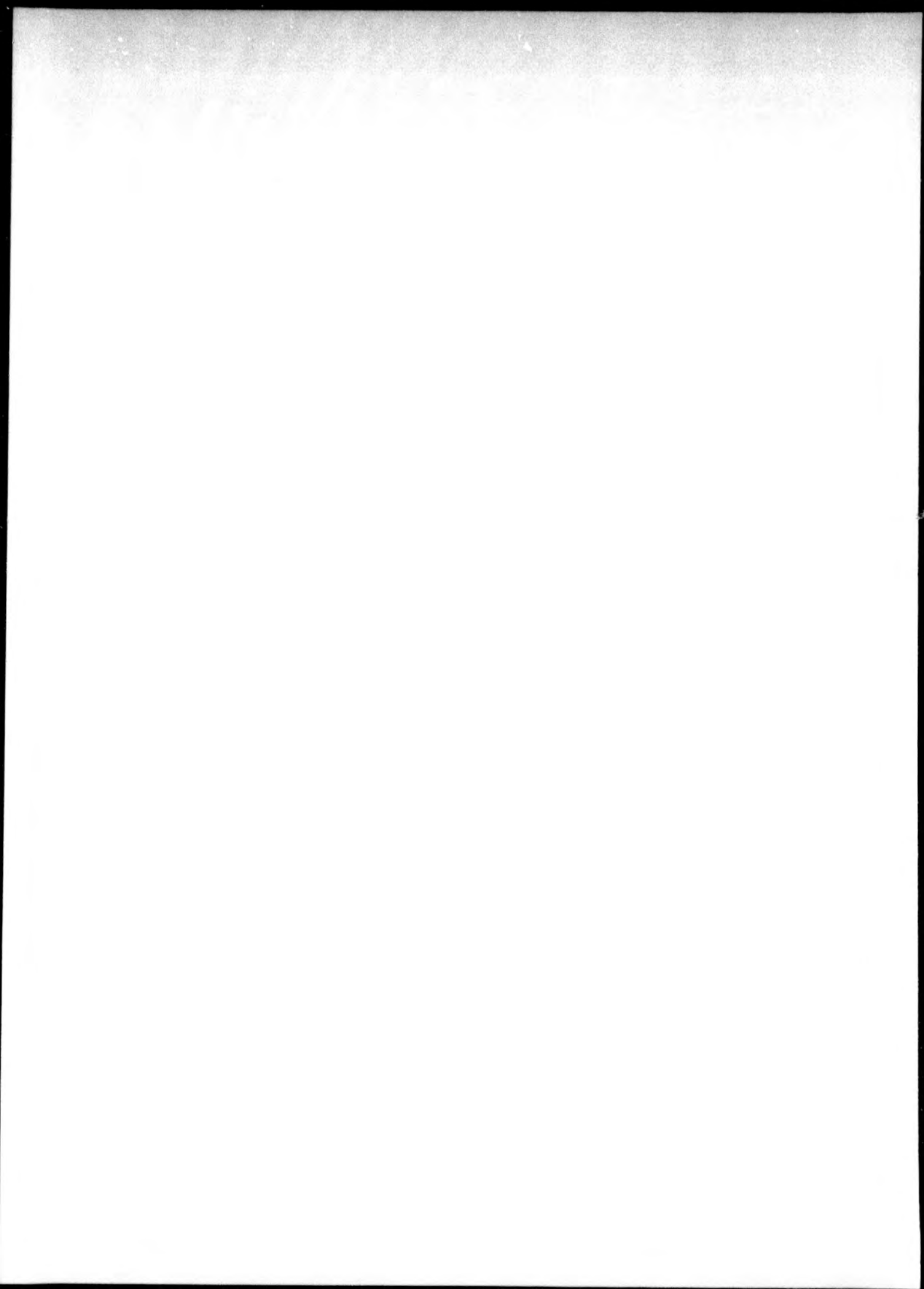
Jay Hanseth, Assoc. Broker
Jack White Company

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 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
TO ASSURE LEGIBILITY**

Alaska Continental Bank



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Page 2 of 2
Jan. 6, 1988

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 than 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?

Alaska Continental Bank



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

Alaska Continental Bank



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



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 *VW*
Chief of Research
Department of Revenue

SUBJECT: Commercial Real Estate
Subsidy

FROM: Alfred G. Zangri *AGZ*
Economist

Conclusion: Recent proposals to have the State purchase existing 'excess supply' of commercial real estate will likely have the following impacts:

1. Could cost the State something in the neighborhood of \$115 million to \$165 million if all current nonperforming and foreclosed property is covered;

2. Force rents higher than would have been in the absence of such a program which in turn will;

3. - decrease the level of business activity,
- increase layoffs,
- decrease aggregate demand and
- decrease aggregate income

more they would have been in the absence of such a program while at the same time sending signals to the market which will;

4. Provide incentives for additional investment in commercial real estate in the face of existing excess supply;

5. Create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own bail out program which will in turn;

6. Further delay the adjustment process and delay the process of economic recovery;

7. Bail out a few banks rather than nonperforming building owners;

8. Result in a tax leakage to the federal government if commercial real estate investors tend to have a higher than average income;

9. Subsidize owners of commercial real estate and banks at the expense of the economy and the rest of the citizens of the state;

10. Result in leakage to out-of-state owners who will also benefit from the subsidy;

11. Result in additional leakage as the funds used in the program are unlikely to be reinvested in the state due to excess capacity;

12. Replace the market price with a state bureaucracy in making commercial real estate investment and allocation decisions with the resulting fallibility, inefficiency and opportunity for unequal treatment.

Discussion: This memo discusses the impact that the recently proposed commercial real estate excess capacity purchase program will have on the State economy. The primary focus of the discussion will be whether the economy is likely to be helped or hurt by the program. As a part of this discussion it is necessary to examine the distribution of gains and losses throughout the economy resulting from such a program. However, the central question is not the equity of the distribution. Instead, the question is whether the overall net impact of the program is to help or hurt the State economy.

Before assessing the impact of these proposals we must first examine the way the commercial real estate market works.

There are two types of operators in the market for commercial real estate:

1. The Users - these are businesses or professionals that rent or own commercial space for their use in day-to-day business activities.
2. The Investor - these are individuals or businesses that own commercial real estate for the revenue stream (rents and/or capital gains) the space yields.

The level of aggregate demand for goods and services determines the rental value and in turn the market value of commercial real estate. Investors' demand for commercial real estate is derived from the future stream of rents that the owner expects to receive. Users demand is derived from the profits they expect to receive from its use which are in turn derived from consumers' demand for the product or service offered by the business occupying the commercial space.

The problem that has occurred in the Alaskan economy is that the overall level of aggregate demand has fallen below the level anticipated during the building boom because there are fewer people than anticipated and those people are spending less. The result of this fall in aggregate demand is that business profitability has fallen, increasing both business failures and the number of marginal businesses. This in turn has reduced the level of demand for commercial space and created 'excess supply' in the commercial real estate market (as well as most, if not all, other markets).

We should realize, however, that 'excess supply' is a price dependent concept. This means that as aggregate demand falls and the general level of business activity declines users of commercial space have a demand for less space because some have gone out of business while others have found it necessary to reduce costs in order to stay in business. Part of this reduction in costs will be accomplished by reducing the rent they are willing to pay. This will cause these businesses to seek rent reductions from their existing landlords and/or move to less expensive or smaller quarters. Rents for all commercial space will begin to fall as owners of commercial space try to bring vacancy factors back to prior levels. Even businesses that are not feeling pinched will find that they can now rent larger and/or higher quality space at reduced rates.

Simply stated, excess capacity exists when prices are too high to clear the market. As prices fall the excess capacity will tend to be absorbed back into the economy. Two factors must be noted about this reabsorption: First, as rents fall and businesses tend to move up to higher quality space, vacancy factors in lower quality (older, less luxurious) space will tend to be higher than in higher quality (newer, more luxurious) commercial space. This occurs because the more marginal or risky or newer businesses will tend to locate in this cheaper space thus creating a higher turnover. This will in turn tend to increase the rent differential between lower quality and higher quality space. This process will be reversed as the economy recovers -- a fact that any investor in lower quality properties realizes.

