

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1560 SCOMM 59. JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1357

Residential Homes For Sale By Price Range Multiple Listing Service

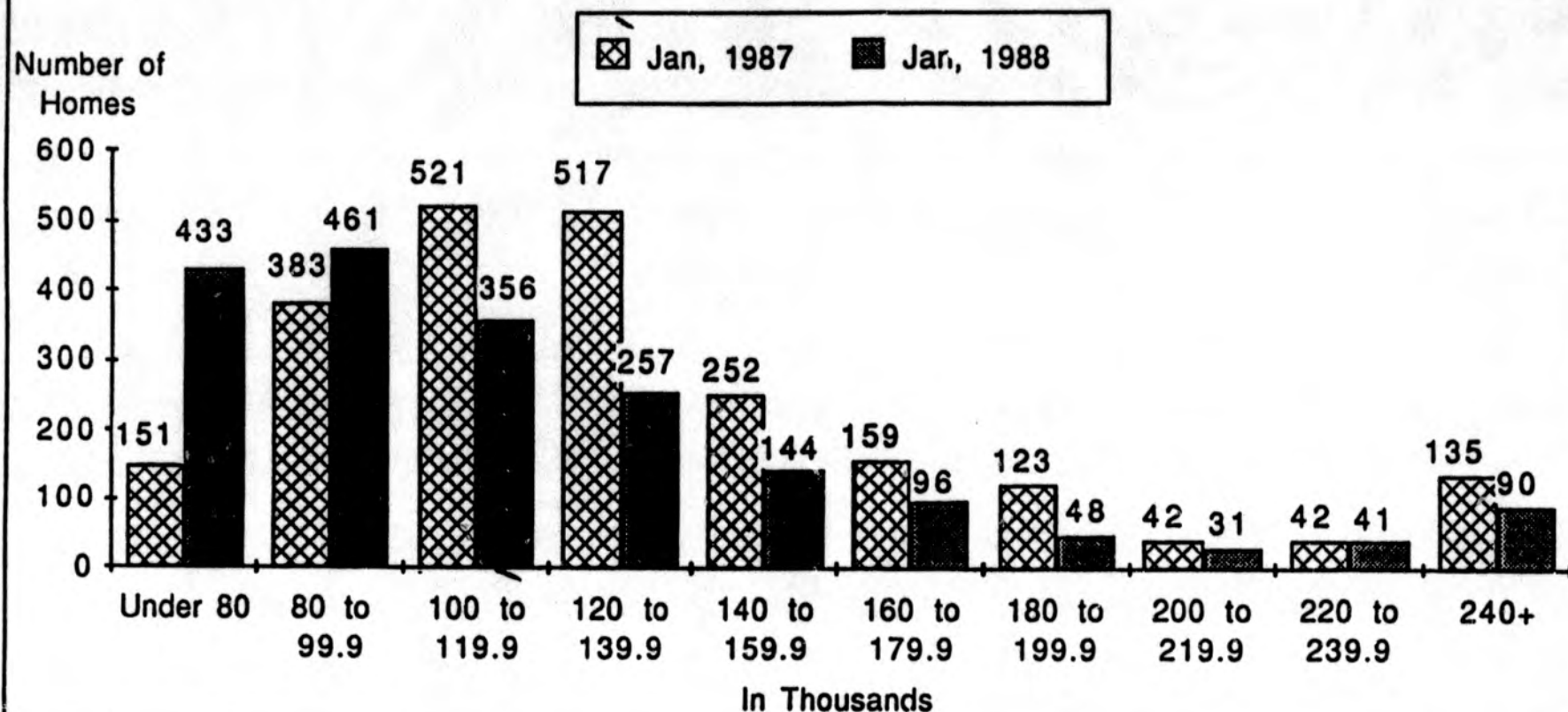


Chart Preparation: FORTUNE PROPERTIES, INC.

Condominium Active Units For Sale By Price Range Multiple Listing Service

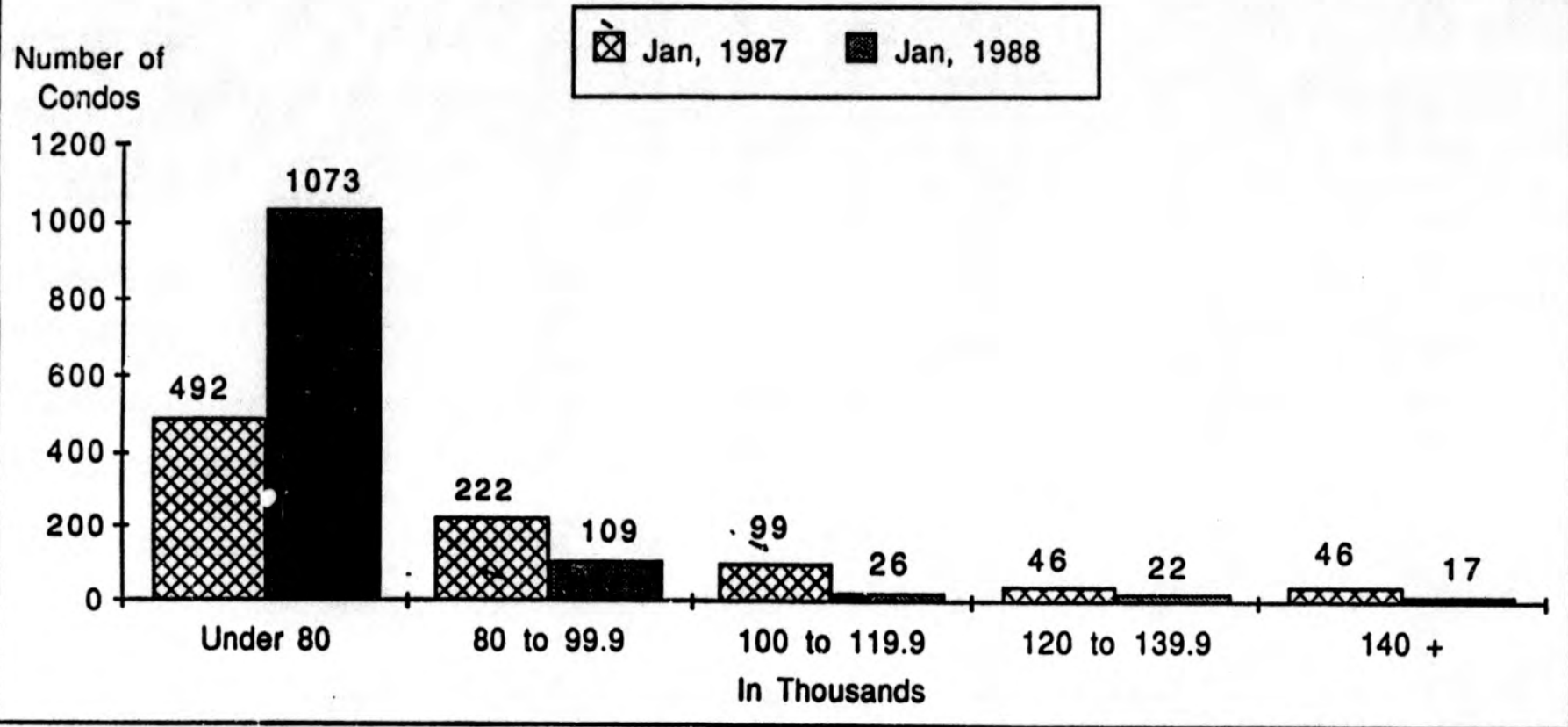
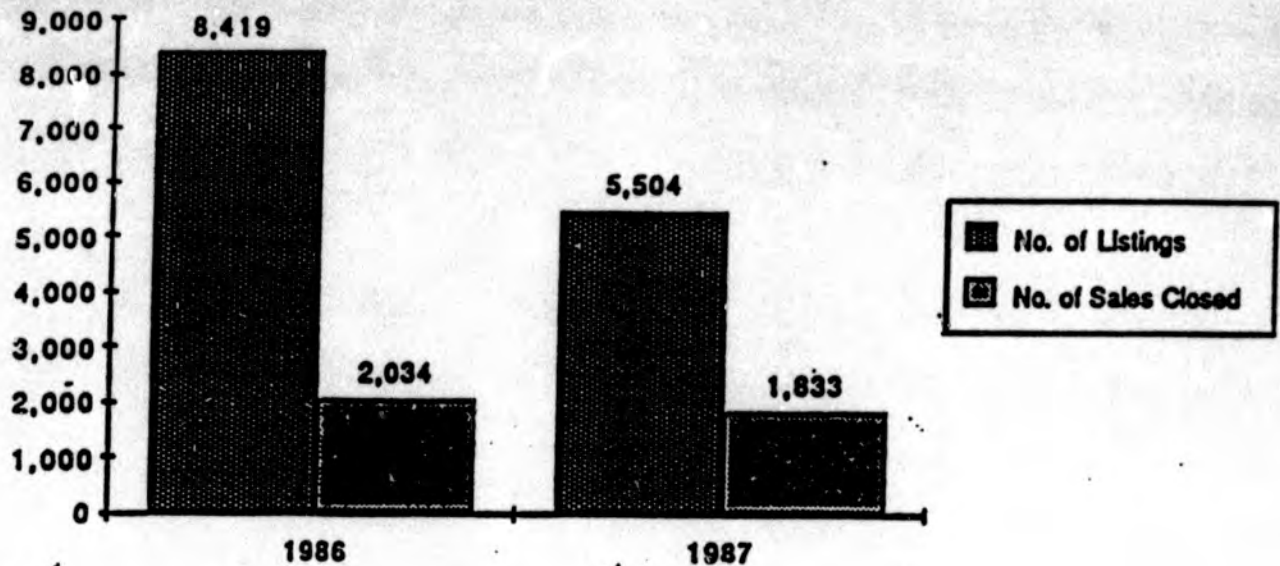


Chart preparation by: FORTUNE PROPERTIES

Residential Inventory and Sales 1986 vs. 1987



35% decline in inventory vs. only a 10% drop in sales units.

Source: Multiple Listing Statistical Year End 1987

COMMENTS:

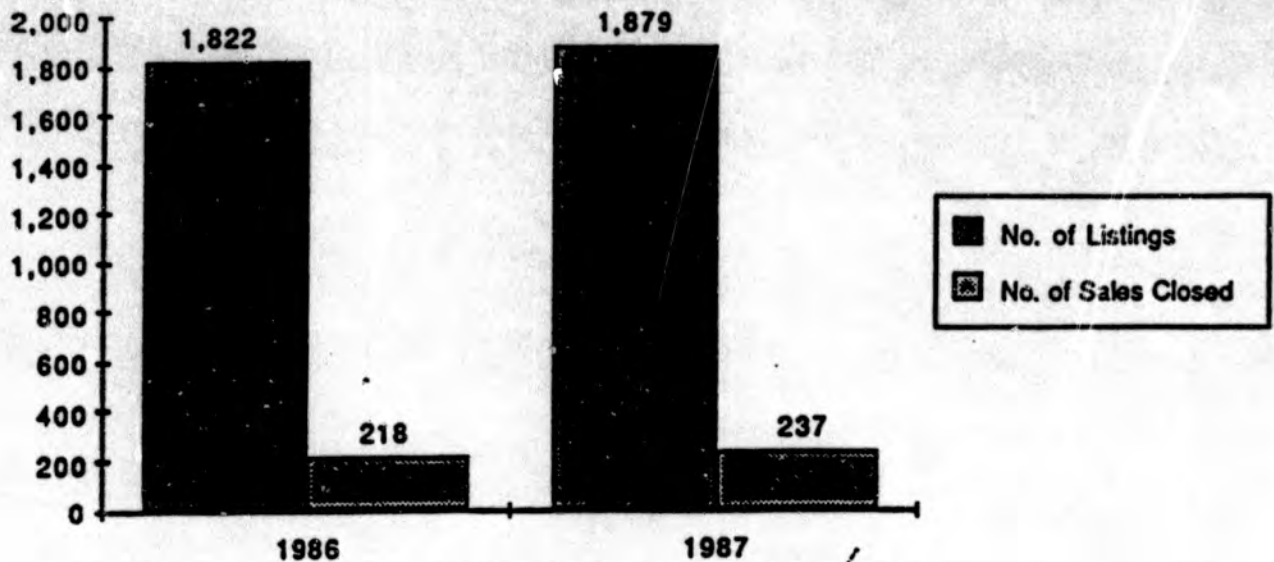
If there is any good news in the Anchorage real estate market, it is the fact that residential inventory (classified as single family and zero lot line properties) had a significant 35% drop in number of units available.

This figure is particularly significant in the fact that sales, measured by unit count, and not dollar value, declined by only 10%. This indicates a fairly healthy absorption of property in Anchorage.

There is no problem selling property in Anchorage according to these statistics. The only problem is in the value that is obtained for residential properties. This value, however, has indicated considerable stability and it is anticipated that little, if any, further decline will take place in value for single family and zero lot lines.

This market, if left alone, will continue its absorption. There is no recommended action for the single family and zero lot line market. Given all the economic circumstances of the times, it is functioning well.

Condominium Inventory and Sales 1986 vs. 1987



Inventory Increased 4%; Sales Volume Increased 9%

Source: Multiple Listing Service Year-End Statistics

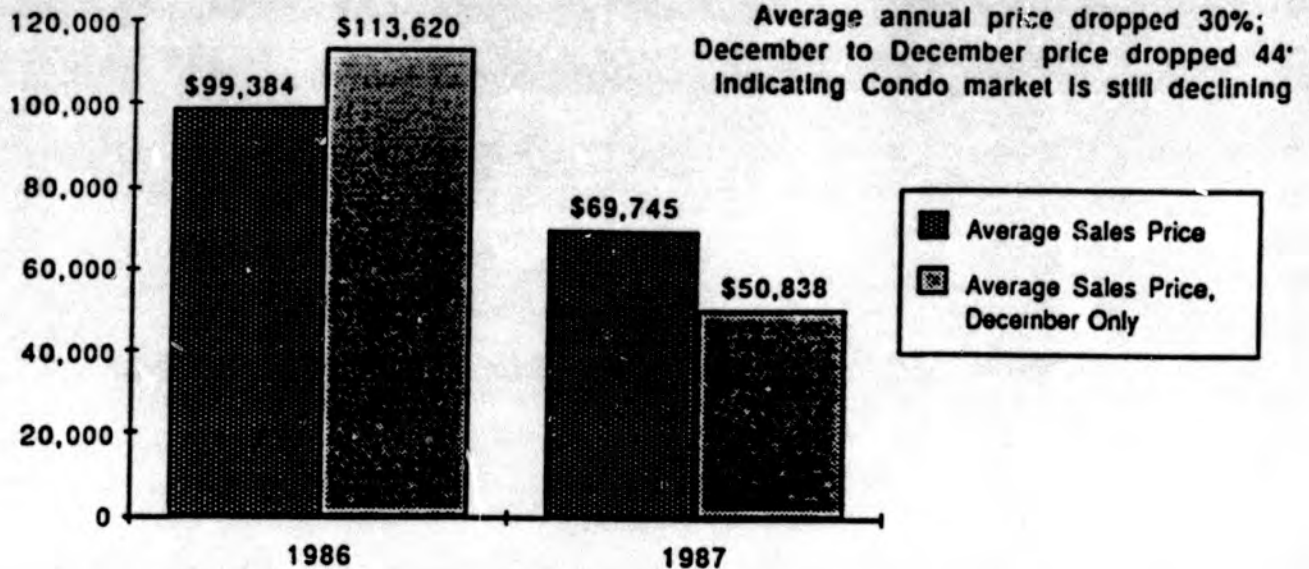
COMMENTS:

From the above chart, it is obvious that the condominium market is virtually stagnant. Neither inventory nor sales have increased or decreased a significant amount.

It is an interesting note, however, which is not on the graph that closed sales for the month of December 1987 was exactly double that of 1986, or 34 compared to 17. Doubling the number of closed condominium sales is admirable, which was accomplished primarily through the marketing efforts of MGIC, but it does not address the basic problem of oversupply. Other action must be considered.

At the current absorption rate, assuming no new inventory, there is a nine year supply of condos within the Municipality of Anchorage.

Condominium Sales Prices 1986 vs. 1987



Additional Information: 17 Condo Closed Sales In 1986;
34 Closed Condo Sales In 1987

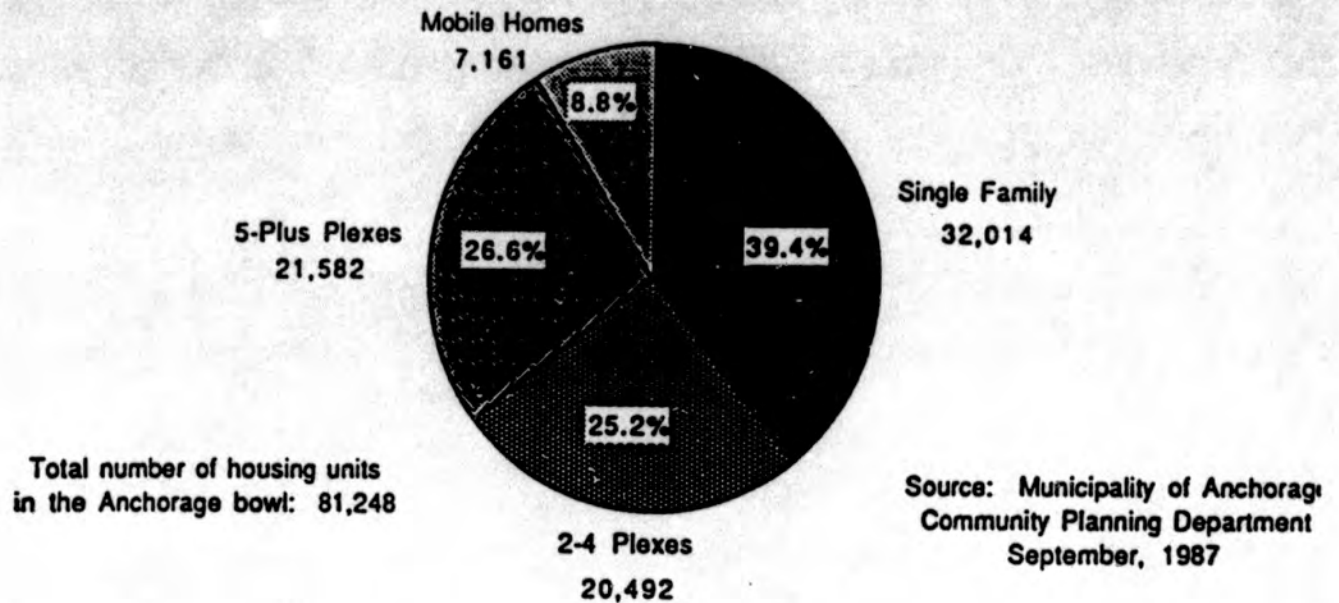
Source: Multiple Listing Service Year-End Statistics

COMMENTS:

By comparing December 1986 to December 1987, it is obvious that the condominium market is still in its downward spiral. The year end statistics show a drop of 30% in value from 1986. However, the December comparison shows that the drop is 44%. Since the December statistic is not averaged and is the most current, it is obvious that the present value is 44% of last year's value and not the 30%.

There is no reason to think with the oversupply that exists that all condominiums will not continue to decline in value unless steps are taken to take properties off the market, either through warehousing or rentals.

1987 Population and Housing Unit Statistics Housing Unit Types

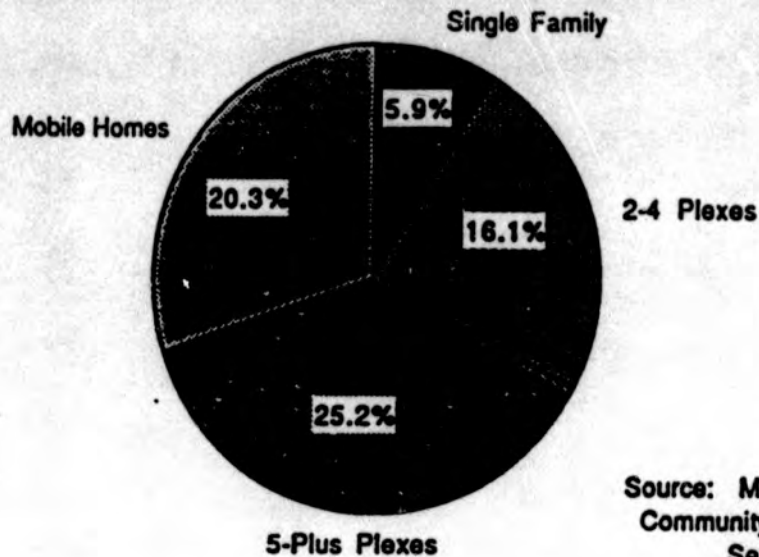


COMMENTS:

Nobody knows for sure how many condominiums there actually are in Anchorage, Alaska. The reason for this is that the Municipality of Anchorage counts housing units by physical building type. This means that condominiums fall within the 2-4 plex category, if they are in a building of that size or in the 5-plus category if located in a larger structure. The majority of condominiums fall within the 5-plus structures.

AHFC has over 7,000 condominium loans, the vast majority of which are in Anchorage. Condominiums could probably best be counted by taking a survey of investors because most condominiums were financed at the time of purchase.

