

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672
1571 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988 1368

EXTERNAL COMMITMENTS

No entity can operate in a vacuum or in isolation from its surrounding economic influences. Therefore, it is important that in developing this holding bank we also obtain written commitments to:

1. Demolish marginal and unsafe properties whenever possible.
2. Place a moratorium on any rezoning that results in a higher density.
3. Place a moratorium on expansion of utilities, at least until there is a better utilization of highest and best use of our present land.
4. Mothball or export all excess mobile homes.

CONCLUSION

I doubt that my plan, which is really a conglomerate of my ideas and other proposals, will slay the economic dragon (wounded - maybe). However, after a stop, look and listen posture for the last three years, I am now convinced that the time is right to bring together some of the best talent in the state who will, in turn, analyze the problem, evaluate alternative courses of action, and develop a proposal that WILL WORK!

If there is a problem in our economy, and that problem is an excess in the supply of real estate and we have decided that something must be done - then let's do it right!

1. a combined effort from the private and public sectors.
2. put our money down and accept the risk and profit.
3. spread the risk.
4. and most importantly do not debt finance with public funds. Let's treat this problem as an investment opportunity not a bail out program.

P.S. If we are going to moth ball real estate, let's start with the PAC! It's a little silly to walk around town in a mink coat and no shoes.

**MUNICIPALITY OF ANCHORAGE
ECONOMIC RECOVERY PROGRAM**

**Submitted
by Mayor Tom Fink**

**Approved by the Assembly
March 1, 1988**

MUNICIPALITY OF ANCHORAGE
ECONOMIC RECOVERY PROGRAM

- I. Anchorage's Current Economic Condition
- II. Objectives of the Economic Recovery Program
- III. Description of the Economic Recovery Program
- IV. Economic Recovery Program Elements
- V. Proposed Capital Projects

I. ANCHORAGE'S CURRENT ECONOMIC CONDITION

Anchorage has been hit hard by the Alaska recession. The statistics are dramatic, but give only a glimpse of the suffering and despair felt by so many residents. Nearly 15,000 jobs (and the associated incomes) have been lost in Anchorage since January 1986. The rate of job loss is higher in Anchorage than in the state as a whole.

Population declines coupled with falling incomes have reduced the demand for goods, services and housing. These impacts continue to ripple throughout the economy resulting in personal and business financial distress. Personal bankruptcies are occurring at an average monthly rate which is 2.6 times that experienced in 1985; business bankruptcies are 75% above the average 1985 level.

The real estate market has been jolted. The total value of taxable property in the Municipality of Anchorage has declined by a third -- over \$5 billion dollars -- since January 1, 1986. Alaska Housing Finance Corporation, the largest mortgage lender in the state, has a delinquency rate of approximately 15%; and has foreclosed on nearly 3600 properties in 1987, compared with 630 in 1985. Survey data indicate that as many as 40% of local residential mortgage holders may now owe more on their properties than the value of these homes in the current market. These "under water" loans represent the loss (at least on paper) of the major savings of many families. If individuals need to sell now, the effect is devastating. Even for those who have no immediate requirement to sell, the loss in wealth has a dampening effect on family expenditures and financial confidence.

The story is repeated in the commercial real estate market. Vacancy rates are unusually high. The imbalance between existing supply (a fixed amount) and falling demand, has resulted in numerous foreclosures on commercial property. Businesses still viable today may be pulled under by the inability to indefinitely "feed" related investments in commercial real estate. Several financial institutions have closed their doors; other are taking substantial losses.

As the tax base and other sources of government revenue shrink, local government loses its ability to provide goods and services. The Municipality of Anchorage is currently facing a budget problem of approximately \$20 million, exclusive of utility revenue shortfalls. Projections of 1989 revenues indicate even more severe drops. These cuts translate into hundreds of jobs. Local government program reductions and employee layoffs exacerbate the economic decline, feeding the downward spiral.

As documented in the Fischer Report, the situation is critical. The length of this recession is uncertain. Although employment is still falling, the rate of decline has lessened, at least temporarily. But, even when the nadir is reached, local economic problems are not over. The natural readjustment process is painful; projected future growth is slow.

II. OBJECTIVES OF THE ECONOMIC RECOVERY PROGRAM

- A. Purpose: The purpose of the Municipality's program for economic recovery is to mitigate the problems caused by the current economic recession to decrease the depth and severity of this recession, and to contribute to the long-term stable recovery and growth of the Anchorage economy.
- B. Objectives:
- * Create jobs for local residents; avoid further job losses. (Rationale: Jobs generate income which then cycles through the economy in a manner based on choices by individuals; increased incomes enable individuals to meet obligations and avoid financial ruin.)
 - * Establish a floor under falling residential and commercial property values. (Rationale: Stable property values are necessary to begin the correction of the imbalance between supply and demand and to reestablish confidence in the local economy.)
 - * Provide interim relief for businesses. (Rationale: Target limited resources to maintain ventures which will not require continual, long term subsidies to survive. Provide for limited, well defined involvement of government in the private economy.)
 - * Reduce costs or avoid cost increases to businesses and individuals. (Rationale: Alleviate business and personal financial distress by reducing costs of living and operations; for example, utility increases, increased cost of regulations, taxes.)

III. DESCRIPTION OF THE ECONOMIC RECOVERY PROGRAM.

Anchorage's program for economic recovery is organized in three phases. Phase 1 includes the immediate requests for state action, concentrating on areas which can begin to impact the economy in the short run or those actions which can be pursued administratively. Phase 2 is directed to economic issues which will be dealt with throughout the 1988 Legislative Session. Phase 3 includes those projects and proposals with longer lead times or which require additional analysis and evaluation. In this third phase, more emphasis is placed on activities which provide for the economic growth which must underlie real and lasting recovery for Anchorage and all of Alaska. Section IV outlines the primary elements of these phases.

Section V describes in more detail the approach and recommendations for capital projects. Also shown are descriptions of the individual projects, which are divided into two stages on the basis of timing factors described.

IV. ECONOMIC RECOVERY PROGRAM ELEMENTS.

A. Phase 1 - Immediate State Action

- * Supplementary Municipal Assistance distributed according to existing Municipal Assistance formula
 - Purposes:
 - Keep taxes and utility rates down
 - Avoid further layoffs
 - Get small/local capital projects underway
 - Advantages:
 - Local option so can apply to local priorities
 - Short lead time (quick implementation)
- * Early State Capital Appropriations for projects with immediate start-up and/or federal match projects (Jobs bill).
 - Purposes:
 - Employment
 - Repair and rehabilitation (lower O&M costs)
 - Economic Development (infrastructure)
 - Advantages:
 - Impact employment in hard hit sector
 - Multiplier impacts help support sector
- * Real Estate Market Participation
 - Purposes:
 - Re-establish confidence in the economy
 - Speed readjustment
 - Reduce loss of employment and income
 - Advantages:
 - Potential for long run return on investments initially made in distressed markets

Commercial Real Estate

Consider Alternative Methods of Investment in or Removal of Commercial Real Estate from Market

AIDEA and other agencies assist borrowers through loan modifications and refinancing.

Residential Real Estate

AHFC - administrative action/workout programs.

University of Alaska Anchorage purchase or lease of foreclosed condominiums for student housing.

ASBA/HUD remove substandard housing from market, utilize foreclosed properties to provide housing for needy individuals.

State actions to discourage auctions and other forms of dumping of real estate.

Encourage agencies to facilitate trades in condominium market.

Encourage removal of mobile homes from market.

*** Other**

Bradley Lake - fast track APUC review exemption. Move forward with construction.

Court Building financing - fast track project.

B. Phase 2 - 1988 Legislative Session, Economic Priorities

*** Operating Budget Issues**

- School Foundation Program

Support Forward Funding

- Municipal Assistance, State Revenue Sharing, School Debt Reimbursement

Increase Funding levels

Change payment schedule for Municipal Assistance

Support Forward Funding

- Social Services Block Grant Funding

- Support Police/School Liaison Program

- Maintain share of State employee position count in Anchorage

- Encourage state funding for employment of young and adult Alaskans to carry out conservation and development projects.

* Capital Improvements

- Assembly Resolution #88-39 requesting the Anchorage legislative delegation to follow Municipal priorities as approved by the Assembly and Administration
- High Priority 1988 Construction
 - Group I - Assembly Priorities \$61,836,900
 - Group II - Other Priorities \$41,802,900
 - High Priority 1989 Construction \$38,890,000
 - Anchorage School District Priorities
 - Railbelt Energy Fund - Municipality of Anchorage's support for maintaining the Railbelt Energy Fund for railbelt communities' energy projects
 - Alaska Department of Environmental Conservation sewer and water community grant program

C. Phase 3 - Longer Term Economic Recovery Program

Specific proposals have not been finalized for all elements in this phase. Some would require State action while others are primarily local initiatives. A series of proposals and actions are being evaluated--including the items listed below.

* Local development opportunities

- Home Port, location of Navy installation in Southcentral Alaska
- 1994 Winter Olympics
- Ski Resorts
- Ship Creek Development
- Tourism Promotion

* Stabilize taxes and utility rates

* Extra Permanent Fund Dividend payments

* Heritage Land Bank as a source of land for industrial development

- * Legislation permitting use of tax incentives for business development
- * Streamlining of local permitting requirements
- * Local purchase/import substitution

V. Proposed Capital Projects

The attached list of projects has been developed and grouped based on criteria geared toward generating an immediate stimulus to the professional design/engineering and construction sectors of Anchorage's economy. Primary criteria favored projects which are ready to proceed, labor intensive, employ local workers and reduce Municipal operation and maintenance costs. Secondly, we considered projects which maximize use of local materials, have been endorsed through the public review process, have positive life safety and health impacts, and are a positive influence on future economic development. The Assembly has passed Resolution No. 88-39 requesting the Anchorage Legislative delegation to follow Municipal priorities as approved by the Assembly and Administration.

- A. High Priority-1988 construction: High priority projects which can be constructed in 1988.
 - * Group I - Projects that have been specifically endorsed by the Assembly as top priority.
 - * Group II - Other high priority projects identified by the Administration which can be constructed in 1988.
- B. High Priority-1989 construction: High priority projects endorsed by the Assembly or identified by the Administration which, due to the constraints of design, right-of-way acquisition or permitting, cannot be bid for construction until 1989 or 1990.
- C. Anchorage School District Capital Projects

The Anchorage School District has compiled a separate listing of capital projects which was submitted to the Legislature early in this session. Many of these projects are necessary for the life/safety of Anchorage students and other projects address deferred maintenance needs or are considered essential to the instructional program by the School Board.

The Anchorage Assembly has responsibility to establish funding for community-wide capital projects. The Assembly has discussed and approved the capital projects included in the Anchorage Economic Recovery Program as priorities for Anchorage; however, it has not prioritized the projects proposed by the School District.

D. Railbelt Energy Fund

The Railbelt Energy Fund was established to address electrical needs of communities from the Kenai Peninsula Borough to Fairbanks. There have been several proposals this session to reallocate these funds for other purposes. The Alaska Power Authority, through funds authorized by the 1987 Legislature, has undertaken a major effort to examine the electrical/power requirements of Railbelt communities and examine a series of proposals, including expansion and upgrade of the existing intertie distribution system. Contracts for this analysis are underway with final conclusions and recommendations due in March 1989. An interim report will be distributed to the 1989 Legislature.

If no other sources of state funds are made available for economic recovery then the Railbelt Energy Fund should be used for that purpose.

E. Alaska Department of Environmental Conservation Community Sewer and Water Grants

The State of Alaska has for the past several years supported a level of ADEC grants (50% State, 50% local) to Anchorage for basic sewer and water improvements throughout the Anchorage area. The fiscal year 1989 budget currently under Legislative consideration contains no continued funding for this vital program in Anchorage. The funding request to the State for the 1988 construction year includes the Eagle River Wastewater Treatment Facility upgrade, water improvement districts, transmission mains, distribution reservoirs and utility improvements related to road construction. The funding request for the Eagle River Treatment facility will provide partial funding of the local share requirement for an EPA grant of approximately \$4 million. The Anchorage request to ADEC for the State's 50% grant share is summarized as follows:

Anticipated Improvement Districts	\$1,700,000
ADOTPF Highway Related	132,000
Miscellaneous Transmission Mains	732,000
Distribution Reservoirs	177,000
Accelerated Sewer Program	177,000
Eagle River WWTF Upgrade	3,500,000
Total	<u>\$6,418,000</u>

APPROVED

Date: 3-1-88

Submitted by: Chairman of the Assembly at
the Request of the Mayor
Prepared by: Office of Management and
Budget
For Reading: March 1, 1988

ANCHORAGE, ALASKA
AR NO. 88-39

A RESOLUTION OF THE ANCHORAGE ASSEMBLY REQUESTING THE ANCHORAGE LEGISLATIVE DELEGATION FOLLOW THE ASSEMBLY/ADMINISTRATION-APPROVED MUNICIPAL CAPITAL PROJECTS LIST WHEN APPROPRIATING CAPITAL FUNDING FOR ANCHORAGE PROJECTS.

WHEREAS, State funding for capital projects has declined significantly in the past several years; and

WHEREAS, the Municipality of Anchorage has many unmet capital needs; and

WHEREAS, the Municipality of Anchorage has a capital improvement process which includes the Community, Administration and Assembly through which capital projects are prioritized on a community-wide basis; and

WHEREAS, the Capital Projects Section of the Anchorage Economic Program reflected the local priorities reviewed and approved by the Assembly and Administration.

NOW, THEREFORE, the Anchorage Assembly resolves:

Section 1. To strongly recommend that the Anchorage Legislative Delegation seek funding for those Municipal capital projects on the Assembly-approved priority list.

Section 2. If a Legislative priority project including Anchorage School District projects is not on the Municipality's approved list, adequate opportunity should be allowed the Municipality to evaluate the project and make a joint Assembly/Administration recommendation back to the Legislature.

PASSED AND APPROVED by the Anchorage Assembly this _____ day of _____, 1988.

Chairman

ATTEST:

Municipal Clerk

ANCHORAGE CAPITAL PROJECTS

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
HIGH PRIORITY - 1988 CONSTRUCTION		
GROUP I - ASSEMBLY PRIORITIES		
Lake Otis Parkway, III (Tudor to Dowling)	\$ 2,500.0	Electrical undergrounding, sewer/water, bike path & landscaping
Klatt Road (Timberline to Southport)	\$ 3,400.0	Paving, curb & gutter, sidewalks, bike path, lighting & landscaping
Spenard Road, II (International to Turnagain) (HB 512 - \$3,500,000)	\$11,400.0	ROW acquisition \$4.2M Roadway construction \$7.2M
Hiland Road - Phase II	\$ 500.0	Road improvement and slope stabilization - needs design
Santa Maria Drive	\$ 850.0	Upgrade gravel road - design is being negotiated
Hiland Bridge Pedestrian Walkway	\$ 450.0	State DOT project. Widen pathway from 8' to 12' on future bridge. Under design for 1988 construction.
36th Avenue (Arctic to Spenard)	\$ 4,800.0	ROW acquisition funded; roadway and landscaping construction
East 6th Ave. (Muldoon-Cherry)	\$ 2,000.0	Road Construction - needs design
Lake Otis Parkway, IV (66th to Abbott)	\$15,800.0	ROW acquisition \$2.1M; roadway and landscaping construction \$13.7M
Arctic Blvd. (Raspberry to Dimond)	\$ 3,500.0	Utility relocations and construction \$3.5M
Huffman Rd. (New Seward to Bragaw) (HB 512 - \$3,002,200)	\$ 3,500.0	Bid package ready by July, State DOT project
Baranoff	\$ 1,620.0	Upgrade gravel road - design is being negotiated
Klondike	\$ 270.0	Upgrade gravel road - design is being negotiated
Eagle River Roads (HB 512 - \$650,000 Eklutna to Eagle River)	\$ 900.0	Strip paving. Design negotiation underway.
Lake Otis (O'Malley-Huffman)	\$ 3,100.0	ROW acquisition \$.3M; design \$.4M; and construction \$2.4M.

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP I - ASSEMBLY PRIORITIES (continued)</u>		
ARDSA Rehab Projects (HB 512 - \$1,115,000)	\$ 4,000.0	Implementation of 5-yr. road improvement plan - needs design
Venus Way \$200,000	Collins Way \$17,000	Turpin \$150,000
Oceanview \$200,000	Imlach \$37,000	First Avenue \$160,000
Admiralty Bay \$74,000	Tall Spruce \$150,000	
Dare Avenue \$17,000	E. 20th \$110,000	
Hillside Drainage Plan Phase I Study	\$ 300.0	Complete assessment of drainage problems on Hillside identifying specific capital projects
Hollywood Vista Apartments	\$ 2,146.9	Provide for the asbestos removal (\$646,875) and demolition (\$1,500,000) of the apartment building recently transferred from HUD to Municipal ownership
Willow Park Apartments	\$ 2,200.0	Demolition and restoration of apartment building site
W. Northern Lights Blvd. I (Forest Park to Wisconsin)	(\$ 1,400.0)	Landscaping complete; request transfer of residual funds to Spenard Road II
Subtotal	\$61,836.9	
<u>GROUP II - OTHER PRIORITIES</u>		
Windemere Phase I Reconstruction	\$ 697.0	Paving, curbs, drainage. Design complete, construction contract
Heather Meadows Phase III (HB 512 \$400,000 Heather Meadows and Windemere)	\$ 724.0	Subdivision reconstruction roads and drainage (design 50% complete)
Central Business District Rehabilitation	\$ 600.0	Sidewalk, curbs, drainage (design complete)
Downtown Sidewalk, Lighting and Landscape Improvements	\$ 1,000.0	Upgrade and improve curbs, sidewalk, signals and lighting in areas of 5th and 6th between C and G. Design in progress.
Post Road	\$ 448.0	Paving overlay (design 95% complete)
Ocean Dock	\$ 170.0	Paving overlay (design 95% complete)
Lakeview Terrace	\$ 1,720.0	Subdivision reconstruction, roads and drainage. Under design for summer construction.

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP II - OTHER PRIORITIES (Continued)</u>		
Emerald Hills	\$ 1,357.0	Subdivision reconstruction roads and drainage. Under design for summer construction.
Municipal Building Energy Projects	\$ 180.0	Conversion to gas heat, mechanical modifications, setbacks on fans and heating systems, lighting reductions. Will save an estimate of \$140,000 in future annual O&M costs.
Town Square Park	\$ 400.0	Construct Phase I including site preparation and underground utility work. Design under contract for 1988 construction
Maritime Receiving Area	\$ 2,000.0	Installation of a fish handling and small freight dock at Ship Creek for tenders and barge
ADEC Sewer and Water Match	\$ 500.0	Provide required local matching funds for the ADEC Construction Grant Program for improvement district, transmission mains, distribution centers, etc.
Water/Wastewater Repair and Rehabilitation	\$ 1,200.0	Replace antiquated woodstave water and sewer lines and outdated clay sewer pipe in downtown and Government Hill
Golden View Water Extension	\$ 750.0	Construct 24" oversized water line and pump station in the Golden View area - being designed
Girdwood Wastewater Treatment Facility	\$ 2,700.0	Upgrade of Girdwood treatment facility Phase I, outfall from treatment facility to creek \$1M - in design
Hiland Drive Project	\$ 2,770.0	Construct sewer pump station, force main and interceptor serving the Hiland Drive area (Eagle River ski resort, prison and residential). Design will be completed by summer construction.
Port/Landfill Development Project	\$ 4,800.0	Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement.