The second factor to note about the eventual reabsorption of 'excess capacity' is that the adjustment period will not be fast. It may well take a number of years. There are some indications that the adjustment is well under way (see for example the Anchorage Office Space Market Analysis Summary - midyear 1987 which shows an increasing vacancy factor for lower quality space and a slowing vacancy factor for higher quality space).

On the other hand, as rents fall it is likely that leveraged commercial space investors will be unable to avoid increasingly negative cash flows which may cause additional buildings to be sold at losses. It is possible that the capitalized value of some commercial real estate has not only fallen below the level of existing financing but also below current replacement cost.

From the above discussion we can identify which people will benefit and which will lose from a general decline in commercial real estate rents. Those that stand to gain from decreased rents are

- businesses that use rented commercial space;
- customers of businesses that use rented commercial space;
- employees of businesses that use rented commercial space;
- investors in businesses that use rented commercial space.

Those that stand to lose from falling commercial space rents are

- owners of commercial space for rent;
- businesses that operate from owned commercial space;
- employees of businesses operating from owned commercial space;
- investors in businesses operating from owned commercial space;
- investors in banks that have inadequate reserves to cover nonperforming commercial real estate loans.

It is also possible to examine the likely impact of proposed solutions to the 'excess capacity' problem. First, if the State buys distressed properties at market prices and rents these properties at market prices there is no effect on the market. Rents will be driven down to the same level they would have reached in the absence of the State purchase. However, since this does nothing to relieve the perceived 'excess capacity' problem, the proposals put forward have been to purchase these properties and withhold them from the market either temporarily, by keeping them vacant, or permanently by bulldozing them. In either case this action on the part of the State will result in a subsidy to the owners of non-State owned buildings. This subsidy will occur because rents will be kept higher than they would have been in the absence of the State program. The result remains unchanged even if aggregate demand falls so far that some buildings cannot be sold at any price: the ghost town effect. Even in this case, purchase for land value or any other price by the State represents a subsidy to other building owners. Purchase and subsequent bulldozing by the State represents destruction of wealth.

This subsidy is directly paid for by:

- businesses that use rented commercial space;
- customers of businesses that use rented commercial space;
- employees of businesses that use rented commercial space;
- investors in businesses that use rented commercial space;

through higher rents, higher prices and/or fewer products available, fewer jobs available and decreased returns on their investments.

The subsidy is also indirectly paid for by all the citizens of the state through the opportunity cost of the program. This cost is the value of the lost benefits of the other programs that could have been funded with the revenues spent on the purchase of commercial real estate. Opportunity costs arise because the State has a limited amount of money to spend. Any money spent to purchase commercial real estate reduces the amount available to spend on other programs. The foregone benefits of these lost or reduced programs are, therefore a cost associated with the proposal.

One estimate of the potential size of this opportunity cost is 25% to 35% of the \$292.3 million in past due & non-accruing commercial

real estate loans plus the 165.2 million in foreclosed real estate owned by banks identified by the Governor's Office of Management and Budget (1/4/88)¹. To place these numbers into perspective consider that this \$115 million to \$165 million represents two to three times the FY88 authorization to the Municipal Assistance program². State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

Both the direct and indirect costs will be imposed upon the State economy even if it is the lowest quality space that is taken off the market since this will keep rents higher than necessary and could well keep many start-up businesses from ever making it. Actual estimation of the net costs and benefits of higher rents for commercial space would require a difficult and, due to data availability problems, perhaps impossible, empirical study. It is likely, however, that since the proportion of businesses that rent space is greater than the proportion that own space, the losses of the losers from higher rents will more than offset any gains to the gainers.

Further if, as is likely, the income of commercial real estate investors is higher than the average income of the rest of the population of the state then the leakage to Federal income taxes will be greater than if the funds were used in alternative ways. It may also be more likely that commercial real estate owners will spend incremental income on out-of-state travel and other out-of-state goods and services. Additionally, to the extent that buildings are owned by out-of-state individuals or corporations, this leakage from the economy is increased.

It has been argued that the owners of other buildings will be unable to compete with buildings sold at distress sales. It is true that market conditions are causing building owners to accept reduced returns on their buildings as rents fall. On the other hand, if current owners believe that prices at any potential distress sale will be so low that they will be unable to compete, they have the option of purchasing the distress priced buildings themselves. This option will allow the owners of other buildings to minimize the reduction in their revenue.

In summary, the outcome of a State program to reduce excess capacity in commercial real estate will be to keep rents higher than they would have been in the absence of such a program which will, in turn, drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, implementation of this type of program will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment

period and delay the process of economic recovery. Banks and owners of commercial real estate will be the beneficiaries of this program while the costs will be borne by all the other citizens of the State.

FOOTNOTES

1. Memorandum to Mary Holloran, "Commercial Real Estate Background Report", R.A. 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

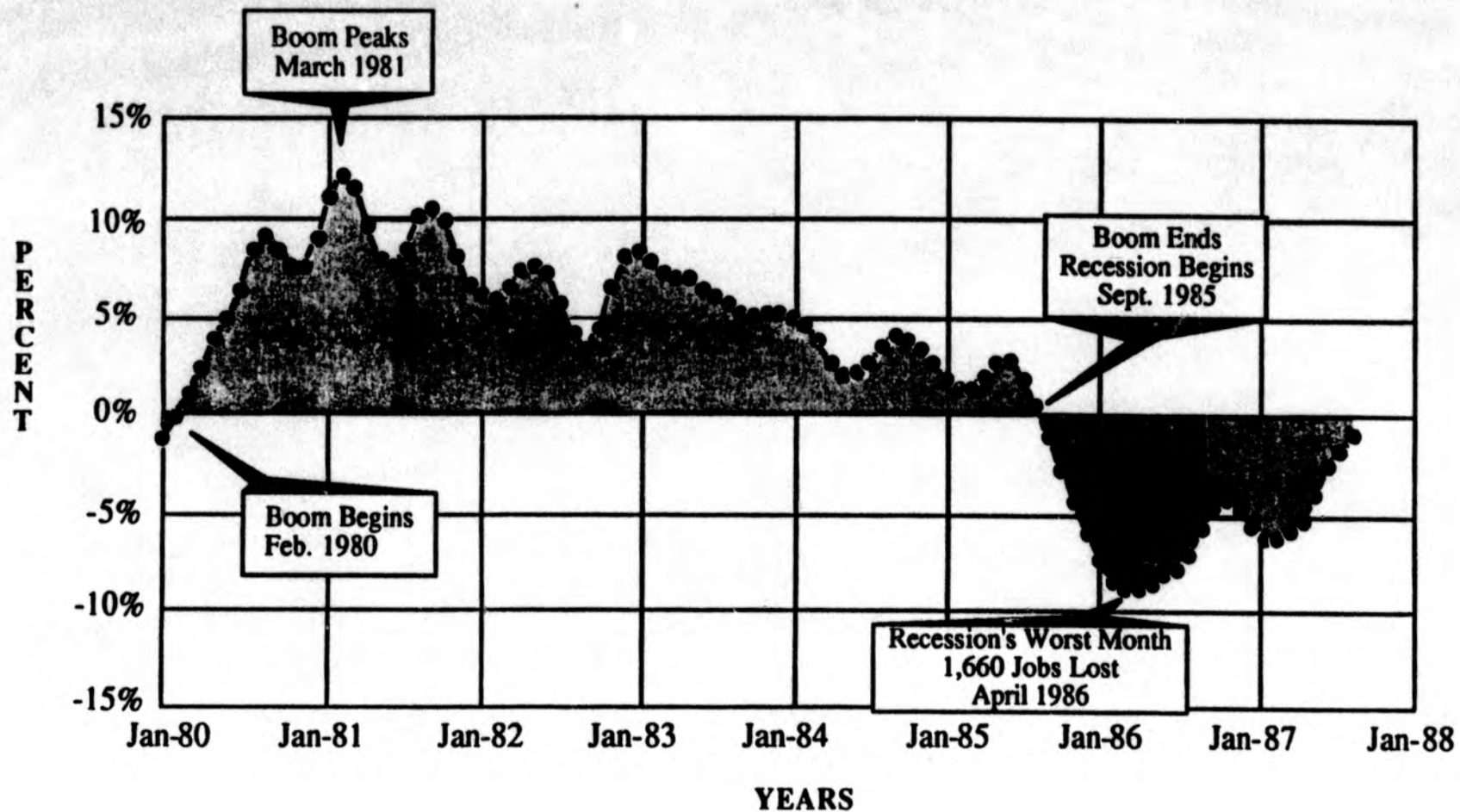
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. *When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.* Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott Goldsmith,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

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 of that space is renter occupied and that monthly costs have declined by \$0.75 per square foot from their levels three years ago, the business renter dividend in Anchorage is over \$80 million per year, the equivalent of another 1,600 additional jobs in the Anchorage economy.