1987 Population and Housing Unit Statistics Census Vacancy Rates--Anchorage Bowl



Source: Municipality of Anchorage
Community Planning Department
September, 1987

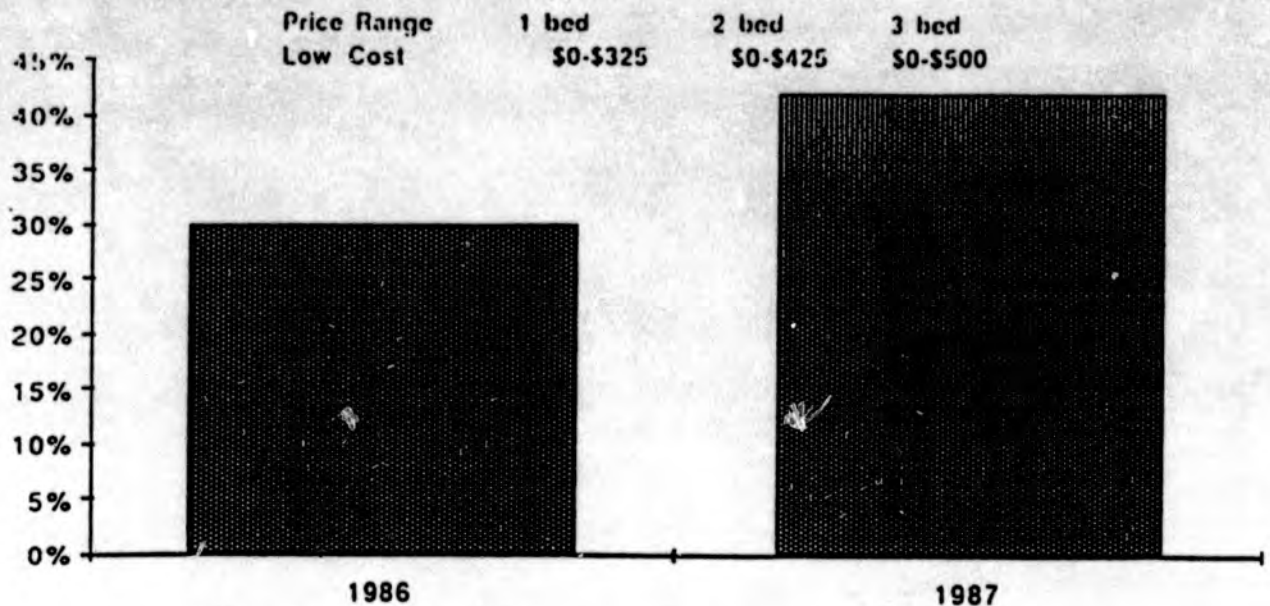
COMMENTS:

This pie-chart shows a 25% vacancy in the 5-plus category, which demonstrates that renters prefer to live in as low a density as possible.

This chart measures physically vacant properties which were inspected by the Municipality during the second quarter of 1987. As you can see, it indicates all product type.

The overall vacancy for the Anchorage bowl is 14.9% taking into consideration all product type. The chart breaks down this overall vacancy into percent of product type.

Fourth Quarter Low Cost Apartment Vacancy Rates 1986 vs. 1987



There has been a 40% Increase in low cost apartment vacancies.

Source: Shorett and Riely Appraisers, Ken Kincaid

COMMENTS:

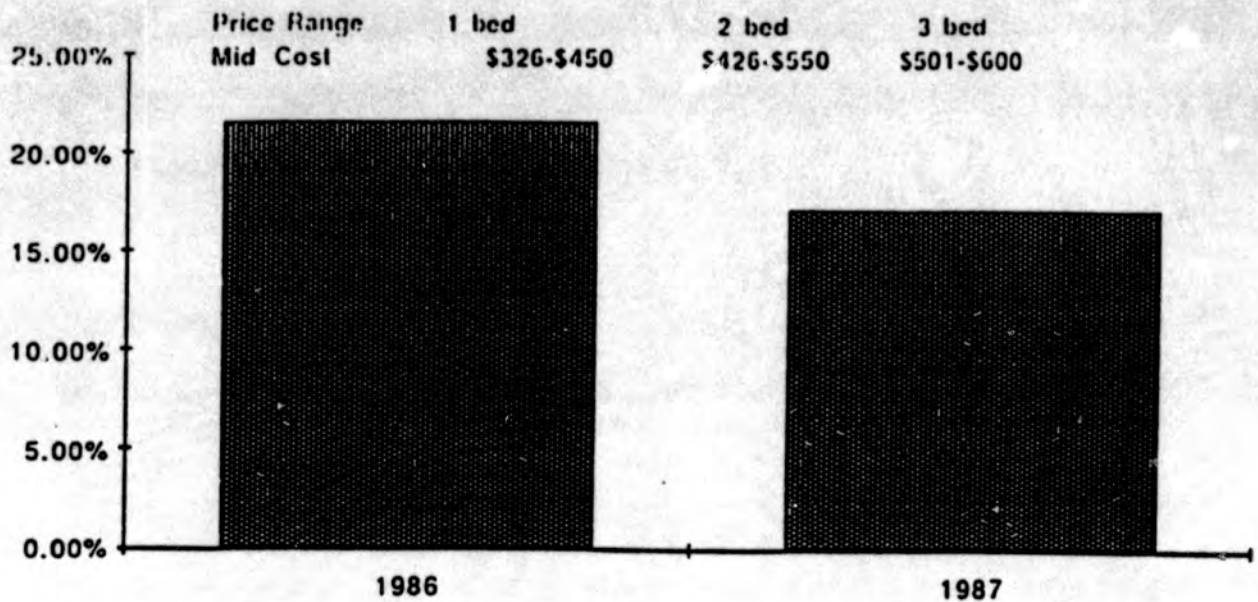
The most revealing statistic from the 5,000 unit survey completed by Shorett and Riely was the fact that there had been an increase of 40% in the vacancy of low cost apartments.

This substantiates a flight to quality that is being taken advantage of by savvy renters, as well as upgrading home buyers. There are certain areas of Anchorage which, without extensive urban renewal projects, are not going to be repopulated for many years. These areas include Mt. View, parts of Spenard, some pocket areas of the Eastside, as well as areas in Muldoon.

The apartment projects in these areas are functionally and cosmetically obsolete and with loss of rental income are in dire need of maintenance and repair which the owners cannot afford to make at this time. Many of these properties should probably be torn down. Even the newer four-plexes, etc., which were built in these areas suffer from higher vacancy factors.

There is a definite flight to the southside of Anchorage. Although Anchorage lost 10% of its population in the past two years, the southside of Anchorage, defined as being south of Tudor Road, has had an increase in population. In fact, the elementary schools on the southside of town, such as Rabbit Creek, O'Malley, Huffman, and Spring Hills are considered to be overcrowded, and there has been purchase of a new elementary school site off Huffman Road.

Fourth Quarter Mid Cost Apartment Vacancy Rates 1986 vs. 1987



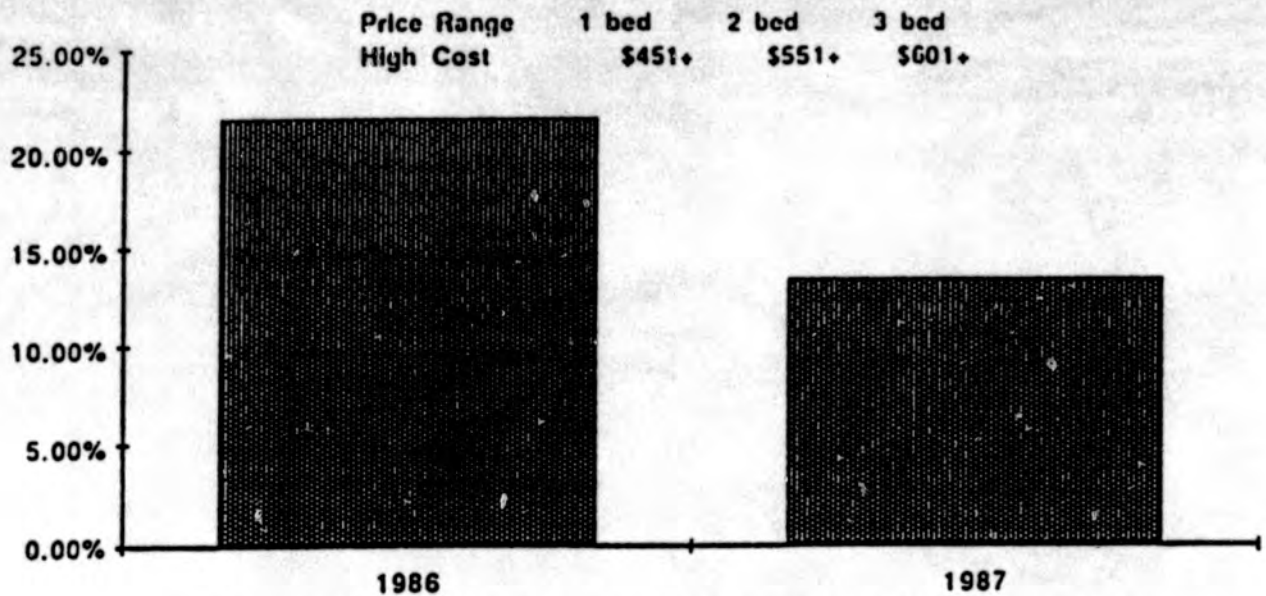
There has been a 21% decrease in mid cost apartment vacancies.

Source: Shoret & Riely, Real Estate Appraisers

COMMENTS:

Although there has been a substantial decrease in mid-cost apartment vacancies, it is important to note that these apartments were previously at one point in time considered high cost. In other words, just as vacancies have declined in this price range so as the rental rate. This is the flight to quality in rentals previously commented upon.

Fourth Quarter High Cost Apartment Vacancy Rates 1986 vs. 1987



There has been a 37% decrease in high cost apartment vacancies.

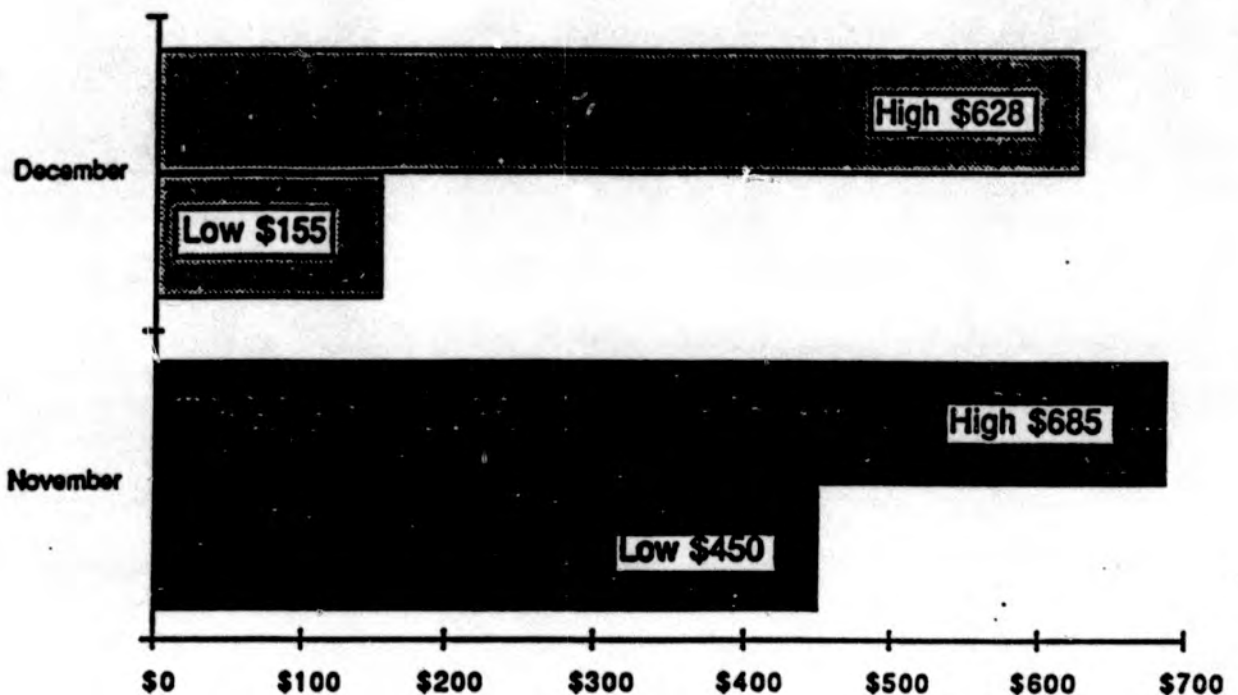
Source: Shorett & Riely, Real Estate Appraisers

COMMENTS:

The decrease in vacancies for pricey apartments is significant. Again, however, it must be pointed out that this decrease in vacancy is a result of only lower rents being charged for these apartments.

These charts point out, however, that the trend to quality is overwhelming and that there is probably no market force great enough to deter it except more population.

**Analysis of Rental Rates for 2 Bedroom Condos
As Advertised in the Anchorage Daily News and Anchorage Times
November, 1987 vs. December, 1987**



Information Provided by Kay E. Eliason

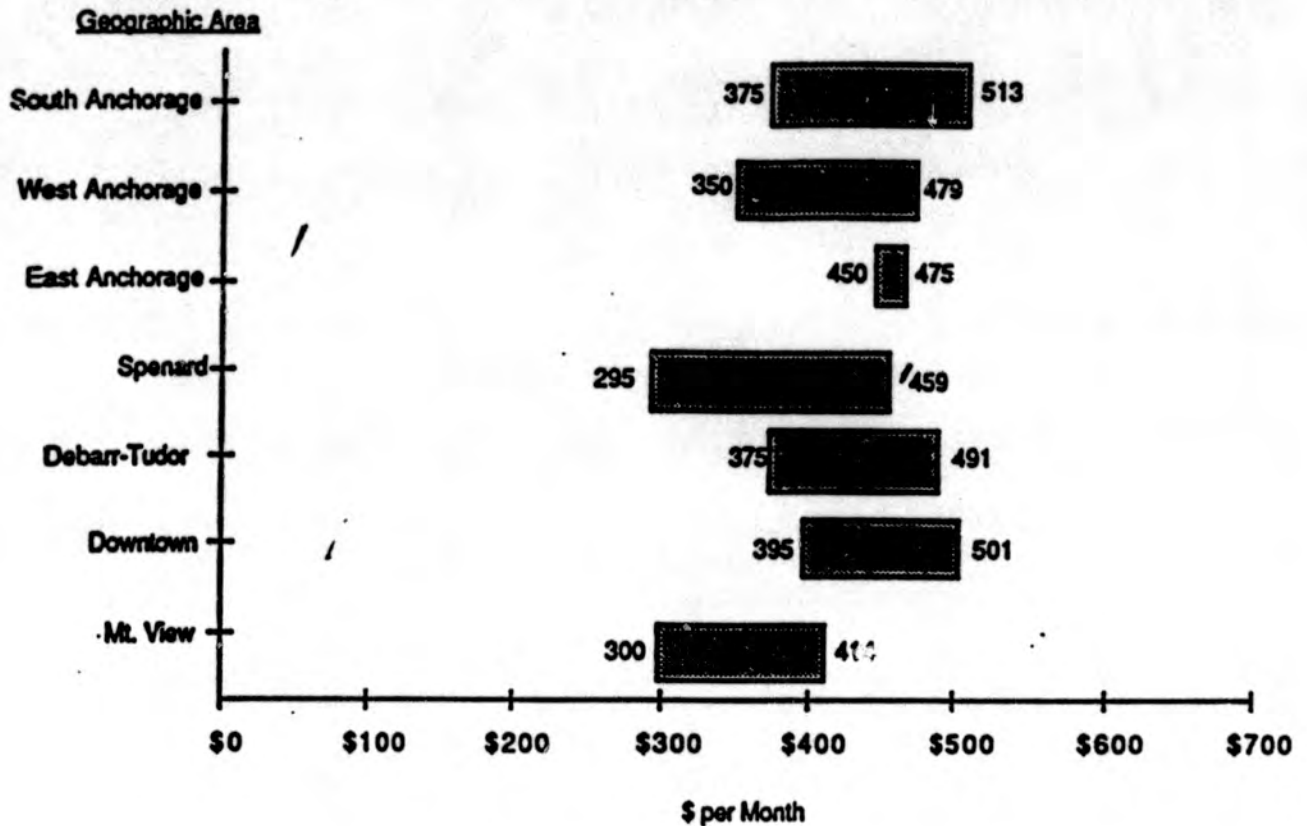
COMMENT:

This newspaper survey was done by a private consultant who used Sunday's Anchorage Times and News to do a comparison of rental rates.

This chart demonstrates from November to December that rental rates fell for two bedroom condos a significant amount. The high rate in November advertised in the paper was \$685. In December that rate dropped to \$628.

The number of ads for November was 39; for December 41.

**Rental Rate Analysis
of Two-Bedroom Unfurnished Apartments
According to Classified Advertising
Anchorage Daily News and Times Classified A
December 6, 1987**



Information Provided by Kay E. Eliason

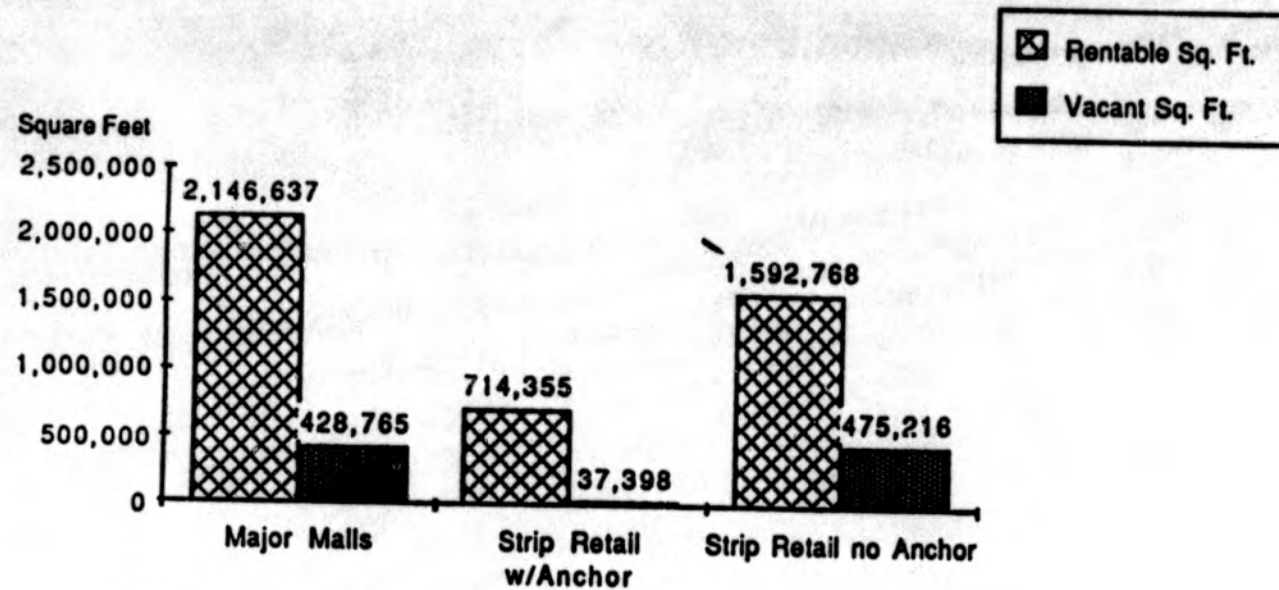
COMMENTS:

This chart demonstrates the asking rental rates for two-bedroom unfurnished apartments as advertised for sale on Dec. 6, 1987.

The two-bedroom unfurnished apartments were selected for analysis because MGIC condos fall into the two bedroom, unfurnished classification as rental properties.

This chart, therefore, gives you an idea of what can be expected for rental income in the various geographical locations. Utilities are not factored into these asking rental prices.

Anchorage Retail Inventory and Vacancies by Type of Mall



SOURCE: Alaska Valuation Services
Fred Ferrara, President

**ANCHORAGE CHAMBER OF COMMERCE
1988 LEGISLATIVE PRIORITIES**

Approved by the
Board of Directors
December 4, 1987

SUMMARY OF LEGISLATIVE PRIORITIES

- I. Budget: Selective reductions in operating expenditures and entitlements. Increased capital expenditures based on budget surpluses caused by enhanced oil revenues and/or reductions in operating expenditures and entitlements. Endorsement of constitutional amendment allocating permanent fund earnings and restricting expenditures.
- II. Economy: Legislative measures to protect and reinvigorate the economy in recognition of continuing recessionary trends, including the following recommendations:
 - (A) No tax increases.
 - (B) Enactment of economic incentive policy.
 - (C) Alternative methods of compensation for overtime.
 - (D) Conveyance of public lands to private sector.
 - (E) Regulatory reform.
 - (F) Modification of return transportation law.
 - (G) Reform of State "Davis-Bacon Act."
 - (H) Legislation imposing limitations on public employee wages and benefits.
 - (I) Reform of workers' compensation statutes.
- III. Capital Projects: Establish financially viable priorities:
 - (A) Water and wastewater projects.
 - (B) Anchorage road projects.
- IV. Health and Social Services: Equitable distribution of funding based on point of delivery to the recipient rather than the recipient's place of origin.
- V. Crime: Endorsement of Anchorage Crime Commission recommendations:
 - (A) State conspiracy law related to drug trafficking.
 - (B) Recriminalization of marijuana.
 - (C) Telephonic testimony in grand jury proceedings.
 - (D) Private sector access to state conviction records.
- VI. Alaskan Hire/Purchase: Legislative incentives to hire Alaskans and to purchase Alaska goods and services.
- VII. Energy: Railbelt Energy Fund/Bradley Lake Hydro Project.
- VIII. ANWR: Open ANWR coastal plain to environmentally responsible oil and gas exploration, development and production.
- IX. Tort Reform: Support additional efforts to secure genuine reform of tort liability laws.
- X. Anchorage International Airport: Support legislation establishing an Anchorage Airport Authority.

