

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1572 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

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desired equilibrium with demand. Conversely, demand curves are out of desired equilibrium with supply.

In short, the long-term solution to our problem can be found in:

- (1) Decreasing available supply.
- (2) Increasing business and consumer demand.
- (3) A blend of the two.

Unless our actions result in a permanent movement of either the supply or demand curve, or both, any benefit will be fleeting, costly and of no long-term consequence.

We do not require the implementation of actions which can be termed as "political", "placebo", "quick fix", or "bailout".

What we do need are well-thought-out approaches that effectively reduce (and certainly not increase!) supply. Increasing demand is a tougher venture because in almost all cases it falls outside of effective unilateral action.

Programs and Actions

The following options are submitted for consideration. Some programs are dependent on others; some stand alone. The adoption of any, all or a portion of a single option may be beneficial. The rejection of a particular option should not negatively affect viewpoints on others. Many of these options are not new; some are simply being set forth in writing for the first time. All are in the public domain.

1. Move Supply Curve (decrease supply) Permanently

Create an entity or a subsidiary of an existing entity such as AIDA.

Vest that entity with funds on a loan or grant basis from the General Fund of the State.

Entity purchases developed property held as "real estate owned" by financial institutions, mortgage companies, mortgage insurance companies, and governmental agencies such as FDIC, AHFC, AIDA, Permanent Fund. Purchase is for land value only.

Following acquisition, entity removes improvements thus reducing supply but retains underground utilities.

Entity holds what is now vacant land for the long term and eventually sells at acquisition value or (hopefully) appreciated value.

Proceeds of sales are returned to the State which has bankrolled the operation. Or vacant land is returned to the State and appropriated to a long-term trust. (Mental Health, Public Education, Permanent Fund, etc)

2. Move Supply Curve (decrease supply) Permanently

Demolish and do not replace old and deteriorating low-income development housing, such as Hollywood Vista and Willow Park.

Aggressive action on the joint State-Federal level must be taken. If the Federal government will not act, the State must be prepared to take quick and decisive unilateral action -- at its expense.

Occupants of demised developments are placed in AIDA-or AHFC-owned multi-family or condominium units. To the degree necessary, condo owners will be given the opportunity to trade their units for other AHFC-owned property.

AIDA/AHFC will be reimbursed for their housing assets used by this program. Funds utilized are from Federal and/or State sources. The program should be coordinated by the Alaska State Building Authority.

3. Move Supply Curve (decrease supply) Permanently

We must step back and review the thought process involved in continually spending huge sums of money on maintaining mobile homes. There is a huge excess and no demand. Clearly, since there is no demand for the foreseeable future, this must be recognized and acted upon. Spend a few dollars for some full-page advertising in active construction areas around the world, find a buyer, load them on a barge and remove them from the state. Funds saved on maintenance and ground rent could be channeled toward work outs or rescheduling loans on quality assets.

4. Move Supply Curve (decrease supply) Five Years

Create a financial entity empowered to act like a bank -- except for receipt of consumer deposits -- under State regulation.

Regulation is important to assure that the entity does not become a super bank in competition with existing Alaskan financial institutions.

The entity is capitalized with stock or debentures or a combination thereof.

Stock is issued in exchange for real estate owned, defaulted loans and delinquent loans held by: FDIC; banks; mortgage companies; mortgage insurance companies; and state governmental agencies. Non-producing assets are exchanged for preferred stock which provides a minimal (but better than non-producing) return.

The entity is permitted to buy, sell and trade real estate. It is to service and collect on loans; to work out loans; and to reschedule debt. It may invest in financial assets.

It must do everything necessary to convert illiquid assets into cash and into income-producing cash assets while covering expenses and eventually making a profit.

The entity would sell off assets over the long term with major emphasis on stabilization.

As the entity becomes profitable and liquid, it distributes paid-in-capital and dividends.

NOTE: In the event that the entity cannot be capitalized entirely with problem assets, consideration may have to be given to an initial State grant or loan to partly fund the capitalization.

5. Stabilize Supply Curve (keep increases in supply to a minimum)
Five Years

The board of directors of AIDA (Alaska Industrial Development Authority) should place a moratorium on the financing of construction of new commercial or industrial facilities.

This moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others. AIDA would continue to finance existing structures with changing ownership.

Obviously, the curtailment of new activity assists local government in that controls on new supply create value in existing supply and thus stabilize or raise assessed valuation used in the computation of ad valorem taxes.