Declining real wages have hurt household purchasing power, but they've provided business with a powerful competitive boost, and many have taken

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

⁶ The calculation assumes an average annual salary of \$35,000, and a personal income multiplier of 1.30.

advantage of it. Oil companies can now make money in fields like Kuparuk with wellhead prices as low as \$3.50 per barrel, and Alaska petroleum construction contractors are starting to bid fabrication work away from competitors in Oregon or Korea. Space rental and labor are the biggest cost items in many service and support sector businesses, so declines in these costs are particularly important to holding on to the recent growth in these sectors. Alaska retailers have also been helped by declining transportation charges. According to Greg Carr, of Carr's Quality Centers, these factors together contributed to narrowing the differential between grocery costs in Alaska and Seattle, a differential which he believes is now only about 3 percent. This has also produced a "dividend" for all residents.

The full ramifications of these changes cannot be predicted, but they suggest structural resilience and adaptability in the Alaska economy. These are good attributes for any economy, and especially valuable traits in a period of economic uncertainty.

The Real Estate Crash

The economists haven't completely ignored the \$8 billion or so in Alaska real estate values lost over the past two years.⁷ ISER economists recently studied the Anchorage housing market for the Alaska Housing Finance Corporation; they said to expect further declines in values, especially in Anchorage. Nevertheless, there is wide agreement among Alaska economists: *The real estate crash will tend to stimulate economic growth in Alaska.*

The reason is jobs. A bankrupt real estate investor has minimal impact on employment, but a bankrupt hardware store may signify a real loss in jobs. The real estate crash makes it hard for real estate investors, but it makes it easier on hardware store by lowering its costs. This mean the store is more competitive, which means more business and more jobs, so the real estate crash means employment is likely to grow. What if the investor also owns the hardware store? No problem -- the investor sells the business to cover his losses. The new owner pays more attention to the business, and with lower occupancy costs becomes more competitive. Because it means more jobs, the real estate crash is good for the Alaska economy, however difficult it may be for individuals.

Given this view, economists tend to be skeptical of schemes to rescue the economy by spending public money on real estate. Indeed, they express considerable skepticism about any *economic* justification for trying to prop up the real estate market. Part of this skepticism arises from growing doubts

⁷ The loss in Anchorage private real property values has already been \$5 billion; making allowances for the losses elsewhere in the state, the likelihood of further losses, and losses of "going concern" values, \$8 to \$10 billion is a reasonable guess for the toll the recession has taken on the value of Alaska assets. Outside investors, mortgage insurance companies, and the federal deposit insurers have absorbed a major part of this, however.

concerning state government's institutional suitability for managing economic change in general. "It seems very clear to me now that politics and the kind of hard objective decision-making needed...will never be reconciled," writes Dr. Reaume, formerly chief economist in the state Department of Commerce and Economic Development and formerly a leading advocate of aggressive government action to achieve development. Professor Hayden Green's skepticism is more concrete: "Some of the same people who recommended we spend ourselves into this nightmare are now telling us that they can get us out by using the same concoction that made us sick as medicine to heal us...."

The Dissenters

One expert who disagrees with this generally upbeat view of the economy is Scott Hawkins, formerly chief economist with Alaska Pacific Bank and now executive director of the Anchorage Economic Development Corporation. He believes that the real estate collapse and repercussions in the banking sector have "given Alaska a bad name" among outside banks that had been providing loans for Alaska development or were thinking of coming in. "It will be ten years before some of those [institutions] consider coming back to Alaska," Hawkins predicts. He argues that the resulting lack of capital is likely to cause retarded development.

Some economists are concerned that mergers will increase the share of the state's banking business controlled by the two or three largest institutions, possibly causing reduced competition in credit markets. Nevertheless economists apart from Hawkins discount "capital shortage" as a significant drag on development. Less money is flowing to the state now than two years ago, just as Hawkins suggests, and outside banks that thought they saw opportunities here, now probably see the issue differently. But it is important not to confuse cause and effect. Less money is being invested in Alaska because there are fewer opportunities for profitable investment, not the other way around. It is a situation that is not likely to change for several years, at least as far as the kind of lending that outside banks did during the boom. Their loans went largely to build shopping malls, offices, and homes, all of which are now in oversupply in urban Alaska. Meanwhile, deposits in Alaska banks have declined by less than 3 percent during the recession. Opportunities to make profitable loans, on the other hand, have declined much more significantly. The result is that *Alaska bankers are scrambling to find creditworthy loan customers*. "If someone with a serious business proposition comes through my door, I can assure you that person will have no difficulty in getting what he needs," said one Anchorage banker. Juneau economist and business consultant Eric McDowell agrees: "If I had a money-making idea that required capital, I could get it in an instant. The problem is that there aren't that many opportunities out there right

now."

Hayden Green, professor of real estate at the University of Alaska at Anchorage, is the other notable dissenter from the consensus view, though not on the capital shortage issue. Green argues that the collapse in property values will cause Alaskans to feel less wealthy, and this will cause them to reduce their consumption of goods and services, including goods and services provided by other Alaskans. Declining demand will mean more layoffs, thus propagating and prolonging the recession.

In eco-speak this is a "wealth effect." It will have some impact, but economists don't generally expect it to be significant. Goldsmith notes that the stock market crash wiped out \$1 trillion in wealth overnight and has had little apparent effect on consumption. In interviews with Anchorage retailers, Seattle consultant Dr. Bill Mundy found that "stores...that sell non-discretionary items (such as groceries) indicate that sales [in the first half of 1987] are just about the same as a year ago or off some, but not dramatically as one might expect." Mundy also notes that employment in stores selling general merchandise didn't decrease at all from March 1986 to March 1987, and that food store employment actually increased. According to Professor Lee Huskey, co-author of ISER's recent study of the housing market, if people do respond with reduced consumption, items foregone will be heavily weighted toward items with low "Alaskan" content such as Hawaiian vacations and Cadillacs. "The effect will be very marginal."

What about the arguments that a state funded entity, a so-called vulture fund, is needed to buy up distressed properties and keep them off the market? The "Phoenix Fund" proposed by Hawkins would be designed to prevent...

an unnecessary acceleration of small business bankruptcies [and] the additional failure of Alaska financial institutions, which would set off another cycle of falling real estate values, rising foreclosures, business bankruptcies, job losses, population outflow, etc.

The fund would be run by Hawkins' Anchorage Economic Development Corporation.

Fundamental to this line of thinking is the assumption that Alaska economic development will be hurt by falling property values. Economists, as noted earlier, simply don't buy this idea because they think falling property values will on balance increase jobs. "The real estate collapse is tough on those who invested in property," says McDowell, "but for the economy at large it is of little consequence." According to Reaume, "the current real estate situation may have major positive ramifications on the economy. A 'buy out,' on the other hand, could induce mistakes in the future. It's a bad idea." Department of Revenue economist Al Zangri is specific:

" [a] state program to reduce excess capacity in commercial real estate...will

... drive business, employment, aggregate demand, and aggregate income lower than they would be in the absence of such a program. Furthermore, this will create an additional source of uncertainty in the economy as other interest groups exert pressure on the system to fashion their own 'bail out' program. This will further prolong the adjustment period and delay the process of economic recovery."