I. Budget

The legislature should continue to reduce the state operating budget in response to expected future declines in oil production and the inherent instability of market prices. Aggressive reductions in state spending should occur prior to consideration of appropriating monies from other distinct funds. Any surplus created as a result of rising oil prices or further reductions in the state operating budget should be expended on capital projects designed to improve infrastructure and stimulate the economy. The Chamber strongly opposes increases in taxes of any kind, including modification of the economic limit factor, imposition of an individual income tax, state sales tax, or increases in the motor fuel tax. Excess earning reserves are to be applied to a budget deficit only after aggressive measures have been undertaken to reduce state spending. The legislature should not use the corpus of the Permanent Fund to finance the activities of state government under any foreseeable circumstances. The Chamber endorses SJR 40 proposing a ballot measure to amend the Alaska State Constitution to authorize allocation of permanent fund earnings as follows: 40% to dividends, 30% to inflation proofing, and 30% to the budget reserve account. The Chamber also supports provisions in SJR 40 imposing constitutional spending limitations on future state legislatures.

II. Economy

The Chamber recommends that the legislature consider the following recommendations to protect and reinvigorate the Alaskan economy:

A. Taxes. The legislature should not, under any foreseeable circumstances, impose increased taxes or user fees on any segment of the Alaska economy during the impending recession. Nor should the legislature impose the equivalent of additional taxes on the oil industry by modifying the economic limit factor. Such action would disrupt long-term operating plans for major Alaskan oilfields and weaken the commitment of industry to expend additional exploration and development funds in the state. The Chamber is also opposed to any proposals in the Alaska state legislature to impose separate accounting methodology on oil and gas companies for the purpose of calculating corporate income taxes. Nor should the legislature consider imposing a personal income tax, state sales tax, or any increased motor fuel tax.

B. Alaska is one of a dwindling number of U.S. states that does not have an "economic incentives policy" in place to help local development groups lure basic industry to Alaska. The Anchorage Chamber of Commerce supports the enactment of an economic incentives policy that would include:

- 1) Temporary tax abatement
- 2) Infrastructure investment
- 3) Land and resource availability
- 4) Financing assistance

These inducements should be made available only to qualifying private-sector projects that expand Alaska's economic base. They should provide a flexible array of incentives that encourage development without unduly subsidizing it.

In addition, the Chamber supports amending Alaska Statutes, Title 29 to allow local governments to offer temporary property tax incentives to qualifying economic development projects.

C. Alternative methods of compensation for overtime. The state legislature should adopt legislation incorporating appropriate federal regulatory methodology for compensating employees engaged in operations involving irregular work weeks. Specifically, the legislature should eliminate impediments to alternative methods of compensating for overtime, including compensatory time off and flexible work week plans. Such action will assist natural resource development projects involving work schedules which are unpredictable with respect to time demands on employers and employees.

D. Expeditious Conveyance of Public Land to Private Sector.

The legislature should expedite the conveyance of municipal, state and federal public lands to the private sector. The legislature should require the Department of Natural Resources to expedite the process of issuing permits, leases, and mining production licenses on state mineral lands to facilitate natural resource development.

E. Regulatory Reform. The State of Alaska's redundant, overly complicated, and counterproductive regulatory processes impede economic development and growth. The Chamber supports passage of House Bill 212 establishing the Department of Natural Resources as the lead agency for all natural resource projects in Alaska. The legislature should consolidate coastal zone management authority within DNR and curtail CZM jurisdiction over all upland areas which are more than three miles removed from the Alaska coastline. Many of the existing regulations of DF&G and DEC are redundant with federal regulations promulgated by the EPA and Federal Fish and Wildlife Service. The state legislature should review and consider eliminating any unnecessary regulatory programs in an effort to conserve public funds and encourage development of Alaska's natural resources through private investment. Federal programs which are appropriate for the state to assume exclusive control and jurisdiction in an effort to benefit local industry should be excluded from this process.

F. Return Transportation Law. The Anchorage Chamber of Commerce strongly supports revisions to AS 23.10 which clarify the rights of employees and the responsibilities of employers with respect to return transportation. Revisions should include time period and dollar cost limitations on the right to return transportation. The Chamber recommends passage of legislation limiting the right to return transportation to a period of one year after the employee's first day of employment in the state. In addition, the maximum obligation of the employer to provide return transportation should not exceed \$5,000. The Anchorage Chamber of Commerce opposes passage of House Bill 43 in its present form which modifies AS 23.10 dealing with employee rights to return transportation. Provisions of HB 43 requiring notification of employees of their rights under the statute and requiring return transportation for employees hired outside the state when such transportation was not originally furnished are counterproductive and contrary to sound public policy objectives.

G. State Davis-Bacon Act. The State legislature should adopt legislation altering the formula for determining prevailing wage utilized by the Department of Labor to more realistically reflect actual labor costs in the State of Alaska.

H. Legislation Imposing Limitations on Public Employee Wages and Benefits. State of Alaska employees are the most highly compensated in the nation. Alaska also has comparatively more public employees per capita than other states. Under no

circumstances should the existing tax burden on the economy be increased to provide funding for public employee wages and benefits. If public employees are unwilling to accept a 40-hour work week and contractual limitations on wages and benefits, the legislature should enact legislation mandating further reductions in force to limit the size of state government.

I. Workers' Compensation Insurance Reform. The Anchorage Chamber of Commerce endorses and supports efforts to reduce workers' compensation costs in the State of Alaska through the following legislative reform measures:

1. Scheduling more injuries for payment at a fixed rate of reimbursement for the injury.
2. Payment of all medical costs on a reasonable and customary charges basis.
3. Imposition of controls on the frequency of visits to health care practitioners by claimants.
4. Voluntary vocational rehabilitation for eligible claimants by nationally certified professionals.

III. Capital Projects

The legislature should adopt a capital budget that reflects realistic municipal priorities and is designed to provide maximum benefit to the Alaskan public. The legislature should, at a minimum, allocate funds to those projects that are on-going

(multi-year) and necessary for viable economic development of the area. These projects have been identified by the Municipality of Anchorage as critical to the city's future development. The remainder of the Anchorage Road Projects that are not specifically identified should be preserved to the extent possible in the 1989 capital budget. A more detailed analysis of the Anchorage Chamber of Commerce's position on capital spending is as follows:

A. Water and Wastewater Projects. The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need to provide water and wastewater services that exceeds the capabilities of the utilities in many areas. These service limitations will have an impact on the future growth and development of many areas of the Municipality. The Chamber urges the continued funding of the Alaska Department of Environmental Conservation (DEC) Grant Program. This Grant Program provides for approximately 50 percent state matching funds on local qualifying water and wastewater projects. A funding of \$6 million is being requested for DEC's program to match the Municipality of Anchorage project funds. These projects may include water and wastewater improvement districts to neighborhoods which reduce the assessments to be paid by the property owner.

B. Anchorage Road Projects. The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need for more and better highways,

streets, and roads for Anchorage's traveling public. The Anchorage roads program has identified those routes that will contribute to a more efficient vehicular and pedestrian traffic flow, create a grid of major traffic distribution routes, decrease accidents and provide safe access to businesses and residential areas which will not detract from neighborhoods. Design and in some cases construction has already started on these projects, and construction funding is necessary for their timely completion to meet traffic and pedestrian needs.

C. State Roads. There are state highways within the Municipality of Anchorage that intertie with those routes of the roads program that also require upgrading to obtain continuity of traffic flow. It is urged that the State Department of Transportation and Public Facilities pursue the design and construction of these projects for timely interfacing with the Anchorage roads program and that operation and maintenance funds be budgeted and funded to adequately service the existing infrastructure. It is also urged that DOT/PF and the legislature pursue all avenues possible to obtain Federal Highway Administration funding. Federal highway funding is at 95 percent for those projects that qualify and would allow for the construction of projects with only 5 percent state money at a time when the availability of project money is scarce. The Chamber urges the legislature to implement the recommendations of the Anchorage Metropolitan Area Transportation Study Policy Committee.

IV. Health and Social Services

The Chamber supports a formula which more equitably distributes state funding (and federal funding distributed by the state) for health and social service programs based on the point of delivery to the recipient, as opposed to the recipient's place of origin. Many of the human services funded by or through the state are provided to residents of rural Alaska in the major population centers such as Anchorage. These population centers generally provide the health and social services to a far greater percentage of the state than is indicated by their local populations. These services include mental health counseling, alcohol and drug abuse programs, youth services, day care, child abuse investigation and prevention, and shelters for victims of domestic violence. The Chamber recommends that the legislature and administration analyze the geography of health and social service delivery and fund the programs accordingly. Funding must generate the greatest possible benefit to the public. This can only be possible if support is concentrated on the point of delivery, not the beneficiary's point of origin.

V. Crime

A. State Conspiracy Law Related to Drug Trafficking. The Anchorage Chamber of Commerce supports the adoption of a state conspiracy law related to drug trafficking. Based on interviews with justice professionals and surveys of public opinion, the

Anchorage Crime Commission has established that traffic of illegal drugs is the key driver of the majority of crimes against individual citizens. Additionally, during the recent political campaigns there was overwhelming recognition by legislators of the importance in strengthening Alaska's drug laws and enforcement efforts. State drug enforcement efforts are hampered by Alaska's unique absence of a conspiracy statute.

B. Recriminalization of Marijuana. The Anchorage Chamber of Commerce supports legislation recriminalizing marijuana. As noted above, substance abuse is our community's No. 1 problem and priority. Over the last decade the significant harmful effects of marijuana have been medically documented. Public opinion surveys indicate a two-to-one ratio in favor of making marijuana in any quantity an illegal substance.

C. Telephone Testimony in Grand Jury Proceedings. The Anchorage Chamber of Commerce supports legislation permitting the introduction of telephonic testimony in grand jury proceedings. Providing prosecutors with the option to utilize telephonic sworn testimony in grand jury proceedings will significantly reduce witness expenses without compromising individual rights or justice.

D. Private Sector Access to State Conviction Records. The Anchorage Chamber of Commerce supports legislation authorizing the Alaska State Troopers to provide criminal history information

upon request to private sector employers. Although such information is already available to the public through time consuming and complex searches of court records, private sector employers are currently denied access to the computerized records of the Alaska State Troopers. Many other states have already made such records available to private sector employers for a nominal fee.

VI. Alaskan Hire/Purchase

The Anchorage Chamber of Commerce continues to support local hire and purchase of goods and services. The Chamber endorses continued research and development of legislation based on an incentive approach to facilitate local hire and purchase of Alaskan goods and services. The Chamber opposes any legislative approach to local hire/purchase based upon the imposition or assessment of penalties.

VII. Energy

The Anchorage Chamber of Commerce supports completion of the Bradley Lake Hydro Electric Project. The Chamber recommends that the legislature continue the feasibility studies of the proposed railbelt electric interties and the proposed intrastate gas pipeline between Anchorage and Fairbanks. The Chamber urges the Alaska legislature to insure that the monies in the railbelt energy fund are used for energy project development for the benefit of communities throughout the railbelt.

VIII. Arctic National Wildlife Refuge

The Anchorage Chamber of Commerce strongly urges the state legislature to adopt a joint resolution supporting legislation by the United States Congress to open the Arctic National Wildlife Refuge Coastal Plain to environmentally responsible oil and gas exploration, development and production. The ANWR Joint Resolution should be unqualified and should not contain restrictions based on the existence of a core caribou calving area.

IX. Tort Reform

The Anchorage Chamber of Commerce supports significant changes and reform in civil liability laws, including revisions resulting in lower insurance cost to businesses, while providing adequate and fair compensation to claimants. Specifically, the Chamber supports a change in current law to limit liability in civil cases to a pro rata percentage of each party's fault. (ie) "Several" rather than "joint liability.

X. Anchorage International Airport

The Anchorage Chamber of Commerce supports HB 173 creating the Alaska International Airport Authority. The Authority should aggressively market the Anchorage airport and pursue stopover rights for international travelers.

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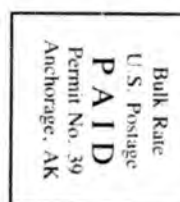
Anchorage Chamber of Commerce
415 F Street
Anchorage, AK 99501-2254



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Chamber of Commerce

1988
LEGISLATIVE
PRIORITIES

*Your Chamber Works For A Fair
Cost of Doing Business . . .*



December 4, 1987

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 - (C) Telephonic testimony in grand jury proceedings.
 - (D) Private sector access to state conviction records.
- VI. **Alaskan Hire/Purchase:** Legislative incentives to hire Alaskans and to purchase Alaska goods and services.
- VII. **Energy:** Railbelt Energy Fund/Bradley Lake Hydro Project.
- VIII. **ANWR:** Open ANWR coastal plain to environmentally responsible oil and gas exploration, development and production.
- IX. **Tort Reform:** Support additional efforts to secure genuine reform of tort liability laws.
- X. **Anchorage International Airport:** Support legislation establishing an Anchorage Airport Authority.

I. Budget

The Legislature should continue to reduce the state operating budget in response to expected future declines in oil production and the inherent instability of market prices. Aggressive reductions in state spending should occur prior to consideration of appropriating monies from other distinct funds. Any surplus created as a result of rising oil prices or further reductions in the state operating budget should be expended on capital projects designed to improve infrastructure and stimulate the economy. The Chamber strongly opposes increases in taxes of any kind, including modification of the economic limit factor, imposition of an individual income tax, state sales tax, or increases in the motor fuel tax. Excess earning reserves are to be applied to a budget deficit only after aggressive measures have been undertaken to reduce state spending. The legislature should not use the corpus of the Permanent Fund to finance the activities of state government under any foreseeable circumstances. The Chamber endorses SJR 40 proposing a ballot measure to amend the Alaska State Constitution to authorize allocation of permanent fund earnings as follows: 40% to dividends, 30% to inflation proofing, and 30% to the budget reserve account. The Chamber also supports provisions in SJR 40 imposing constitutional spending limitations on future state legislatures.

II. Economy

The Chamber recommends that the legislature consider the following recommendations to protect and reinvigorate the Alaskan economy:

A. **Taxes.** The legislature should not, under any foreseeable circumstances, impose increased taxes or user fees on any segment of the Alaska economy during the impending recession. Nor should the legislature impose the equivalent of additional taxes on the oil industry by modifying the economic limit factor. Such action would disrupt long-term operating plans for major Alaskan oilfields and weaken the commitment of industry to expand additional exploration and development funds in the state. The Chamber is also opposed to any proposals in the Alaska state legislature to impose separate accounting methodology on oil and gas companies for the purpose of calculating corporate income taxes. Nor should the legislature consider imposing a personal income tax, state sales tax, or any increased motor fuel tax.

B. **Economic Incentive Policy.** Alaska is one of a dwindling number of U.S. states that does not have an "economic incentives policy" in place to help local development groups lure basic industry to Alaska. The Anchorage Chamber of Commerce supports the enactment of an economic incentives policy that would include:

- 1) Temporary tax abatement
- 2) Infrastructure investment
- 3) Land and resource availability
- 4) Financing assistance

These inducements should be made available only to qualifying private-sector projects that expand Alaska's economic base. They should provide a flexible array of incentives that encourage development without unduly subsidizing it. In addition, the Chamber supports amending Alaska Statutes, Title 29 to allow local governments to offer temporary property tax incentives to qualifying economic development projects.

C. **Alternative methods of compensation for overtime.** The state legislature should adopt legislation incorporating appropriate federal regulatory methodology for compensating employees engaged in operations involving irregular work weeks. Specifically, the legislature should eliminate impediments to alternative methods of compensating for overtime, including compensatory time off and flexible work week plans. Such action will assist natural resource development projects involving work schedules which are unpredictable with respect to time demands on employers and employees.

D. **Expedient Conveyance of Public Land to Private Sector.** The legislature should expedite the conveyance of municipal, state and federal public lands to the private sector. The legislature should require the Department of Natural Resources to expedite the process of issuing permits, leases, and mining production licenses on state mineral lands to facilitate natural resource development.

E. **Regulatory Reform.** The State of Alaska's redundant, overly complicated, and counterproductive regulatory processes impede economic development and growth. The Chamber supports passage of House Bill 212 establishing the Department of Natural Resources as the lead agency for all natural resource projects in Alaska. The legislature should consolidate coastal zone management authority within DNR and curtail CZM jurisdiction over all upland areas which are more than three miles removed from the Alaska coastline. Many of the existing regulations of DF&G and DEC are redundant with federal regulations promulgated by the EPA and Federal Fish and Wildlife Service. The state legislature should review and consider eliminating any unnecessary regulatory programs in an effort to conserve public funds and encourage development of Alaska's natural resources through private investment. Federal programs which are appropriate for the state to assume exclusive control and jurisdiction in an effort to benefit local industry should be excluded from this process.

F. **Return Transportation Law.** The Anchorage Chamber of Commerce supports revisions to AS 23.10 dealing with employee rights to return transportation. Provisions of HB 43 requiring notification of employees of their rights under the statute and requiring return transportation for employees hired outside the state when such transportation was not originally furnished are counterproductive and contrary to sound public policy objectives.

G. **State Davis-Bacon Act.** The State legislature should adopt legislation altering the formula for determining prevailing wage utilized by the Department of Labor to more realistically reflect actual labor costs in the State of Alaska.

H. **Legislation Imposing Limitations on Public Employee Wages and Benefits.** State of Alaska employees are the most highly compensated in the nation. Alaska also has comparatively more public employees per capita than other states. Under no circumstances should the existing tax burden on the economy be increased to provide funding for public employee wages and benefits. If public employees are unwilling to accept a 40-hour work week and contractual limitations on wages and benefits, the legislature should enact legislation mandating further reductions in force to limit the size of state government.

I. **Workers' Compensation Insurance Reform.** The Anchorage Chamber of Commerce endorses and supports efforts to reduce workers' compensation costs in the State of Alaska through the following legislative reform measures:

- 1) Scheduling more injuries for payment at a fixed rate of reimbursement for the injury.
- 2) Payment of all medical costs on a reasonable and customary charges basis.
- 3) Imposition of controls on the frequency of visits to health care practitioners by claimants.
- 4) Voluntary vocational rehabilitation for eligible claimants by nationally certified professionals.

III. Capital Projects

The legislature should adopt a capital budget that reflects realistic municipal priorities and is designed to provide maximum benefit to the Alaskan public. The legislature should, at a minimum, allocate funds to those projects that are on-going (multi-year) and necessary for viable economic development of the area. These projects have been identified by the Municipality of Anchorage as critical to the city's future development. The remainder of the Anchorage Road Projects that are not specifically identified should be preserved to the extent possible in the 1989 capital budget. A more detailed analysis of the Anchorage Chamber of Commerce's position on capital spending is as follows:

A. **Water and Wastewater Projects.** The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need to provide water and wastewater services that exceeds the capabilities of the utilities in many areas. These service limitations will have an impact on the future growth and development of many areas of the Municipality. The Chamber urges the continued funding of the Alaska Department of Environmental Conservation (DEC) Grant Program. This Grant Program provides for approximately 50 percent state matching funds on local qualifying water and wastewater projects. Funding of \$6 million is being requested for DEC's program to match the Municipality of Anchorage project funds. These projects may include water and wastewater improvement districts to neighborhoods which reduce the assessments to be paid by the property owner.

B. **Anchorage Road Projects.** The Municipality of Anchorage has experienced substantial growth during the past several years. This growth has created a need for more and better highways, streets, and roads for Anchorage's traveling public. The Anchorage roads program has identified those routes that will contribute to a more efficient vehicular and pedestrian traffic flow, create a grid of major traffic distribution routes, decrease accidents and provide safe access to businesses and residential areas which will not detract from neighborhoods. Design and in some cases construction has already started on these projects, and construction funding is necessary for their timely completion to meet traffic and pedestrian needs.

ALASKA

REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

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

Alaska's Economy: What's Ahead?

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

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

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

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

and the economic projections.

Methods of Economic Forecasting

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

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

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

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

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

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Alaska's Economy: What's Ahead?

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

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

BACKGROUND: ALASKA'S ECONOMY

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

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

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

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

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

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

Taken together, those circumstances meant that

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

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

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

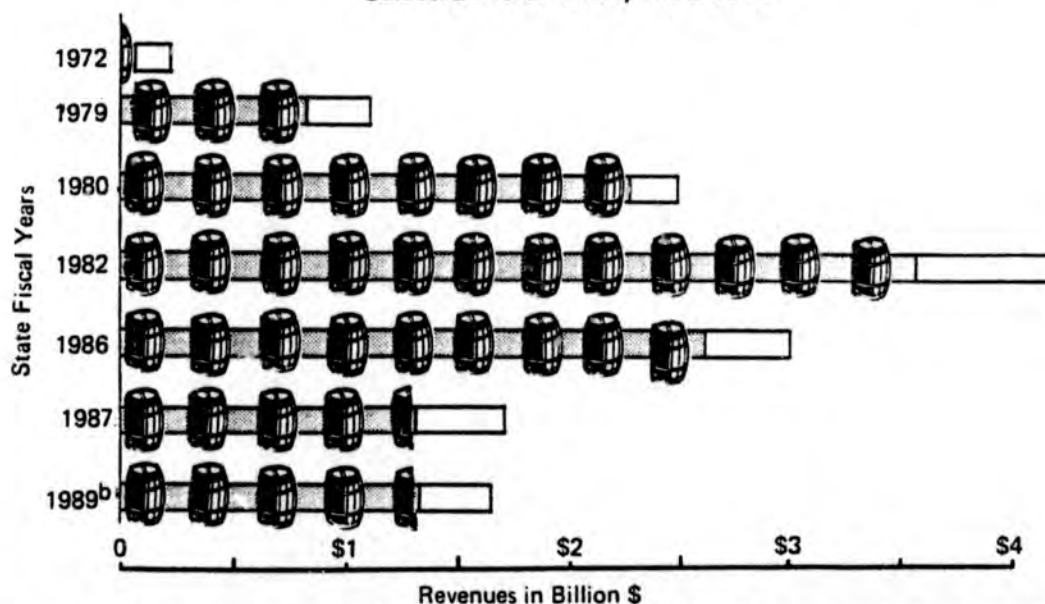
less than 1982 revenues. As of late 1987, state officials estimate that petroleum revenues in fiscal 1989 will be in the neighborhood of \$1.7 billion. Even as petroleum revenues decline, they will continue to make up more than 80 percent of the state's unrestricted general fund revenues.