Curtailment of new activity can have a chilling effect on economic development in communities where there is no excess capacity in commercial or industrial facilities or in communities where a special purpose facility is required. It is envisioned that a moratorium would remain in effect unless the local governmental unit which is intended to be the beneficiary of the moratorium formally requests its waiver by the action of its local city council or borough assembly.

6. Stabilize Supply Curve (keep increases in supply to a minimum)
Five Years

This is similar to the proposal for AIDA except it applies to residential housing financed by AHFC, PERS, TRS, Permanent Fund and any other State line organization or agency.

Place by board, commissioner or trustee action, a moratorium on the financing of construction of new residential housing units to include single and multi-family residences, including condominiums and mobile homes. The moratorium is designed to curtail new supply, and supports and acts in concert with other actions directed toward stabilization of the economy. Supply problems cannot be met by some programs and exacerbated by others.

Existing housing stock which is changing ownership would continue to be financed by the respective agencies and organizations.

The curtailment of new supply will create value in existing supply and thus stabilize or raise assessed valuations used by local governments in the computation of ad valorem taxes.

This program, similar to its complimenting commercial and industrial program, contemplates that the moratorium can be lifted at the request of the local government governing body.

7. Stabilize Supply Curve (keep increase in supply to a minimum)
Three Years

The State of Alaska is planning to construct an addition to its court complex in downtown Anchorage. This facility is important to the Court System and to the Municipality of Anchorage as it centralizes expanded court activity and anchors downtown economic activity against mid-town drift. Also, the project is important in that it does produce a substantial number of construction jobs.

Unfortunately, the creation of new office space supply at the same time that huge excess exists is self-defeating from a macroeconomic perspective. If this project is to be completed within the concept of stabilizing supply, it can be done in such a way that it meets immediate Court System needs on one hand and defers meeting other needs for a three-year period.

Here, the building would be constructed as planned. However, only essentially needed courtroom space would be finished. Other space -- office space available through existing supply -- would not be finished in the initial phase. A subsequent construction phase, perhaps three years after completion of phase I, would provide the needed office space.

Absent this kind of compromise which curtails the wrong kind of supply (offices) and permits the right kind of supply (courtrooms), the project should be deferred.

8. Stabilize Supply Curve (keep increases in supply to a minimum) Three Years

Local governments have a strong, vested interest in the stabilization of supply. To the degree that new supply can be curtailed, value to existing supply increases as does assessed valuation and the local tax base.

Expansion in many communities has required the rapid extension of utilities. In some cases this extension has been imprudent in that it has leap-frogged undeveloped areas to reach new residential or commercial subdivisions.

The expansion has been imprudent -- in an economic sense -- because the rate base of the new development does not always carry the operation, maintenance or debt service costs of the extension.

Local governments should be encouraged to place moratoriums on utility expansions, rezonings and replats to discourage the new construction of the types of developed real estate now in excess. Flat moratoriums in this area offer a better prospect than selective ones because of inherent fairness and equal treatment to all.

9. Move Demand Curve (increase demand)

To the degree that demand can be stimulated to reduce or eliminate excess capacity, such stimulation should be encouraged.

If major financial institutions such as pension funds, endowments, foundations, the Permanent Fund, etc. -- who are long-term buyers and holders of commercial and industrial property -- can be induced to take major, institutional-grade buildings off the market for a long period of time, such action could remove upwards of \$50 million from the current real estate marketplace.

The absorption of this "high end" sector of the market has the impact of channeling investment capital of other (smaller) investors toward the distressed portfolio of loans.

The importation of investment capital through the formation of investment pools would increase the demand for ownership of Alaskan real estate and fundamentally move the ownership demand curve.

This proposal, however, would not move the demand curve for office space occupancy since investors only bring their money and not new tenants to the table. However, any ownership diversification outside of Alaska brings with it a degree of outreach, new contacts and beneficial exposure.

10. Move Demand Curve (increase demand)

Alaska has been the beneficiary of "settlement waves" in the past such as the gold rush, building of the railroad, construction of military bases, statehood, and pipeline construction.

Each new wave of Alaskans has contributed to the economy and stimulation of the next wave can create some of the demand needed to reduce excess capacity and stimulate economic activity across many business sectors.

Perhaps Alaska's best opportunity lies with the military. Restructuring of some domestic and overseas forces with Alaska as the beneficiary would have a dramatic impact.