Connie Yoshimura, an Anchorage real estate broker, points out the shaky technical assumption underlying the vulture/Phoenix fund idea -- that purchasing distressed properties will stabilize the market for holders of other properties. The Anchorage market has seen a "distinct flight to quality." She argues that the demand for mid- and high quality property is largely independent of the demand for the low quality properties that constitute virtually all the distressed assets. According to Yoshimura, removing those assets by demolition might make sense as an urban renewal strategy, but will have no effect on prices or demand for anything except the the very lowest quality properties, most of which are already in foreclosure. Professor Green expresses similar concerns.

Loss of Confidence

Despite economists belief that the direct economic effects of the real estate crash will be positive, the regional recession in Alaska is at least partly beyond the range of economic experience. It is a reason for caution.

An event this encompassing could conceivably have non-economic effects that could feed back into the economic system in unanticipated ways. Anchorage real estate broker Chris Stephens has suggested that most severe effect of the market crash could be the loss of entrepreneurial talent. Most economists scoff at this idea. "Heck," ISER's Lee Huskey remarks, "lower costs are going to make it *more* likely entrepreneurs will succeed."

Arlon Tussing, a Seattle economist and frequent visitor, thinks the odds are good that the loss of confidence won't last very long or extend very deep into the fabric of Alaska society. So far, the evidence seems to favor this view. Anchorage's municipal demographer Michael Breedlove estimates that 59 percent of the households lost in Anchorage since 1985 have been male headed, non-family households, a category that accounts for only 18 percent of total households. Moreover, 80 percent of the population loss has been in 20-30 age group, and two-thirds of the loss is accounted for by males. These numbers don't suggest a broad-based exodus.

But what about the attitudes and intentions of those who remain? Population movements tend to lag changes in the economy, so a collapse of confidence could have already happened, with the resulting wave of out-migration only now beginning. As far as attitudes are concerned, the answers given by Dittman's Railbelt respondents don't reflect any sense of crisis: 44 percent say the economy will get better over the next two years,

compared with 16 percent who see things getting worse.

What about the 18 percent of Dittman's respondents who reported they were "very likely" or "quite likely" to leave Alaska within two years? For some observers the number was "shocking." Gregg Williams, the state's chief demographer, doesn't see it that way. "Every year, in good times and bad, about 15 percent of the people in Alaska leave. The [poll] results are about what I'd have expected." According to Dr. Williams, the number of people coming to Alaska is much more variable than the number leaving, and much more sensitive to economic conditions. Unfortunately, surveys of people already in Alaska, whether the results are "shocking" or "expected," tell nothing about the intentions of those not yet here. The guessing among experts like Breedlove and Williams is that population isn't in for any collapse in Anchorage, and certainly not in the balance of the state.

Alaska's Policy Options

Many of the experts who are saying there is no economic justification for using public money to prop up the real estate market are also owners of homes and other real estate. A few of them suggest that there may be some *moral* justification for state government involvement. "After all," one asked rhetorically, "doesn't everyone agree that the state government was responsible for getting us into this?" But even those who see a moral basis for state intervention sense that whatever state government's guilt, indemnification of those who have taken losses would be beyond its means. And proposals to assist only a segment of the market, say the commercial real estate market, are hard to take seriously when so many others have also been hurt. Indemnifying all Alaskans hurt by the real estate collapse would simply cost more than the state could afford.

Besides, excess capacity in investment goods and services (like construction) has dissipated, and it seems likely that the state will arrest the decline in public spending. If this happens, the recovery will occur regardless of what else the state does or does not do. That doesn't mean that prompt, informed government action would not save a lot of pain. Unfortunately, what the government should do, apart from not trying to corner the real estate market, is not nearly so clear. It would make sense to allow people to carry their negative equity along with them to a different house. Whether the public and private bureaucracies involved are able to handle these transactions remains to be seen. It doesn't make sense to have a moratorium on foreclosures. The rights of condominium associations may need to be strengthened. The policies and role of the state's lending agencies -- especially AHFC, need review. Millett Keller, an Anchorage business consultant, suggests that the real estate collapse provides Alaska communities with "opportunities to accomplish ... public sector projects at bargain rates," including acquisition of property for parks, greenbelts and rights-of-way for

future transportation facilities, assuming government can avoid carelessly mixing in subsidies and economic recovery. That may be an optimistic assumption, but Commerce and Economic Development Commissioner Tony Smith was surely on target when he testified that "we can't spend ourselves out of this one, we have to manage ourselves out of it."

Borrowed Time

With management -- and a little luck -- the real estate crash will do no lasting damage to Alaska's economy. Years hence Alaskans may look back at the recession and post-recession period as a time of renewal and opportunity. If so, it will probably be because Alaskans learned the lessons that this self-inflicted recession had to teach.

On this point, however, the returns are still to be counted. Alaska did cut its spending in FY 1985-88, but not enough to erase the fundamental imbalance that Drs. Goldsmith and Reaume first described ten years ago. In a speech early this year Goldsmith described the imbalance as a problem

which always takes a back seat to concerns which are more immediate or pressing, but it is the most pervasive issue we will face in the next decade. *In the long run the economy is still living on borrowed time.* We continue to artificially stimulate the economy by selling off the assets of the state -- our petroleum wealth. How we adjust to a sustainable level of government will affect us all as surely as this recession. [emphasis added]

Unless Alaska controls its public spending, the state will be buying a ticket to a rerun of its present recession. Showtime will be within the decade, and probably sooner.

Another old imbalance also remains. Alaska has developed a mature economy, but parts of rural Alaska have increasingly been left behind. Disparities in income, employment, educational success, health, and a host of other measures all are all widening. Some economists say that this is the kind of problem that economics shouldn't have much say in solving, but all agree that the growing disparities are already a drag on economic development *throughout* Alaska, and that these disparities will become an even greater burden in the future. Economic solutions that might work seem unacceptable on other grounds, and solutions acceptable on other grounds clearly don't work economically. It is a tough issue that won't be ignored.

Alaska's economist emeritus George Rogers wrote in 1962 of how many Alaskans subscribe to the view that economic forecasting "should be a projection of present hopes, that prediction should bolster self assurance. Forecasting in this view is only valid if it agrees with a popularly held dream of the future and makes its realization appear likely."

Today, economists' believe that the real estate collapse will not produce dangerous consequences for the economy as a whole. This view runs counter not to a popular hope, but to a popular fear. A lesson from the recession and

real estate crash may be that hopes and fears, like dreams, are better servants when they are firmly founded on a hardheaded respect for history.

Reference Notes (Incomplete)

If not otherwise cited, quotations are from personal conversations with the author.

Taxable Anchorage real estate values are from Phil Webber, municipal assessor's office, Municipality of Anchorage. Data on the number of Anchorage AHFC mortgages are from AHFC. State spending data are Division of Policy figures.

Goldsmith's seasonally adjusted employment figures have not been published, but are available from him or the author. Goldsmith's statement on the cause of the recession is from "Remarks to the Alaska Policy Forum," January 7, 1988.

The papers presented ten years ago to the Western Economic Association are "Fiscal Planning and the Long-run Growth Pattern of Resource Based Open Economies," by Goldsmith, and "Alaska Financial Planning and the Permanent Fund," by Reaume, both dated March 1978.

For more on Caldwell's and his Department of Labor research staff's view on the end of the recession, see Edward Eboch, "Alaska's Employment Scene," *Alaska Economic Trends* January 1988. Reaume's recovery estimate is found in his article, "One More Year of Employment Decline," *Alaska Construction and Oil Report*, January 1988. He thinks despite the expected upturn in late 1988, average employment figures for the year will be down. Goldsmith's predictions are found in his Alaska Policy Forum remarks. Also see "Can State Spending Speed Alaska's Economic Recovery," December 8, 1988, by Goldsmith and Gorsuch, research memorandum prepared for Governor Cow

The Dittman survey data is found in *Railbelt Economic Assessment Survey*, January 1988, by Dittman Research Corp. The Anchorage demographic information is from the *1987 Anchorage Population Profile*, December 1987, prepared by Breedlove, et al, in the Community Planning Department, Municipality of Anchorage. It is an extraordinarily useful document.