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP II - OTHER PRIORITIES (Continued)</u>		
Merrill Field Runway Construction Grant (matching grant) (HB 512 - \$147,000)	\$ 147.0	FAA Federal grant to upgrade the Merrill Field north/south runway \$2.3M. Grant is being processed, design to be Completed in May, construction August 1, completion mid-November.
Merrill Field Passenger Terminal	\$ 4,000.0	Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.
<u>Public Works - Deferred Municipal Building Maintenance</u>		
Historical Fine Arts Museum	\$ 250.0	Repair/replace damaged wall coverings in art galleries.
Tudor Road Building	\$ 150.0	Heating system replacement (design complete)
Woodland Park School	\$ 78.4	Heating system repairs - 3-4 weeks designs
Municipal Buildings Roof Repairs	\$ 39.7	Roof maintenance and repair on 9 buildings
Paint Municipal Buildings (HB 512 - \$5,000 Goose Lake)	\$ 110.0	Small painting projects on 14 building interiors and exteriors
Fleet Service Building	\$ 125.0	Fire sprinkler system - 4-5 weeks design required
Transit Storage Building	\$ 57.5	Repair doors and floor
Hill Building	\$ 12.0	Upgrade air conditioner in 5th floor computer room
Gateway Park (Interna- tional Airport Road)	\$ 125.0	Replace underground sprinkler system for landscaping - 2 weeks design required
West Chester Lagoon Park	\$ 35.0	Replace underground sprinkler system for landscaping - 2 weeks design required
Libraries and Maintenance Shop (HB 512 - \$6,500 Mt. View)	\$ 37.0	Construct and repair interior walls and carpet

Name of Project	1988 (\$000)	Notes
<u>GROUP II - OTHER PRIORITIES (Continued)</u>		
Asbestos Abatement (HB 512 - \$54,410 Goose Lake)	\$ 1,300.3	- Fire stations \$173,300 (design Complete) - Old City Hall \$250,500 (designs - 3-4 weeks required) - Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center \$326,400 (design - 2-3 weeks required) - Public Health Facility \$363,600 (design 2-3 weeks required) - Other municipal buildings \$186,500 (design - 2-3 weeks required)

Parks and Recreation - Meet additional criteria of life/safety improvements

Delong Lake Park	\$ 50.0	Replace public use dock
Nunaka Valley Park (HB 512 - \$25,000)	\$ 25.0	Replace broken playground equipment
Jewel Lake Park (HB 512 - \$107,000)	\$ 130.0	Playground and equipment repair, dock Replacement
Goose Lake Park (HB 512 - \$80,000)	\$ 80.0	Parking lot redesign and traffic barriers
Kincaid Park	\$ 50.0	Replace public use dock
Sand Lake Park	\$ 50.0	Replace public use dock
University Lake (HB 512 - \$80,000)	\$ 70.0	Bike trail bridge replacement
Valley Street	\$ 85.0	Lake shore steep bank improvements
Taku Lake (HB 512 - \$125,000)	\$ 225.0	Lake shore steep bank improvements and dock construction
Chester Creek Trail System (HB 512 - \$400,000)	\$ 1,625.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Campbell Creek Trail System	\$ 875.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP II - OTHER PRIORITIES (Continued)</u>		
<u>Parks and Recreation Improvements</u>		
Willow Housing Park	\$ 45.0	Park repair and rehabilitation
Browns Pt. Park (HB 512 - \$40,000)	\$ 40.0	Park repair and rehabilitation
Delaney Park	\$ 260.0	Top soil and reseed
Duldida Park (HB 512 - \$85,000)	\$ 85.0	Park repair and rehabilitation
Kanchee Park (HB 512 - \$85,000)	\$ 85.0	Park repair and rehabilitation
Fairview Park	\$ 10.0	Barrier posts and rehabilitation
Ruth Arcand Park	\$ 35.0	Entry road improvements
So. Russian Jack Springs Park	\$ 35.0	Picnic area entrance rehabilitation
Davenport Fields	\$ 80.0	Parking improvements
Lyn Ary Park (HB 512 - \$20,400)	\$ 30.0	Repair and rehabilitation
Campbell Park (HB 512 - \$65,000)	\$ 65.0	Shoreline and park repair and rehabilitation
"C" Street Community Garden (HB 512 - \$20,000)	\$ 20.0	Soil and parking improvements
Cope Street Park (HB 512 - \$35,000)	\$ 35.0	Repair and rehabilitation
Wilson St. Park (HB 512 - \$35,000)	\$ 35.0	Repair and rehabilitation
Pena Field	\$ 45.0	Parking and playfield improvements
Davis Park (HB 512 - \$195,000)	\$ 220.0	Basketball court construction and playfield rehabilitation
Pop Carr Park	\$ 180.0	Tennis court, walkway and park rehabilitation
Storck Park	\$ 200.0	Playfield, playground and park Improvements

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
Fence, Barricades and Backstop	\$ 100.0	Repair and/or replacement of existing park fencing, barricade and backstops
Sand and Soil Cleaning and Replacement	\$ 100.0	Replacement and improvements to swimming beaches and sand lots
Parking Repair	\$ 200.0	Upgrading of existing parking areas and drainage repairs
Eagle Glenn Park	\$ 5.0	New park improvements
Spirit Park S. Fork (HB 512 - \$10,000)	\$ 5.0	New park improvements
Town Square (HB 512 - \$15,000)	\$ 15.0	Park improvements -
Schroeder Park	\$ 35.0	Planning and construction document preparation
Eagle River Tennis Court	\$ 160.0	Construction
Chief Alex Park (HB 512 - \$15,000)	\$ 15.0	Park improvements
Mirror Lake (HB 512 - \$55,000)	\$ 55.0	Drainage and parking improvements
Girdwood (HB 512 - \$200,000)	\$ 120.0	Pathway completion
Girdwood Water	\$ 5,700.0	Rehabilitate Girdwood water systems donated to Municipality. O&M costs will be offset by user revenues
Performing Arts Center add backs which are revenue generating	\$ 400.0 300.0 500.0 300.0	Large Rehearsal Hall Small Rehearsal Hall Orchestra Pit Lifts Concession Equipment
Huffman School Pathway Lighting	\$ 50.0	Lighting of two pathways providing access to school through Huffman Park
O'Malley School Pathway	\$ 90.0	Provide access to school along Rockridge Road
Girdwood EMS Vehicle	\$ 75.0	Replacement of a 1980 Medic Unit serving the Girdwood area

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
Girdwood Pedestrian Trail	\$ 325.0	Design and construction of a walkway from the resort along Alyeska Highway to the Old Girdwood townsite
Subtotal	<u>\$41,802.9</u>	
HIGH PRIORITY - 1988 CONSTRUCTION TOTAL	\$103,639.8	
HIGH PRIORITY-1989 CONSTRUCTION		
Edwards (DeBarr to Ptarmigan School)	\$ 500.0	Road Construction - needs design
Sullins/Chugach Park Road	\$ 390.0	Upgrade gravel road - design is being negotiated
Spenard Road, III (Turnagain to McRae)	\$ 7,100.0	Roadway and landscaping construction \$7.1M
Dimond Blvd. (New Seward to 88th)	\$ 4,700.0	Design \$.6M; ROW acquisition \$4.1M; roadway and landscaping construction
West Northern Lights, II (Wisconsin to Aero)	\$ 5,600.0	Design \$.5M; roadway and landscaping construction \$5.1M
Hillside Drainage Plan Phase I Implementation	\$ 5,000.0	Implementation of drainage improvements - needs design
Birch Road, Huffman to DeArmoun	\$ 1,700.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Buffalo Street	\$ 2,200.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Elmore Street	\$ 2,300.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Bragaw Street	\$ 2,500.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Arctic (Raspberry to Dimond)	\$ 5,700.0	Road construction

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
Windemere Phase II	\$ 700.0	Subdivision reconstruction roads and drainage
Town Square Phase II	\$ 500.0	Construct Phase II - final development
HIGH PRIORITY-1989 CONSTRUCTION	<u>\$ 38,890.0</u>	
TOTAL 1988/1989 CONSTRUCTION	<u>\$142,529.8</u>	

SECOND *file*
DRAFT

MUNICIPALITY OF ANCHORAGE
ECONOMIC RECOVERY PROGRAM

Submitted to the Assembly
by Mayor Tom Fink, January 19, 1988

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Population declines coupled with falling incomes have reduced the demand for goods, services and housing. These impacts continue to ripple throughout the economy resulting in personal and business financial distress. Personal bankruptcies are occurring at an average monthly rate which is 2.6 times that experienced in 1985; business bankruptcies are 75% above the average 1985 level.

The real estate market has been jolted. The total value of taxable property in the Municipality of Anchorage has declined by a third -- over \$5 billion dollars -- since January 1, 1986. Alaska Housing Finance Corporation, the largest mortgage lender in the state, has a delinquency rate in excess of 15%; and has foreclosed on nearly 3600 properties in 1987, compared with 630 in 1985. Survey data indicate that as many as 40% of local residential mortgage holders may now owe more on their properties than the value of these homes in the current market. These "under water" loans represent the loss (at least on paper) of the major savings of many families. If individuals need to sell now, the effect is devastating. Even for those who have no immediate requirement to sell, the loss in wealth has a dampening effect on family expenditures and financial confidence.

The story is repeated in the commercial real estate market. Vacancy rates are unusually high. The imbalance between existing supply (a fixed amount) and falling demand, has resulted in numerous foreclosures on commercial property. Businesses still viable today may be pulled under by the inability to indefinitely "feed" related investments in commercial real estate. Several financial institutions have closed their doors; other are taking substantial losses.

As the tax base and other sources of government revenue shrink, local government loses its ability to provide goods and services. The Municipality of Anchorage is currently facing cutbacks in excess of \$14 million. Projections of 1989 revenues indicate even more severe drops. These cuts translate into hundreds of jobs. Local government program reductions and employee layoffs exacerbate the economic decline, feeding the downward spiral.

The length of this recession is uncertain. Although employment is still falling, the rate of decline has lessened, at least temporarily. But, even when the nadir is reached, local economic problems are not over. The natural readjustment process is painful; projected future growth is slow.

II. OBJECTIVES OF THE ECONOMIC RECOVERY PROGRAM

- A. Purpose: The purpose of the Municipality's program for economic recovery is to mitigate the problems caused by the current economic recession to decrease the depth and severity of this recession, and to contribute to the long-term stable recovery and growth of the Anchorage economy.
- B. Objectives:
- * Create jobs for local residents; avoid further job losses.
(Rationale: Jobs generate income which then cycles through the economy in a manner based on choices by individuals; increased incomes enable individuals to meet obligations and avoid financial ruin.)
 - * Establish a floor under falling residential and commercial property values. (Rationale: Stabilization of property values is necessary to begin the correction of the imbalance between supply and demand and to reestablish confidence in the local economy.)
 - * Provide interim relief for businesses.
(Rationale: Target limited resources to maintain ventures which will not require continual, long term subsidies to survive. Provide for limited, well defined involvement of government in the private economy.)
 - * Reduce costs or avoid cost increases to businesses and individuals.
(Rationale: Alleviate business and personal financial distress by reducing costs of living and operations; for example, utility increases, increased cost of regulations, taxes.)

III. DESCRIPTION OF THE ECONOMIC RECOVERY PROGRAM.

Anchorage's program for economic recovery is organized in two phases. Phase 1 includes the immediate requests for state action, concentrating on areas which can begin to impact the economy in the short run or those actions which can be pursued administratively. Phase 2 is directed to the longer term situation -- those projects and proposals with longer lead times or which require additional analysis and evaluation. In this second phase, more emphasis is placed on activities which provide for the economic growth which must underlie real and lasting recovery for Anchorage and all of Alaska.

Section IV outlines the primary elements of these two phases. Both phases contain recommendations for capital projects. The specific projects are based on a set of criteria described in Section V. That section also contains descriptions of the individual projects, which are divided into two stages on the basis of timing factors described.

IV. ECONOMIC RECOVERY PROGRAM ELEMENTS.

A. Phase 1 - Immediate State Action

- * Supplementary Municipal Assistance of \$400 per capita (Anchorage share about \$90 million)
 - Purposes:
 - Keep taxes and utility rates down
 - Avoid further layoffs
 - Get small/local capital projects underway
 - Advantages:
 - Local option so can apply to local priorities
 - Short lead time (quick implementation)
- * Early State Capital Appropriations for projects with immediate start-up and/or federal match projects.
 - Purposes:
 - Employment
 - Repair and rehabilitation (lower O&M costs)
 - Economic Development (infrastructure)
 - Advantages:
 - Impact employment in hard hit sector
 - Multiplier impacts help support sector
- * Government investment in commercial real estate, with strong consideration given to Permanent Fund as investor.
 - Purposes:
 - Stabilize market - regain balance between supply and demand
 - Re-establish confidence in the economy
 - Speed readjustment
 - Advantages:
 - Potential for long run return on investments initially made in distressed markets
- * Other short term requests
 - Real Estate Market stabilization
 - AHFC and AIDEA take administrative action to assist borrowers.

University of Alaska Anchorage purchase of foreclosed condominiums for student housing.

ASBA remove substandard housing from market, utilize foreclosed properties for housing.

Actions to discourage auctions and other forms of dumping of real estate.

- Employment

Bradley Lake - fast track APUC review exemption

Court Building financing - fast track project.

B. Phase 2 - Longer Term Economic Recovery Program

Phase 2 elements are being developed. Specific proposals have not been finalized. A series of proposals and actions are being evaluated--including the items listed below.

* Local development opportunities

- Home Port, location of Navy installation in Southcentral Alaska

- 1994 Winter Olympics

- Ski Resorts

- Ship Creek Development

- Tourism Promotion

* Stabilize taxes and utility rates

* Extra Permanent Fund Dividend payments

* Heritage Land Bank as a source of land for industrial development

* Railbelt Energy Fund for railbelt energy projects

* Legislation permitting use of tax incentives for business development

* Streamlining of local permitting requirements

* Local purchase/import substitution

V. Proposed Capital Projects

The following list of projects has been developed and grouped based on criteria geared toward generating an immediate stimulus to the professional design/engineering and construction sectors of Anchorage's economy. Primary criteria favored projects which are ready to proceed, labor intensive, employ local workers and reduce Municipal operation and maintenance costs. Secondly, we considered projects which maximize use of local materials, have been endorsed through the public review process, have positive life safety and health impacts, and are a positive influence on future economic development.

- A. High Priority-1988 construction: High priority projects which can be constructed in 1988.
 - * Group I - Projects that have been specifically endorsed by the Assembly as top priority.
 - * Group II - Other high priority projects identified by the Administration which can be constructed in 1988.
- B. High Priority-1989 construction: High priority projects endorsed by the Assembly or identified by the Administration which, due to the constraints of design, right-of-way acquisition or permitting, cannot be bid for construction until 1989 or 1990.

Assembly project priorities will be candidates for funding from the \$400 per capita distribution. If funding is insufficient to cover all projects they will be considered for any early State capital appropriation (jobs bill) and lastly, the end of session State capital budget.

ANCHORAGE CAPITAL PROJECTS

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
HIGH PRIORITY - 1988 CONSTRUCTION		
<u>GROUP I - ASSEMBLY PRIORITIES</u>		
Lake Otis Parkway, III (Tudor to Dowling)	\$ 2,500.0	Electrical undergrounding, sewer/water, bike path & landscaping
Klatt Road (Timberline to Southport)	\$ 3,400.0	Paving, curb & gutter, sidewalks, bike path, lighting & landscaping
Spenard Road, II (International to Turnagain)	\$11,400.0	ROW acquisition \$4.2M Roadway construction \$7.2M
Hiland Road	\$ 500.0	Road improvement and slope stabilization - needs design
Santa Maria Drive	\$ 850.0	Upgrade gravel road - design is being negotiated
Hiland Bridge Pedestrian Walkway	\$ 450.0	State DOT project. Widen pathway from 8' to 12' on future bridge. Under design for 1988 construction.
36th Avenue (Arctic to Spenard)	\$ 4,800.0	ROW acquisition funded; roadway and landscaping construction
East 6th Ave. (Muldoon-Cherry)	\$ 2,000.0	Road Construction - needs design
Lake Otis Parkway, IV (66th to Abbott)	\$15,800.0	ROW acquisition \$2.1M; roadway and landscaping construction \$13.7M
Arctic Blvd. (Raspberry to Dimond)	\$ 3,500.0	Utility relocations and construction \$3.5M
Huffman Rd. (New Seward to Bragaw)	\$ 3,500.0	Bid package ready by July, State DOT project
Baranoff	\$ 1,620.0	Upgrade gravel road - design is being negotiated
Klondike	\$ 270.0	Upgrade gravel road - design is being negotiated
Eagle River Roads	\$ 900.0	Strip paving. Design negotiation underway
Lake Otis (O'Malley-Huffman) signalization at Huffman	\$ 3,100.0	ROW acquisition \$.3M; design \$.4M; and construction \$2.4M. Potential private development under reimbursement plan.
ARDSA Rehab Projects	\$ 4,000.0	Implementation of 5-yr. road improvement plan - needs design

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP I - ASSEMBLY PRIORITIES (continued)</u>		
Hillside Drainage Plan Phase I Study	\$ 300.0	Complete assessment of drainage problems on Hillside identifying specific capital projects
W. Northern Lights Blvd. I (Forest Park to Wisconsin)	(\$ 1,400.0)	Landscaping complete; request transfer of residual funds to Spenard Road II
Subtotal	<u>\$57,490.0</u>	
<u>GROUP II - OTHER PRIORITIES</u>		
Windemere Phase I Reconstruction	\$ 697.0	Paving, curbs, drainage. Design complete, construction contract awarded
Central Business District Rehabilitation	\$ 600.0	Sidewalk, curbs, drainage (design complete)
Downtown Sidewalk, Lighting and Landscape Improvements	\$ 1,000.0	Upgrade and improve curbs, sidewalk, signals and lighting in areas of 5th and 6th between C and G. Design in progress.
Post Road	\$ 448.0	Paving overlay (design 95% complete)
Ocean Dock	\$ 170.0	Paving overlay (design 95% complete)
Lakeview Terrace	\$ 1,720.0	Subdivision reconstruction, roads and drainage. Under design for summer construction.
Emerald Hills	\$ 1,357.0	Subdivision reconstruction roads and drainage. Under design for summer construction.
Heather Meadows Phase III	\$ 724.0	Subdivision reconstruction roads and drainage (design 50% complete)
Municipal Building Energy Projects	\$ 180.0	Conversion to gas heat, mechanical modifications, setbacks on fans and heating systems, lighting reductions. Will save an estimate of \$140,000 in future annual O&M costs.
Town Square Park	\$ 400.0	Construct Phase I including site preparation and underground utility work. Design under contract for 1988 construction
Maritime Receiving Area	\$ 2,000.0	Installation of a fish handling and small freight dock at Ship Creek for tenders and barge

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP II - OTHER PRIORITIES (Continued)</u>		
ADEC Sewer and Water Match	\$ 500.0	Provide required local matching funds for the ADEC Construction Grant Program for improvement district, transmission mains, distribution centers, etc.
Water/Wastewater Repair and Rehabilitation	\$ 1,200.0	Replace antiquated woodstave water and sewer lines and outdated clay sewer pipe in downtown and Government Hill
Golden View Water Extension	\$ 750.0	Construct 24" oversized water line and pump station in the Golden View area - being designed
Girdwood Wastewater Treatment Facility	\$ 2,700.0	Upgrade of Girdwood treatment facility Phase I, outfall from treatment facility to creek \$1M - in design
Hiland Drive Project	\$ 2,770.0	Construct sewer pump station, force main and interceptor serving the Hiland Drive area (Eagle River ski resort, prison and residential). Design will be completed by summer construction.
Port/Landfill Development Project	\$ 4,800.0	Transportation of 1.1 million cubic yards of fill gravel from the landfill to the Port, accelerating development of both the landfill site and future economic benefit of the Port. Landfill design, transportation and placement.
Merrill Field Runway Construction Grant (matching grant)	\$ 147.0	FAA Federal grant to upgrade the Merrill Field north/south runway \$2.3M. Grant is being processed, design to be completed in May, construction August 1, completion mid-November.
Merrill Field Passenger Terminal	\$ 4,000.0	Airport terminal facility servicing passenger and freight traffic through Merrill Field - design complete.
<u>Public Works - Deferred Municipal Building Maintenance</u>		
Historical Fine Arts Museum	\$ 250.0	Repair/replace damaged wall coverings in art galleries.
Tudor Road Building	\$ 150.0	Heating system replacement (design complete)
Woodland Park School	\$ 78.4	Heating system repairs - 3-4 weeks designs

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
GROUP II - OTHER PRIORITIES (Continued)		
Municipal Buildings Roof Repairs	\$ 39.7	Roof maintenance and repair on 9 buildings
Paint Municipal Buildings	\$ 110.0	Small painting projects on 14 building interiors and exteriors
Fleet Service Building	\$ 125.0	Fire sprinkler system - 4-5 weeks design required
Transit Storage Building	\$ 57.5	Repair doors and floor
Hill Building	\$ 12.0	Upgrade air conditioner in 5th floor computer room
Gateway Park (International Airport Road)	\$ 125.0	Replace underground sprinkler system for landscaping - 2 weeks design required
West Chester Lagoon Park	\$ 35.0	Replace underground sprinkler system for landscaping - 2 weeks design required
Libraries and Maintenance Shop	\$ 37.0	Construct and repair interior walls and carpet
Asbestos Abatement	\$ 1,300.3	- Fire stations \$173,300 (design complete) - Old City Hall \$250,500 (designs - 3-4 weeks required) - Mulcahy locker room, Grandview Gardens Library, Mt. View Community Center, Goose Lake Center, Government Hill Community Center \$326,400 (design - 2-3 weeks required) - Public Health Facility \$363,600 (design 2-3 weeks required) - Other municipal buildings \$186,500 (design - 2-3 weeks required)