Navy homeporting is on everyone's lips. But it can only occur in the context of a well-thought-out plan, positive naval interest and the actual execution of long-term leases and agreements which are clearly advantageous to Alaska and its people. It is strongly urged that Alaska not embark on a program which provides for construction of infrastructure in hopes of "luring" the navy. Secure the firm, documented commitment and then as part of the agreement, utilize State resources as necessary.

The Army, Air Force, and Coast Guard have been mainstays of our economy for many years. Recently, these institutions have taken a back seat to the glitter of black gold and its overwhelming economic power. It's time to return to a full appreciation of these military institutions and to actively pursue a greater presence in the state. As the balance of trade continues to falter, some consideration may have to be given to a restructure of some foreign-based units (Korea, Germany). Alaska should open initiative's to welcome shifts should they occur.

11. No Fundamental Change to Supply or Demand

The easiest measure -- but one with virtually no positive long-term impact -- is a capital projects appropriation.

Elements of the construction industry have been hit hard and it is apparent that we will not need new residential, commercial, industrial, office and strip mall construction for many years to come. This sector cannot and should not be propped up lest we either provide wasted subsidy or create false expectation. Jobs must be centered around preventative and actual maintenance of existing roads, ports, airports and governmental facilities rather than new construction which creates a need for increased operation and maintenance costs.

It is suggested that rather than expend a huge amount of funds on a placebo, some should be diverted toward activity which will fundamentally affect supply and demand, some of which is set forth in this paper.

12. A Caution

Both AIDA and AHFC have some unencumbered capital. This has been eyed -- covetously -- by those who feel that these "pots of money" are available for appropriation for "quick fix" programs or for funding additional programs or functions assigned to these two agencies. This capital should be viewed as reserves critically required by the agencies to support existing programs in this time of stress. Before consumption of these funds is seriously considered, inquiry should be made to respective agency boards of directors.

In Summary

- * Raze uneconomic residential and commercial buildings
- * Raze deteriorating low-income residential units
- * Sell excess AHFC-owned mobile homes
- * Create a work-out bank emphasizing stabilization
- * Moratorium on new construction of residential and commercial properties, subject to local government waivers

- * Construct the Anchorage Court complex addition in phases
- * Moratoriums on local government utility expansions, rezonings and replats
- * Encourage institutional purchases of quality commercial and industrial properties
- * Seek agreement regarding Navy homeporting before initiating construction of infrastructure
- * Regarding construction projects, emphasize preventative and actual maintenance rather than new construction
- * Leave existing capital reserves in AHFC or AIDA

MEMORANDUM

State of Alaska

TO: Milt Barker
Deputy Commissioner, Treasury
Department of Revenue

DATE: February 12, 1988

FILE NO:

TELEPHONE NO:

THRU: Vincent Wright *VW*
Chief of Research
Department of Revenue

SUBJECT: Commercial Real Estate
Subsidy

FROM: Alfred G. Zangri *AGZ*
Economist

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. The Users - these are businesses or professionals that rent or own commercial space for their use in day-to-day business activities.

2. The Investor - these are individuals or businesses that own commercial real estate for the revenue stream (rents and/or capital gains) the space yields.

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

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

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

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

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

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

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

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

Those that stand to lose from falling commercial space rents are

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

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

This subsidy is directly paid for by:

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

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

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

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

real estate loans plus the 165.2 million in foreclosed real estate owned by banks identified by the Governor's Office of Management and Budget (1/4/88)¹. To place these numbers into perspective consider that this \$1.7 billion to \$165 million represents two to three times the FY88 authorization to the Municipal Assistance program². State purchase of these nonperforming loans will actually result in a bail out of the banks holding these loans not the current building owners. In fact the nonperforming owners will likely not only lose the building but also be hit with a taxable gain on the amount of the loan the bank has written off plus the accumulated interest, fees and charges associated with the foreclosure.

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

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

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

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

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

FOOTNOTES

1. Memorandum to Mary Holloran. "Commercial Real Estate Background Report", R.A. Finegerg and Joan Kasso. Table 1. Jan. 29, 1988.
2. "Special Report Governor's FY89 Spending Plan", Legislative Finance Division, January 14, 1988.

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STEVE COWPER, GOVERNOR

STATE OF ALASKA
DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

P.O. BOX 5
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300

February 19, 1988

The Honorable Max F. Gruenberg, Jr.
Chairman, Joint Committee on Economic Recovery
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Gruenberg:

At the meeting of the Joint Economic Recovery Committee Thursday February 18, you asked whether I believed the legislature should consider social responsibilities as opposed to only considering what to do about the contraction that has occurred in the Alaska economy.