Figures on total available office space figures are from Norman Rokeberg, Jack White Realty. Retail space figures are from Alaska Valuation Services, Fred Ferrara, president, as provided by Connie Yoshimura in testimony to the trustees of the Alaska Permanent Fund, February 10, 1988.

The Greg Carr quotation is from an Associated Press story datelined Fairbanks, December 2, 1987.

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

Memo to AHFC Board of Directors
Re: Willow Park/Hollywood Vista
March 8, 1988
Page 2

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

*Rev
FVI*

TO: Commissioner Hugh Malone
Department of Revenue

FROM: Representative Kay Brown *Kay*

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 Municipality's agreement to raze the complex within two years of title acquisition. The Municipality 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

Office Room Discussion

10

10

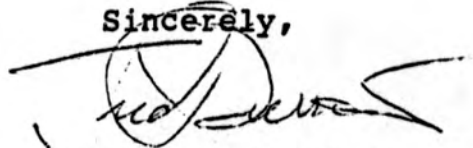
Alliance Bank

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

**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: 663-89-0438

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

Ronald D. Lehr, Executive Director
Alaska Housing Finance Corporation
663-88-0433

April 4, 1988
Page #2

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 AS3A. 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.

We hope this memorandum answers your questions.

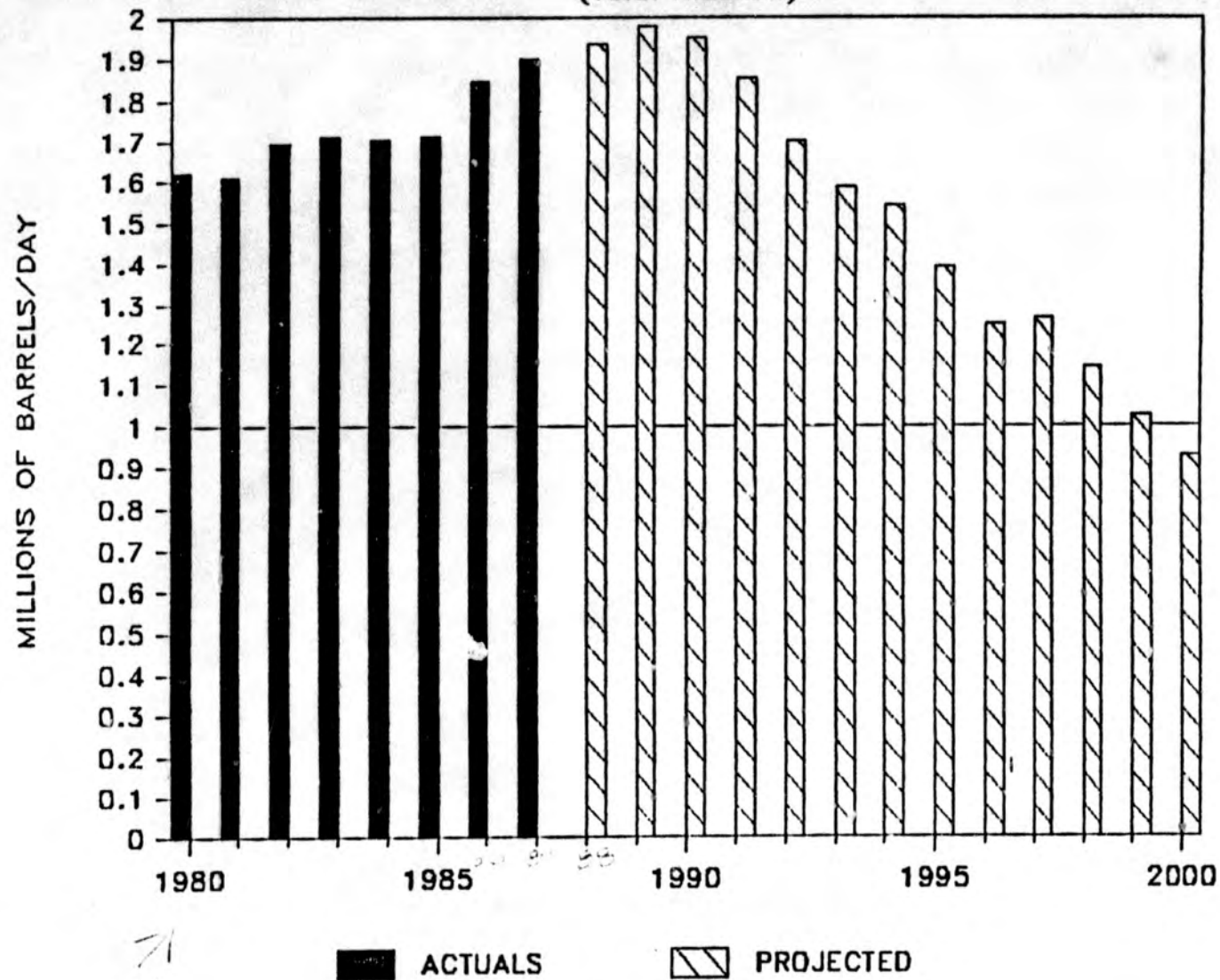
ULR/pjg

Does not fit
AHFC to financial
prudence standard

FIGURE 2

PETROLEUM PRODUCTION PROJECTIONS

(Total Alaskan)



Per m + barrel

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 \$)