Parks and Recreation - Meet additional criteria of life/safety improvements

Delong Lake Park	\$ 50.0	Replace public use dock
Nunaka Valley Park	\$ 25.0	Replace broken playground equipment
Jewel Lake Park	\$ 130.0	Playground and equipment repair, dock replacement
Goose Lake Park	\$ 80.0	Parking lot redesign and traffic barriers
Kincaid Park	\$ 50.0	Replace public use dock
Sand Lake Park	\$ 50.0	Replace public use dock

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
<u>GROUP II - OTHER PRIORITIES (Continued)</u>		
University Lake	\$ 70.0	Bike trail bridge replacement
Valley Street	\$ 85.0	Lake shore steep bank improvements
Taku Lake	\$ 225.0	Lake shore steep bank improvements and dock construction
Chester Creek Trail System	\$ 1,625.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)
Campbell Creek Trail System	\$ 875.0	Repair, rehabilitation, overlays and reduce hazards (design 35% complete)

Parks and Recreation Improvements

Willow Housing Park	\$ 45.0	Park repair and rehabilitation
Browns Pt. Park	\$ 40.0	Park repair and rehabilitation
Delaney Park	\$ 260.0	Top soil and reseed
Duldida Park	\$ 85.0	Park repair and rehabilitation
Kanchee Park	\$ 85.0	Park repair and rehabilitation
Fairview Park	\$ 10.0	Barrier posts and rehabilitation
Ruth Arcand Park	\$ 35.0	Entry road improvements
So. Russian Jack Springs Park	\$ 35.0	Picnic area entrance rehabilitation
Davenport Fields	\$ 80.0	Parking improvements
Lyn Ary Park	\$ 30.0	Repair and rehabilitation
Campbell Park	\$ 65.0	Shoreline and park repair and rehabilitation
"C" Street Community Garden	\$ 20.0	Soil and parking improvements
Cope Street Park	\$ 35.0	Repair and rehabilitation
Wilson St. Park	\$ 35.0	Repair and rehabilitation
Pena Field	\$ 45.0	Parking and playfield improvements
Davis Park	\$ 220.0	Basketball court construction and playfield rehabilitation
Pop Carr Park	\$ 180.0	Tennis court, walkway and park rehabilitation

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
GROUP II - OTHER PRIORITIES (Continued)		
Storck Park	\$ 200.0	Playfield, playground and park improvements
Fence, Barricades and Backstop	\$ 100.0	Repair and/or replacement of existing park fencing, barricade and backstops
Sand and Soil Cleaning and Replacement	\$ 100.0	Replacement and improvements to swimming beaches and sand lots
Parking Repair	\$ 200.0	Upgrading of existing parking areas and drainage repairs
Eagle Glenn Park	\$ 5.0	New park improvements
Spirit Park S. Fork	\$ 5.0	New park improvements
Town Square	\$ 15.0	Park improvements
Schroeder Park	\$ 35.0	Planning and construction document preparation
Eagle River Tennis Court	\$ 160.0	Construction
Chief Alex Park	\$ 15.0	Park improvements
Mirror Lake	\$ 55.0	Drainage and parking improvements
Girdwood	\$ 120.0	Pathway completion
Girdwood Water	\$ 5,700.0	Rehabilitate Girdwood water systems donated to Municipality. O&M costs will be offset by user revenues
Performing Arts Center add backs which are revenue generating	\$ 400.0 300.0 500.0 300.0	Large Rehearsal Hall Small Rehearsal Hall Orchestra Pit Lifts Concession Equipment
Subtotal	<u>\$41,262.9</u>	
HIGH PRIORITY - 1988 CONSTRUCTION TOTAL	\$98,752.9	
HIGH PRIORITY-1989 CONSTRUCTION		
Edwards (DeBarr to Ptarmigan School)	\$ 500.0	Road Construction - needs design
Sullins/Chugach Park Road	\$ 390.0	Upgrade gravel road - design is being negotiated

<u>Name of Project</u>	<u>1988 (\$000)</u>	<u>Notes</u>
HIGH PRIORITY-1989 CONSTRUCTION (continued)		
Spenard Road, III (Turnagain to McRae)	\$ 7,100.0	Roadway and landscaping construction \$7.1M
Dimond Blvd. (New Seward to 88th)	\$ 4,700.0	Design \$.6M; ROW acquisition \$.4M; roadway and landscaping construction
West Northern Lights, II (Wisconsin to Aero)	\$ 5,600.0	Design \$.5M; roadway and landscaping construction \$.5M
Hillside Drainage Plan Phase I Implementation	\$ 5,000.0	Implementation of drainage improve- ments - needs design
Birch Road, Huffman to DeArmoun	\$ 1,700.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Buffalo Street	\$ 2,200.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Elmore Street	\$ 2,300.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Bragaw Street	\$ 2,500.0	Upgrade to paving, curb and gutter, sidewalk, bike trail and illumination - needs design
Arctic (Raspberry to Dimond)	\$ 5,700.0	Road construction
Windemere Phase II	\$ 700.0	Subdivision reconstruction roads and drainage
Town Square Phase II	\$ 500.0	Construct Phase II - final development
HIGH PRIORITY-1989 CONSTRUCTION	<u>\$ 38,890.0</u>	
TOTAL 1988/1989 CONSTRUCTION	<u>\$137,642.9</u>	

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**ANCHORAGE CHAMBER OF COMMERCE
ECONOMIC RECOVERY TASK FORCE**

The task force recommendations are based upon a general consensus that Anchorage is suffering from an economic recession and, while the economic decline may be slowing, there is no immediate turnaround in sight. In fact, the recession may result in the loss of another 10,000 to 15,000 people from Anchorage during 1988, further disrupting many of the basic sectors of the local economy.

The task force concluded that the economic recession is not limited to a specific interest group. For example, it isn't only the banks that are suffering from the economic decline. Virtually every homeowner in the Municipality of Anchorage has lost at least 30 percent of the value of their residential property and further declines can be anticipated. In fact, most homeowners in the Municipality of Anchorage are now probably "under water" with respect to their mortgage, i.e., the mortgage balance exceeds the fair market value of the residential property.

The recommendations of the task force are not intended to be a subsidy. Rather, for the most part they are a restructuring of existing programs, recognizing the changed economic circumstances. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

- * Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's \$1.5 billion in equity.

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ANCHORAGE CHAMBER OF COMMERCE

- * The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.
- * The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

Real Estate Market

The real estate market in Anchorage, both commercial and residential, is characterized by a significant imbalance of supply and demand. The excessive supply cannot be reasonably absorbed in the near or mid-term (say next five years) and will have the ongoing effect of depressing real estate prices. The impact is not limited to real estate speculators but is pervasive to most citizens in that most have major investments in real estate. So as personal and business income decline, the ability to continue to function is jeopardized by the debt service with the resulting effect in foreclosures, bankruptcies, etc.

We believe the imbalance in supply and demand can be partially adjusted by reducing the supply of real estate. Specifically, we would recommend the following:

- * For residential property:
 - ** Remove sub-standard, low income housing from the market and destroy the properties. Convert other property to low income housing so there is no additional cost to the low income person.
 - ** Ship mobile homes that have been vacated out of the state.
 - ** Convert existing condo or similar units to University of Alaska student housing.
- * For commercial property:
 - ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

to an REIT which would acquire FDIC-owned property and other obsolete property at a nominal price simply for the purpose of holding the property off the market.

- ** Consider use of the Permanent Fund as a "Vulture Fund" to finance the property acquisition in conjunction with Heritage Land Bank.

AIDEA

AIDEA should be instructed to adopt restructuring policies that provide a cushion to commercial borrowers. For example, these procedures should include interest rate reductions when loss of jobs would occur if the loan defaulted. AIDEA should be allowed to take an equity participation in consideration for restructuring the terms and conditions which result in the survival of a business.

AIDEA should modify its requirements so that banks can participate even if their loan delinquency rate exceeds two percent.

AIDEA should expand its lending activities to provide for a new guaranteed loan program modelled after the federal SBA program. The essentials of the program should include:

- * Bank administered with AIDEA guarantee.
- * Loans would be available to finance existing AIDEA debt; other debts could not be refinanced.
- * \$1,000,000 limit on loan.
- * Funds could be used for new construction if the project had an economic benefit analysis.

The revisions to the AIDEA programs should result in the survival of the viable small businesses, thereby maintaining statewide employment and minimizing the effects of the current recession.

Employment Incentives Fund

The State should identify a portion (say \$50 million) of the construction fund budget to be used as a venture capital fund. The fund should be used somewhat along the following guidelines:

- * An applicant could apply for capital funds up to

\$10 million. Matching funds would be available on a dollar-for-dollar basis. In other words, an applicant could receive \$1 of State funds to the extent the applicant put in \$1 of private sector funds.

- * The private sector project would need to create new jobs for the state of Alaska to qualify. These new jobs would need to be permanent positions as a result of the project and not as a result of any capital construction.
- * The criteria for qualifying may be that for each \$1 million of State participation, five new positions must be created.
- * The criteria might also include that the project results in new dollars coming into the state of Alaska and the economy. In other words, it will result in exporting local products or services.

The State and local municipalities have no specific program incentives to entice business. While this would be a onetime subsidy program, it would create new jobs throughout the state and provide a sustaining boost to the economy.

Public Forum

Town hall meetings should be held wherein local businesses are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).

It's time to take economic action

Picture this scene: a very ill patient is laying in a hospital bed. His original case of influenza is nearly gone, but it was so severe that it left him susceptible to pneumonia, which is now threatening his recovery. His vital signs are deteriorating and his prognosis is uncertain.

But oddly, the doctors can't decide what to do! They're huddled in another room, locked in heated debate. Should they do anything, or should they just let nature take its course? If they do "do something," what should it be? Who should do it? Who should get the credit if it works? Who might get blamed if it fails?

Does this scene sound preposterous? It is, but it could happen right here in Alaska. In case you haven't already guessed, the pneumonia patient is the Alaska economy, and the doctors are its elected officials, business leaders, journalists and economists.

As the debate drags on, Alaska is entering its third year of recession. But in recent months, the relevance of the debate has increased. We now have more of an opportunity to stop the deterioration than we had before. The reason is that the nature of our problem has changed.

Two years ago, a large drop in oil prices left a hole in our economy that couldn't be filled. Period. But after losing nearly 10 percent of our jobs and people since then, we have completed most of the necessary downsizing. Our new problem is controlling the financial aftermath of such a sudden and severe adjustment.

That, however, is doable. Financial damage control is much more realistic than trying to immediately replace billions of dollars in lost oil revenue. Yet, the payoff could be enormous.

Indeed, one should not underestimate the damage further financial deterioration could cause and the corresponding benefits of preventing it.

There was nothing about the 1929 stock market crash and ensuing recession that, in themselves, forced the U.S. into a decade-long depression. Rather, it was excessive adherence by policymakers to the "let nature take its course" doctrine during the following five years. That moral doctrine is what led Congress and the central bank to stand idly by while the financial aftermath snow-balled and wiped out nearly



By Scott Hawkins

one-third of the nation's banks, crushed its real estate and business asset values and perpetuated the economic downturn.

Sound familiar? Those that see no parallel between the U.S. in the early 1930s and Alaska in the late 1980s should look again. Four of Alaska's 14 banks have failed in the past year, and they were four of its largest seven. Two are in FDIC receivership and two more were merged with each other and given reprieve through an infusion of capital. Business and real estate assets have plunged in value. Longtime, well-established Alaskans have gone bankrupt.

The potential for yet another cycle of foreclosures, bankruptcies, liquidations, falling asset values, failing financial institutions, job losses, etc., is very real. The FDIC has yet to dispose of the loans and real estate that it is already holding in receivership. Several other banks and thrifts are considered vulnerable, and the newly merged bank has yet to come to grips with the massive portfolio of real estate and troubled loans.

The manner in which these troubled assets are managed will be crucial. If the various managers put short-term cash recovery as their highest priority, they will deal with debtors rigidly and market the foreclosed properties and business assets aggressively.

Obviously, this would further depress asset values and prolong Alaska's financial deterioration. Yet, how can individual managers be expected not to strive for short-term cash recovery, especially in today's business environment?

Several ideas have surfaced in recent weeks. Permanent Fund director Dave Rose has suggested that the state establish a "bridge bank" that would swap stock for real estate with the FDIC and other financial institutions, and then hold those properties off the market or manage them with the intention of stabilizing the market.

When the properties are liquidated gradually over period of years, the proceeds — minus expenses — would be returned to the stockholders.

Sealaska and the state Commissioner of Commerce and Economic Development, Tony Smith, are investigating a real estate investment trust (REIT) that would buy up properties, hold them for a period of time, and sell them gradually. It would be funded by native corporations, wealthy Alaskans, not-so-wealthy Alaskans and perhaps even the state.

The organization I represent, the Anchorage Economic Development Corporation (AEDC), has proposed something very similar to Dave Rose's "bridge bank." We would establish a statewide non-profit, non-governmental affiliate to purchase the FDIC's portfolio of loans and properties and manage both with a long-term view toward economic stabilization. Our purchase would be funded by the proceeds of a long-term bond issuance that, depending on how it is structured, may require a "moral backing" or capitalization loan from the state.

Once the FDIC purchase is complete, our concept can be expanded so that some of the troubled assets of other banks and thrifts can be purchased as well. Any surplus revenues that this non-profit corporation realized (in excess of expenses and debt service) would be returned to state and local governments for distribution as economic development block grants.

All of the above proposals are compatible and mutually reinforcing and all seek to stop Alaska's financial deterioration by marketing troubled assets less aggressively. They would stop the deterioration of real estate and business asset values by easing the aggressive competition among sellers. The economy would "hit bottom" sooner, values would begin to recover sooner, and virtually everyone would benefit. A public purpose would be served.

But this is not an issue that can wait a year. If nothing significant is done soon, nature will take its course. And we may or may not like the results.

Economist Scott Hawkins is president of the Anchorage Economic Development Corporation.

Legislature Must Intervene

Agency set up to sell assets seeks bailout

Washington Post

Washington — A government organization created to raise cash by selling property from failed savings and loan associations instead is losing \$1 million a month and has asked for a \$10 million infusion to stay alive, according to federal regulatory sources.

The Federal Asset Disposition Association (FADA) requested the money three months ago to make up for a \$10 million operating shortfall in 1987, the sources said. It wanted to cover the shortfall to avoid embarrassment at a time when it is being investigated by two congressional committees, the Justice Department and the Federal Home Loan Bank Board on allegations of mismanagement and conflicts of interest.

Disclosure of the \$10 million operating loss in 1987 is likely to intensify a debate in Congress over whether FADA ought to be scrapped or sustained to fulfill its intended mission of selling repossessed property. The money the bank board supplies to FADA comes from the beleaguered insurance fund that also must be used to guarantee deposits at S&Ls.

FADA recently defended the \$10 million request, insisting the money represents fees that the Federal Home Loan Bank Board, the federal agency that regulates S&Ls, owes it for managing government-owned property.

The bank board said the \$10 million request was in addition to \$18.9 million in fees the bank board paid FADA in the first 11 months of 1987.

But bank board sources said that some board officials dispute the method FADA used to calculate the \$10 million charge. The bank board said it is reviewing the request.

In addition, Rep. James Florio, D-N.J., issued a statement questioning FADA's request for funds and asking the bank board for a full accounting of how FADA spends its money and charges for its services.

"I am concerned that FADA is asking for substantial additional federal funds, while its performance is subject to serious question," Florio said in a letter to bank board chairman Danny Wall.

The bank board created FADA in the fall of 1985 with \$25 million in seed money, half of which it has used. The other half is needed for collateral for a \$50 million line of credit with the government. The bank board expected the government-owned company to earn a profit within one year by helping it manage and sell the huge collection of condominiums, office buildings, loans and other assets inherited from failed S&Ls.

But more than two years later, FADA has not only failed to achieve many sales but is consuming so much cash that several members of Congress and the S&L industry in Texas say the company should be folded.

Several real-estate developers and congressmen



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

lp

happy

...is getting all of
in said. "If you clear a
ne, a great deal of the
there.

light bulbs. You create

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

the roots from one of

ter service compan-
rates and addition-

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

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

...7, \$63 per hour for
ditional labor hour pro

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

...\$159, \$47 per hour
ur for inside line, \$47
1 minute period for

...1605, \$37.50 per
additional half-hour.

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

...8, 244-5678, \$40 per
hour pro rated for

...5222, \$39 per first
9 per first hour for
time pro rated each 15

35-1116, by the job.

2500, \$39.50 per hour
outside line, additional
5 minutes.

gations. The Justice Department, for example, is
investigating whether FADA broke any laws by hiring
a private detective to investigate at least one real-
estate developer who was publicly critical of FADA.

Bank board spokesman Karl Hoyle said the
agency is reviewing FADA from top to bottom,
including how the organization charges fees to the
bank board, how it answers requests for information
from the public and how it awards contracts.

He said the bank board has not decided whether to
keep or kill FADA and that the decision will be based
solely on whether FADA can be economically viable.

Last year Congress approved a \$10.8 billion bailout
for the bank board fund that insures deposits at S&Ls.
The fund ended 1986 more than \$6 billion in the red
because of record S&L failures.

Florio, who is chairman of the House subcommit-
tee on commerce, consumer protection and competi-
tiveness, and Rep. Fernand St Germain, D-R.I.,
chairman of the House Banking Committee, have
been investigating FADA for months.

Recently St Germain said he might call for
FADA's abolishment.

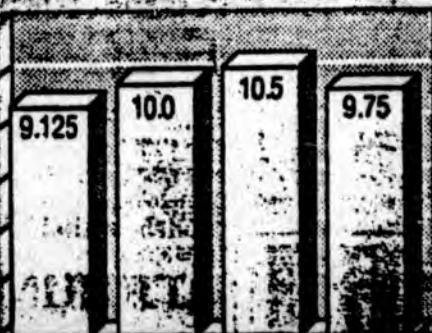
Congressional sources said that among the
complaints that Florio's office is probing are reports
that some FADA employees may have improperly
used a 110-foot yacht in FADA's inventory.

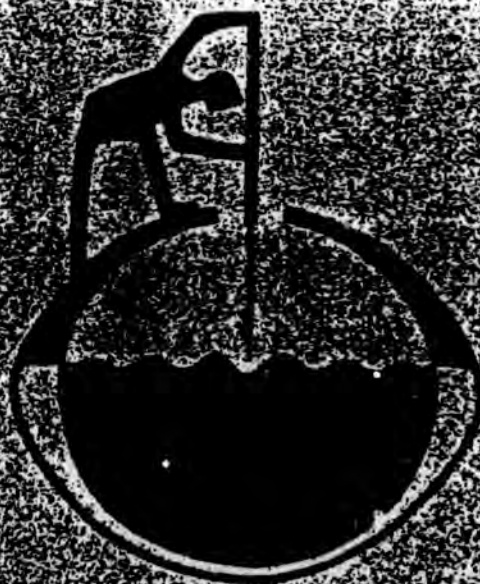
According to the reports, FADA could have sold
or rented the boat to generate revenue. Florio has
asked FADA for information about the boat. FADA
said none of its employees has used the boat for
pleasure. It could not sell the boat because of a
dispute over who held the craft's title and it decided
in the meantime that tying up the boat was cheaper
than paying the insurance and maintenance to rent it
out, said a FADA spokeswoman who asked that her
name not be used.

In addition to asking for \$10 million to reduce its
operating deficit, FADA is reviewing its overhead
expenses, including six-figure salaries that have
gained national attention. FADA's president earns
\$250,000 — more than the president of the United
States — and its other top executives earn two to
three times the salary of government employees who
perform similar functions for agencies that regulate
commercial banks.

HOME LOANS

The interest rates on a local 30-year,
fixed-rate loan in the past year compared
with, six months ago, last month and
today. Rates can change daily and loan
programs vary.