THE BOOM

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

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

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

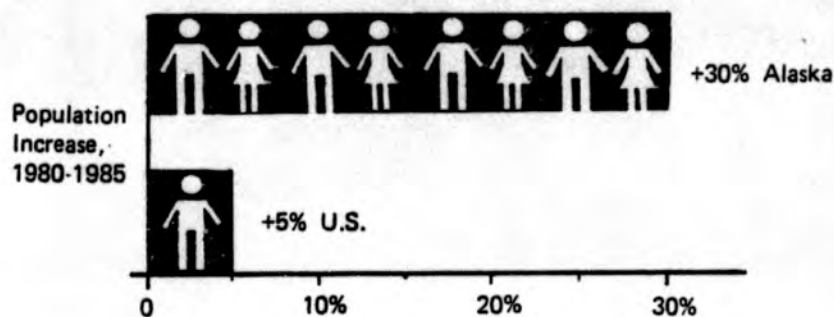


^aIncludes just unrestricted general fund revenues; excludes restricted revenues, which are mainly federal grants-in-aid. Graph represents actual revenues received with no adjustment for inflation.

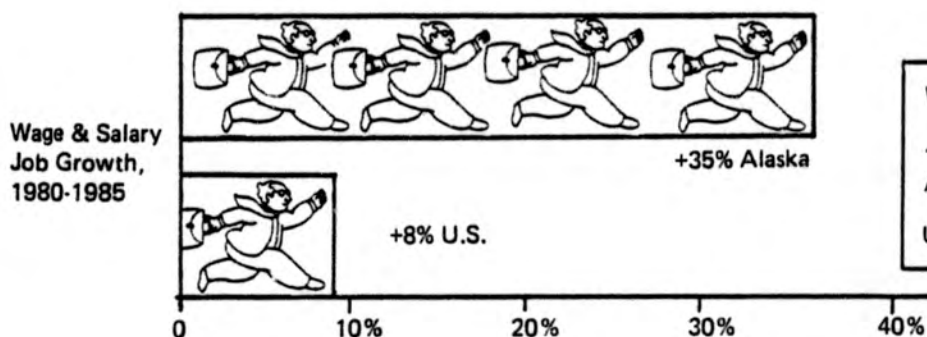
^bEstimate as of June 1987.

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

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



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



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

Total Personal Income Growth, 1980-1985



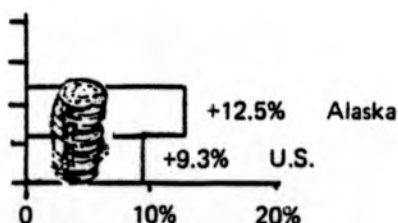
U.S.
+ 47%



Alaska
+70%

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

Growth in Real per Capita Disposable Income, 1980-1985



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

ments, among many other things.²

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

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

THE RECESSION

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

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

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

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

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

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

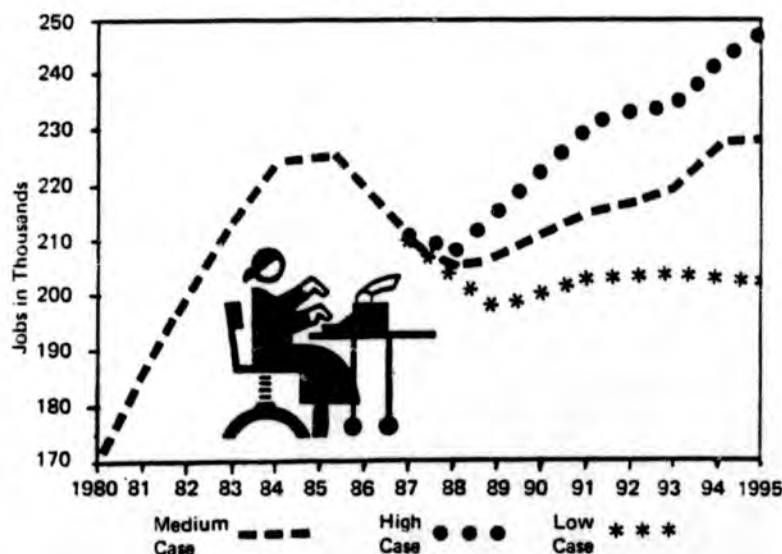
Job Loss

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

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

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

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



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

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

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

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

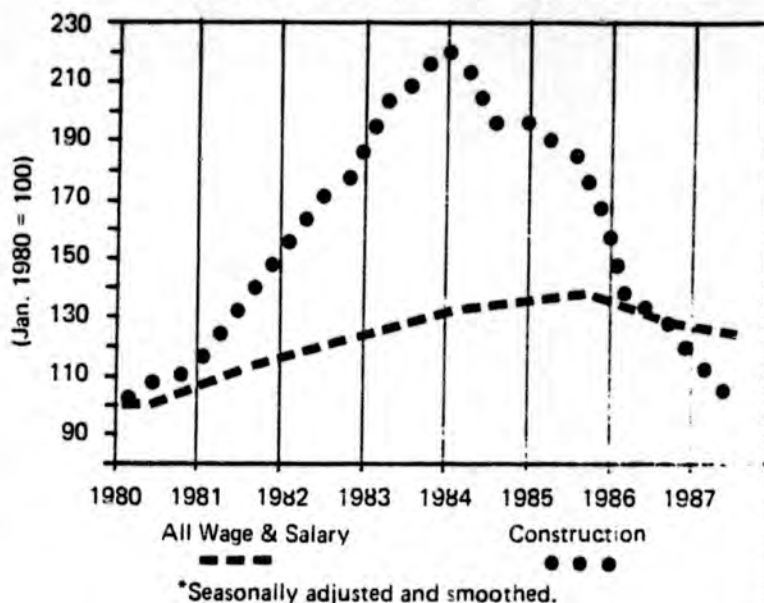
⁴The 38 percent growth in wage and salary jobs as measured on a monthly basis from January 1980 is slightly higher than the growth as measured from annual average employment in 1980—the 35 percent shown in Figure 2.

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



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

Figure 5. Alaska Construction Employment Index*



Construction Jobs

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

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

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

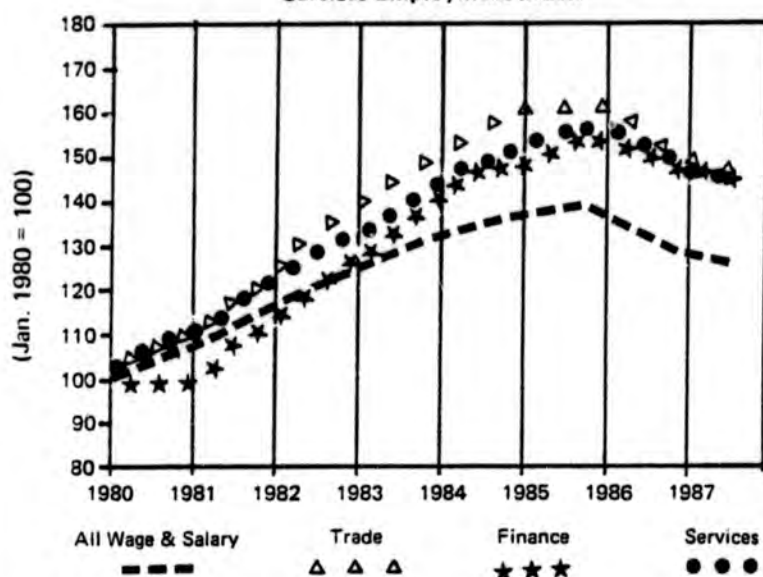
relatively low. By mid-1988, numbers of construction jobs in Alaska will be down about 65 percent from the peak 1984 level (Figure 9).

Trade, Finance, and Service Jobs

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

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

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



*Seasonally adjusted and smoothed.

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

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

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

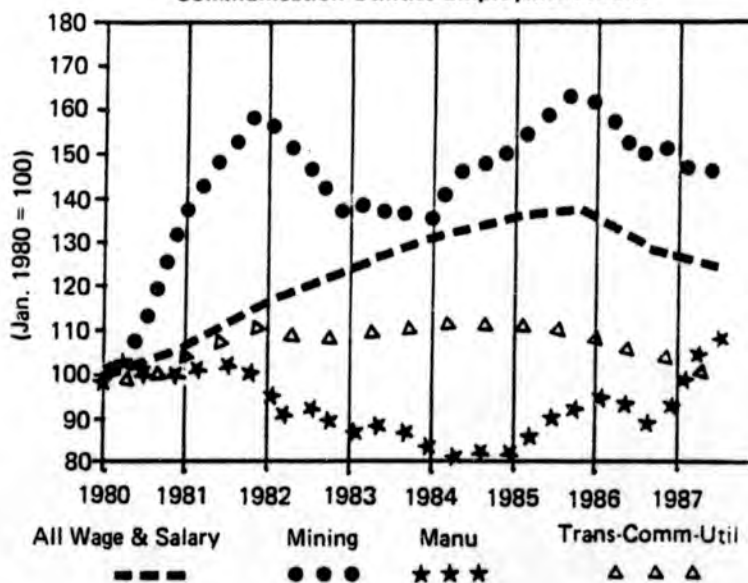
Mining, Manufacturing, and Transportation, Communications, and Utilities Jobs

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

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

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

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



*Seasonally adjusted and smoothed.

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

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

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

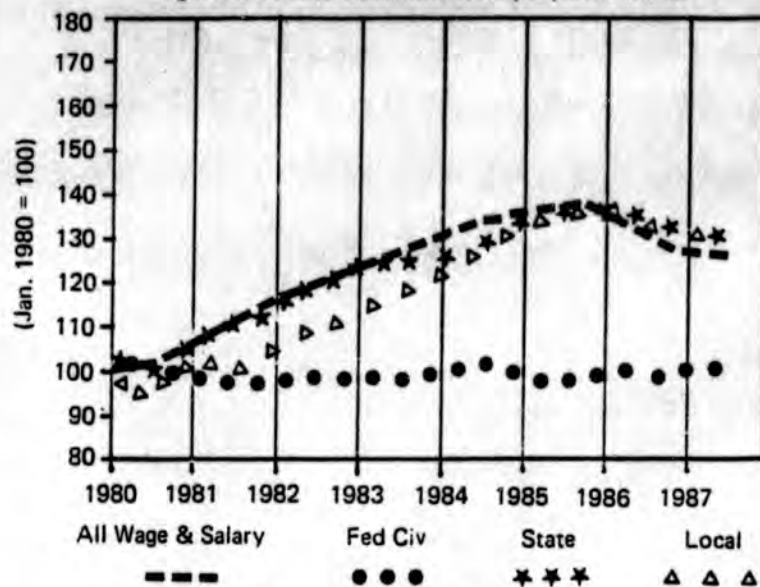
Alaska's manufacturing industries depend not on state government spending but on the size of the harvests and the demand for Alaska's fish and timber. In the early 1980s, when other parts of the economy were growing, overall employment in manufacturing actually dropped—and during the recession, when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

Government Jobs

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

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

Figure 8. Alaska Government Employment Index*



*Seasonally adjusted and smoothed.

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

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

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

Income Loss

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

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

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

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

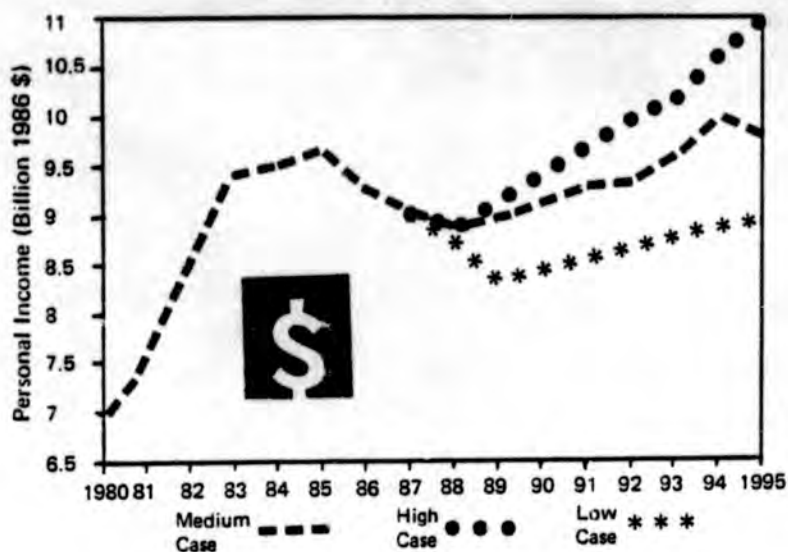
^aEmployment in various industries peaked at somewhat different times, but mostly in late 1985. Federal civilian and manufacturing employment did not peak in 1985.

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

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

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

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



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

Population and Household Losses

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

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

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

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

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

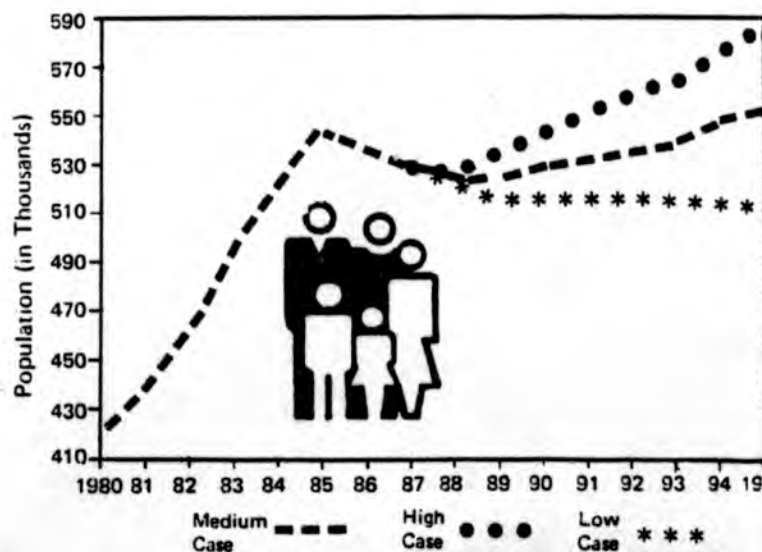
Regional Effects of Recession

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

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

Anchorage and the adjacent Mat-Su Borough

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



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

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

THE RECOVERY: ECONOMIC PROJECTIONS

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

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

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

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

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

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

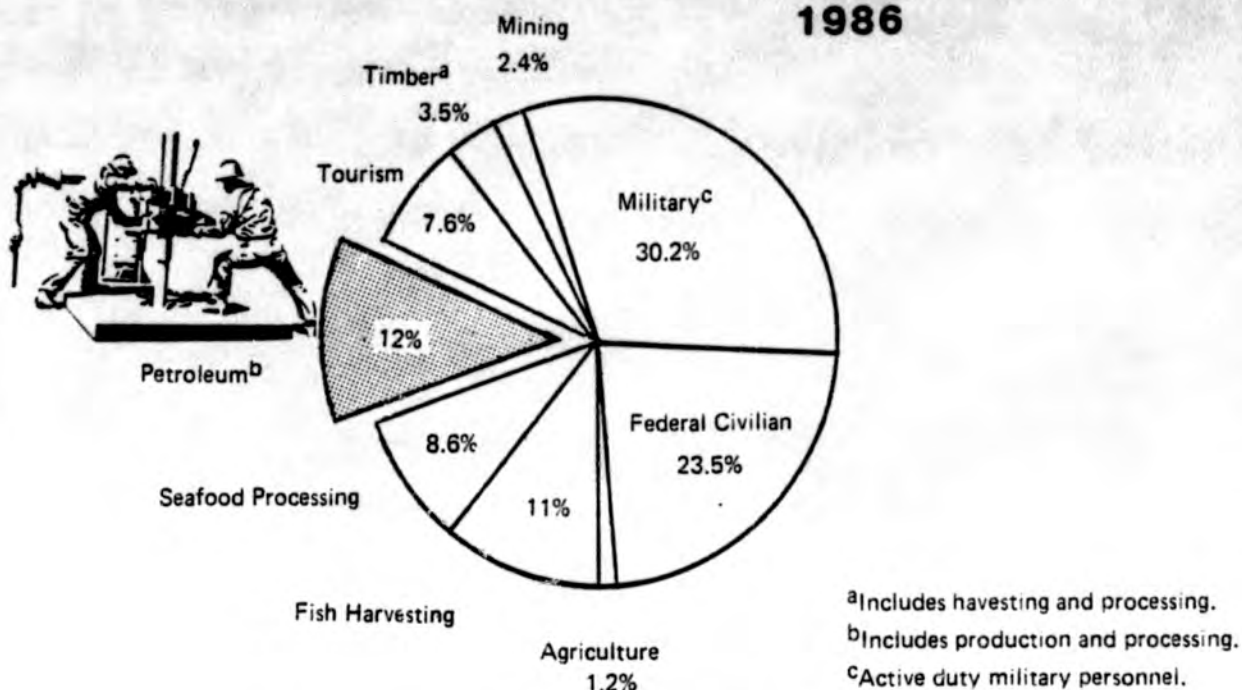
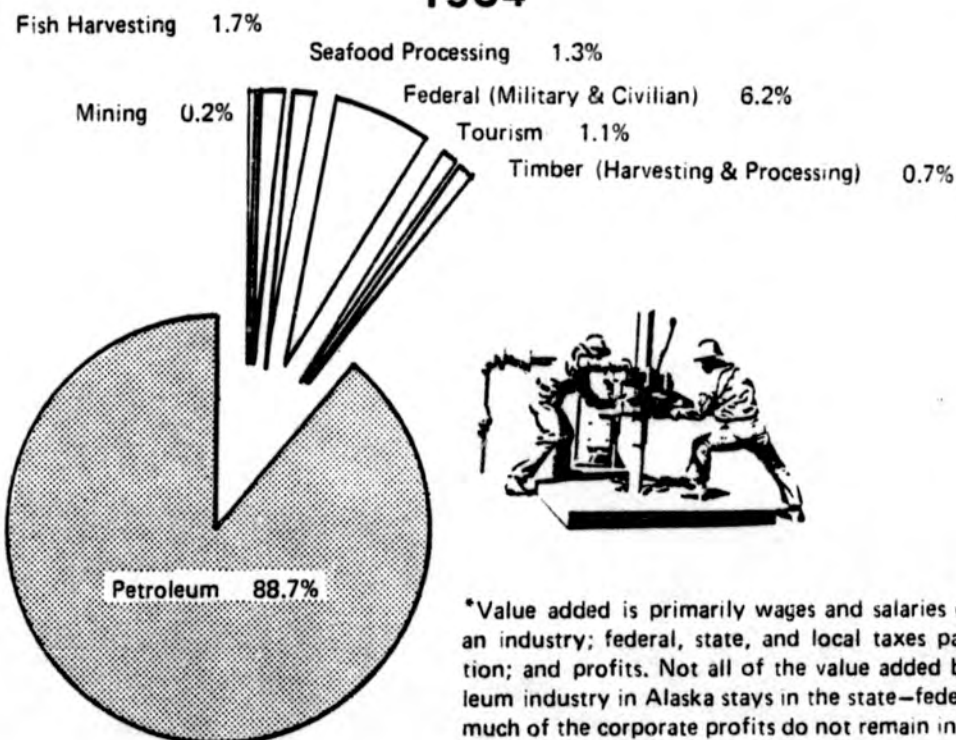
Figures 12 and 13 show the contributions of the basic industries to employment and to what economists call "value added," and help explain why we emphasize the importance of petroleum to Alaska's economy. If we look just at numbers of jobs each industry contributes to the economy, we would judge petroleum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

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

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

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

⁶Including royalties in the petroleum industry.