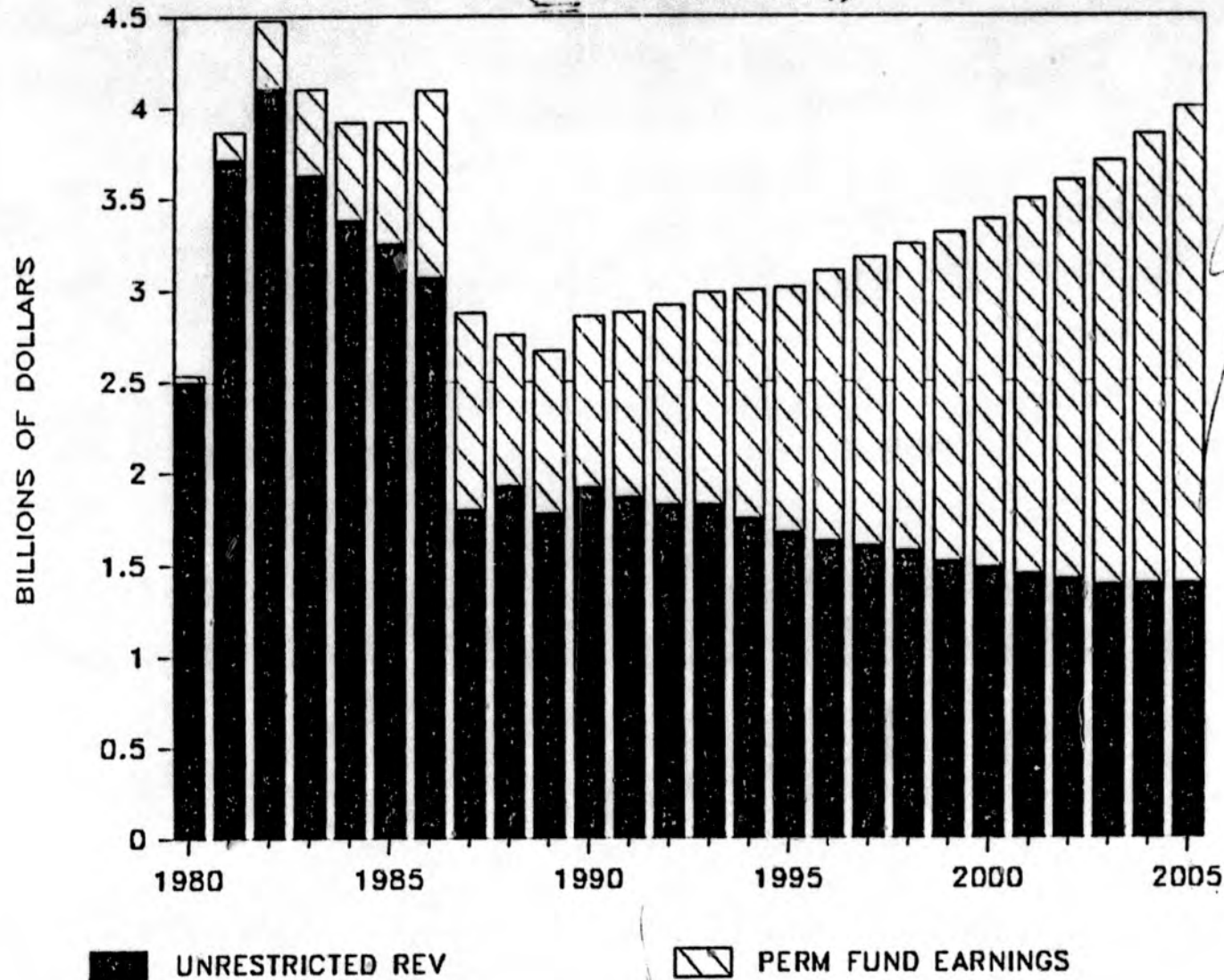


TABLE 5A
ACTUAL & PROJECTED TOTAL REVENUES
(30% Case/Nominal \$)

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 \$)

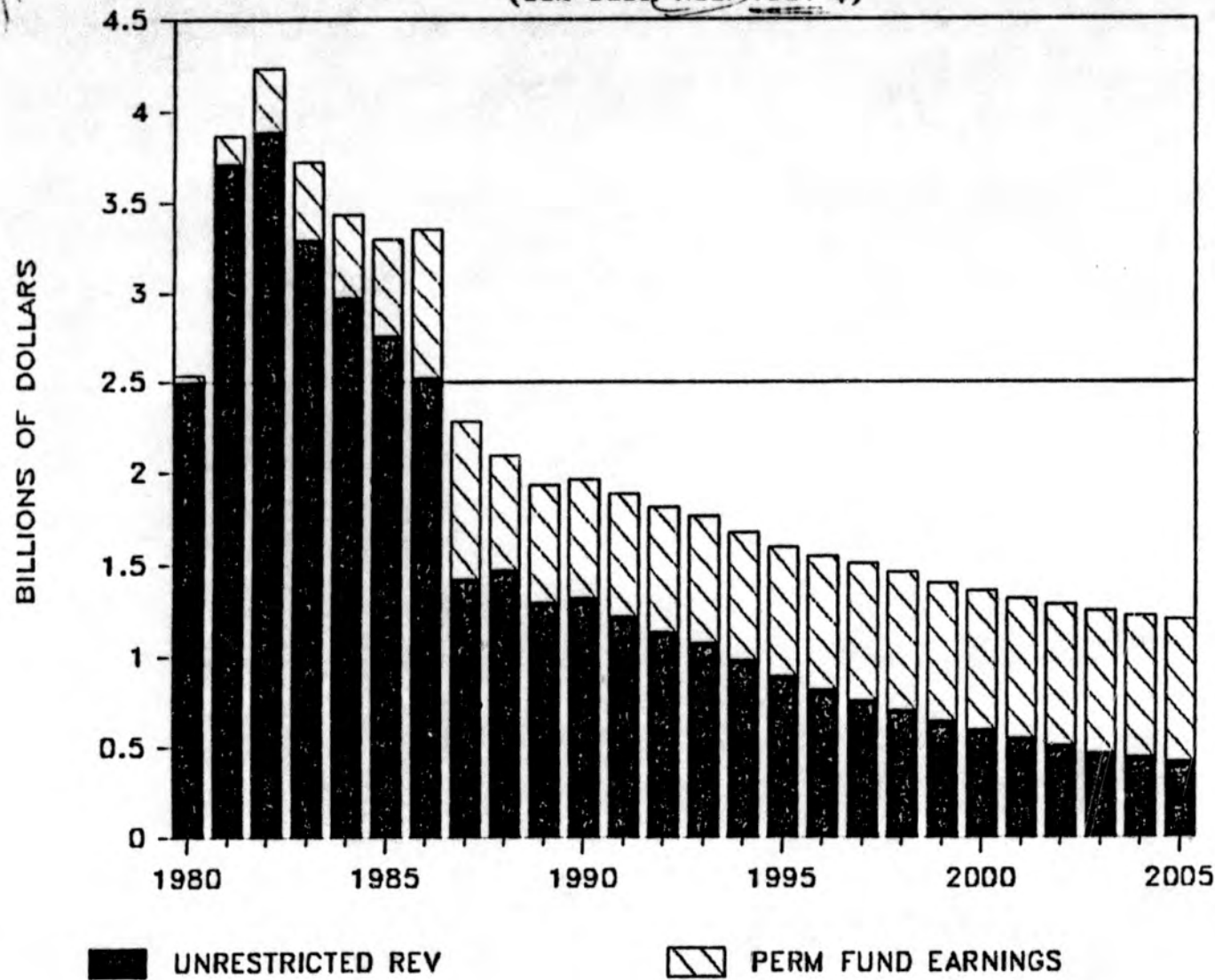
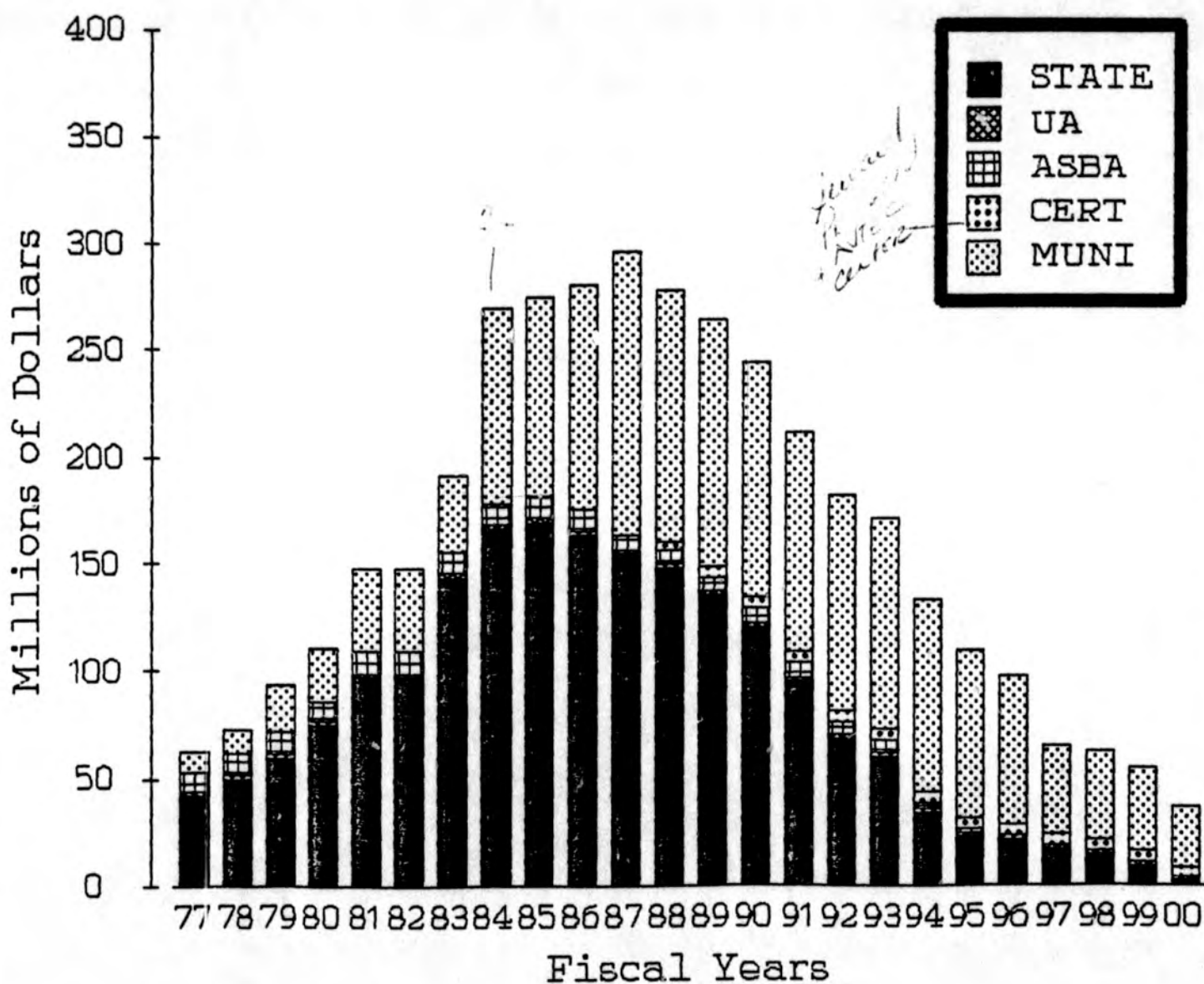