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

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

A BRIEFING PAPER AND ECONOMIC PROSPECTUS

Prepared by

Institute of Social and Economic Research
University of Alaska Anchorage

Mr. Lee Gorsuch, Director
Dr. Scott Goldsmith, Professor

Prepared for

The Honorable Steve Cowper
Governor
State of Alaska

December 8, 1987

UNIVERSITY OF ALASKA, ANCHORAGE

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

INSTITUTE OF SOCIAL AND
ECONOMIC RESEARCH

MEMORANDUM

DATE: December 1, 1987

TO: Governor Steve Cowper

FROM: Lee Gorsuch^h Director, ISER

SUBJECT: Can State Spending Speed Alaska's Economic Recovery?

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

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

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

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December 1, 1987

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

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

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

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



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

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

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

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

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



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

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

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

Figure 2.1

ALASKA EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

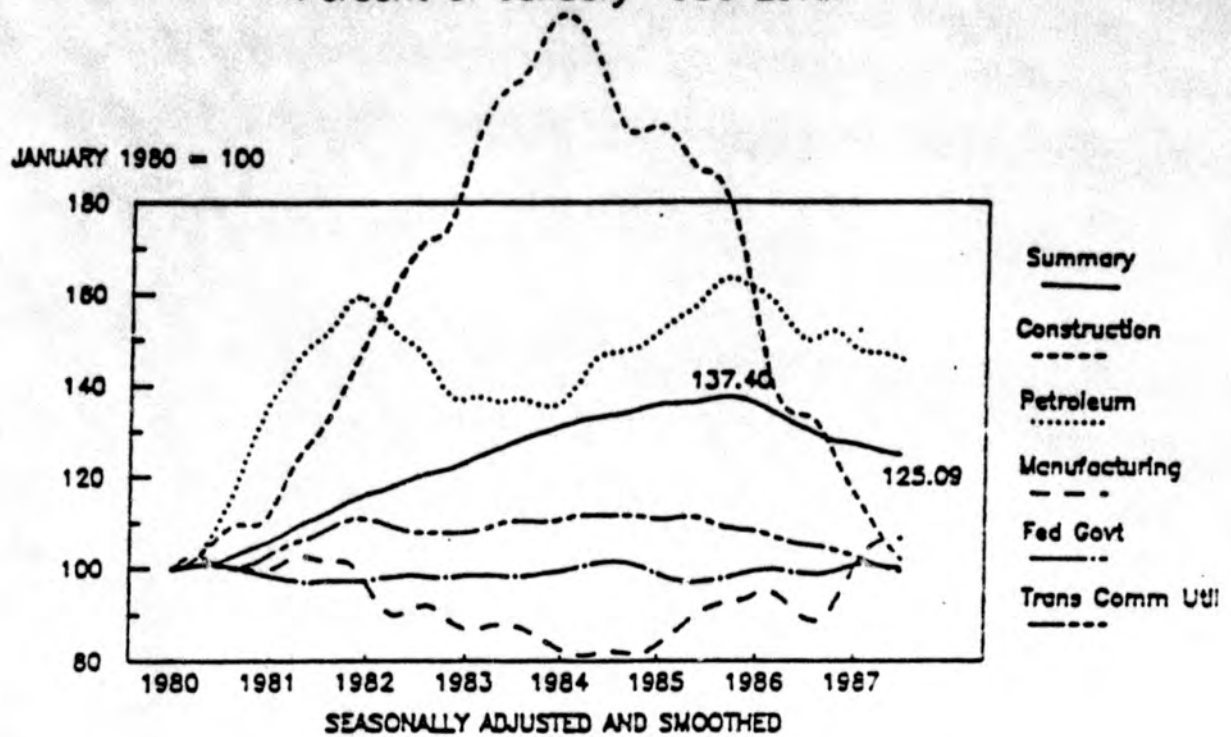


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

JANUARY 1980=100

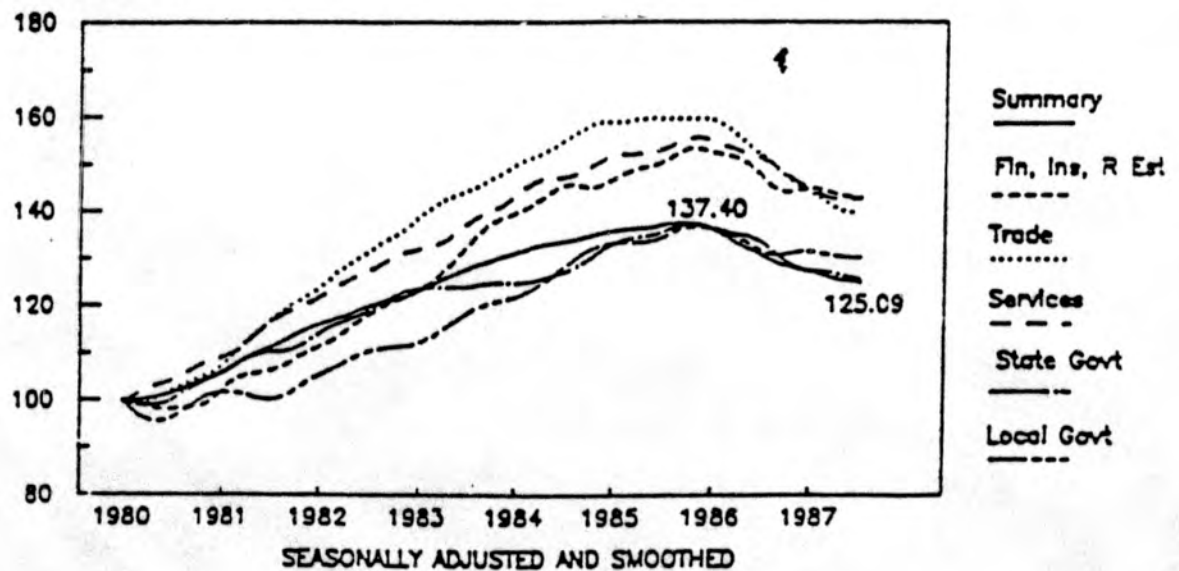


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

	Job Peak Sept. 1985	Employment			
		June 1987	Loss from Peak	Estimated June 1988	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 2.5

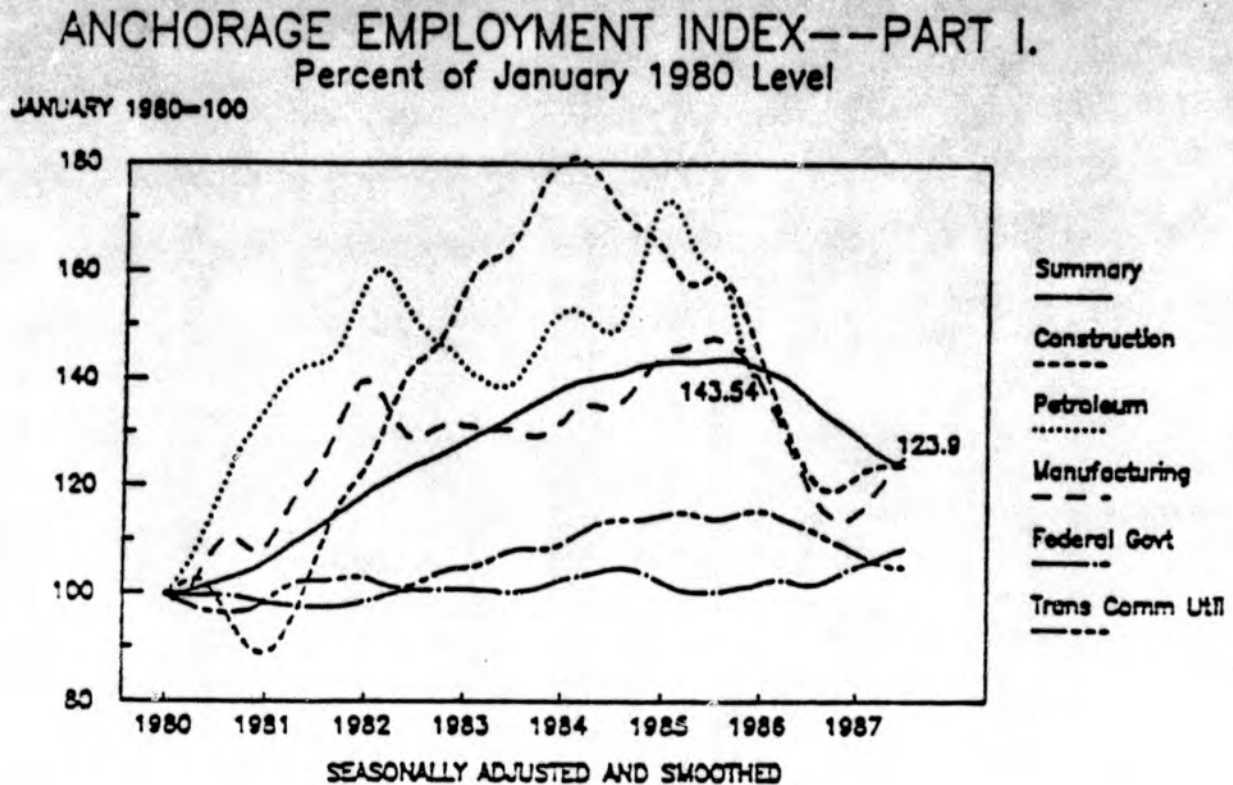


Figure 2.6

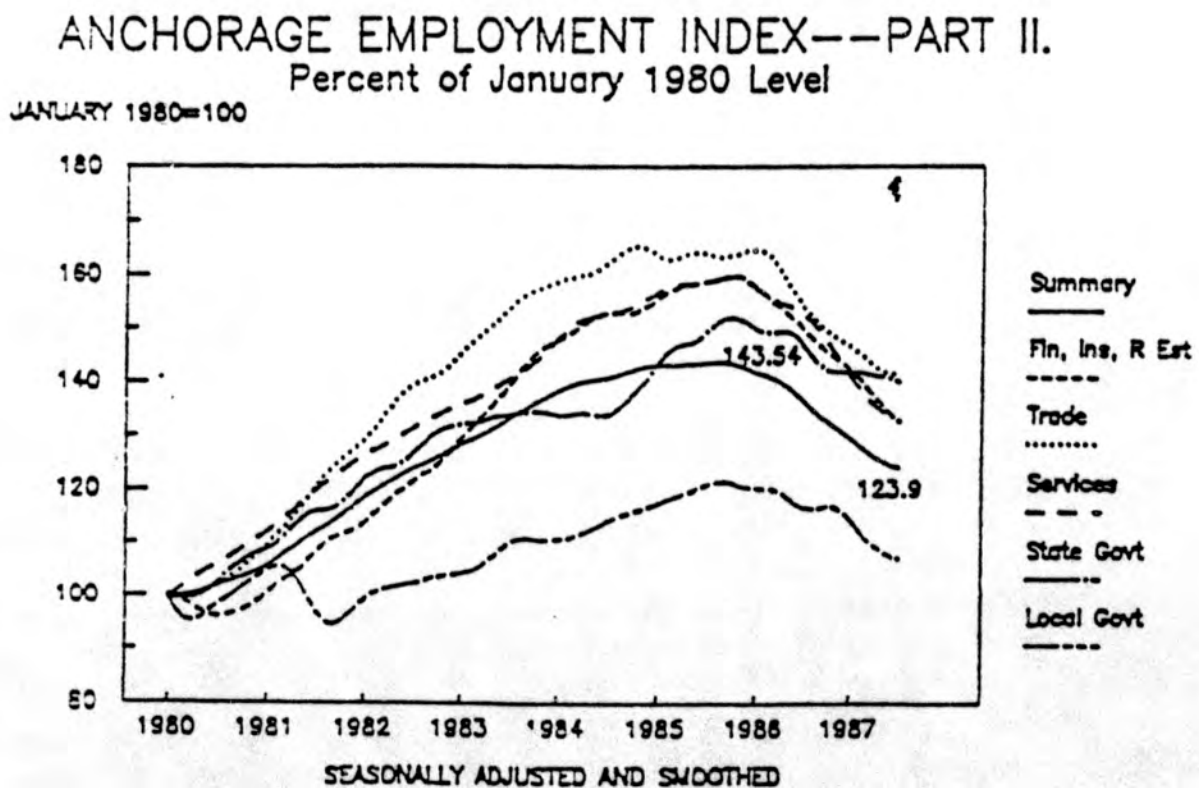


Figure 2.11

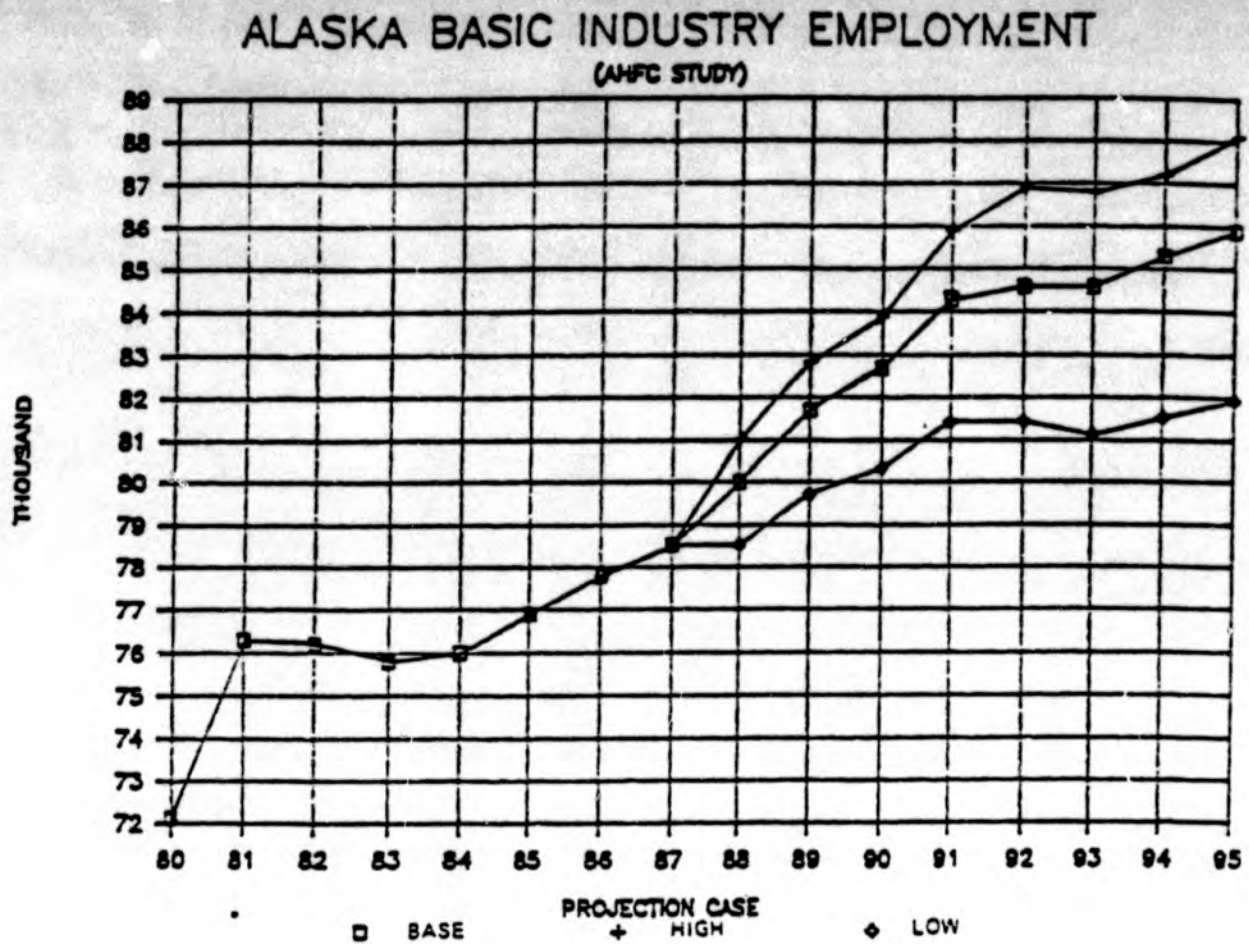


Figure 2.12

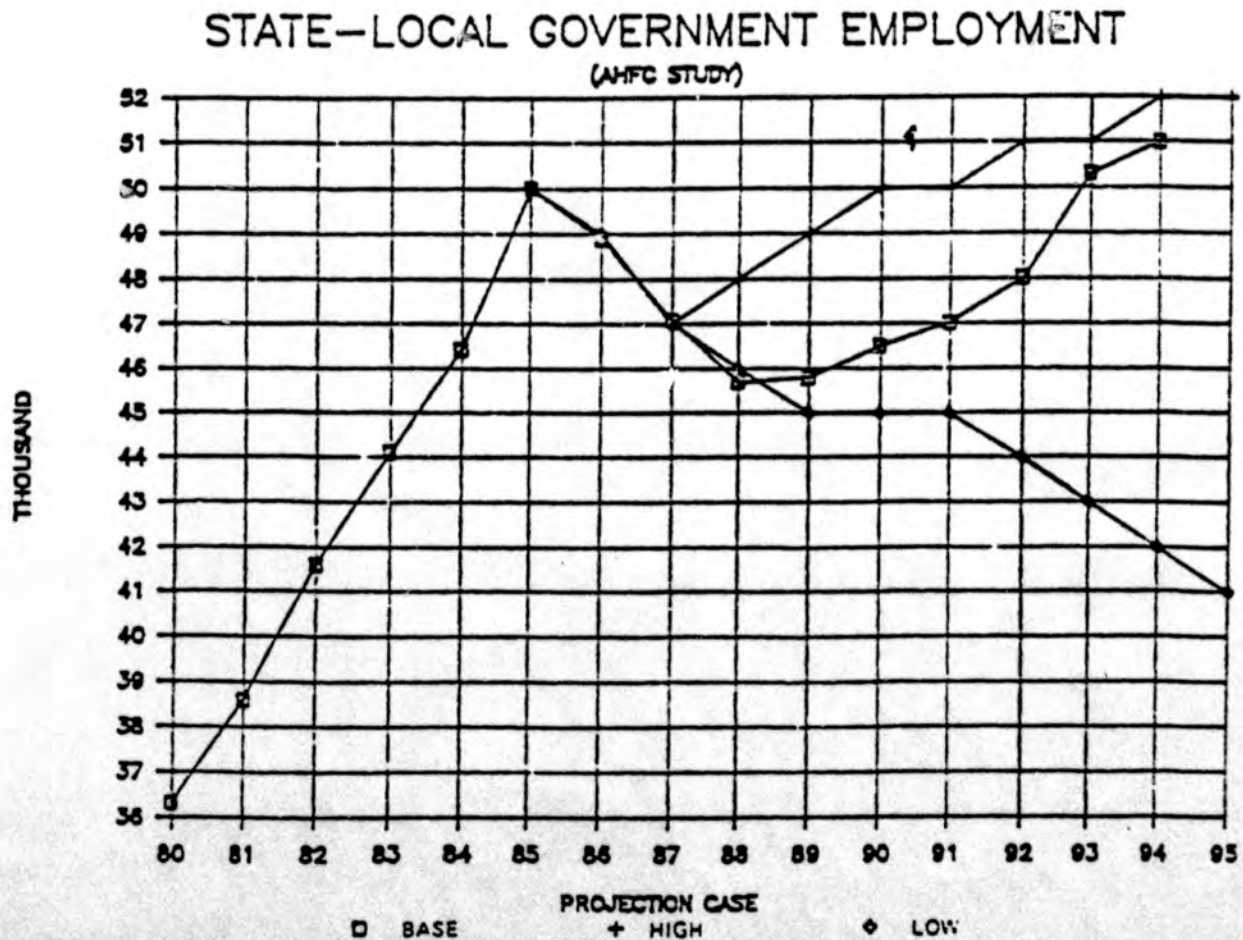


Figure 2.15

ALASKA INFRASTRUCTURE EMPLOYMENT (AHFC STUDY)