Figure 12. Alaska Basic Industry Employment**1986****Figure 13. Value Added* of Alaska Basic Industries**
1984

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

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

Summary: 1980-1995

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

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

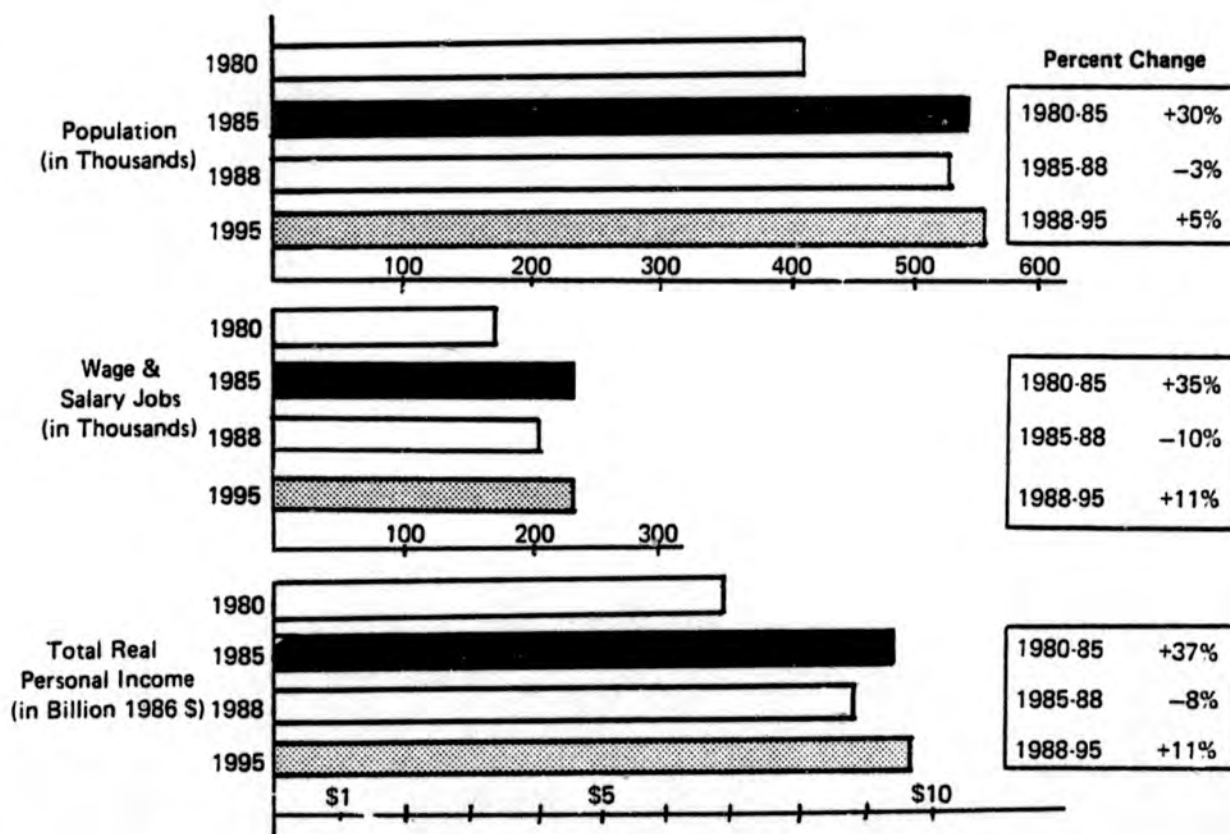
Alaska's population grew 30 percent between 1980 and 1985. Between 1985 and mid-1988 it will likely drop about 3 percent, and grow by 5 percent between 1988 and 1995.

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

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

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

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



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

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

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

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

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

Wage and Salary Jobs

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

Figure 3 shows that under the medium case, numbers of wage and salary jobs would regain their 1985 levels by 1994. If the economy grows faster, Alaska could have about 8 percent more jobs by 1995; under the worst case, very few jobs would be created between 1988 and 1995.

New Basic Industry Jobs

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

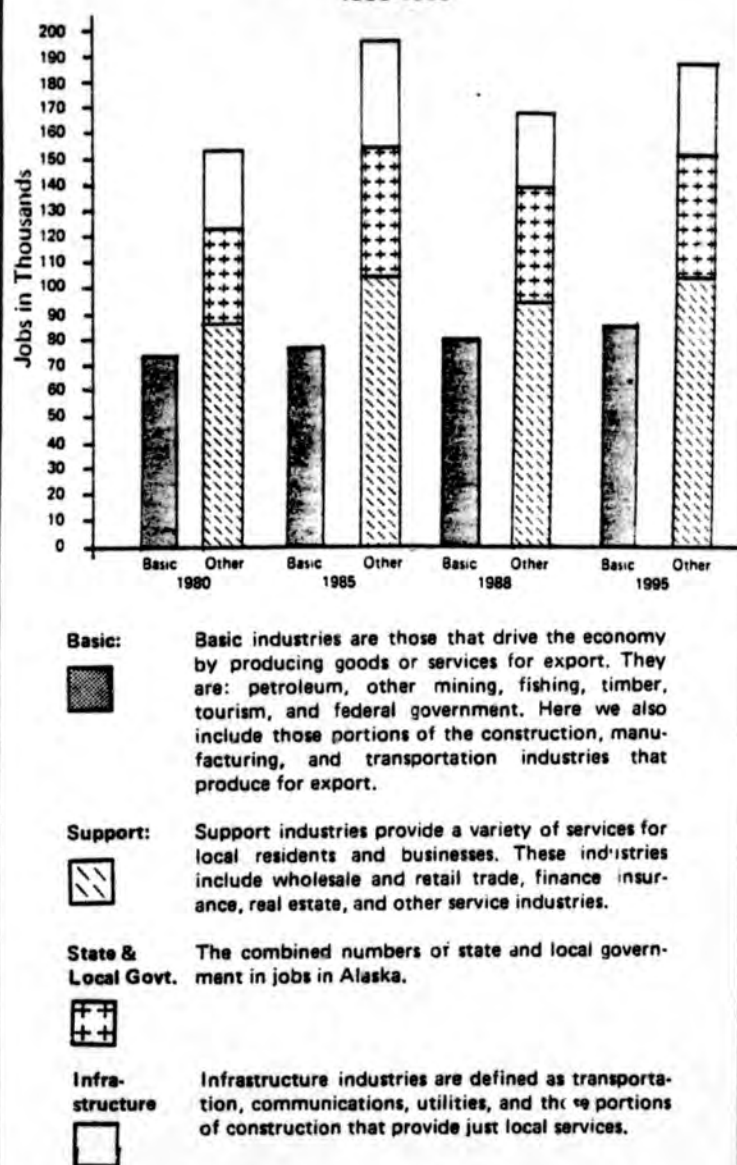
As Figure 16 shows, numbers of basic industry jobs could be slightly higher or somewhat lower if the economy grows faster or slower than under the medium case.

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

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

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

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



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

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

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

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

Future of State and Local Government Jobs

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

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

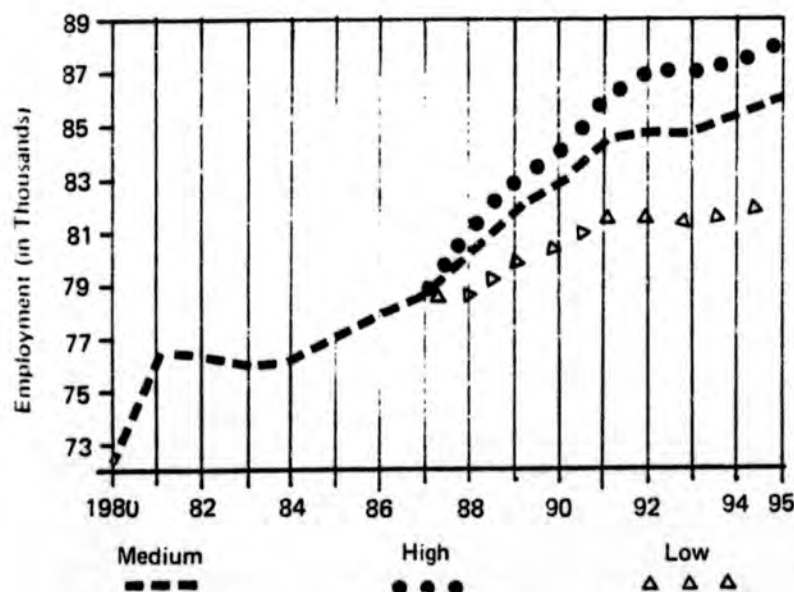
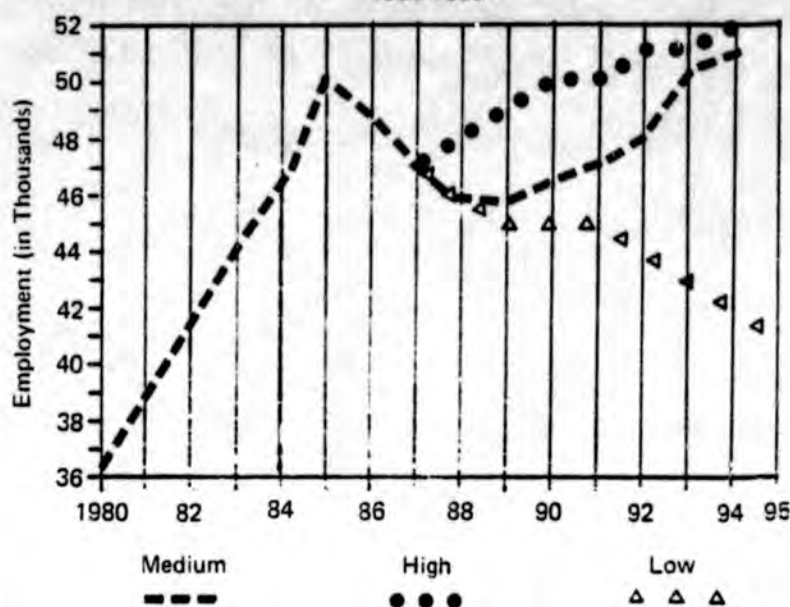


Figure 17. Alaska State and Local Government Employment, Historical and Projected Under Three Cases, 1980-1995



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

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

Could the state keep spending near its current level, if oil prices stabilized slightly above or slightly below the current world price of about \$18 a barrel? For the state government to maintain its current spending level of about \$2 billion annually (in 1986 dollars) through 1995 would require using some combination of a number of possible sources: potentially large cash settlements of pending litigation, a portion of Permanent Fund earnings, personal income taxes, or increased petroleum tax rates. The timing and the specific choices among these possible measures would have slightly different effects on the overall state economy. We are not advocating any of these measures—we are just pointing out that they

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

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

Infrastructure and Support Jobs

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

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

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

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

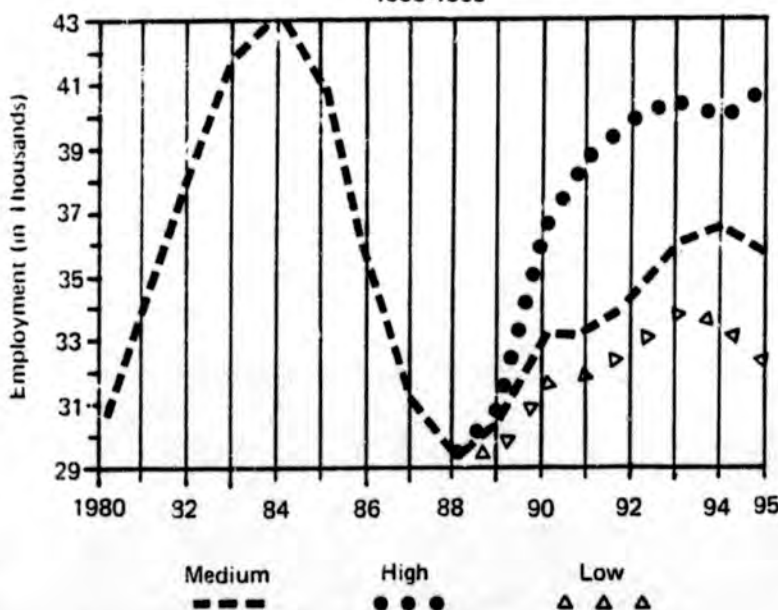
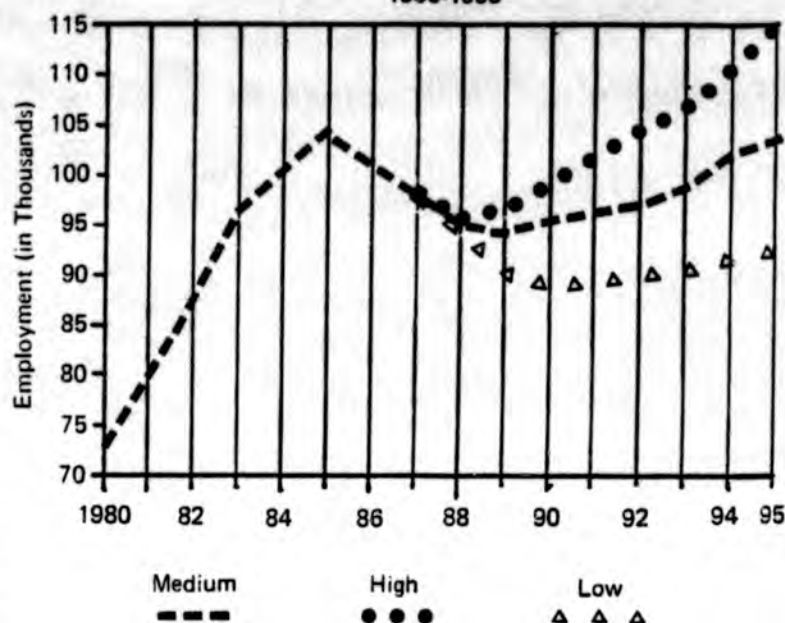


Figure 19. Alaska Support Industry Employment, Historical and Projected Under Three Cases, 1980-1995



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

Personal Income

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

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

Population and Household Growth

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

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

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

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

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

Regional Economic Recovery

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

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

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

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH

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

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

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

OTHER ISER PUBLICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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ALASKA

DRAFT REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

University of Alaska, Anchorage, Institute of Social and Economic Research

Alaska Housing and the Recession

The recession that started at the end of 1985 turned the Alaska housing market on its head. Prices of houses, condominiums, and mobile homes—especially the last two—have come down so far that Alaskans have been left queasy and disbelieving. Recent ISER economic projections are for the recession to end in 1988, and a *gradual* economy recovery to begin—if oil prices remain stable in the \$16- to \$20-per-barrel range. Oil prices are the crucial element in ISER's projections. But if the Alaska economy does begin to recover in 1988, the effects of the recession on the housing market will not disappear overnight.

Thousands of houses, condominiums, and mobile homes have been foreclosed on in Alaska over the past two years: grim testimonials to the population, job, and income losses that have come with the recession. Even after the economy bottoms out, the housing market will be slow in recovering. This is particularly true of the market for condominiums and mobile homes in Anchorage.

Recent ISER work projects that it will likely be well into the 1990s before real-adjusted for inflation—condominium prices in Anchorage regain their 1985 levels. There are hundreds more mobile homes in Anchorage right now than are likely to be occupied by 1992.¹ Very few condominiums or apartments will be built in Anchorage over the next few years: the units that already exist will more than meet the projected demand.

We expect single-family houses to fare better—because most buyers prefer houses when they can afford them. Lower prices in the past two years have put single-family houses within the reach of some buyers who in the early 1980s might have bought condominiums or mobile homes.

Future economic conditions will of course be crucial in determining the future health of the Alaska

housing market. But after economic conditions, what will make the most difference to the stability of the Anchorage housing market in the next few years is how the major lenders handle their big inventory of foreclosed properties. If they try to quickly sell large numbers of those properties, they will further depress prices and increase loan defaults.

This *Review* reports on a recent ISER examination of how various policies might affect the Alaska housing market. The Alaska Housing Finance Corporation (AHFC) asked us to do this work to help AHFC in its efforts to stabilize the housing market.

Depressed prices and large numbers of loan defaults are serious problems for all Alaska homeowners and mortgage lenders—but particularly for AHFC, which holds more than 60 percent of the outstanding residential mortgages in the state.

This publication has two main parts. The first part describes conditions in the Alaska housing market in 1987, and contrasts them with conditions during the economic boom of the early 1980s. Those descriptions set the stage for the second part of this publication, which reports on how various policies available to AHFC and other lenders might affect the housing market.

ALASKA MORTGAGES AND FORECLOSURES

National Secondary Lenders

Alaskans planning to buy houses generally apply for mortgage loans at banks or savings and loans or mortgage companies. These institutions—known as primary lenders—process the applications, approve or disapprove the loans, and collect the monthly mortgage payments. But very rarely do the banks themselves actually hold the mortgages: they sell almost all of them on the secondary market. In fact, primary lenders as a rule won't make a mortgage loan without

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FEATURE

Oliver Scott Goldsmith

Alaska's Economy: What's Ahead?

Oliver Scott Goldsmith is professor of economics with ISER.

first determining that a secondary lender will buy it. This system greatly reduces the risks for primary lenders in making long-term loans and frees their money for other uses.

The biggest secondary lenders nationally were created by the federal government to help increase the amount of home mortgage money available—on the grounds that a healthy housing industry is important to the U.S. economy. Of these by far the biggest is the Federal National Mortgage Association (FNMA)—widely known as Fannie Mae—which holds about \$100 billion in mortgage loans. Another, much smaller, secondary lender is the Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac).

The Federal Housing Administration (FHA) and the Veterans Administration (VA) are federal agencies that do not actually buy mortgage loans but rather insure or guarantee them. Loans insured by FHA or guaranteed by the VA sell easily on the secondary market because they carry government backing. Most FHA-insured or VA-guaranteed loans go on to the secondary market through mortgage-backed securities that are issued by yet another federal organization—the Government National Mortgage Association (Ginnie Mae)—and are sold to investors. FHA and VA are often thought of as secondary lenders, because their backing for a loan generally insures its marketability.

The Farmers' Home Administration is another

federal agency that makes home loans, but only to farmers and to low-income Americans living in rural areas. This agency holds its own mortgages.

Alaska Housing Finance Corporation

The national lenders and insurers described above all operate in Alaska, but here the state government has also created several secondary lenders. The biggest is of course the Alaska Housing Finance Corporation, which holds more than \$4 billion in Alaska residential mortgages, or about 60 percent of the outstanding home mortgage debt in Alaska in 1987.

AHFC is a public corporation created by the Alaska Legislature in 1971. As a public corporation, AHFC is under the control of the state government, but it has more authority than traditional state agencies—the most important authority being the ability to sell bonds.

The state legislature originally established AHFC to help Alaskans with low or moderate incomes get housing at reasonable costs. Alaska officials said that the high cost of housing in Alaska, the lack of mortgage money in many rural areas, and other factors was making it difficult for many Alaskans to buy houses. From 1971 through 1980, AHFC raised virtually all its mortgage money by selling tax-exempt bonds. Tax-exempt bonds carry lower interest rates than taxable bonds, so AHFC was able to offer rates somewhat below the going market rates.

In 1980 the state legislature made two decisions that rapidly transformed AHFC into the dominant mortgage lender in Alaska: it opened AHFC's lending programs to virtually all Alaskans by removing the income ceilings for borrowers, and it directed AHFC to begin subsidizing mortgage interest rates. At that time rates for home loans nationally were at around 15 percent and still going up.

As Figure 1 shows, in 1981 Alaska borrowers could get a \$135,000 loan from AHFC for less than 11 percent—or they could go to a national lender and pay more than 15 percent. AHFC's interest rate advantage narrowed in later years as the legislature tied AHFC's rates closer to its costs of borrowing money, but through 1985 AHFC loaned money at significantly lower rates than the national lenders.

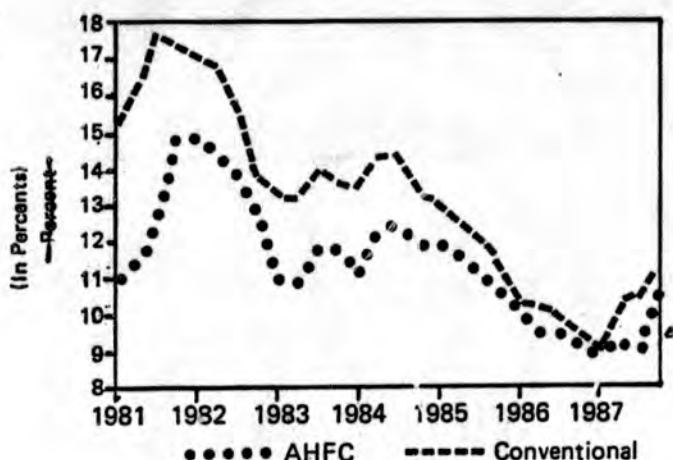


Figure 1. Home Mortgage Interest Rates, AHFC Taxable Program and Conventional,* 1981-1987

*Mortgage rates for a \$135,000 loan under AHFC's taxable program and under FNMA's 30-year, fixed-rate mortgages.

Changes in federal law forced AHFC to begin selling most of its bonds in the taxable market after 1980. Since 1980 AHFC has raised several billion dollars in mortgage money by selling bonds. The legislature appropriated about \$1 billion for AHFC mortgage subsidies between fiscal years 1981 and 1984. For the past several years, AHFC has had a revolving loan fund and received no subsidies.

It's not surprising that AHFC bought 80 percent of the new home mortgages written in Alaska in the first half of the 1980s. In recent years AHFC's share of Alaska mortgages has declined steadily. Market interest rates began dropping off sharply in 1985, and in 1987 reached their lowest point since the 1970s. During part of 1987 rates under AHFC's biggest loan program were the same as other lenders'. (See Figure 1.) As interest rates fell, buyers weighed other things in choosing a lender—loan restrictions,

refinancing terms, and principal payment systems, for example. Still, in 1987 AHFC remained the biggest single buyer of mortgages written for home sales.

Other Sources of Mortgage Money

The Alaska Department of Community and Regional Affairs also acts as a secondary lender, but it buys loans only in the most remote areas of Alaska. Its operations are small as compared with AHFC's, and it gets its loan money not through bond sales but through state appropriations.

The managers of the Alaska Permanent Fund and the state pension funds (the Public Employees Retirement System and the Teachers Retirement System) also buy some residential mortgage loans—but not many as compared with the other secondary lenders, and frequently those that exceed the loan limits of other lenders. In recent times, however, those agencies have bought very few loans.