TABLE 5B
ACTUAL & PROJECTED TOTAL REVENUES
(30% Case/Real 1981 \$)

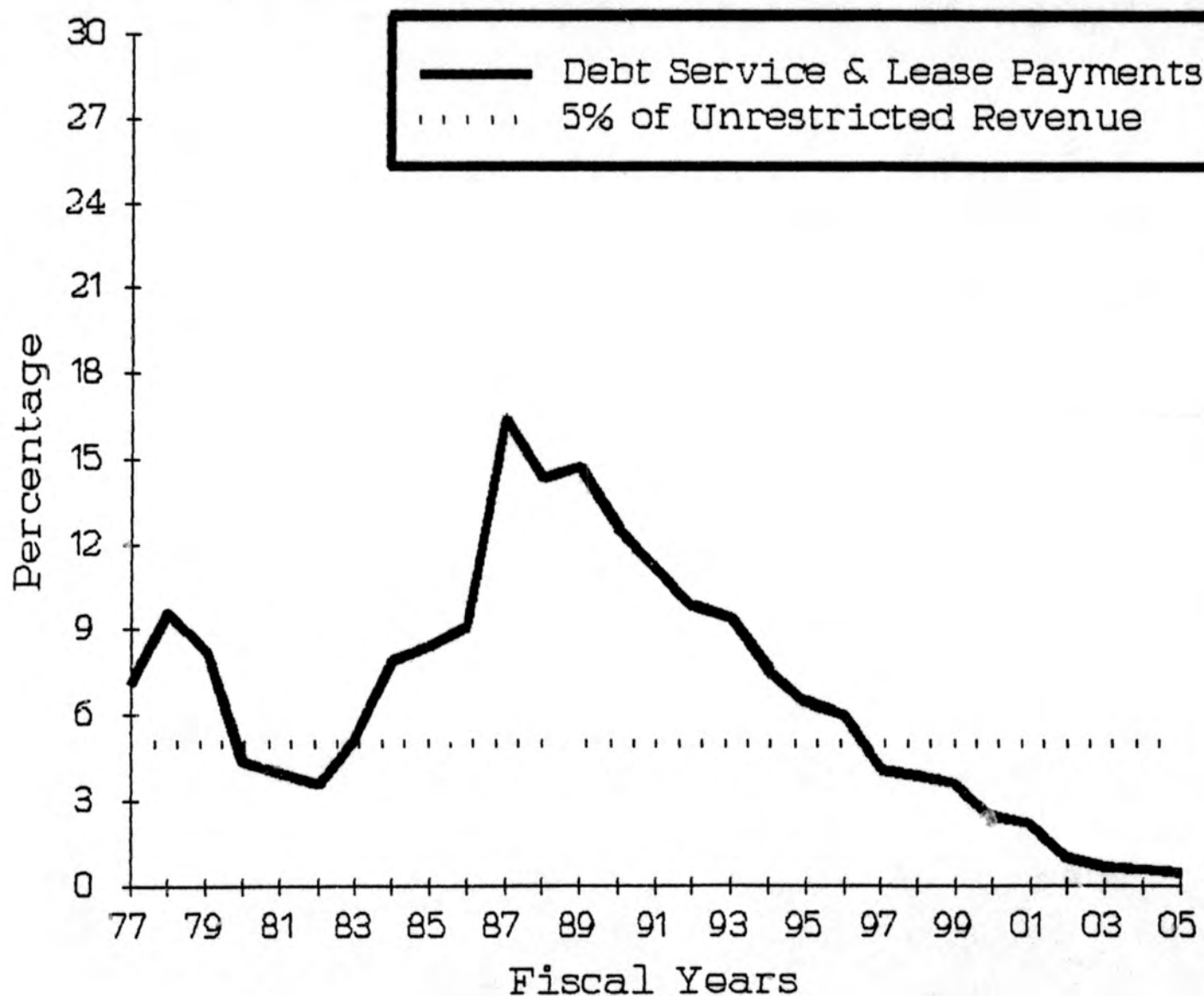
FISCAL YEAR	GENL FUND UNRESTRICTED REVENUES	PERM FUND EARNINGS	TOTAL REVENUES
1980	2.501	0.032	2.533
1981	3.718	0.150	3.868
1982	3.891	0.349	4.240
1983	3.298	0.428	3.726
1984	2.968	0.464	3.432
1985	2.746	0.554	3.300
1986	2.517	0.836	3.353
1987	1.429	0.849	2.278
1988	1.473	0.618	2.091
1989	1.296	0.638	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