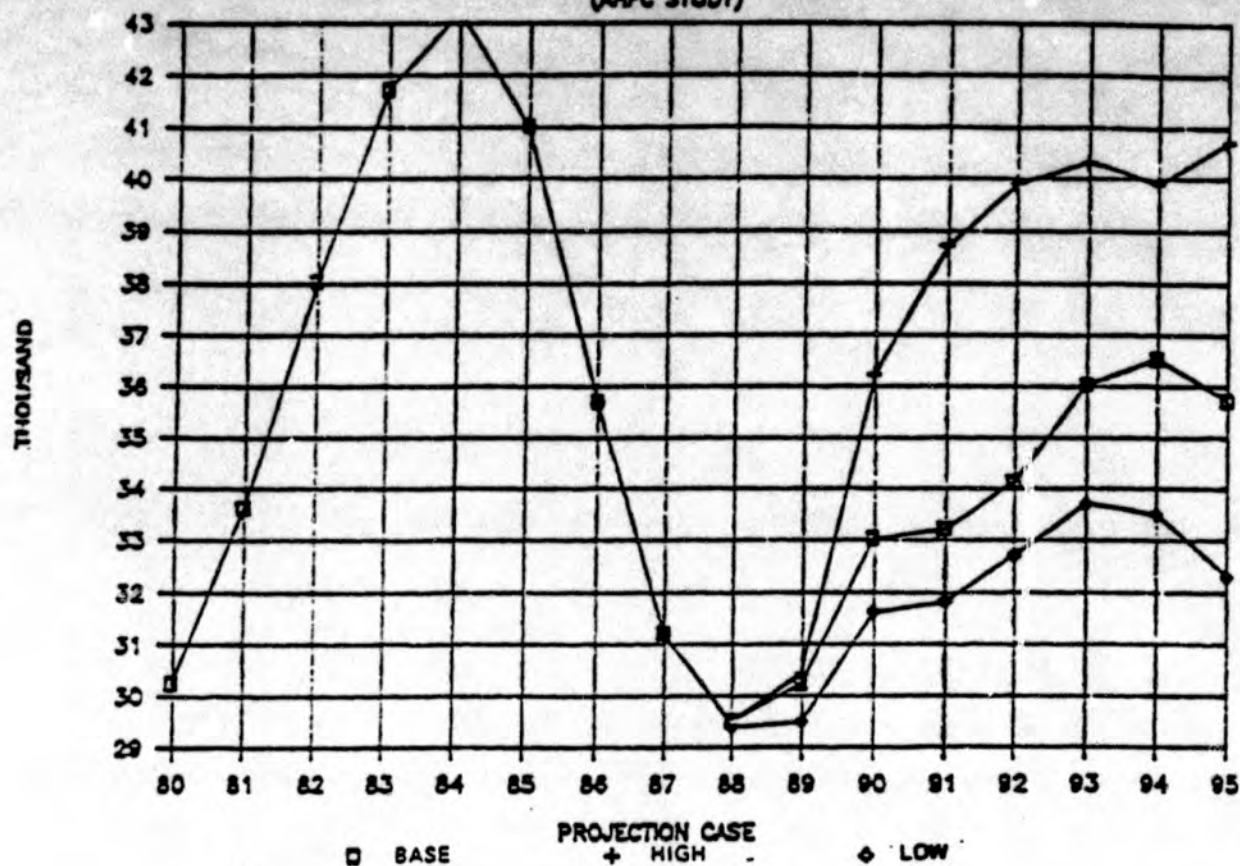


Figure 2.16

ALASKA SUPPORT INDUSTRY EMPLOYMENT (AHFC STUDY)

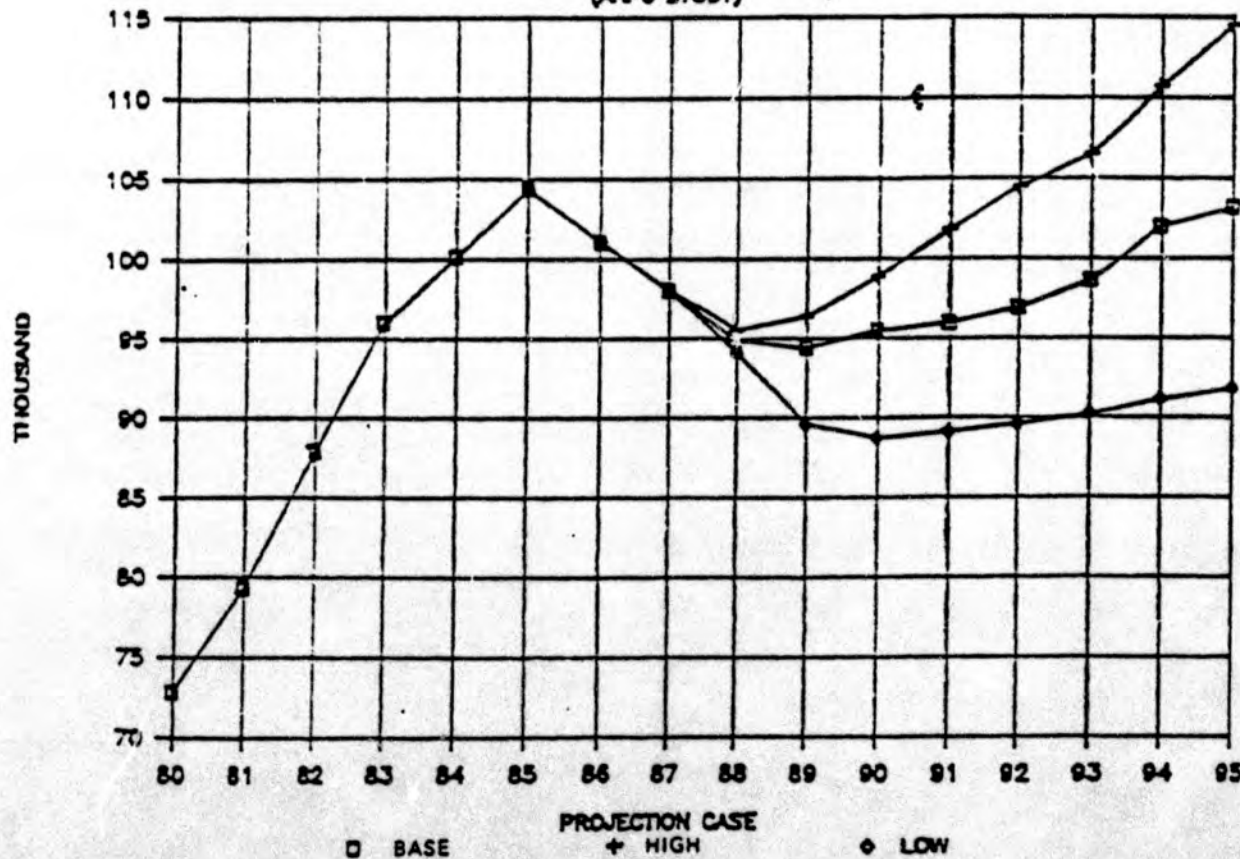


Figure 2.17

ALASKA WAGE AND SALARY EMPLOYMENT (AHFC STUDY)

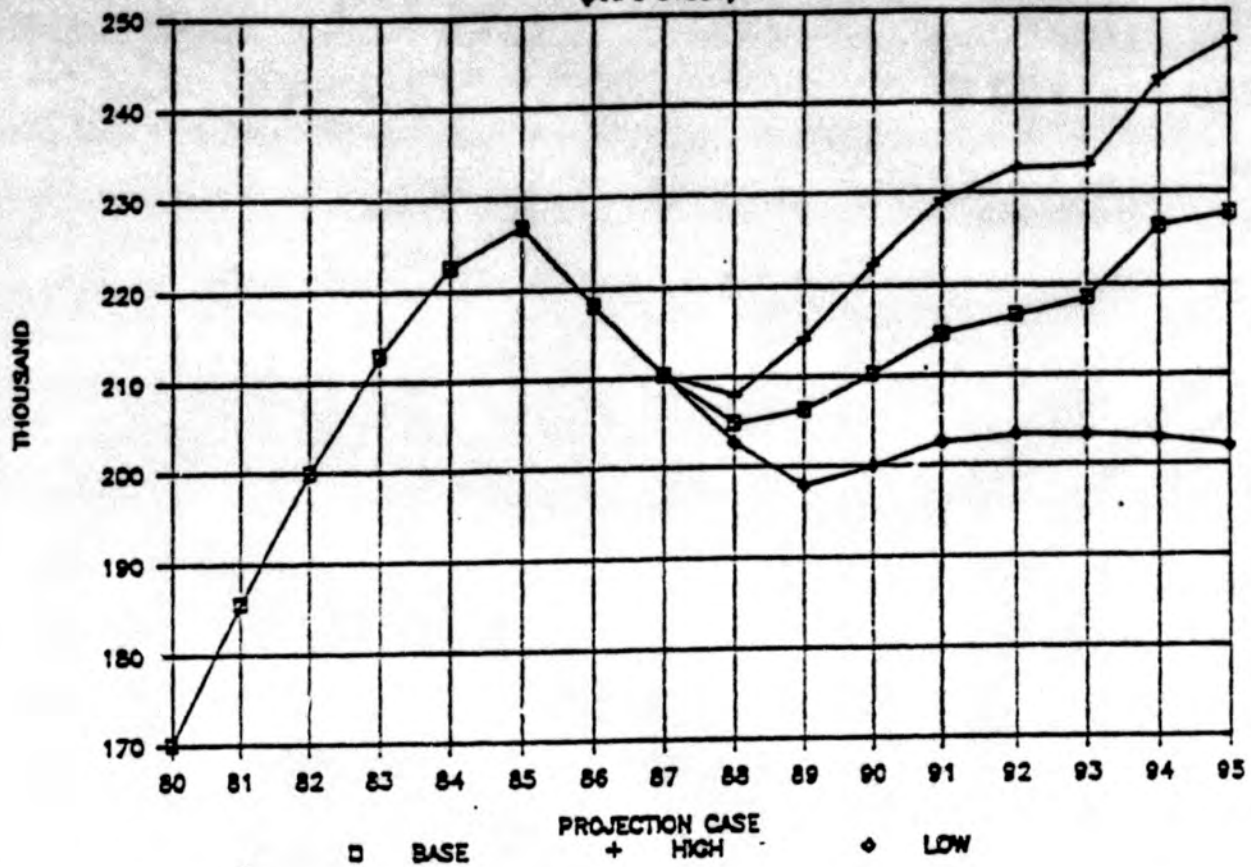


Figure 2.18

ALASKA REAL PERSONAL INCOME (AHFC STUDY)

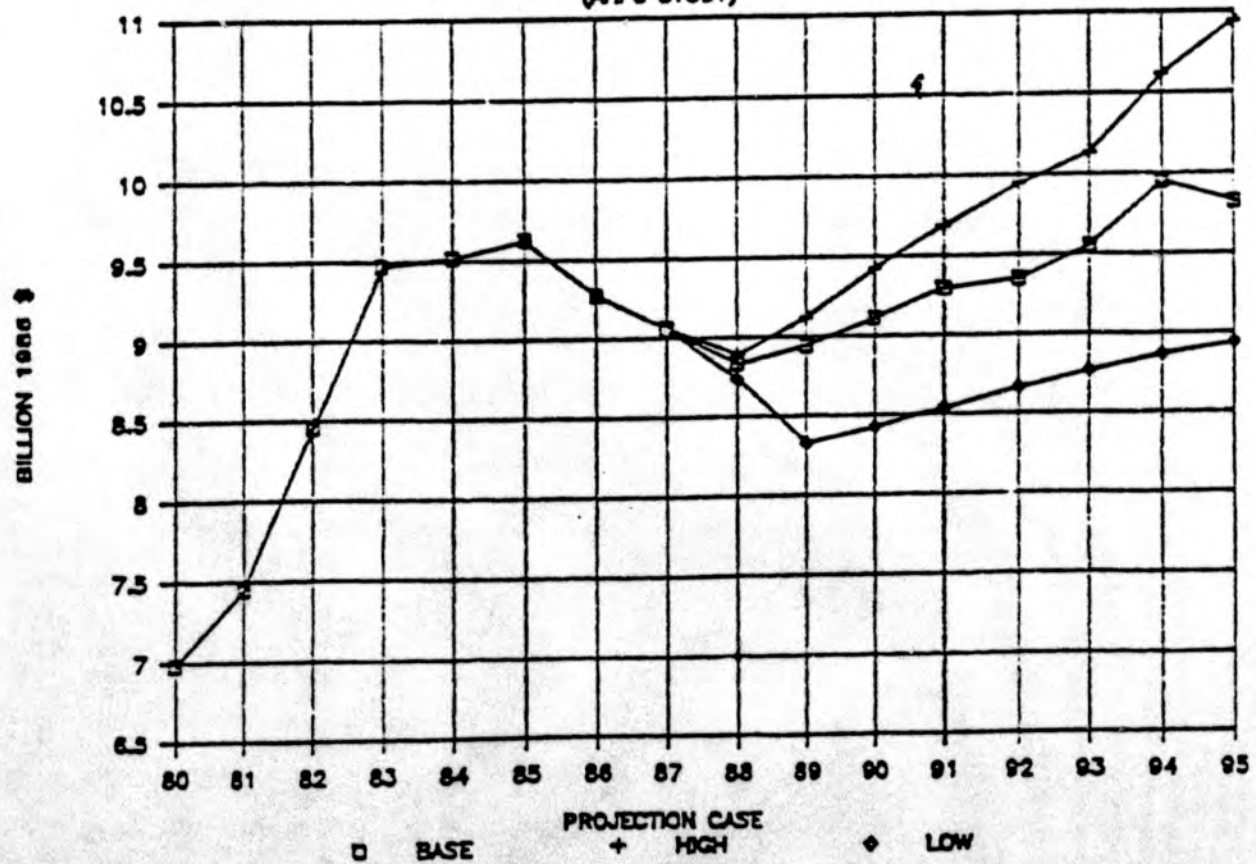


Figure 2.19

REAL PER CAPITA DISPOSABLE INCOME (AHFC STUDY)

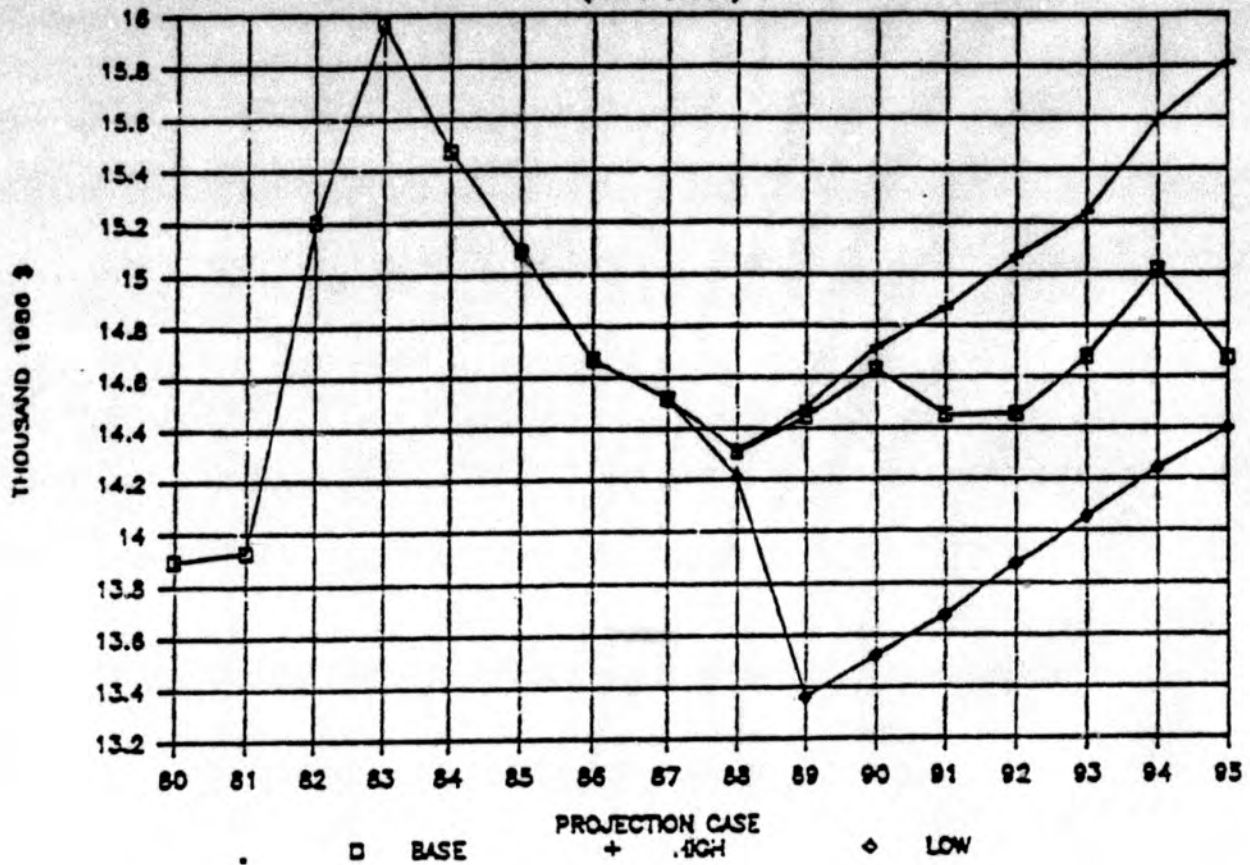


Figure 2.20
ALASKA POPULATION
(AHFC STUDY)

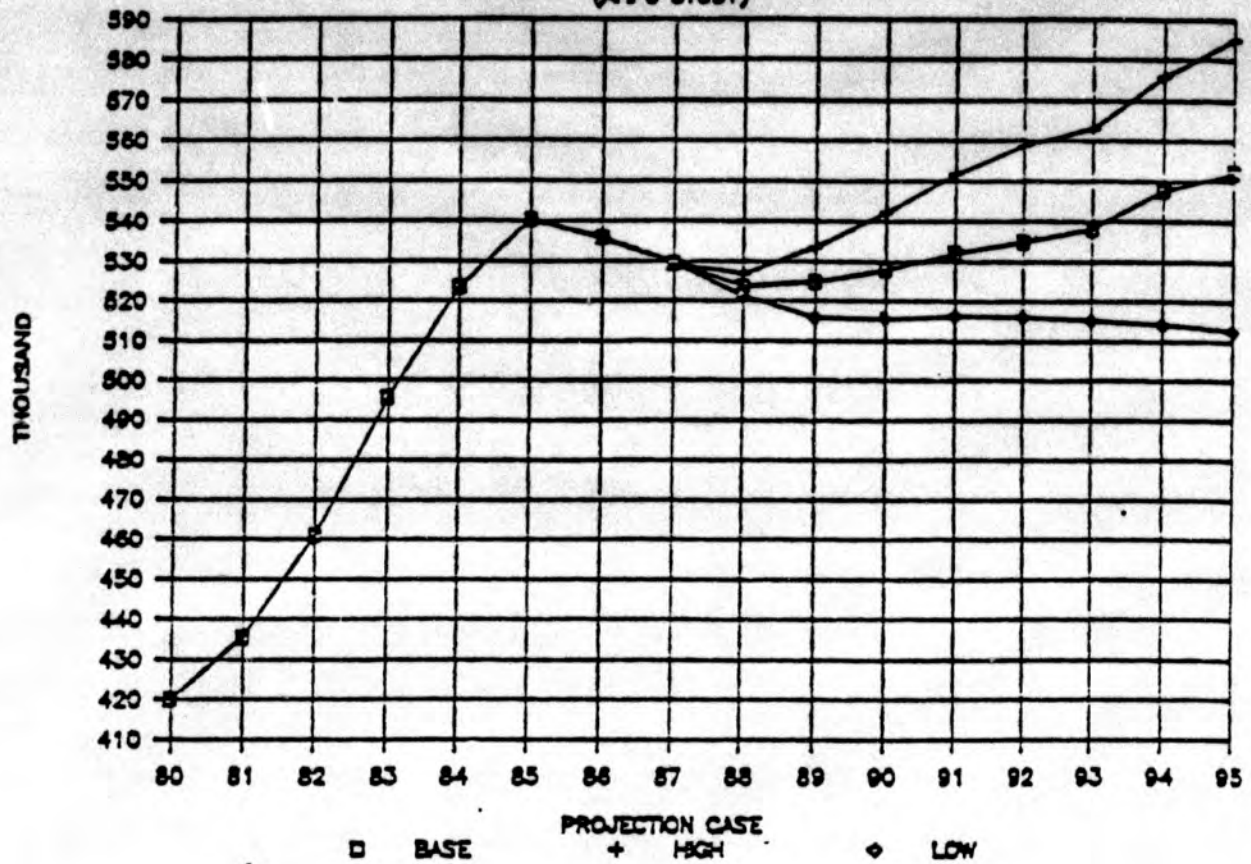


Figure 2.21
ALASKA HOUSEHOLDS
(AHFC STUDY)