There are a variety of others who hold some Alaska mortgage loans. Credit unions hold rather than sell some mortgages. Individuals sometimes finance the sale of their own houses. Figures on mortgages held by those and others are not available, but they are few compared with those held by the big lenders.

Mortgage Activity, 1979-1987

Figure 2 marks the ups and downs of housing sales in Alaska from 1979 through 1987: it shows the numbers of mortgages written for home sales. (The figure excludes mortgages for refinancing, which are shown in Figure 3.)

About 5,500 mortgages worth \$380 million were written in Alaska in 1979. That was a slow year as compared with what was to come. The economic boom created by construction of the trans-Alaska

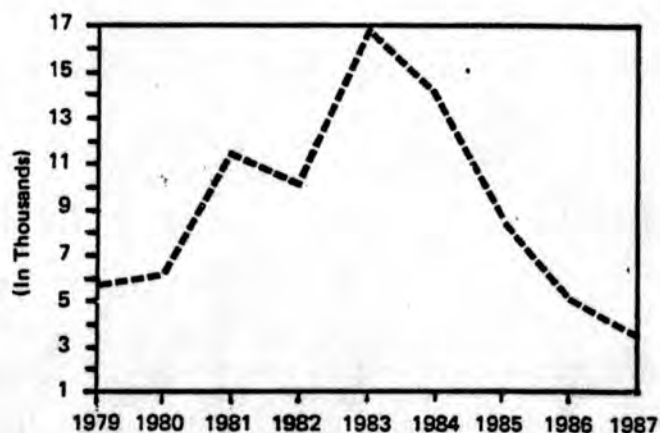


Figure 2. Alaska Mortgages for Home Sales, 1979-1987

*1987 figure is an estimate based on numbers for the first six months of the year.

pipeline was over; some people were leaving the state? and mortgage interest rates were on their way up. Mortgage activity in 1980 was not much higher, but the stage was set for the next boom. High oil prices were fattening the Alaska treasury. The state government began spending its oil revenues in hundreds of ways that sparked unprecedented economic growth. At the same time, the legislature also voted to subsidize mortgage interest rates.

The economic boom created by state spending drew tens of thousands of people into the state. The combination of a burgeoning population and subsidized interest rates more than tripled numbers of new mortgages between 1979 and 1983, when more than 16,500 mortgages for home sales were written. Numbers of new mortgages began dropping in 1984, but it was in 1985 that the really sharp decline started.

The recession began toward the end of 1985, as state spending declined. In 1986 the recession worsened as oil prices plummeted. Fewer than 5,000 mortgages for home sales in Alaska were written in 1986: fewer than had been written in 1979. And we estimate that in 1987 roughly 3,000 mortgages were created for home sales in Alaska.

Home Refinancing

Firm figures on how many mortgages are written for Alaskans refinancing their homes are hard to get. Figure 3 shows our estimates of how many mortgages written in Alaska in 1985, 1986, and the first half of 1987 were for refinances and how many for sales. We assume that there was very little refinancing before 1985, when interest rates were much higher.

The figure shows that in 1985 less than 20 percent of the 10,000 mortgages created in Alaska were

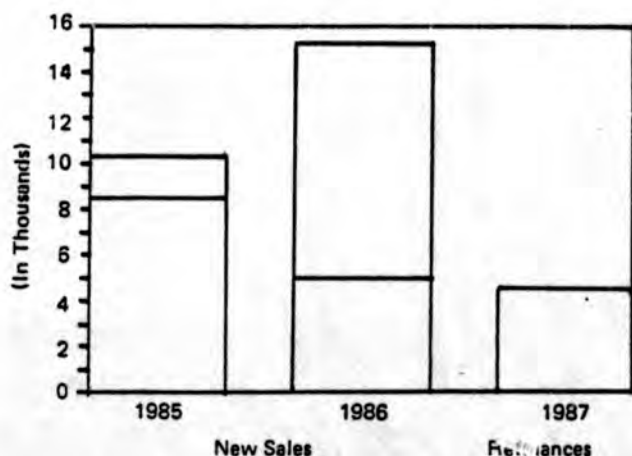


Figure 3. Alaska Mortgages for Home Sales and Refinancing, 1985-1987*

*The 1987 figure is just the first six months.

for refinancing. In 1986, 15,000 mortgages were written—but more than 10,000 of those, or 70 percent, were for refinancing. In the first half of 1987, more than 60 percent of new Alaska mortgages were for refinancing.

AHFC's Market Share

Figure 4 clearly shows why AHFC is the biggest mortgage holder in Alaska: it identifies shares of total mortgages (including those for sales and for refinances) AHFC and other lenders bought each year from 1979 through the first half of 1987. From 1980 through 1982, when AHFC's rates were several percentage points below those of other lenders, AHFC bought 90 percent or more of new mortgages. Through 1984 AHFC still had 80 percent of the market. In the past several years interest rates and terms of other lenders became more competitive. AHFC's share dropped from about 50 percent in 1985 to less than 40 percent in the first half of 1987.

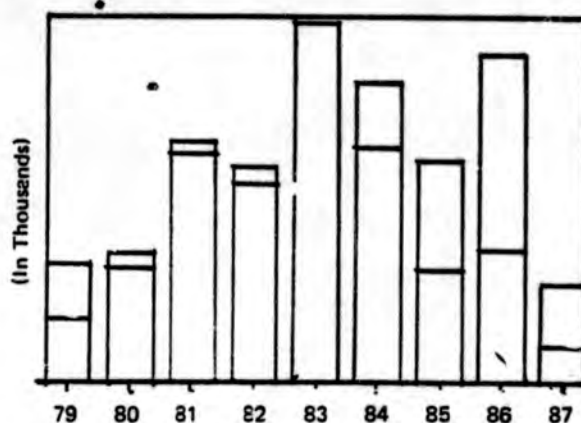


Figure 4. AHFC's Share of Alaska Mortgages,^a 1979-1987^b

^aIncludes mortgages for sales and for refinances.

^bFigures for just the first six months of 1987.

1987 Mortgage Holdings of Major Alaska Lenders

What is at stake in the Alaska housing market? How much home mortgage debt is there in the state? Table 1 shows the mortgage holdings of major Alaska lenders as of mid-1987.

In 1987 the major lenders in Alaska held more than 84,000 home mortgage loans worth \$7 billion dollars. The biggest mortgage holder is AHFC, which as of June held more than 52,000 home mortgages with an outstanding balance of about \$4.3 billion. Other state government entities held another 3,000 loans with a balance of \$230 million.

National lenders and insurers are also carrying tens of thousands of loans. There were nearly 8,500 FHA-insured loans and 8,600 VA-guaranteed loans in

Table 1

Residential Mortgage Holdings of Major
Alaska Lenders, June 1987^a

	Number of Loans Outstanding	Unpaid Principal Balance (\$ millions)
AHFC		
Mobile Home	4,760	\$ 151
AHFC/FNMA ^b	10,722	1,170
AHFC/Other	36,686	2,967
Total	52,168	\$4,288
FNMA^c	5,471	400
FHLMC^d	5,152	479
FHA-Insured^e	8,437	844
VA-Guaranteed^f	8,602	763
Alaska Dept. of CRAS	1,194	123
Farmers' Home Admin. ^h	1,322	106
Alaska Permanent Fund	300	42
Alaska Pension Funds	NA	NA
AIDA & Div. of Invest. ^j	1,565	68
Total	84,211	\$7,113

^aAs of June 1987, unless otherwise noted.^bThese are loans financed with FNMA money from early 1984 through 1986; AHFC makes principal and interest payments to FNMA on collateralized notes. FNMA is, however, liable for any losses not covered by private mortgage insurance if borrowers default.^cExcluding loans cited in note b; these are loans financed through banks and other primary Alaska lenders.^dFigures are for FHLMC loans serviced by Alaska lenders as of June 1987; they may include some loans on homes outside the state but serviced by Alaska lenders and exclude some loans on Alaska homes that are serviced by lenders outside the state.^eOutstanding loans as of December 31, 1986, excluding AHFC loans insured by FHA. The unpaid principal balance is an estimate, based on average size of outstanding loan. Although FHA is an insurer rather than a lender, FHA-insured loans are included here because most of those loans go to lenders other than those listed in this table. Most FHA-insured loans go into mortgage-backed securities (MBSs) issued by the Government National Mortgage Association (GNMA) and sold to various investors.^fFigures as of March 31, 1987, excluding VA-guaranteed loans held by AHFC. A very large share of new VA-guaranteed loans in Alaska in the first half of the 1980s were purchased by AHFC. Most VA-guaranteed loans not purchased by AHFC go into MBSs issued by GNMA and sold to various investors.^gAs of March 1987.^hOutstanding loans as of May 1987. Unpaid principal balance is an estimate based on average size of outstanding loan.ⁱGood estimates of cumulative Alaska residential mortgage holdings of the pension funds are not available because figures on such holdings are combined with figures on other mortgage holdings of the funds.^jThese are mortgage loans made under a state veterans' loan program that no longer exists; it was replaced in the early 1980s by the state veterans' program administered by AHFC. Most of these loans are now held by the Alaska Industrial Development Authority (AIDA); the Division of Investments in the Alaska Department of Commerce and Economic Development holds a few and services those held by AIDA.Source: *Alaska's Economy and Housing Market*, ISER Report, October 1987, Tables 3.1 and 3.3.

Alaska in 1987, with a combined unpaid balance of \$1.6 billion. (AHFC also holds some FHA-insured and VA-guaranteed loans; those are included in AHFC's holdings and excluded from FHA's and VA's, to avoid double-counting.) FNMA and FHLMC were each carrying more than 5,000 mortgage loans with a combined balance of nearly \$900 million.

Mortgage Liabilities

The current recession has pushed thousands of Alaska homeowners into default and foreclosure. Before we look at 1987 figures on properties in foreclosure, we'll broadly outline liability on mortgage loans when borrowers default. When we say "mortgage liabilities" here we just mean losses lenders and borrowers take when individual borrowers default. There are of course other kinds of liabilities—for instance, AHFC is liable for payments on the billions of dollars in bonds it sold to finance mortgage loans. We don't discuss that or other potential liabilities here.

Table 2 summarizes insurance requirements and

liabilities of home buyers and major lenders. The first step lenders take to protect themselves is requiring a down payment, generally 5 to 10 percent of the sales price. The chief exception is the Veterans Administration, under which qualified veterans can borrow up to a specific amount with no money down.

The next line of defense for the lender is requiring borrowers to carry private mortgage insurance (PMI) on loan amounts above 70 to 80 percent of the purchase price. This mortgage insurance protects the lender, not the borrower: if the borrower defaults, the private mortgage insurer pays the lender any losses on the insured portion of the loan. Loans in remote areas of Alaska generally don't carry private insurance because insurance usually isn't available in those areas. Loans held by the Alaska Department of Community and Regional Affairs and the Farmers' Home Administration are uninsured. Also, some loans made before 1980 under various state loan programs are uninsured.

So what happens when a borrower defaults and his property goes into foreclosure? First, borrowers

Table 2

Liability* in Home Foreclosures

Lender	Insurance Requirements	Liability of Borrower in Foreclosure	Liability of Lender in Foreclosure
Conventional Loans FNMA/FHLMC	Borrowers required to carry private mortgage insurance (PMI) on loan amounts above 80% of the house price.		Lender liable for any losses not covered by PMI.
FHA-Insured Loans	Borrowers pay premium for government insurance, either in lump sum or as part of monthly payments.		FHA liable for all losses.
VA-Guaranteed Loans	The federal Veterans Administration guarantees up to \$27,500 on mortgage loans to veterans as a benefit of military service; this guarantee takes the place of private mortgage insurance.	Borrowers in all cases lose their down payments, which can be as low as 0-5% but are generally 10% or more of the purchase price. Also forfeited is any amount subsequently paid on the loan principal. And, in some cases, lenders will undertake judicial foreclosures, in which they go to court to make borrowers who default liable for losses on resale of the properties.	VA liable for losses up to \$27,500 on each loan; additional liability falls on primary or secondary lender.
Farmers' Home Administration	This federal agency makes loans to low-income households in rural areas; no private mortgage insurance.		Farmers' Home Administration liable for all losses.
STATE OF ALASKA			
AHFC	Most borrowers required to carry private mortgage insurance on loan amounts above 75% to 80% of the house price; on mobile home loans, borrowers must carry private credit insurance on 40% of the loan amount.		Varies substantially among different types of loans; see Table 3.
DCRA	Loans in rural areas; no private mortgage insurance required (because it is not available in many cases).		DCRA takes all losses.
Ak Permanent Fund	Borrowers required to carry private mortgage insurance on loan amounts over 70% of the house price.		Permanent Fund bears any losses not covered by PMI.
Division of Investments and AIDA	These loans were made to veterans before 1981 through the former Division of Veterans Affairs; no private mortgage insurance required.		Losses accrue either to Veterans' Revolving Loan Fund or AIDA.

*Includes just losses the various parties may be liable for when individual loans go into foreclosure; does not include AHFC's liability for repayment of bonds and notes financing the loans.

who default lose their down payments and any additional amount they've paid on the loan principal. (Damage that defaulting does to a borrower's future credit is also certainly a loss, but a less direct one.)

Another liability that borrowers face is that lenders may institute what is known as a judicial foreclosure. If a lender believes that a borrower who defaulted could have continued to make his payments but chose not to, he may go to court to make the borrower liable for any losses when the property is re-sold. In a non-judicial foreclosure, the lender accepts that the borrower couldn't meet his payments and does not press or any further liability.

Losses that lenders and insurers face when properties go into foreclosure is a complicated question influenced by many things. But the biggest factor is the condition of the housing market.

Insurers face the first losses when properties with private mortgage insurance go into foreclosure. But in a market where properties values are rising, insurers don't generally lose because the properties can be sold for enough to cover the outstanding mortgage and foreclosure costs. However, property values

in Alaska in the past two years have been falling rather than rising. Many mortgages written when prices were at their peak exceed the current value of the property. So insurers have been taking losses—but they try to keep those losses to a minimum. An insurer can let the lender re-sell a property and then pay a claim to the lender, up to the maximum amount covered by the insurance. Or he can try to sell the property himself, if he thinks he can reduce his liability by doing so.

What about lenders? What losses do they take in foreclosures? Again, that depends on the condition of the housing market. In a market where prices are rising, lenders who require mortgage insurance don't generally take any losses. But in the Alaska market today, values of many properties are so much lower than the outstanding mortgages that insurance doesn't cover all the losses. And on loans not covered by insurance, lenders take all the losses.

AHFC's liability on mortgage loans varies considerably among loans made at different times and under different programs, as Table 3 shows. But AHFC has better protection than most lenders on the

Table 3

AHFC's Liability* in Foreclosures

Types of Loans by Insurance Coverage

ALL LOANS EXCEPT MOBILE HOMES

Loans with private mortgage insurance and pool insurance; include most loans made from 1981 to early 1984.

Loans with private mortgage insurance that were financed by FNMA, 1984-1986; include most loans made during that period.

Loans with just private mortgage insurance; include some loans made throughout AHFC history and almost all loans made since January 1987.

Loans with no insurance; include loans made under several special programs that no longer exist.

Loans with federal government insurance or guarantee; include loans made throughout most of AHFC's history.

MOBILE HOME LOANS

Loans before 1983 with no insurance.

Loans since 1983 with private credit insurance.

AHFC Liability

None, until bonds carrying pool insurance provision area paid off; then AHFC liable for any losses not covered by PMI.

None. FNMA is liable for any losses not covered by PMI on loans it financed for AHFC during this period.

AHFC is liable for any losses not covered by PMI.

AHFC liable for all losses.

FHA takes all losses on FHA-insured loans; VA takes liability only up to \$27,500 on each VA-guaranteed loan; AHFC liable for additional losses.

AHFC liable for all losses.

AHFC liable for losses not covered by PCI.

*Includes just losses AHFC is liable for when individual borrowers default.

majority of loans it made between 1981 and 1986. Almost all AHFC loans made during that period carry private mortgage insurance. AHFC loans made between 1981 and early 1984 also carry pool insurance—insurance that covers any losses not covered by private mortgage insurance. Mortgage Guarantee Insurance Company (MGIC) provided that pool insurance as a provision of bonds AHFC sold to finance loans during that period. So AHFC has virtually no liability when borrowers default on those particular loans—until the bonds backing them are paid off: the pool insurance is in effect only until the bonds are paid off.

From 1984 through 1986, the national lender FNMA financed a large share of AHFC loans—and on those particular loans, FNMA rather than AHFC is liable for any losses not covered by private insurance. (AHFC is, of course, liable to re-pay principal and interest to FNMA on the notes that financed the loans.)

AHFC's liability on other loans varies, as Table 3 shows. Some loans it took over from earlier state loan programs carry no insurance. Mobile home loans made before 1983 carry no insurance; loans made after that time carry private credit insurance on 40 percent of the value of the loan. AHFC takes losses beyond what private credit insurance covers.

Homes in Foreclosure

We've seen the mortgage holdings of major lenders and how the losses are divided up when borrowers default. Now we turn to the grim evidence of Alaska battered housing market: properties in foreclosure.

Table 4 shows foreclosed properties held by the major lenders and insurers as of mid-1987. Table 5 shows AHFC's inventory of foreclosed properties in each year from 1984 through 1987, and Figure 5 graphically illustrates the steep climb in foreclosures over the past several years.

In June 1987, lenders and insurers were holding more than 4,200 foreclosed properties. During the preceding 18 months, they had sold an additional 1,600 properties that had been foreclosed on. Taken together, the foreclosed properties still in inventory and those re-sold during the preceding year and a half totaled nearly 5,900—or 7 percent of outstanding residential mortgage in Alaska in mid-1987. And there were doubtless other foreclosures not recorded on Table 4—properties held by individual banks and private mortgage insurers other than MGIC, for instance. Reliable figures on such foreclosures are hard to get.

It's no surprise that AHFC held about 65 percent of foreclosed properties in mid-1987. AHFC bought most of the new mortgages written in Alaska in the 1980s and in particular most of those written

Table 4

Inventory of Foreclosed Properties Held by Major Alaska Lenders and Insurers, June 1987

	Held in Inventory June 1987	Foreclosed Properties Sold 1986–June 1987
AHFC		
Mobile Home	965	143
Other	1,793	1,075
Total	2,758	1,218
FNMA	394	160^c
FHLMC ^b	78	—
FHA-Insured	385	87
VA-Guaranteed ^c	366	80
MGIC	105	25 ^f
Alaska Dept. of CRA	40	1
Farmers' Home Admin.	100	30
Alaska Permanent Fund	23	11
AIDA and Div. of Invest.	5	6
Others ^d	NA	NA
Total	4,254	1,618

^aProperties "held by" each lender or insurer include just those to which each already held title or was in the process of acquiring title as of June 1987.

^bIncludes both completed and nearly completed foreclosures.

^cIncludes both properties the VA has already acquired title to and pending title acquisitions. Excluded are properties that the VA paid claims on but did not take possession of. Most such properties probably went into AHFC's inventory of foreclosed properties; some ended up in the hands of mortgage companies, banks, or other primary lenders.

^dSome foreclosed properties are held by a wide range of Alaska banks, other primary lenders, and private mortgage insurance companies. Figures on such holdings are extremely difficult to get, and the numbers are small compared with the holdings of the secondary lenders and largest insurers.

^eProperties sold 1986–May 1, 1987.

^fEstimated sales from November 1986–June 1987.

Sources: See Sources, Table 3.1.

when prices were at their peak. Also, from 1980 on, AHFC bought almost all the mortgage loans on mobile homes—which have seen tremendous losses in value during the recession.

FNMA, FHA, and VA were also holding several hundred properties each in the middle of the year:

Table 5

AHFC Cumulative Inventory* of Foreclosed Properties, Year-End, 1984-1987

	1984	1985	1986	1987	% of 1987 Total
Mobile Homes	38	186	610	1,179	32%
Other	91	322	1,061	2,522	68%
All	129	508	1,671	3,701	100%

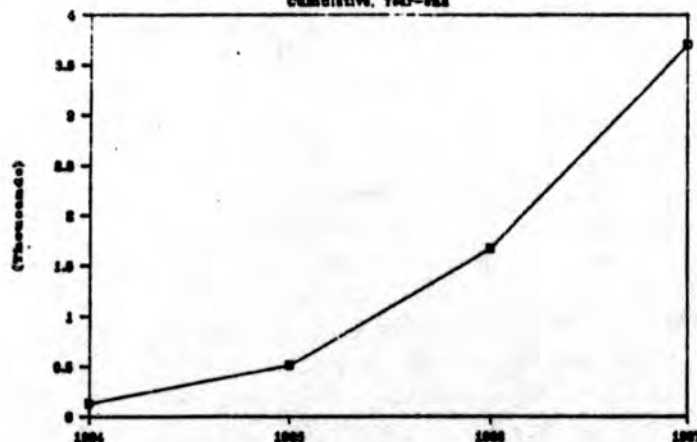
*The year-end inventories are total properties foreclosed on minus those resold. These figures are AHFC's state-wide inventory.

other lenders held fewer. The 100 properties that the insurer MGIC was holding at that time were just properties it had actually taken title to; remember that MGIC carries substantial liability on properties that are in AHFC's inventory.

Table 5 and Figure 5 document that relentless climb in AHFC's inventory of foreclosures from 1984—before the start of the recession—through the end of 1987. At year-end in 1984, AHFC held just 129 properties. By the end of 1985 that had grown to more than 500, and in 1986 to more than 1,600. At the end of 1987 AHFC held 3,700 properties—nearly a thousand more than it had held just 6 months earlier.