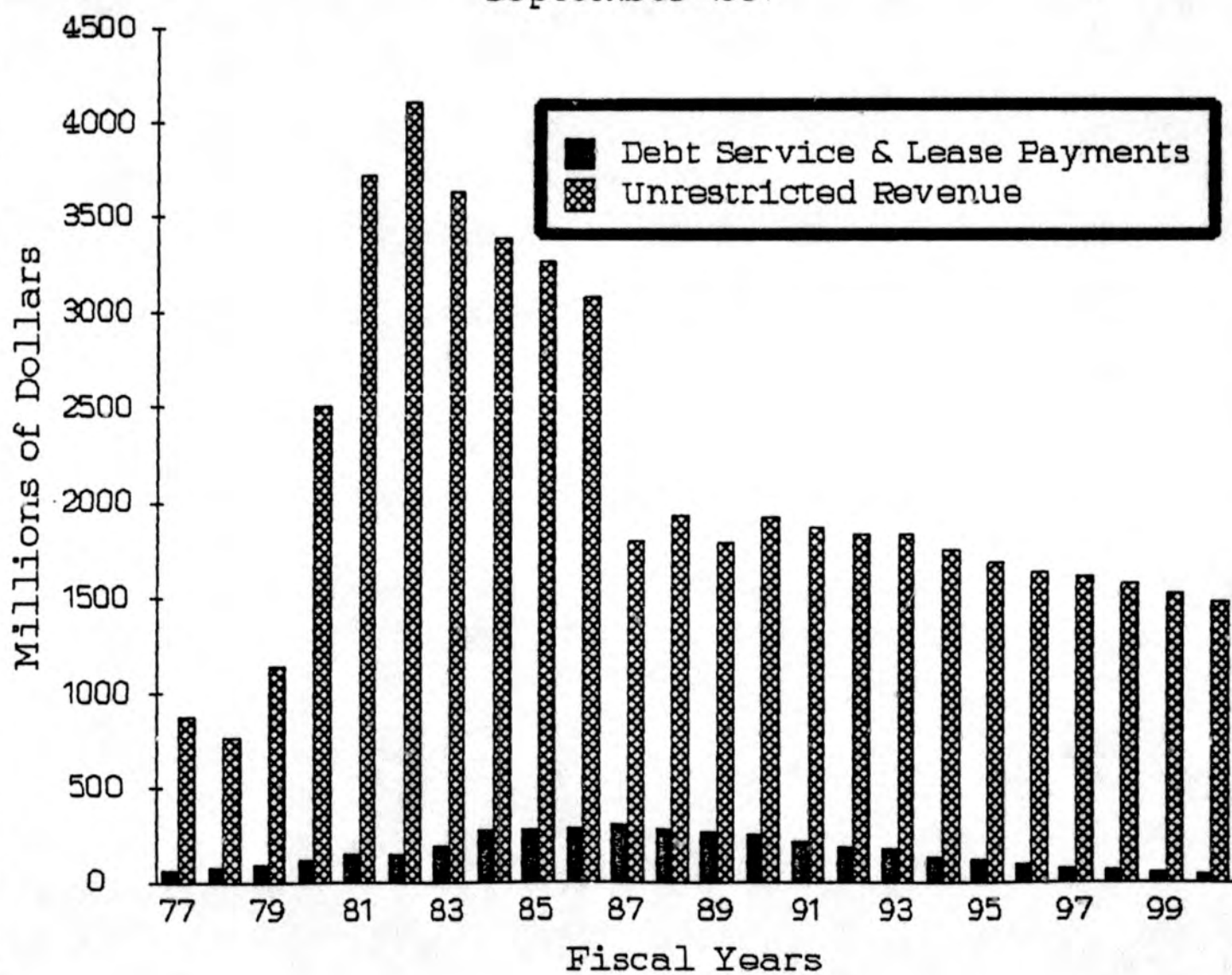
Debt Service as % of Revenue

September 1987



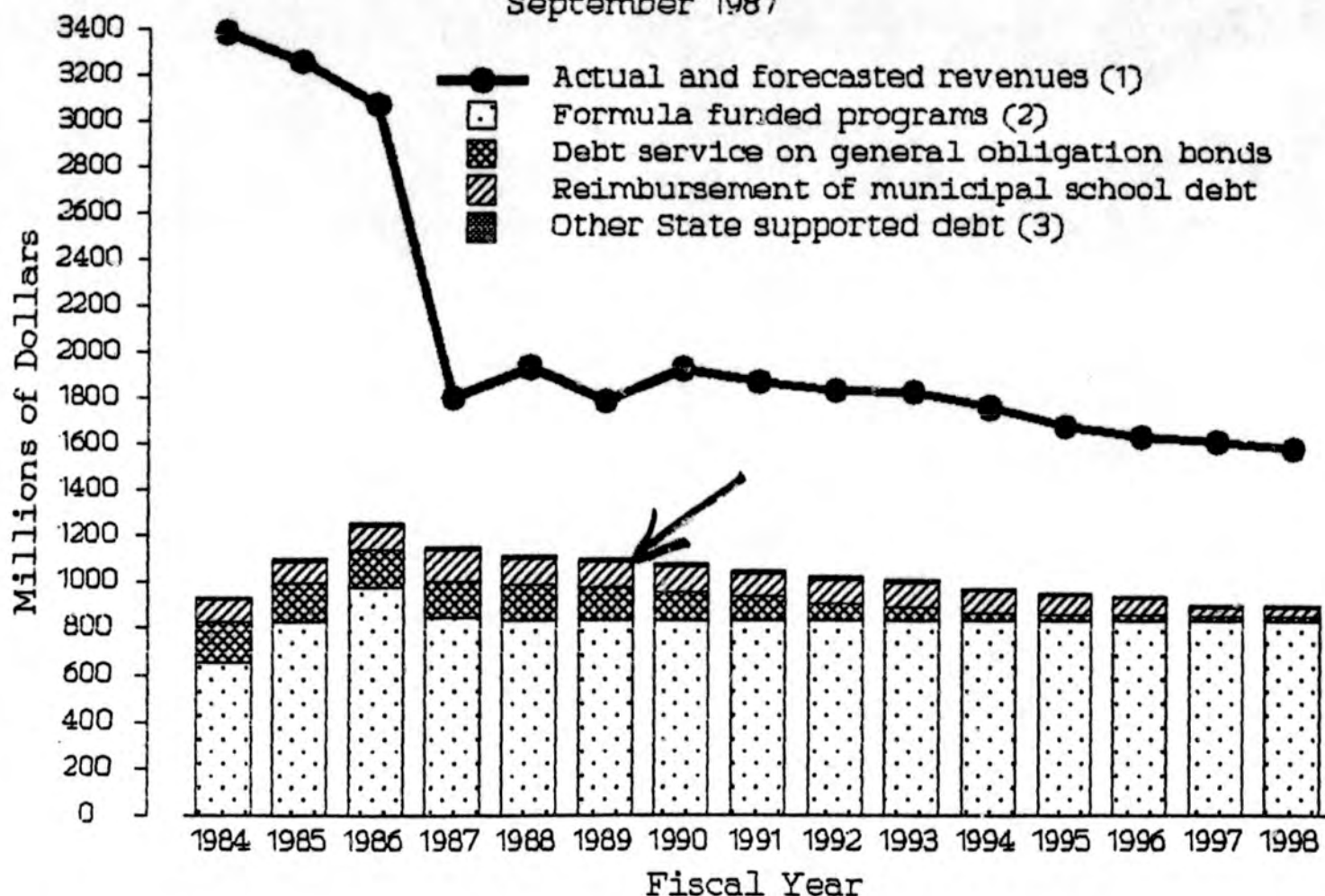
Debt Service vs. Unrestricted Revenue

September 1987



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	0	0	9.0	62.3	7.1%
78	764.9	50.0	6.5	1.7	.2	10.1	0	0	11.4	73.2	9.6
79	1133.0	60.0	5.3	1.7	.2	10.1	0	0	22.3	94.1	8.3
80	2501.2	75.1	3.0	1.8	.1	10.1	0	0	24.1	111.1	4.4
81	3718.2	97.6	2.6	2.2	.1	10.0	0	0	38.4	148.2	4.0
82	4108.4	97.5	2.4	2.3	.1	10.0	0	0	38.3	148.1	3.6
83	3631.0	143.6	4.0	2.3	.1	9.9	0	0	36.2	192.0	5.3
84	3390.1	166.3	4.9	2.0	.1	9.9	0	0	91.2	269.4	7.9
85	3260.0	169.5	5.2	2.0	.1	9.9	.8	0	92.8	275.0	8.4
86	3075.0	163.2	5.3	1.8	.1	9.9	.5	0	105.3	280.7	9.1
87	1798.7	154.9	8.6	1.8	.1	6.5	.7	0	132.5	296.4	16.5
88	1934.2	147.9	7.6	1.7	.1	6.5	3.7	.2	118.1	277.9	14.4
89	1784.3	135.5	7.6	1.8	.1	6.5	4.8	.3	115.8	264.4	14.8
90	1925.1	120.3	6.2	1.7	.1	6.5	5.2	.3	110.2	243.8	12.7
91	1870.5	95.5	5.1	1.7	.1	6.5	5.2	.3	102.9	211.7	11.3
92	1834.5	68.2	3.7	1.7	.1	6.5	5.2	.3	100.9	182.5	9.9
93	1829.0	59.7	3.3	1.7	.1	5.9	5.2	.3	98.9	171.3	9.4
94	1757.5	33.9	1.9	1.5	.1	3.1	5.2	.3	89.1	132.8	7.6
95	1682.5	23.1	1.4	1.5	.1	1.5	5.2	.3	78.6	109.9	6.5
96	1631.7	21.5	1.3	1.5	.1	0	5.2	.3	69.5	97.7	6.0
97	1610.3	16.7	1.0	1.5	.1	0	5.2	.3	42.1	65.5	4.1
98	1577.0	14.4	.9	1.5	.1	0	5.2	.3	41.1	62.2	3.9
99	1522.0	9.0	.6	1.5	.1	0	5.2	.3	39.2	54.9	3.6
00	1484.2	2.6	.2	1.5	.1	0	4.3	.3	28.6	37.0	2.5
01	1452.1	0	0	1.0	.1	0	4.3	.3	26.7	32.0	2.2
02	1423.5	0	0	.4	0	0	4.3	.3	9.1	13.9	1.0
03	1393.1	0	0	.3	0	0	4.3	.3	4.6	9.2	.7
04	1397.4	0	0	.2	0	0	4.3	.3	3.4	8.0	.6
05	1400.8	0	0	.1	0	0	4.3	.3	2.6	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.



FORTUNE

8am 'til 9pm Every Day

562-7653