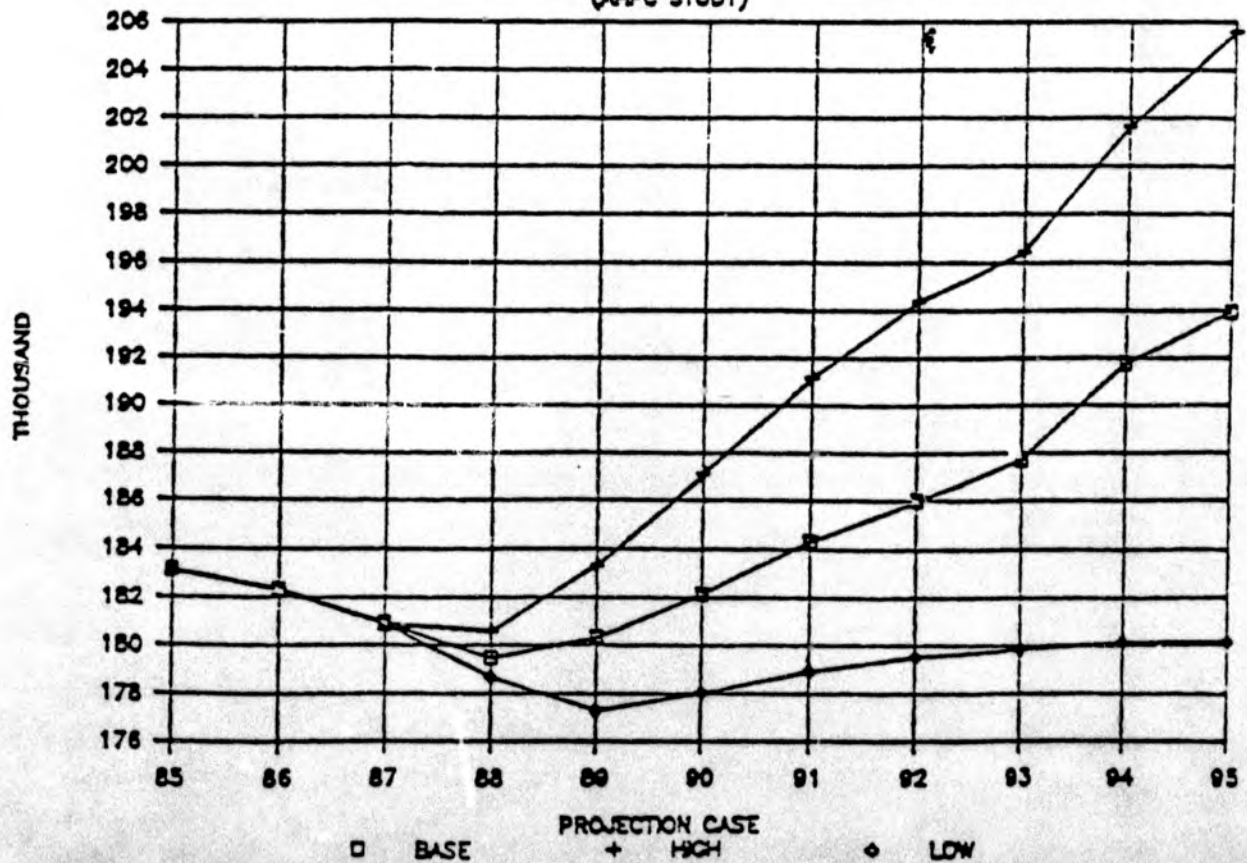


Figure 2.13

PETROLEUM REVENUES: GENERAL FUND (AHFC STUDY)

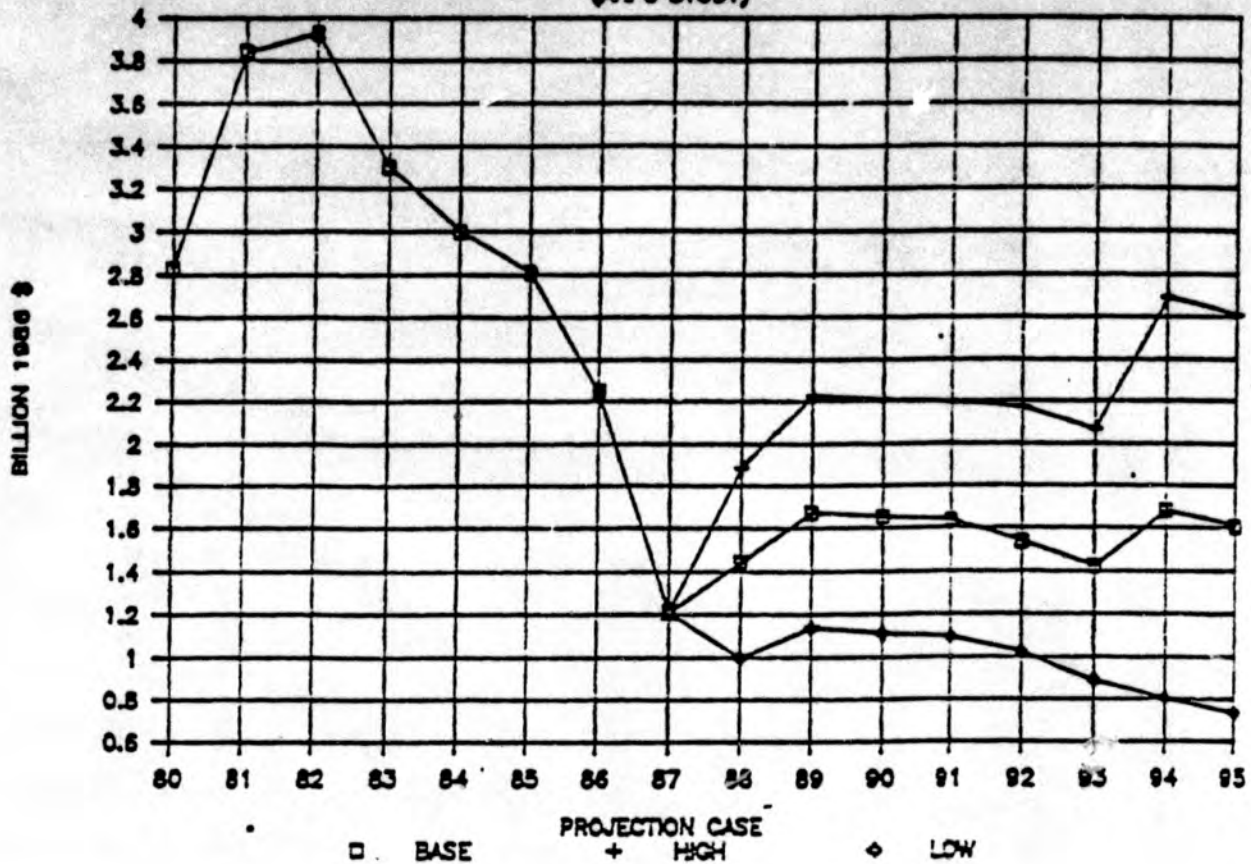


Figure 2.14

STATE EXPENDITURES : GENERAL FUND (AHFC STUDY)

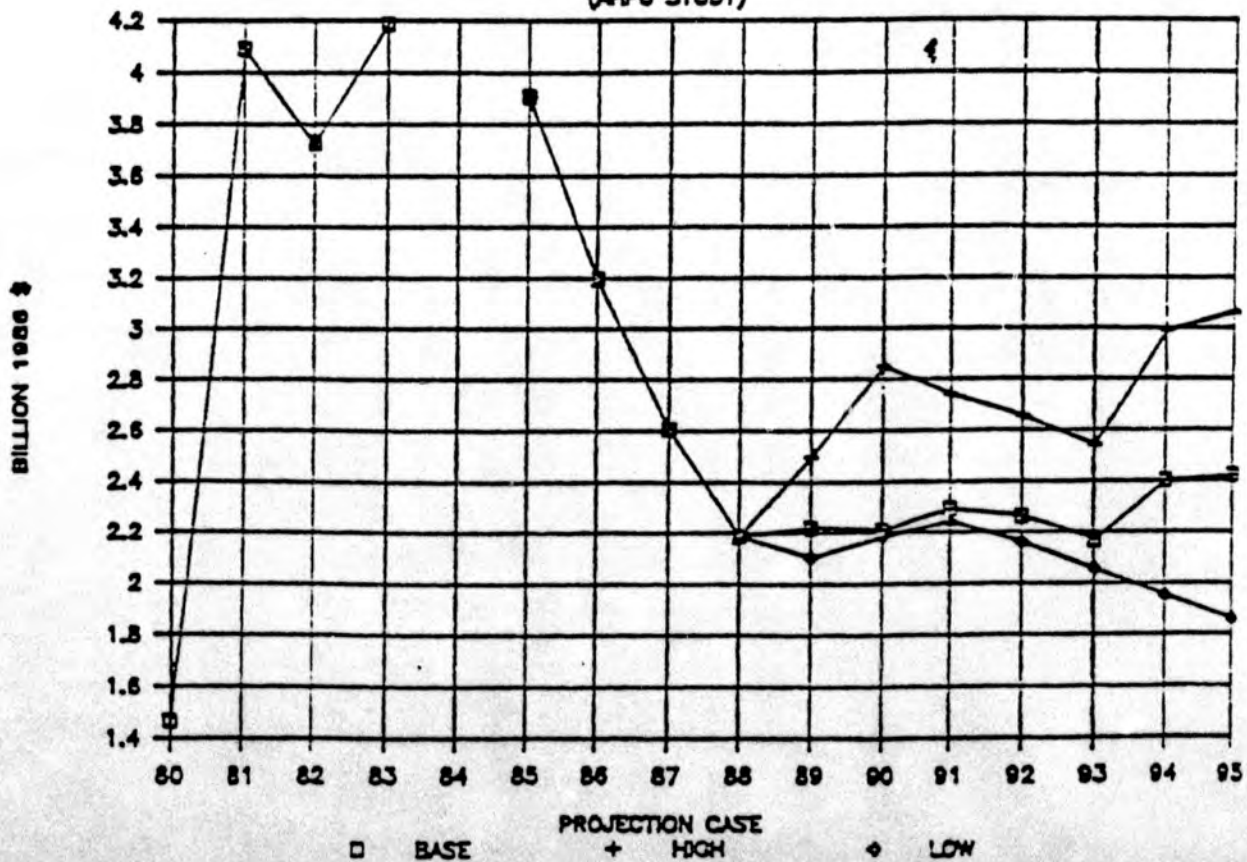


Figure 2.26

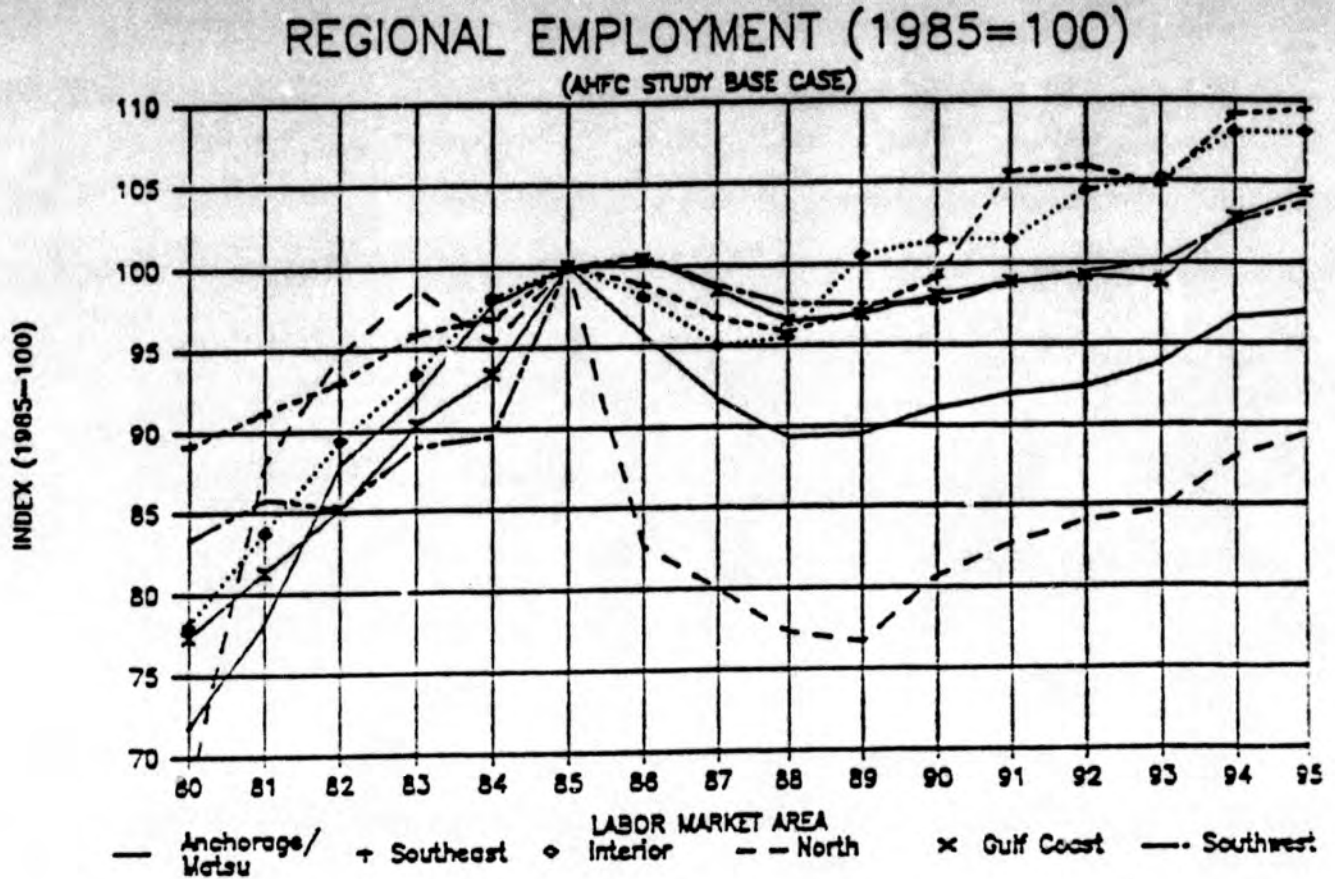


Figure 2.27

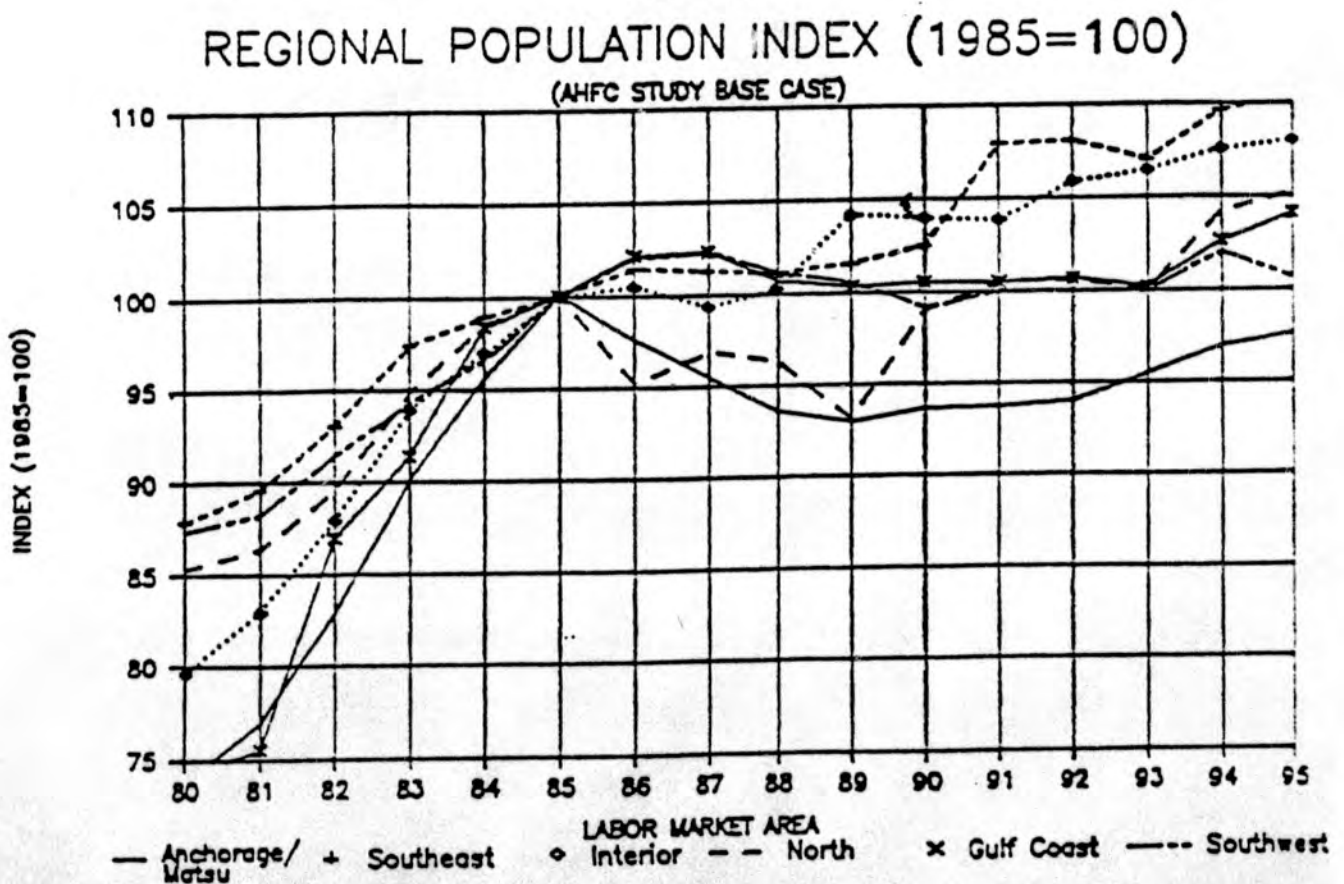


Figure 2.28
ANCHORAGE/MATSU POPULATION
(AHFC STUDY)