Table 6 shows a more detailed breakdown of properties in AHFC's inventory as of the end of 1987: 1,325 single-family houses and duplexes, 1,171 condominiums and townhouses; 1,192 mobile homes; and 13 triplexes and fourplexes.

AHFC Inventory: Foreclosed All
Cumulative, Year-end



It's easy to see why the problems in the condominium and mobile home markets are more severe than in the market for single-family houses: there are a great many more single-family houses in Alaska than there are either condominiums or mobile homes, but there are just about as many mobile homes and condominiums in foreclosure as there are single-family houses. Mobile homes, for example, make up less than 10 percent of housing in Anchorage, but more than 30 percent of foreclosures.

Table 6

AHFC Inventory of Properties, Year-End 1987

	Number	Percentage of Total
Single-Family Houses & Duplexes	1,325	36%
Condominiums & Townhouses	1,171	32
Mobile Homes	1,192	32
Triplexes & Fourplexes	13	>1
Total	3,701	100%

Source: AHFC.

POLICY OPTIONS

Thousands of Alaskans and dozens of institutions have important stakes in the future of the Alaska housing market. But it is the big secondary lenders who may be able to help stabilize the market over the next few years—and they have compelling reasons to try. Collectively they hold more than \$7 billion in Alaska home mortgages. AHFC alone holds 60 percent of that mortgage debt.

If prices continue to fall and defaults persist in such disheartening numbers, investors will be reluctant to put money into the Alaska housing market in the future. That reluctance will translate into more expensive mortgage money for Alaskans. AHFC's ability to sell bonds could be hampered. Mortgage insurers might pull out of the Alaska market entirely, or charge much higher premiums for staying in.

The biggest factor in the recovery of the housing market will of course be economic conditions. ISER projects that if—a crucial qualifier—oil prices remain stable in the \$16-to-\$20-per-barrel range, the state economy should bottom out in 1988 and begin a gradual recovery. We consider this the most likely case if oil prices stay in that range. The economic recovery would be faster over the next several years if oil

prices suddenly rose to around \$25 a barrel and stayed that high. Or, on the other extreme, if oil prices plummeted below \$16 and stayed very low for several months or more, the economy could continue to decline into 1989 and we would see very little growth over the next few years.

But even after the economy begins to recover, the problems in the housing market will not disappear. The big lenders will dominate housing sales for the foreseeable future because they have so many foreclosed properties to sell.

So while economic conditions will be the biggest force in recovery of the housing market, lenders' decisions about how quickly to sell their large inventories of properties will strongly influence the stability of the market over the next several years. This is by far the most critical policy choice the lenders will make. Anything else they do to try to stabilize the market will be critically influenced by how many properties they are putting on the market and how quickly.

In the following pages we assess how rates of foreclosure sales and other factors could affect the Anchorage housing market between now and 1992. We don't have enough information to make such assessments for housing markets in other areas of the state, but movements in the Anchorage market will reflect general trends in housing markets throughout Alaska—with some obvious regional differences.

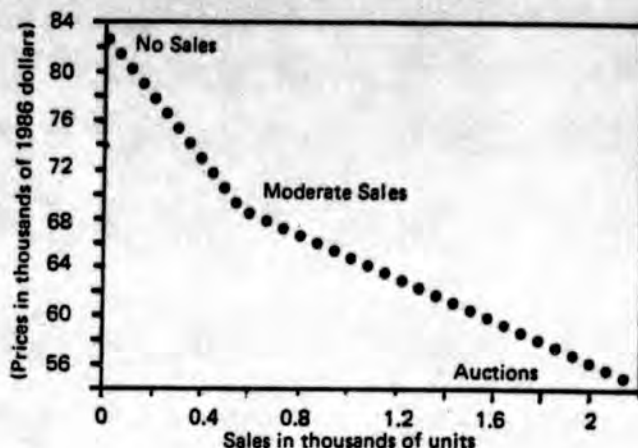
Sliding Prices and Rising Defaults: A Vicious Circle

The faster AHFC and other big lenders and insurers put foreclosed properties on the market—at the extreme, through large auctions—the more prices will be depressed and defaults persist. And more defaults will mean the lenders will end up with even more foreclosed properties.

It's easy to see why selling large numbers of properties quickly leads more homeowners to default. Flooding the market with properties pushes prices down. As prices go down, more and more homeowners find themselves with negative equity—that is, their mortgages are larger than the market prices of their properties. If owners with negative equity are forced to sell, they will likely default because they are unable or unwilling to make up the sometimes substantial difference between what they owe and what the properties will sell for.

Figure 6 illustrates how prices of Anchorage condominiums are related to the number of foreclosed units on the market. The figure is hypothetical: it does not show numbers of condominiums that will actually be sold this year. (We have no way of knowing what that number will be.) The prices shown on the vertical axis of the figure are for a particular kind of unit and are not intended to represent

Figure 6. Relationship Between Real Prices and Sales of Foreclosed Anchorage Condominiums, 1988



average prices of all condominiums on the Anchorage market. (We know that in recent months condominiums in Anchorage have sold for as little as \$25,000 and as much as \$100,000.) What we are showing here is how different rates of sale could affect the price of the same condominium.

As the figure shows, if all foreclosed condominiums were kept off the market—a very unrealistic scenario—condominium prices could be nearly 50 percent higher than if the market were flooded with condominiums through large auctions. At more moderate rates of sale, prices would be about 25 percent higher than if large auctions were held.

Holding properties off the market is of course very expensive for lenders and insurers: they pay in the neighborhood of \$18 to \$30 a day for each unit, depending on the size of the outstanding mortgage and the interest rate. We are not suggesting that lenders and insurers should simply hold onto all their foreclosed units; that simply is not feasible. What we are saying is that AHFC and other lenders should take into account all the possible costs and benefits when deciding how to manage their inventories of foreclosures.

Sliding property values and rising defaults have already cost Alaska lenders, insurers, and borrowers tens of millions of dollars. The foreclosure process itself is expensive. Costs of judicial foreclosures—under which the lender goes to court to try to make borrowers liable for any losses when the property is re-sold—are particularly high. And falling property values also have other social costs. For example, some homeowners who could find better jobs elsewhere don't move because they can't sell their houses for what they owe on them and they don't want to default.

What Can Be Done?

We examined a number of policies AHFC and other lenders might try to increase demand, keep prices from falling more, and reduce defaults. Those include loosening down payment and other loan requirements; easing restrictions on owner-occupancy in AHFC-financed condominium complexes; subsidizing interest rates; removing housing stock; and limiting mortgage liability in some circumstances.

We made our analysis with a complex computer model that simulates the Anchorage housing market. The model assumes that in general certain relationships exist between elements of the housing market, as shown in Figure 7. Higher prices are linked with fewer defaults, increased equity, more construction, and more private sales. Lower prices result in more defaults, less equity, less construction, and fewer private sales.

Fewer Defaults
Increased Equity
More Construction
More Private Sales

Prices Up

Figure 7. Relationships Among Market Variables

Prices Down

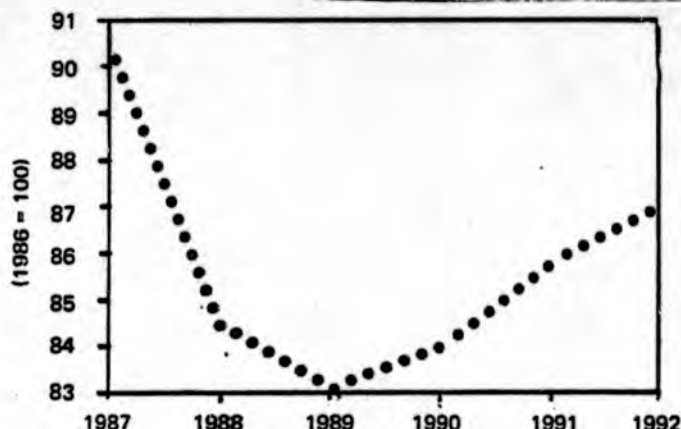
More Defaults
Less Equity
Less Construction
Fewer Private Sales

Our findings about how various policies might affect the Anchorage housing market are detailed in ISER's recent report, *Alaska's Economy and Housing Market*.² Below we summarize our main findings:

- o It is impossible to "forecast" how a specific policy would affect the housing market without knowing how many foreclosed properties will be put up for sale in a given time: the rate of sale of foreclosed properties dominates all other policies.
- o The market for single-family houses will recover more quickly than the market for condominiums. Most buyers prefer houses when they can afford them—and today's lower prices mean houses are within the reach of more buyers. Once the economy turns around, the market should be able to absorb the inventory of foreclosed single-family houses relatively quickly. And there will be some construction of single-

family houses in Anchorage over the next several years—but the cumulative number of new houses built between now and 1992 will likely be smaller than the number built during the peak construction year of 1983.

- o Very few condominiums or apartments will be built in Anchorage between now and 1992, if our medium case economic projections prove correct. The existing supply will be more than ample to meet demand. Under that same case, real rents—rents adjusted for inflation—in Anchorage in 1992 will still be below 1986 levels. (See Figure 8.)



*Rents adjusted to eliminate the effects of price inflation.

Figure 8. Projected Anchorage Real* Rent Index (1987-1992)

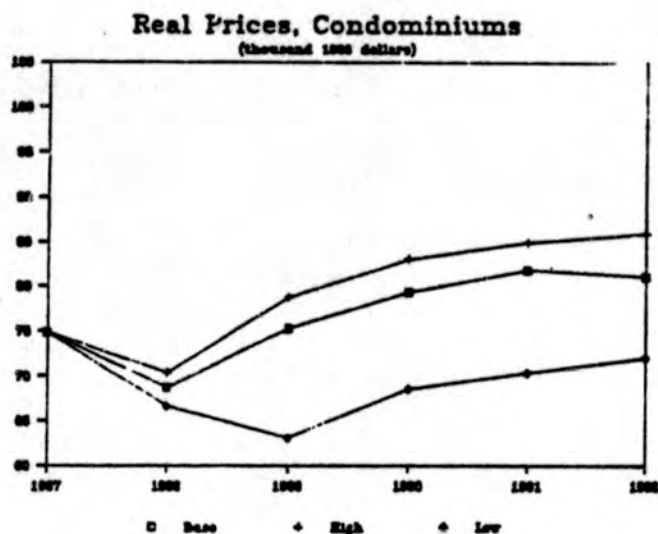
- o Because such a large proportion of Anchorage condominiums are in foreclosure, it would likely take several years beyond 1988 to sell the inventory of foreclosed condominiums without further depressing prices.
- o For some Alaskans there is a silver lining in the real estate cloud: lower prices may mean that they can move into better-quality housing than they could afford before. But a big barrier for those who already own homes is that many now owe more on their houses than the houses will sell for. Lenders may want to consider a policy that somehow allows those who want to buy better houses in Alaska to transfer a portion of their current mortgage liability to new homes.

Faster or Slower Economic Recovery

We consider our medium case economic projections most likely if oil prices stay in the range of \$16 to \$20 per barrel. But it's always possible that the economy could grow faster or slower than we expect: the Alaska economy is often surprising. If the econ-

omy grew more or less than we expect in the next few years, the housing market would of course be affected. Figures 9 and 10 show how real-adjusted for inflation—prices of Anchorage condominiums and single-family houses would be different under the high, medium, and low economic projections. All three cases assume a moderate rate of sales of foreclosed properties.

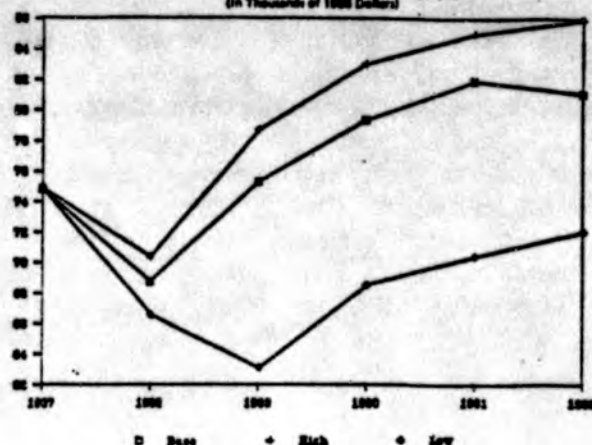
Figure 9 shows projected average real prices for a standard condominium under the high, medium, and low cases from 1987 through 1992. In the medium and the high cases prices bottom out in 1988 and in the low case in 1989. Prices then begin a very gradual recovery. But even under the most optimistic case, 1992 average condominium prices when adjusted for inflation are still far below their 1985 peak of around \$100,000.



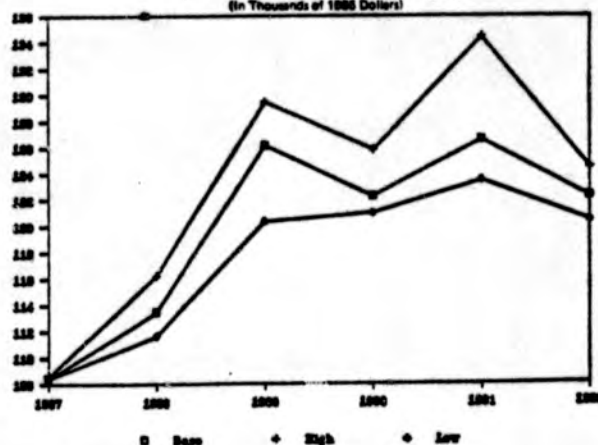
Real prices of single-family houses will rebound faster, although the pattern is not consistently upward. (Figure 10.) In our housing model, price increases of a certain level trigger new house construction—and when more new houses go on the market, prices are pushed down somewhat. But overall, real prices of houses under the medium or the high case in 19?? are projected to come fairly close to the peak prices of 1986.

Finally, Figure 11 shows projected cumulative numbers of building permits for new single-family houses in Anchorage between 1987 through 1992. Under any of the cases projected construction is modest as compared with the frenzied building of the early 1980s: under the medium case, a total of fewer than 3,000 new houses would be built in Anchorage between now and 1992. By contrast, in 1983 alone 3,500 new houses were built in Anchorage.

10 maybe
Figure 4-23 Real Prices, Anchorage Condominiums, Under Three Cases (in Thousands of 1985 Dollars)



11
Figure 4-24 Real Prices, Anchorage Single-Family Houses, Under Three Cases (in Thousands of 1985 Dollars)



FDIC

Federal Deposit Insurance Corporation

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

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

Date: March 4, 1988

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

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

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

<u>Commercial Loans</u>		<u>ANBN</u>		<u>FIB</u>	
<u>Secured by:</u>	<u>#</u>	<u>BV</u>	<u>#</u>	<u>BV</u>	
Commercial RE	175	21.0mm	178	35.4mm	
A.R. & Contract Rights	97	10.5mm	38	8.3mm	
Inventory	45	2.0mm	26	6.9mm	
Equipment	184	13.0mm	176	17.8mm	
Stocks	4	3.0mm	6	.2mm	
Miscellaneous	3	1.2mm	65	4.3mm	
Unsecured	94	3.5mm	61	3.4mm	
 Totals	 602	 54.2mm 57.2mm	 549	 76.3mm	

Laurence D. Schannault
 March 4, 1988
 Page 2

Real Estate Mortgage LoansANDNFID

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

B. Covered Transaction-Type

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

* FTR did not segregate covered transactions.

Lawrence D. Schannault
March 4, 1988
Page 3

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

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

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

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

Should you have any questions, please call.

JC:cn

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

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

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

REAL ESTATE PROPERTIES OWNED
PAGE 2

SUBSIDIARY ACCOUNT

BANK NUMBER: 5915

BANK: ALASKA NATIONAL BANK

BANK NUMBER: 2766

BANK: FIRST INTERSTATE BANK

TOTAL

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

10
(22,099,494.62)

12
(22,499,494.62)

The Subsidiary accounts consist of owned bank buildings.

MORTGAGE LOANS

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

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

COMMERCIAL LOANS

ANEN

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

FIB

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

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



**INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH
UNIVERSITY OF ALASKA, ANCHORAGE**

**CAN STATE SPENDING SPEED
ALASKA'S ECONOMIC RECOVERY?**

A BRIEFING PAPER AND ECONOMIC PROSPECTUS

Prepared by

**Institute of Social and Economic Research
University of Alaska Anchorage**

**Mr. Lee Gorsuch, Director
Dr. Scott Goldsmith, Professor^f**

Prepared for

**The Honorable Steve Cowper
Governor
State of Alaska**

December 8, 1987



UNIVERSITY OF ALASKA, ANCHORAGE

3211 Providence Drive
Anchorage, Alaska 99508
(907) 786-7710

INSTITUTE OF SOCIAL AND
ECONOMIC RESEARCH

MEMORANDUM

DATE: December 1, 1987
TO: Governor Steve Cowper
FROM: Lee Gorsuch⁶ Director, ISER
SUBJECT: Can State Spending Speed Alaska's Economic Recovery?

Economic Overview and Background The Alaska economy recently entered its ninth consecutive quarter of an economic recession. Assuming relative stability in future oil prices, the recession is progressively dissipating and is likely to end over the course of the coming calendar year. ISER projects a modest economic recovery commencing around the last quarter of 1988 and extending into the mid-1990s. ISER's projected recovery is largely driven by growth in most of the state's basic industries, augmented by an increased military presence. It also assumes state General Fund spending stays in the two billion dollar range.

The question this economic projection raises is, could the state hasten the projected economic recovery or minimize the economic hardship imposed by this third, and hopefully final, successive year of a recession without jeopardizing future economic stability and growth. To answer this question, it is instructive to review how the state got into its current economic condition and to briefly profile it before attempting to devise strategies on how to improve it.

Over the span of the last decade, Alaska's employment base has increased by almost fifty percent, with the most rapid growth occurring between 1981 and 1984. This rapid growth in employment precipitated a corresponding growth in population which, in turn, triggered additional demands in the public sector for such services as education and schools and in the private sector for housing and a host of business services. This growth in both the public and private sector is almost exclusively attributable to the state's spending of its oil wealth.

UNIVERSITY OF ALASKA, ANCHORAGE

December 1, 1987

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State General Fund spending more than tripled between 1980 and 1982. The sudden infusion of an additional two billion dollars into an economy which had a personal income base of only seven billion dollars could only have a dramatic accelerating impact on the state's economy. This infusion of state dollars continued through fiscal year 1985 and then began to decline at an accelerating rate as the state's oil revenues declined. Not surprisingly, the current economic recession coincided with and, in fact, was caused by the decline in state spending due to the corresponding decline in oil revenues. The subsiding of the recession is also largely a result in the subsiding of state spending cuts and, hopefully, some stability in oil prices and state oil revenues.

Policy Analysis. What this recent economic experience reveals is that state spending, unless it can be sustained, will have a destabilizing impact on the economy. It will accelerate the economy when spending increases and decelerate it when spending declines. I should hasten to add that dividends paid out from the Permanent Fund affect the state's economy similarly; i.e., increases accelerate the economy and decreases decelerate it. It is also important to note that the size of the dividends, proportionate to state spending, are playing an increasingly important role in the public sector's impacts on the overall economy. Thus, decisions regarding how state spending will impact the state economy must include consideration of the dividend payments.

If current levels of state (and local government) spending can be sustained (which to compute with some degree of reliability requires, among other assumptions, projections of future oil prices), a one-time state expenditure could arguably be justified if it were comparable to the modest economic gains expected by the state's basic industries in 1989. However, it is important to recognize that these projected gains are themselves subject to many unknowns, even though they do represent a best reasoned guess.

Although ISER is not in the oil forecasting business, if oil prices stay in the \$16-20 range, we project state spending could be sustained reasonably close to its current spending levels. However, to do so would require generating an additional \$250 million or the equivalent of using approximately one-fourth of the earnings of the Permanent Fund. If oil prices fall below this range or new nonpetroleum revenues are not available, then current levels of state spending cannot be sustained.



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Should the state receive a large cash settlement or payment in relation to its various lawsuits, these new revenues should be viewed and treated as one-time revenues. Any amount of these funds received and expended which exceeds the projected economic gains or which cannot be sustained by future oil price increases will further destabilize the economy. The exception to this rule is the extent to which the state spends such funds on projects or programs that generate sustainable economic activity, independent of future state spending.

Conclusions and Recommendations. The answer to the question "could an increase in state spending accelerate the projected economic recovery?" therefore lies in the assessment of the level of state spending which can be sustained over time. An increase in state spending will not hasten an enduring economic recovery unless the increased spending can be sustained or the state's basic industries increase their economic output to match a future decline in state spending.

ISER is projecting annualized employment gains in 1989 of about 2000. Applying an average wage of \$50,000 per job, it is conceivable that the personal income added to the economy would be in the vicinity of \$100 million over that of 1988. Thus, devising a state plan to spend an additional \$100 million above the level it can sustain could be absorbed by the private economy as it recovers. This additional expenditure would be a one-time expenditure, and it would be important to devise criteria to ensure that the expenditure maximize its economic impact and minimize future claims to state spending.

It would be counterproductive if the additional state spending constructed facilities which subsequently had to be operated and maintained, attracted outside workers rather than unemployed resident workers, or aided individuals or businesses that have not been adversely affected by the recession or that are likely to leave Alaska or fail as a business independently of the state's assistance. Ideally, the funds would attract additional dollars to Alaska and stimulate investment in Alaska's basic economy. Thus, to maximize the economic benefit of the additional state spending, the spending should be specifically targeted to where it will do the greatest net economic good.