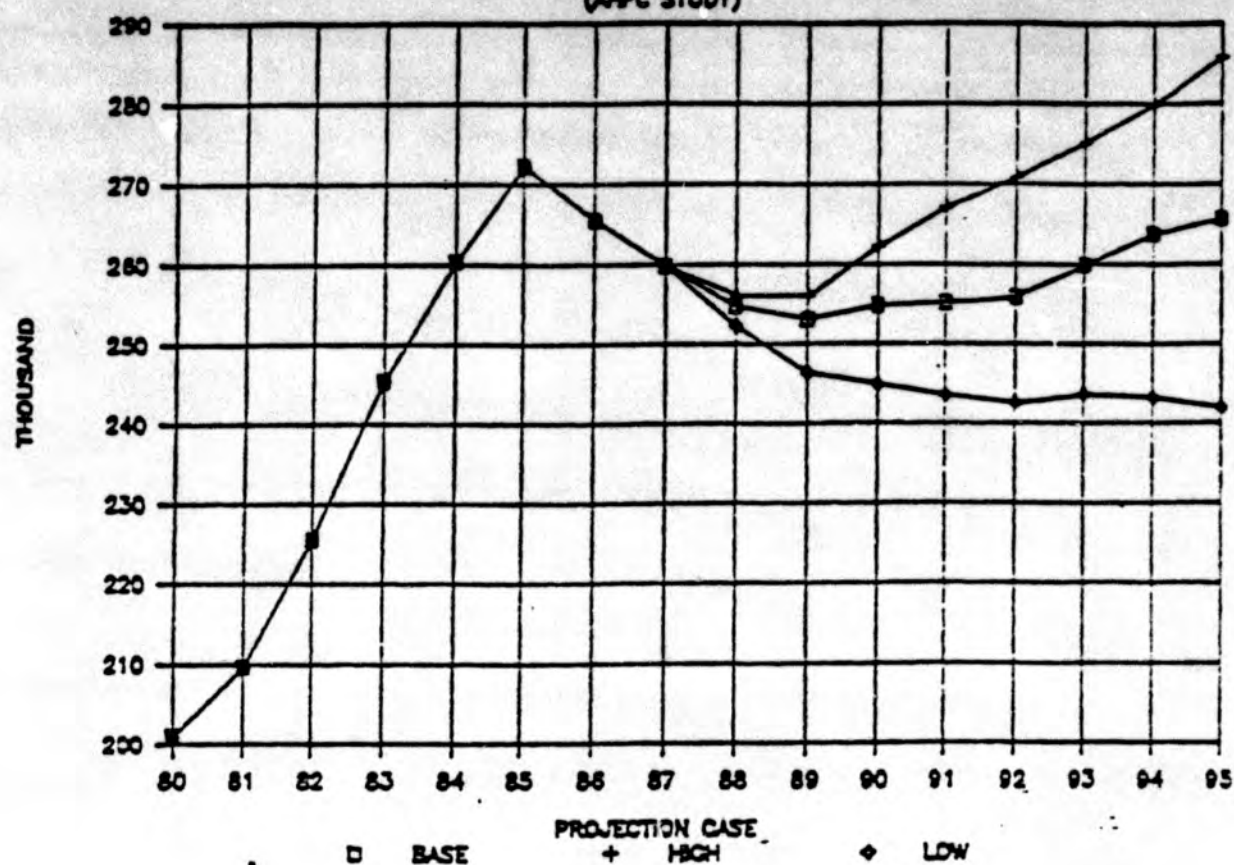
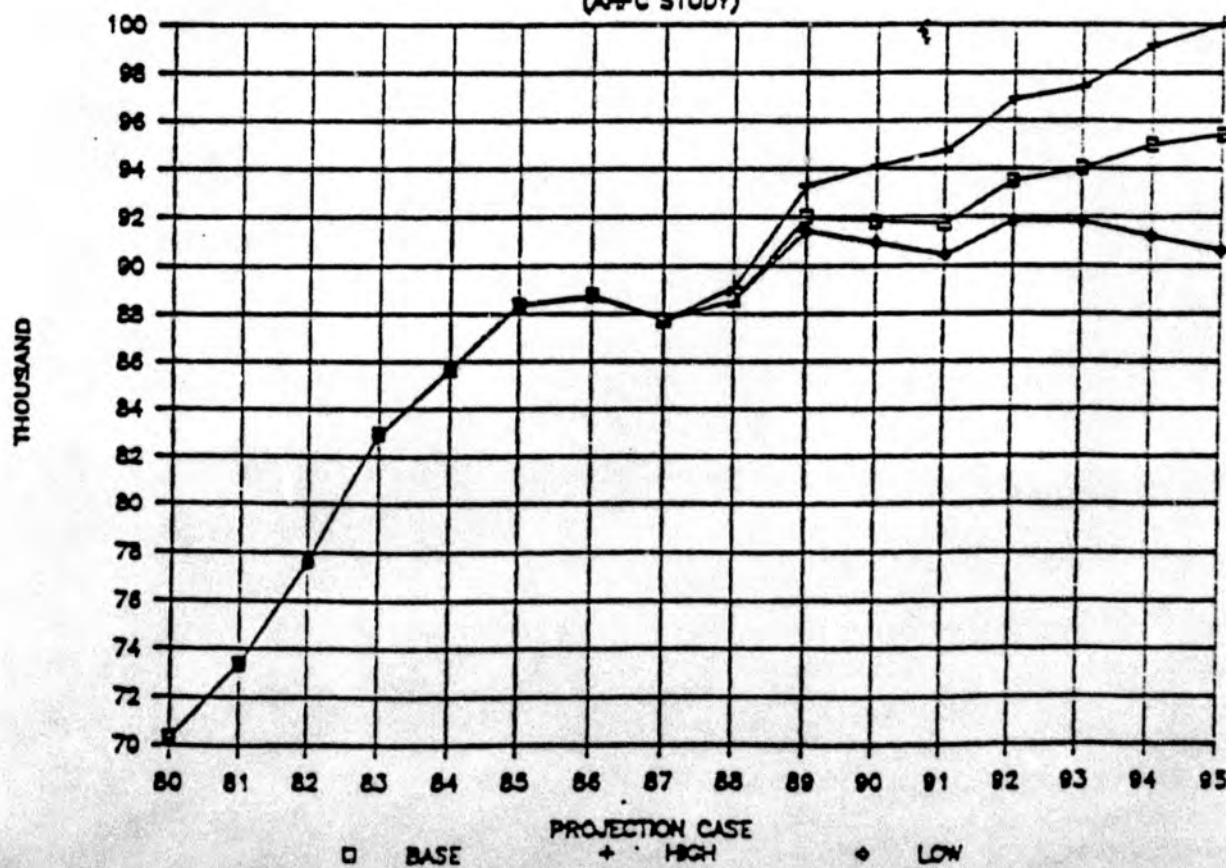


Figure 2.29
INTERIOR POPULATION (GREATER FAIRBANKS)
(AHFC STUDY)



1987 AHFC STUDY
SUMMARY OF MAP MODEL ASSUMPTIONS: BASE [AHFC.B]

- A. PETROLEUM REVENUE ASSUMPTIONS: \$19 WORLD PRICE
- B. FISCAL ASSUMPTIONS: NEW REVENUES MEASURES IMPOSED
IN EARLY 1990S (A6.2EX1)
- C. INDUSTRY ASSUMPTIONS: MODERATE GROWTH (S87.N1)
- D. NATIONAL VARIABLE ASSUMPTIONS: MODERATE GROWTH

A. PETROLEUM REVENUE ASSUMPTIONS

- | | |
|---|---|
| 1. Average Expected
OPEC Price | \$19 nominal world oil price in late 1980s. The real price rises slightly faster than inflation in 1990s. |
| 2. Petroleum Production--
North Slope & Cook Inlet | Total production gradually declines with the depletion of the giant Prudhoe Bay field from 674 million barrels/year in 1987 to 452 in 1995 and 187 in 2003. Producing fields include Prudhoe Bay, Kuparuk, West Sak, Lisburne, Endicott, Milne Point, Cook Inlet, and other small onshore and offshore fields (DORD6.7X). |
| 3. Severance Taxes | Based on assumed price and production applied to current tax structure. After 2003, revenues remain constant in nominal dollars (DORD6.7X). Alyeska pipeline tariff dispute settlement revenues included [RPTS]. |
| 4. Royalties | Based on assumed price and production applied to current royalty structure. After 2003, revenues remain constant in nominal dollars. These revenues are distributed between the General Fund and Permanent Fund (DORD6.7X) [RPRY]. |
| 5. Bonuses | Alaska receives \$500 million over the period FY 1989 to 1992 in settlement of disputed offshore leases in the Beaufort Sea. Also treated as bonuses are \$500 million received between 1991 and 1995 in settlement of lawsuits and tax disputes regarding the valuation of North Slope oil. These revenues are distributed between the General Fund and Permanent Fund [RPBS]. |

(a) Codes in parentheses indicate ISER names for MAP Model SCEN_ case files, and codes in brackets indicate MAP variable names.

- | | |
|---|--|
| 6. Property Taxes | Based on projections published by Alaska Department of Revenue, <u>Revenue Sources</u> (DORD6.7X) augmented by taxes on onshore facilities related to OCS development (OCS.6NGT -12) [RPPS]. |
| 7. Petroleum Corporate Income Tax | Based on projections published by Alaska Department of Revenue, <u>Revenue Sources</u> (DORD6.7X). No change in tax regulations [RTCSPX]. |
| 8. Rents | Increasing slowly from current level of \$8 million [RFEN]. |
| 9. Miscellaneous Petroleum Revenues | Zero [RP9X]. |
| 10. Federal-State Petroleum-Related Shared Revenues | Increasing \$1 million annually from current level of \$25 million [RSFDNPX]. |
| 11. Windfalls | During FY 1986 the Permanent Fund experienced a capital gain of approximately \$323 million. During FY 1987, \$250 million accrues to Alaska from a litigation settlement with ARCO, \$450 million in settlement of the Alyeska pipeline tariff dispute, and \$50 million from past federal revenue sharing. |

B. FISCAL ASSUMPTIONS

B.1. State Appropriations

- | | |
|---|--|
| 1. Aggregate Appropriations | If funds available, ceiling established by Constitutional Spending Limit; otherwise appropriations equal revenues plus 50 percent [EXWIND] of general fund balance available for appropriations. |
| 2. Capital/Operations Split | Two-thirds operations if Spending Limit in effect; 85 percent operations otherwise [EXSPLITX]. |
| 3. General Obligation Bonds | Bonding occurs up to point where debt service is 5 percent of state revenues. |
| 4. Federal Grants-in-Aid for Capital Expenditures | Constant at \$75 million [RSFDNCAX]. |

5. State Loan Programs	New capitalization terminated after FY 1987 [EXKTR1X]. Programs continue functioning on existing capitalization including AHFC [EXLOAN2] and APA revenue bond expenditures [EXCPSR1].
6. Municipal Capital Grants	Funding terminated after FY 1987 [RLTHCAP].
7. State-Local Revenue Sharing	Continuation proportional to total state expenditures [RLTRS].
8. State-Local Municipal Assistance	Continuation proportional to total state expenditures [RLTMA].
9. Permanent Fund/Other Appropriations in Excess of Spending Limit	None for operations [EXGFOPSX]; none for capital [EXSPCAP].
<u>3.2. Permanent Fund</u>	
10. Permanent Fund Principal	Continuous accumulation from petroleum revenues [EXPFI]; inflation-proofing eliminated when complete withdrawal of earnings commences.
11. Permanent Fund Earnings	A quarter of the earnings after payment of the dividend are allocated to the General Fund beginning in 1988, rising to 50 percent of earnings in 1998, 75 percent in 2002, and all earnings in 2005 [EXPFTOGF].
12. Permanent Fund Dividend	Eliminated after FY 1994 distribution which occurs in the fall of that year [EXPFDIST].
<u>3.3. Revenues</u>	
13. Personal Income Tax	Reimposed FY 1991; collections begin January of that year [EXPIT].
14. Miscellaneous Local Revenue Sources	Miscellaneous state-local transfers [RLTX], large project property taxes [RLPTX], petroleum-related federal transfers [RLTFPX] all set to zero.
15. New Federal-State Shared Revenues	Zero [RSFDNX].

16. Large Project Corporate
Income Taxes

Zero [RTCSX].

B.4. Miscellaneous

17. State-Local Wage Rates

Constant average real wage rate
beginning from 1988 through 1995
[EXWR].

C. INDUSTRY ASSUMPTIONS

1. Trans-Alaska Pipeline

Operating employment remains constant
at 885 through 2010 (TAP.S86X).

2. North Slope--ANWR
Petroleum Development
and Production

Petroleum industry employment on the
North Slope rises from 3.5 thousand in
1988 to 4 thousand in 1998. Employment
engaged in new construction is
constant at 1 thousand (NSO.S87A).

3. Upper Cook Inlet
Petroleum Production

Employment in exploration and devel-
opment of oil and gas in the Upper
Cook Inlet area declines gradually
beginning in 1983 by approximately
2.5 percent per year (UPC.S86).

4. OCS Development

Employment in exploration and develop-
ment activity associated with Bering
Sea and Arctic areas peaks at about
7,000 in 2005. Direct employment con-
tinues through the following decade at
a level of about 3,000 (OCS.6NGT -12).

5. Oil Industry Headquarters

Oil company headquarters employment in
Anchorage remains at about 3,900
through 2010 (OHQ.S86).

6. Healy Coal Mining

Export of approximately 1 million tons
of coal annually adds 25 new workers
to current base of 100 by 1986
(HCL.84X).

7. Beluga Chuitna Coal
Production

Development of a 4.4 million ton/year
mine for export beginning in 1989
provides employment of 524 (BCL.04T -4).

8. U.S. Borax

The U.S. Borax mine near Ketchikan is
brought into production with operating
employment of 685 beginning in 1993 and
eventually increasing to 1,020
(BXM.F84-4).

9. Greens Creek Mine
Production from the Greens Creek Mine on Admiralty Island results in employment of 150 people from 1988 through 2003 (GCM.F84).
10. Red Dog Mine
The Red Dog Mine in the Western Brooks Range begins operation in 1991 with production employment of 393 rising to 428 (RED.F84-1).
11. Other Mining Activity
Mining employment not included in special projects increases from current level at 1 percent annually (OMN.S86).
12. Agriculture
Reduction in state support results in constant employment in agriculture (AGR.S86).
13. Logging and Sawmills
Logging for export by Native corporations expands employment to 3,100 by 1992 before declining at 1% annually due to productivity gains (FLL.S87).
14. Pulp Mills
Productivity gains result in employment declines at a rate of 1 percent per year after 1991 from the present level of 600 (FPU.S86).
15. Commercial Fish
Harvesting--Nonbottomfish
Employment levels in traditional fisheries harvest remain constant at 7,500 through 2010 (TCF.S86).
16. Commercial Fish
Processing--Nonbottomfish
Employment in processing traditional fisheries harvest remains at 7,000 (TFP.S87).
17. Commercial Fishing--
Bottomfish
The total U.S. bottomfish catch expands at a constant rate to allowable catch in 2000, with Alaska resident harvesting employment rising to 1.033 thousand. Onshore processing capacity expands in the Aleutians and Kodiak census divisions to provide total resident employment of 1.471 thousand by 2000 (BCF.S86).
18. Federal Military
Employment
Employment declines at 1 percent per year, consistent with the long-term trend since 1960 (CFM.S86).

19. Light Army Division
Deployment

A portion of a new Army division is deployed to Fairbanks and Anchorage beginning in 1986, augmenting active-duty personnel by 3,800 by 1989 (GFM.S87)

20. Federal Civilian
Employment

After remaining constant from 1987 through 1990, employment rises at 0.5 percent annual rate consistent with the long-term trend since 1960 (GFC.S87).

21. Tourism

Number of visitors to Alaska increases by 30,000 per year to over 1.3 million by 2010 (TRS.J85).

22. State Hydroelectric
Projects

Construction employment from Alaska Power Authority projects includes several projects in Southcentral and Southeast Alaska, including Bradley Lake (SHP.F85) and (SHP.B86).

D. NATIONAL VARIABLE ASSUMPTIONS

1. U.S. Inflation Rate

Consumer prices rise at an annual rate of 3% in 1987, 4.6% from 1988 to 1992, and gradually increase to 5.4% in 1997. This assumption is consistent with petroleum price and revenue.

2. Real Average Weekly
Earnings

Growth in real average weekly earnings averages 1 percent annually.

3. Real Per Capita Income

Growth in real per capita income averages 1.5 percent annually.

4. Unemployment Rate

Long-run rate of 6.5 percent.

E. REGIONAL ASSUMPTIONS

1. Population

Regional population growth allocated on the basis of employment growth.

2. Employment

No significant shifts in the location of support industries.

February 11, 1988

Dear Senators Arliss [REDACTED] Jan FAIKS, Richard HALFORD,
and Tim KELLY,

I feel that your current rushed efforts to stop potential dumping of Anchorage and Alaska real estate properties are utterly foolish.

Please stop trying to buy them up to prevent "dumping".
Please do not waste millions of dollars in a quasi-public agency that will never be able to liquidate its portfolio until the market has recovered.

Here is a better way to stabilize real estate markets:

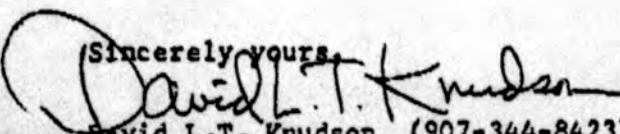
A Tax to Promote Orderly Alaska
Real Estate Markets

To promote orderly transfer of real estate properties or portfolios of real estate properties or portfolios of real estate properties, the State of Alaska establishes a market stabilization tax. For all real estate properties or financial portfolios of real estate properties selling at a price less than 80% of the existing outstanding loan balance on that property or portfolio of properties, the State of Alaska levies a tax on the buyer of that real estate property (or portfolio of real estate properties) equal to 80% of the outstanding mortgage loan balance on that real estate property (or portfolio) minus the sales price of the real estate property (or portfolio)

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

This tax is designed to raise revenue and to prevent windfall profits and losses in the Alaskan real estate market during times of distress.

Sincerely yours,


David L.T. Knudson (907-344-8423)
7510 Chad
Anchorage, AK 99518

Peat Marwick

Joseph E. Heintz
Managing Partner

Peat Marwick Main & Co.
601 West 5th Avenue, Suite 700
Anchorage, AK 99501-2258

JAN 18 1988

January 8, 1988

*Presented
to Anch. Comm.*

Governor Steve Cowper
State of Alaska
Pouch A
Juneau, Alaska 99811

Dear Governor Cowper:

During the past several weeks an Economic Recovery Task Force has been meeting to discuss the status of the Anchorage economy and proposed solutions. The attached listing of members of the Task Force indicates the breadth and depth of the community participation. The Task Force was initiated by the Anchorage Chamber of Commerce and the Task Force recommendations will be submitted to the Chamber of Commerce Board of Directors at its meeting on January 15, 1988. However, the Task Force wanted to submit to you its findings and recommendations at the earliest possible date, whether or not they are approved by the Chamber Board of Directors.

The findings of the Task Force were passed unanimously by the Task Force members. I must add that not every member agreed with every specific recommendation. However, there was no exception to the finding that the economy in Anchorage is depressed and there is no immediate indication there will be an economic rebound. While there is tremendous support for letting the market forces guide the economy, there is the strong belief that appropriate government intervention can assist without further aggravating the functioning of the economy.

The Task Force members recommend you adopt the recommendations as your own, and the members pledge their support for you in implementing any of the recommended programs. We look forward to working with you as we navigate through these troubled waters.

Very truly yours,

Joseph E. Heintz

Joseph E. Heintz

- * The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.
- * The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

Real Estate Market

The real estate market in Anchorage, both commercial and residential, is characterized by a significant imbalance of supply and demand. The excessive supply cannot be reasonably absorbed in the near or mid-term (say next five years) and will have the ongoing effect of depressing real estate prices. The impact is not limited to real estate speculators but is pervasive to most citizens in that most have major investments in real estate. So as personal and business income decline, the ability to continue to function is jeopardized by the debt service with the resulting effect in foreclosures, bankruptcies, etc.

We believe the imbalance in supply and demand can be partially adjusted by reducing the supply of real estate. Specifically, we would recommend the following:

- * For residential property:
 - ** Remove sub-standard housing from the market and destroy the properties. Convert other property to low income housing so there is no additional cost to the low income person.
 - ** Ship mobile homes that have been vacated out of the state.
 - ** Convert existing condo or similar units to University of Alaska student housing.
- * For commercial property:
 - ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

CORRECTION

**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

Peat Marwick

Joseph E. Heintz
Managing Partner

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ECONOMIC RECOVERY TASK FORCE

The task force recommendations are based upon a general consensus that Anchorage is suffering from an economic recession and, while the economic decline may be slowing, there is no immediate turnaround in sight. In fact, the recession may result in the loss of another 10,000 to 15,000 people from Anchorage during 1988, further disrupting many of the basic sectors of the local economy.

The task force concluded that the economic recession is not limited to a specific interest group. For example, it isn't only the banks that are suffering from the economic decline. Virtually every homeowner in the Municipality of Anchorage has lost at least 30 percent of the value of their residential property and further declines can be anticipated. In fact, most homeowners in the Municipality of Anchorage are now probably "under water" with respect to their mortgage, i.e., the mortgage balance exceeds the fair market value of the residential property.

The recommendations of the task force are not intended to be a subsidy. Rather, for the most part they are a restructuring of existing programs, recognizing the changed economic circumstances. They reflect a use of State money for the citizens of the state. And, in general, they result in a benefit throughout the state, not just in any one area of the state.

The recommendations of the task force are meant to be specific, action oriented programs that can be implemented with a minimum of delay. They are not intended to be an all inclusive answer to the economic woes of the state of Alaska but rather are intended to be specific steps that can reverse the economic decline.

AHFC

The Homeowners' Assistance Program (HOAP) proposed by AHFC is a significant and positive first step. We compliment AHFC for its willingness to identify a problem and work out a solution. However, we do not believe the HOAP program will provide significant enough relief to alleviate the problem. We believe AHFC should adopt an additional program which includes the following components:

- * Reduces rates for all AHFC home mortgages. The reduction should result in a rate reduction to all home owners of 2%, and should come out of AHFC's \$1.5 billion in equity.

- * The reduction of interest rates should not be added back to the homeowner's loan at the end of the program.
- * The reduction should be for a period of 12 to 24 months.

We believe the proposed program will provide relief to the homeowners so that they can maintain or begin to accrue some equity in their property. We believe that the interest rate relief will free funds to be spent for general stimulation of the economy. And, finally, reducing interest rates for all homeowners is not arbitrary and does not single out any one individual.

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 - ** Convert existing condo or similar units to University of Alaska student housing.
- * For commercial property:
 - ** Create a vehicle to take commercial property out of the market. Perhaps establishing an entity similar

to an REIT which would acquire FDIC-owned property and other obsolete property at a nominal price simply for the purpose of holding the property off the market.

- ** Consider use of the Permanent Fund as a "Vulture Fund" to finance the property acquisition in conjunction with Heritage Land Bank.

AIDEA

AIDEA should be instructed to adopt restructuring policies that provide a cushion to commercial borrowers. For example, these procedures should include interest rate reductions when loss of jobs would occur if the loan defaulted. AIDEA should be allowed to take an equity participation in consideration for restructuring the terms and conditions which result in the survival of a business.

AIDEA should modify its requirements so that banks can participate even if their loan delinquency rate exceeds two percent.

AIDEA should expand its lending activities to provide for a new guaranteed loan program modelled after the federal SBA program. The essentials of the program should include:

- * Bank administered with AIDEA guarantee.
- * Loans would be available to finance existing AIDEA debt; other debts could not be refinanced.
- * \$1,000,000 limit on loan.
- * Funds could be used for new construction if the project had an economic benefit analysis.

The revisions to the AIDEA programs should result in the survival of the viable small businesses, thereby maintaining statewide employment and minimizing the effects of the current recession.

Employment Incentives Fund

The State should identify a portion (say \$50 million) of the construction fund budget to be used as a venture capital fund. The fund should be used somewhat along the following guidelines:

- * An applicant could apply for capital funds up to

\$10 million. Matching funds would be available on a dollar-for-dollar basis. In other words, an applicant could receive \$1 of State funds to the extent the applicant put in \$1 of private sector funds.

- * The private sector project would need to create new jobs for the state of Alaska to qualify. These new jobs would need to be permanent positions as a result of the project and not as a result of any capital construction.
- * The criteria for qualifying may be that for each \$1 million of State participation, five new positions must be created.
- * The criteria might also include that the project results in new dollars coming into the state of Alaska and the economy. In other words, it will result in exporting local products or services.

The State and local municipalities have no specific program incentives to entice business. While this would be a onetime subsidy program, it would create new jobs throughout the state and provide a sustaining boost to the economy.

Public Forum

Town hall meetings should be held wherein members of the public are provided the opportunity to describe their economic and financial condition to state leaders (Governor, Commissioners, Legislators, AHFC, AIDEA, etc.).

Comment Draft 2/18/88

Comments should be addressed to: Gregg Erickson, senior economist, Division of Policy, P.O. Box AD, Juneau, AK 99811-0164 phone (907) 465-3568

The Recession, The Real Estate Crash, and Alaska's Economic Prospects

Introduction

Many Alaskans have been surprised by the severity of the current recession, and the speed with which it engulfed the state's economy. The collapse of the real estate market has been a shock, particularly in Anchorage. As long as anyone there can remember, investment in Anchorage real estate has been about as sure a thing as one could hope to find in this uncertain world. Granted, there have been ups and downs, but Anchorage real estate always held its value when the economy was doing poorly. When the economy was expanding -- during the Korean War, again after statehood, after the \$900 million North Slope lease sale in 1969, during the pipeline boom, and in the biggest boom of all in the early 1980s -- an investor could achieve extraordinary returns. In the intervals when the economy was stagnant, a real estate investor in Anchorage felt protected. "You never sold a piece of property for less than you paid for it," recalls John Rader, Anchorage lawyer and investor whose experience in Anchorage dates to the early 1950s. "It was almost a religious statement."

The benefits of real estate appreciation weren't just restricted to the very rich. Anyone wealthy enough to buy a home was able to play the game. The more a family borrowed to buy a home and the less of their own cash they used in the purchase, the faster their home equity would compound. Over the years, ordinary folks and major investors alike came to believe that there some rules of investing were better ignored. In Alaska, it always paid to be highly leveraged. In Alaska, the more an individual borrowed, the more an individual stood to make. And in Anchorage, one would never need to sell a piece of real estate for less than one paid for it.

No single event swept away this folklore, but it vanished nonetheless. In January 1986 Anchorage taxable real estate had an assessed value of \$13.9 billion, up 38 percent from two years earlier. In January 1988 municipal assessors estimated it at \$8.3 billion, down 41 percent in two years. Because a half billion in new construction was added to the tax rolls over the '86-'88

period, the average property in Anchorage took an even bigger beating.

This kind of collapse would spell trauma in any community, but because of Anchorage's demographics, growth pattern, and the policies of an activist state government, the distress has touched an especially large number of households. Anchorage's population is relatively young, and the town has been growing fast. In any other state most of the young families that dominate Anchorage's demographics would still be renting; a crash in real estate values would then be to their advantage since it would mean falling rents. In Alaska, though, the state has actively encouraged home ownership by providing mortgage credit at subsidized rates. The booming market made it look foolish not to participate, and in Anchorage about 29,000 households now owe about \$2.5 billion on subsidized residential mortgages.

According to Anchorage real estate broker Brooke Marston, these subsidized mortgages are now virtually all "underwater," e.g., the principal owed on the mortgage exceeds the market value of the home. The average family's equity in its home is one of its major repositories of savings. In Alaska, for most urban households, the value of that asset has been erased or become a net liability. The probability is that many now have negative net worth.

The purpose of this analysis is to examine these painful events in the broader context of Alaska's overall economic performance, addressing five questions: What caused the recession? When will it end? What sort of recovery can we expect? How will the real estate crash affect the recovery? And what are the economic policy options for state government?

The Inevitable Recession

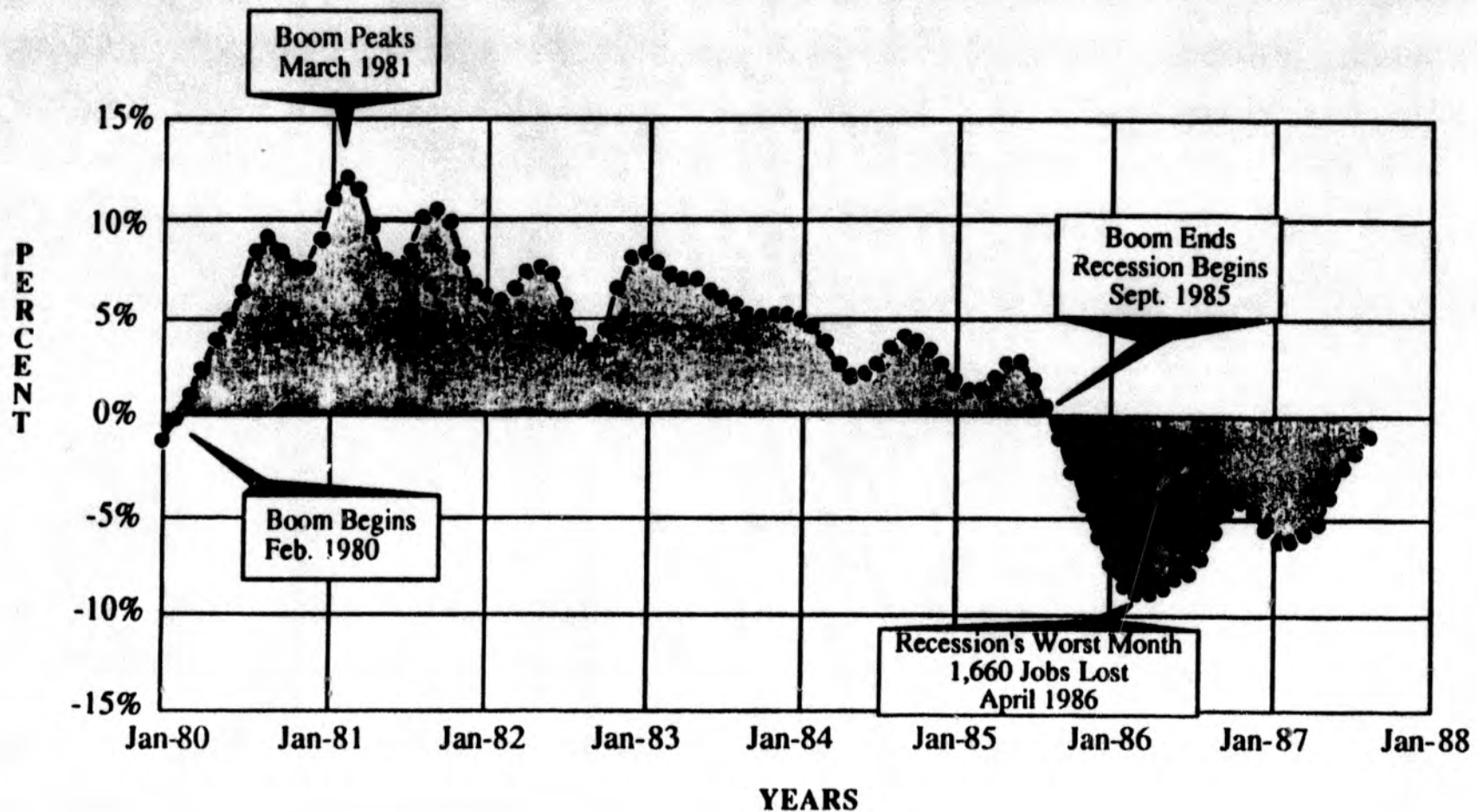
Alaska's recession had its roots in the extraordinary boom that began in early 1980s. *When the state government doubled its real per capita spending between 1980-81, a recession became virtually inevitable.* Using the rate of job creation and job loss (shown in Figure 1) as his yardstick, Scott Goldsmith, economics professor at the University of Alaska's Institute of Social and Economic Research, measures the peak of the boom in early 1981, when jobs were being added at the phenomenal 12 percent annual rate.¹ The rate tapered off slowly after that, but since growth was still occurring the economy continued to get bigger. The economy stopped growing in September 1985, which is the date ISER's Goldsmith identifies as the beginning of the recession. The first phase of the recession was exceptionally sharp, but it was also short: the economy hit bottom in April 1986, just 6 months after the recession started; at that point

¹ Economists who keep track of the business cycle on a national basis generally define a recession as two consecutive quarters of falling gross national product. Because figures for gross *regional* product are more difficult to determine, regional economists generally use falling employment as their measure. Economists recognize that there is much more to the evaluation of economic performance than is told by either GNP or employment.

Figure 1

Rates of Growth and Decline in Alaska Employment

Seasonally Adjusted Annual Rate



Source: Scott Goldsmith, ISER

Office of the Governor
Division of Policy
2/8/88

jobs were being lost at an 8.5 percent annual rate. Thereafter things improved, with the data from late 1987 showing jobs being lost at a 1 percent annual rate.²

The Alaska recession has not been typical. Regional recessions usually result from regional specialization, as in the manufacture of airplanes or the production of corn, combined with declining worldwide demand for the specialized product or service. The Seattle area specialized in large commercial jet transport aircraft. When demand for that product ebbed in the 1960s, Seattle lost 70,000 jobs in the space of a year. In the mid-1980s declining agricultural prices triggered a regional recession encompassing much of the Midwest. Here is the way the Scott Goldsmith, of the University of Alaska's Institute of Social and Economic Research (ISER) put it:

It is critically important to recognize that we brought this recession on ourselves, and that it was not primarily the result of weakness in the markets for the goods and services which Alaska sells to the rest of the world. This fact distinguishes our recession from those that have occurred in other regional economies.

The dramatic growth in state spending in the first years of this decade guaranteed that there would be an explosion of demand, and that private capital and labor would mobilize to meet that demand. Since much of this demand was from new public and private investment, demand was especially strong in the area of investment goods -- especially construction services and housing. Just to keep up with the growth in population and business required a Herculean effort. Few communities ever find themselves needing to add housing at a rate that would double the number of units in seven years. Since much of the growth was itself the result of new investment, there was a feedback loop. Economists call it an investment accelerator -- the expansion called forth investment which in turn accelerated the expansion. Unfortunately, the process also works in reverse. When growth stopped (notice we didn't say "reversed"), the Herculean effort would no longer be needed. And once a downturn was started, the feedback loop would cause it to feed on itself, to accelerate.

The only thing that could have prevented an eventual demand collapse was for state spending to keep growing. This would have required state revenue to keep growing. Some thought this a likely future, but it wasn't. When state spending stopped going up, the balloon would be punctured and the Alaska economy would deflate. The only questions remaining were when the recession would occur and how severe it would be.

This logic leads to an important conclusion. *The oil price collapse was not an important cause of the recession.* The oil price slide started in December 1985, three months *after* the recession began and two

² Some economists are less sanguine in their interpretation of the employment data, but most conclude that the recession, if not yet over, is in its final stages.

years after job losses started in the Alaska construction industry. Real (inflation adjusted) state spending stayed constant at \$6,800 per capita in FY 1983 and 1984, then increased to \$7,400 in FY 1985. The construction recession began in December 1984 (mid-FY 1985), notwithstanding the spending increase. With the beginning of FY 1986 spending fell to \$5,400 per capita.³

The FY 86 spending cut hurried along the recession which started three months later and made it more intense, but didn't cause it. The cause was that in 1981 the state of Alaska increased its spending at growth rates it could not reasonably hope to sustain, and adopted policies that encouraged private investment in housing, where the needs were only a temporary response to the inflated spending. *When state spending stopped growing, a recession resulted from falling demand for investment goods.* The collapse had its most severe consequences in construction and housing, precisely those areas where the state had the most success in its efforts to stimulate the economy.

The recession did not take Alaska's economists by surprise. Ten years ago, in March 1978, economist David Reaume and Goldsmith independently analyzed the effects of state spending growth expected with the beginning of Prudhoe oil production. Their analyses were contained in separate papers delivered to the annual meeting of the Western Economic Association. Both authors used the concept of "sustainable" spending (Reaume called it "sustainable revenue"). Both papers concluded that spending growth above the sustainable level would culminate in a self-inflicted regional recession.

Over the following decade this central conclusion was refined and reiterated by virtually every Alaska economist who wrote or spoke on the subject. Sometimes the conclusions were cloaked in mathematics or couched in eco-speak, but the warning was clear from the beginning. Here is how Dr. Reaume, phrased it ten years ago:

[I]ndependence from non-renewable resource revenue can be achieved ...if real state spending grows by no more than 2.5 percent per year...and if short term budget surpluses are carefully invested. A parallel conclusion is that ...the state faces a financial crisis by 1990 if it does not immediately restrict spending.

Despite the warnings, between fiscal 1979 and 1985, real (inflation adjusted) state spending rose at a compounded annual rate of 13.9 percent.⁴

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

⁴ The annual real per capita growth rate over the whole fiscal 1979-88 period was 3.7 percent.

Recovery

If the economists are right, the end of Alaska's recession is imminent and doesn't depend on outside events like a rise in the price of zinc or corn or a change in the demand for Boeing airplanes. Alaska's recession will end when the decline in state spending ends and the excess capacity in areas like construction has, in the words of ISER director Lee Gorsuch, "been fully wrung out." Since most economists believe that both have already happened or are due soon, most also believe the job losses will end soon as well.

Precisely when will the recession end? Some economists believe it may already be over. A simple-minded extrapolation of Goldsmith's data (Figure 1) would suggest that employment actually started to grow between December and January. Chuck Caldwell, the state's chief labor economist, thinks this is possible: "I'm not going to make any predictions now, but when [the final seasonally adjusted numbers are in] we may well see that the economy started growing again around the first of the year." A Dittman Research Corporation survey of Railbelt business owners and managers conducted in January 1988 seems to provide some confirming evidence. Twenty-one percent of those responding said they planned to increase the number of employees in 1988, while only 12 percent said they planned to cut. Goldsmith himself predicts that the recession will end in the second half of 1988, a view shared by Reaume.

The pace of the recovery thereafter will be affected by any structural changes that occur in the Alaska economy, by changes in state spending, and by demand for Alaska's exports -- energy, fisheries products, wood products, visitor services, and defense services. The outlook for the state's export industries is generally favorable. Virtually all international economic experts foresee a protracted period -- perhaps 15 years -- during which foreigners will find U.S. dollars cheaper than at any time in recent history. For Alaska the change will mean growth. Consider tourism. The weakening dollar has reduced the cost in Japanese yen of an Alaska vacation, making it more affordable to the Japanese tourist. Moreover, Americans tourists will also be more likely to come to Alaska since the dollar cost of visiting foreign destinations, Alaska's competitors for tourist spending, will have increased. The same altered incentive structure will increase demand for Alaska minerals, wood and fisheries products.

In fishing, development of an on-shore bottomfish processing industry, discussed for years, has finally shown up this winter as real growth in employment. With one mine preparing for production and others well along in development, this time it appears that metal mining has finally started to grow. Federal spending is under pressure everywhere, but new military deployments to Alaska and increased federal park and wilderness management responsibilities in the state may mean an increasing overall federal presence in the economy. Petroleum employment is growing now,

reflecting the extraordinary profits available from further investments in already producing fields. The oil companies and state forecasters expect long-term increases in the real price of Alaska oil, but even if this doesn't materialize, labor required to produce existing fields will increase due to technical factors common to all declining fields even as production declines. The consensus among Alaska economists is that demand for the goods and services Alaska produces will grow, and that this growth will add new jobs to the Alaska economy at a rate of 1 percent or so annually, starting in 1988 or 1989 at the latest.

Recession's Dividends

Scholars of economic development have noted that the great economic "leaps" recorded in history often come as the result of a crisis of one sort or another. The crisis brought about a reordering of society that was key to releasing suppressed opportunities and efficiencies. Alaska's recession isn't likely to spawn an economic miracle, but it is eroding two longtime barriers to Alaska's development -- high wages and inflated prices. Whatever one may feel about these changes -- and there are many who are hurt by them -- "[t]he bonus ...is an increase of competitiveness of our economy both in the production of basic commodities, and in the local production of support services," states Goldsmith.

The most immediate economic impact of falling real estate values is the boost it gives to the purchasing power of people that rent. Mike Breedlove, chief demographer for the Municipality of Anchorage, estimates that 31,000 Anchorage households live in rented quarters.⁵ Assuming 2.4 persons per household, and if the average rental cost two years ago was \$200 per month per person, the roughly 40 percent drop in rents has added an average \$960 to the annual spendable incomes of these 75,000 people. This "renter's dividend" has thus increased Anchorage's spendable income by about \$72 million, and has had about the same economic impact as would result from hiring 1,400 new state employees in Anchorage.⁶

The recession hasn't been all bad for businesses either. Anchorage has about 7.8 million square feet of net rentable office space, and 5.4 million square feet of retail space. Assuming that 70 percent of that space is renter occupied and that monthly costs have declined by \$0.75 per square foot from their levels three years ago, the business renter dividend in Anchorage is over \$80 million per year, the equivalent of another 1,600 additional jobs in the Anchorage economy.

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

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

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

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

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

The Real Estate Crash

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

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

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

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

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

The Dissenters

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

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

now."

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

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

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

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

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

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

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

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

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

Loss of Confidence

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

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

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

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

compared with 16 percent who see things getting worse.

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

Alaska's Policy Options

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

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

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

Borrowed Time

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

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

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

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

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

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

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

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

Reference Notes (Incomplete)

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

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

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

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

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

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

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

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

OPTIONS
TO IMPROVE THE
ALASKAN ECONOMY

DAR/JAN 88

This paper summarizes the present economic situation within Alaska; discusses fundamental economic principles which must be adhered to in order to create a lasting and positive change for improvement; and sets forth a series of detailed options for implementation.

Alaska's Economic Situation

Alaska's present plight can be summed up in two simple words -- "Excess Capacity".

Alaska currently has:

- Excess residential housing to include condominiums
and mobile home units
- Excess strip malls
- Excess shopping mall space
- Excess office space
- Excess industrial and warehouse space
- Excess (high) retail inventories
- Excess work force as manifested by unemployment rates

True, there are some sectors of our economy which are doing well -- fishing, timber and tourism. These should continue to prosper as long as the dollar retains its low valuation relationship to the yen and other currencies. Some of Alaska's hard-core base industries (not always appreciated during the oil boom but now winning long-deserved recognition) include the military and Federal government sectors which offer high prospect of growth.

This paper will primarily concern itself with real estate because it is clear that the excess capacity referred to above relates predominantly to real estate and its support industry of: banking and mortgage institutions; private mortgage insurance companies; highly leveraged investors and mortgagees; real estate sales firms; and governmental institutions which now hold ownership in: loans secured by real estate; defaulted or delinquent real estate loans; and foreclosed upon property.

Fundamental Economic Principles

It should be clear to any student of basic economics that the supply curves of certain elements of the Alaskan economy are out of