Types of projects which would generally meet these criteria would include such initiatives as (1) an employment program for youth and the chronically unemployed (like a conservation corps building recreational cabins and related improvements in state



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December 1, 1987

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parks), (2) a major maintenance and repair program which would be labor intensive and reduce future O&M costs, (3) a tax relief or refinance program for small Alaska businesses which are viable but undercapitalized, and (4) a challenge fund which matches organizations which increase their recent levels of federal or philanthropic funding on some predetermined ratio.

There are also a variety of measures the state can and should take to provide economic relief to individuals, businesses, organizations, and markets which are experiencing severe hardship and future uncertainty. AHFC and AIDA have already initiated programs which may provide substantial economic benefits at relatively minimal expense to the state.

Please feel free to call me if you would like to discuss this matter further or would like any additional elaboration.

Figure 2.1

ALASKA EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

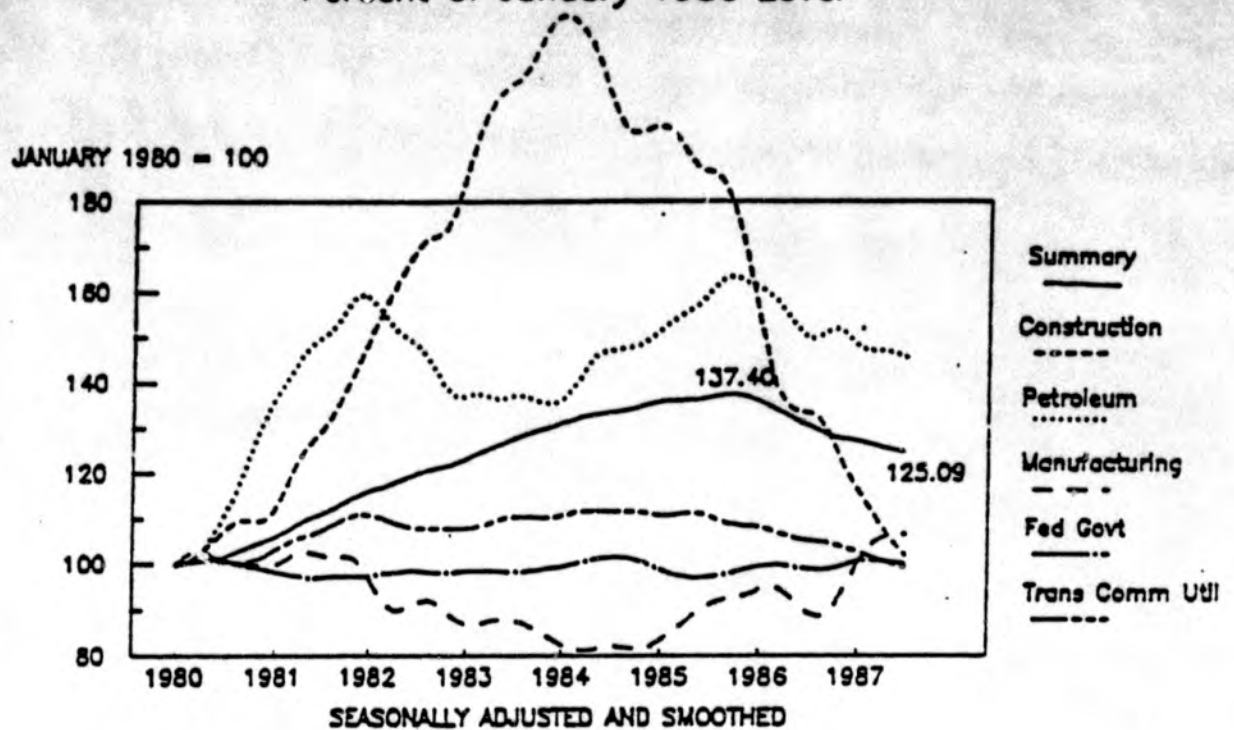


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

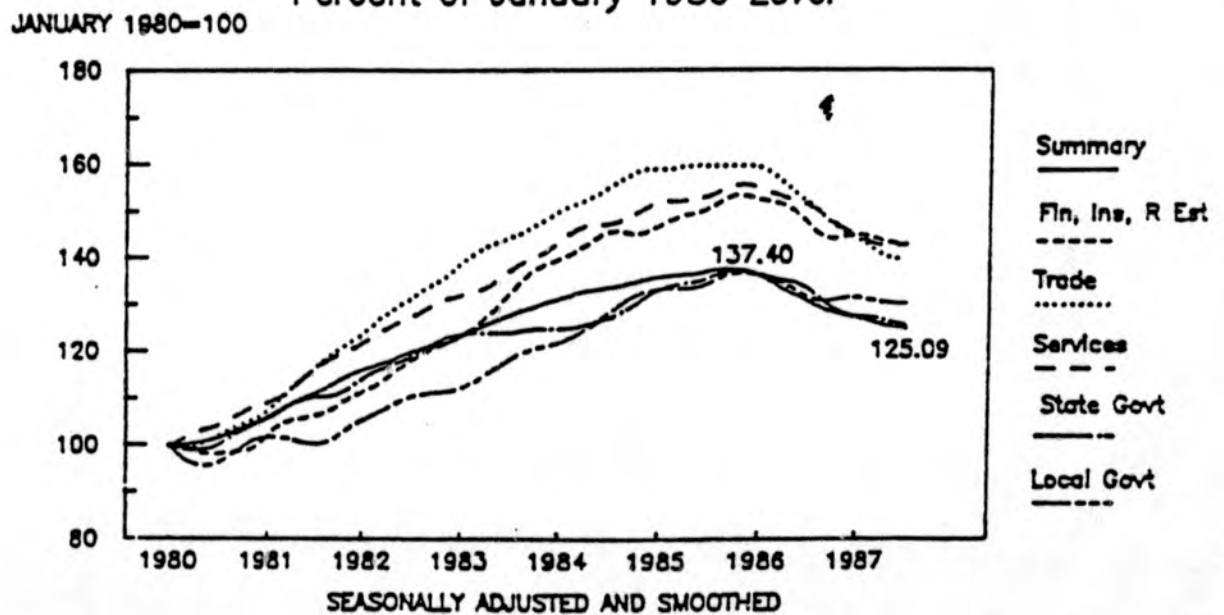


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

	Job Peak Sept. 1985	Employment			
		June 1987	Loss from Peak	June 1988	Estimated Further Loss
Total Wage and Salary	230	209	21	202	7
Mining	9.8	8.8	1	9	-
Manufacturing ^a	-	14.8	-	14	1
Federal Civilian ^a	-	18	-	18	
Transportation, Communications, Public Utilities	19	17	2	17	
Construction ^b	22	10.2	11.8	8	2
Finance	11.8	11.2	.6	11	
Trade	45.9	39.9	6	39	1
Services	45.6	41.4	4.2	40	1
State Government	20.7	19.3	1.4	18	1
Local Government	29.5	28.2	1.3	27	1

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

^bpeak month--January 1984.

Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART I. Percent of January 1980 Level

JANUARY 1980=100

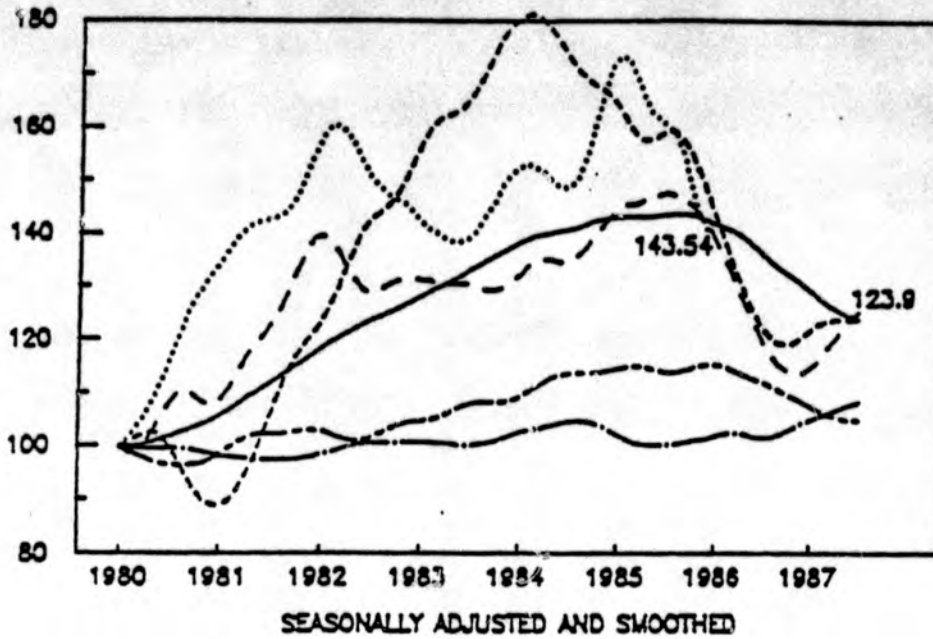


Figure 2.6

ANCHORAGE EMPLOYMENT INDEX--PART II. Percent of January 1980 Level

JANUARY 1980=100

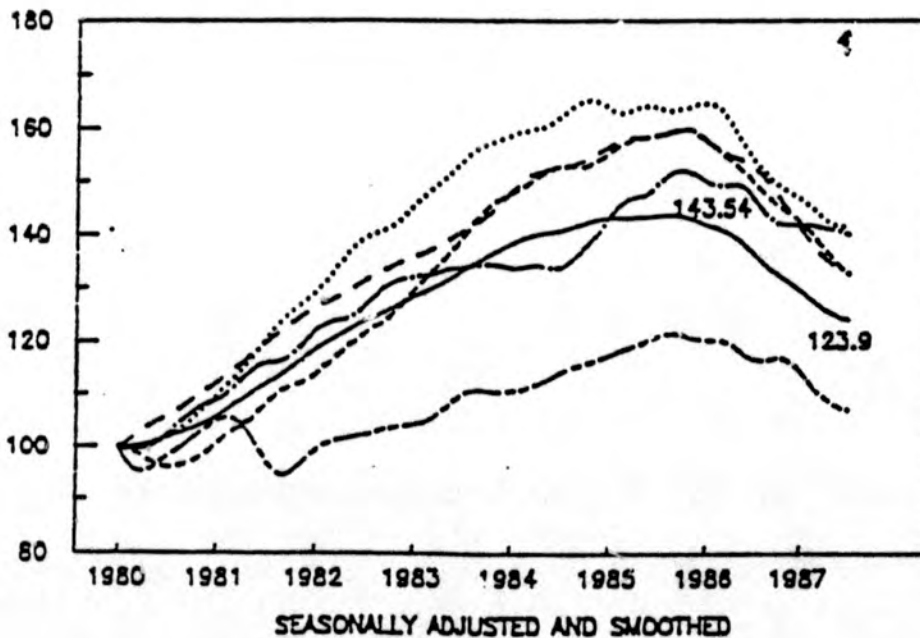


Figure 2.11

ALASKA BASIC INDUSTRY EMPLOYMENT (AHFC STUDY)

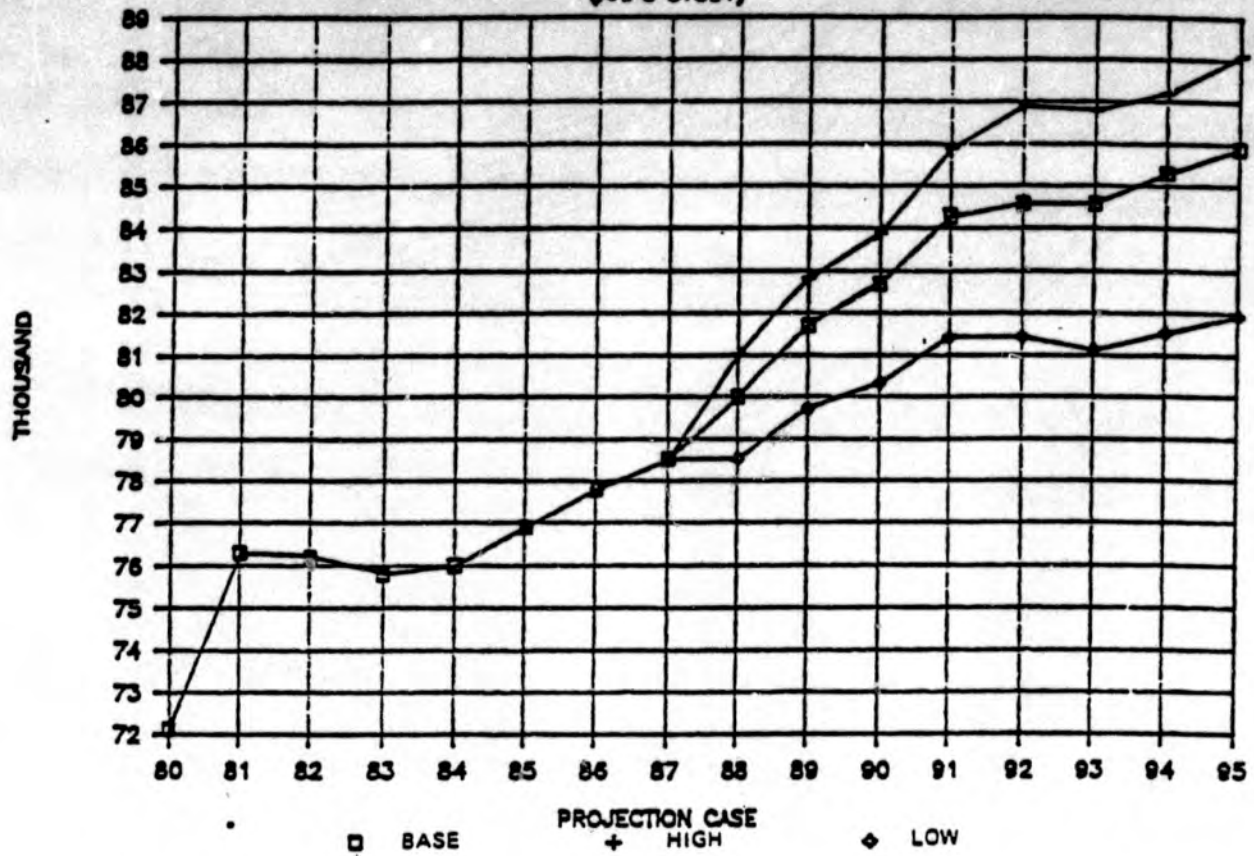


Figure 2.12

STATE-LOCAL GOVERNMENT EMPLOYMENT (AHFC STUDY)

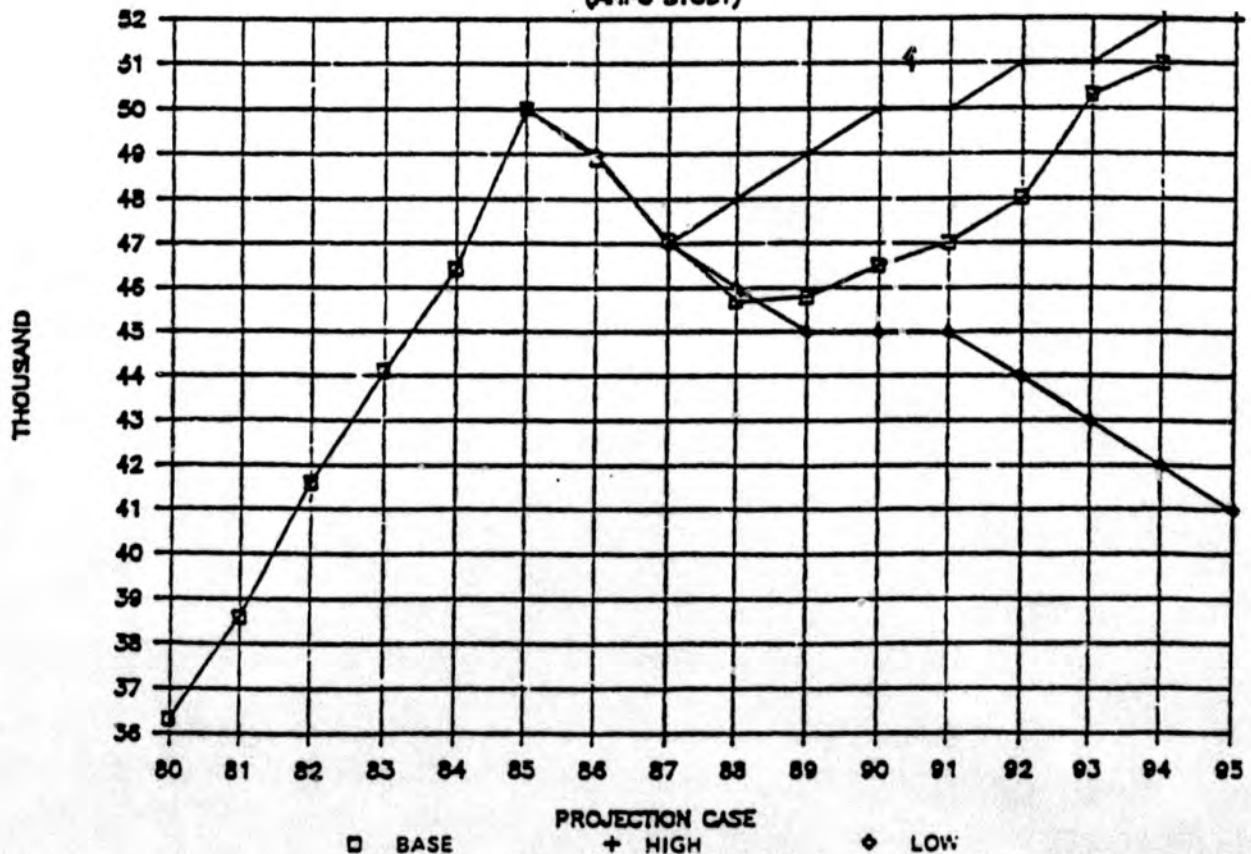


Figure 2.15

ALASKA INFRASTRUCTURE EMPLOYMENT (AHFC STUDY)

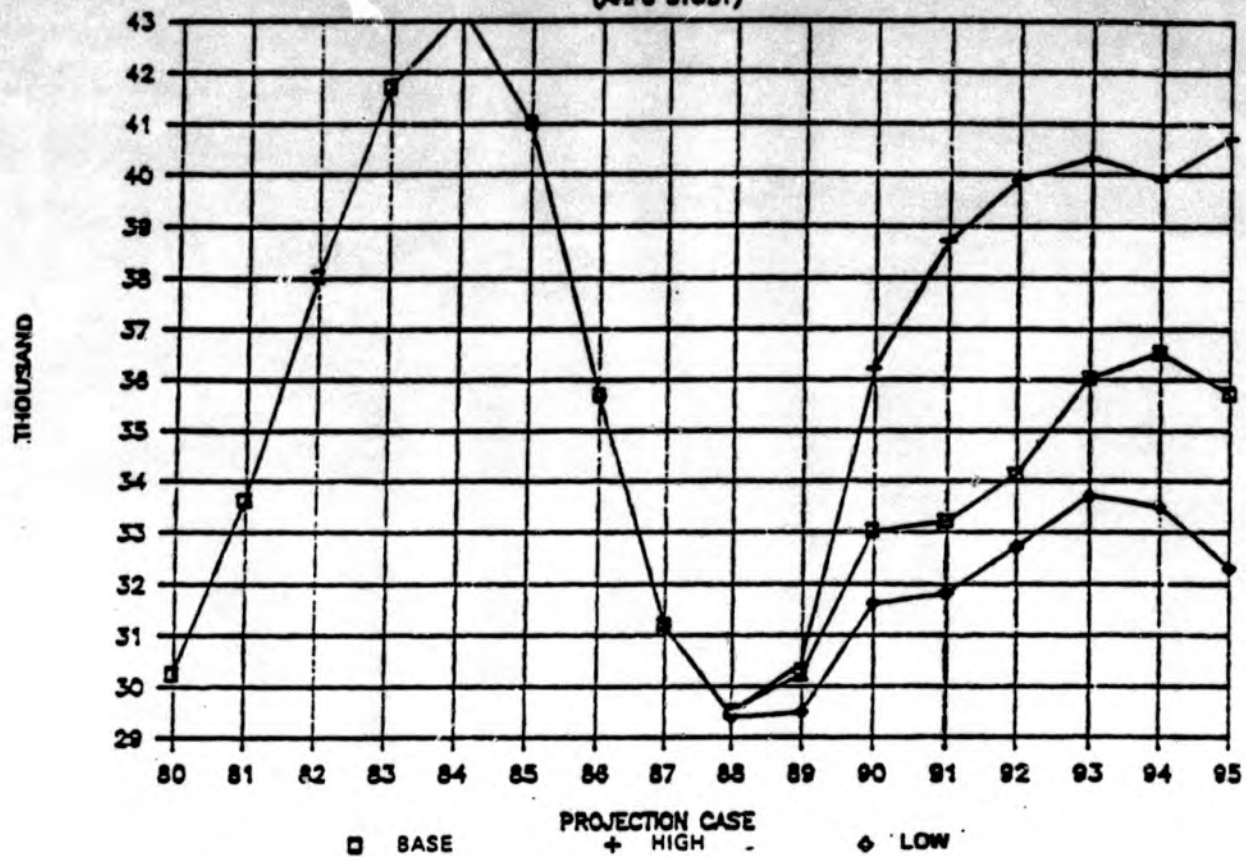


Figure 2.16

ALASKA SUPPORT INDUSTRY EMPLOYMENT (AHFC STUDY)