My answer was that I thought of the word "economic" as encompassing both the financial issues and the social and political issues.

I realize that may have been a confusing answer. Perhaps this will make it more clear.

State spending was the driving force behind the recent "oil boom." If we had spent at lower levels, and had much more moderate growth, then the adjustment would have been much easier. Hundreds of condos would not have been built, and would not stand empty today.

As pointed out by Erickson, and other economists, letting the real estate decline (or market correction) settle out will result in lower costs, and a quick growth rate because of that.

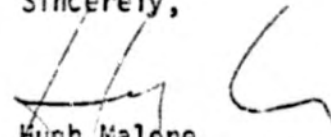
If the state intervenes, we will bias normal investment decisions, and make private dollars less productive than they otherwise would be. Economic recovery will be slowed, and the uncertainty and hardship will be prolonged. (Of course, if we could return spending to the per capita level of a few years ago, and keep it there, we will still be in fat city. But we can not - although we can squander our limited revenue).

Therefore, I think the most socially, politically responsible, and useful, thing we can do is to let the market correct itself.

The Honorable Max F. Gruenberg, Jr.
February 19, 1988
Page

Intervening is not social responsibility. At best, it is tinkering. At worst, it will waste what money we have and create an enormous sense of unfairness. I am not suggesting we let anyone starve, or freeze in the dark. I am suggesting we foster a private economy.

Sincerely,



Hugh Malone
Commissioner of Revenue

HM:m11
88-46

cc: Members, Joint Committee on Economic Recovery

FACT SHEET **SOUTHWEST PLAN**

OBJECTIVE: Achieve viability of Texas thrifts through consolidation. Reduce cost of funds in Texas and ultimately nationwide.

STRATEGY: Consolidate 143 ailing (104 insolvent) out of 281 thrifts currently operating in Texas, so that surviving viable institutions number between 160 and 180. Approximately 70 percent of troubled institutions have signed consent-to-merge agreements.

Reduce number of branches from more than 1800 to nearly 1400.

Divide Texas into 14 thrift regions and ensure that each region has appropriate service to meet needs of its people.

RESULTS: Potential size of surviving thrifts

Local.....Up to \$800 million
Regional.....\$800 million to \$2.5 billion
Multi-regional.....More than \$2.5 billion
Statewide.....None

Estimated Size of all Texas thrifts before and after consolidation

	<u>Pre-plan</u>	<u>Post-plan</u>
0-\$100 million	45%	53%
\$100-\$500 million	39%	29%
\$500 million-\$1 billion	8%	6%
More than \$1 billion	8%	12%

Eliminate 1987 loss of \$2.2 billion of all Texas thrifts at end of first year of consolidation.

COST TO FSLIC: Estimated for implementation of strategy, \$6 to \$7 billion, with funds derived from FSLIC recapitalization program, assessments of the thrift industry and other sources.

FSLIC will conserve cash and extend impact of its funds by issuing FSLIC notes and using assets as collateral. FSLIC expects to recoup part of its investment in troubled thrifts by sharing in profits of consolidated institutions and/or holding an equity position in them. FSLIC's equity position will not be used to control an institution.

OTHER CAPITAL: \$1 billion in new capital could be available from potential acquirers and/or institutions that could participate in consolidations. Additional capital will be available as the plan moves forward.

FEDERAL HOME LOAN BANK BOARD**Resolution No.****Dated:**

- Whereas** The Federal Home Loan Bank Board ("Board") is engaged in the development of a plan for solving the multibillion dollar problem of thrift institutions in the Board's Ninth District, comprised of the states of Texas, Mississippi, Louisiana, Arkansas and New Mexico, called the "Southwest Plan";
- Whereas** Representatives of the thrift industry in the Southwest, together with their trade associations, have urged consolidation as a means of reducing excessive operating costs and expenses;
- Whereas** The Board has placed a major priority on resolving thrift problems in Texas in recognition of the fact that thrift troubles in that state constitute a major fraction of all thrift problems nationwide;
- Whereas** The Board believes that a solution of the Texas problem will aid the Board's efforts to solve thrift problems throughout the nation and aid in the reduction of the cost of funds to all institutions;
- Whereas** Consolidation of the Federal Savings and Loan Insurance Corporation's ("FSLIC's") insolvent institutions together with some combination of healthy institutions and capital infusions to produce viable thrifts would achieve various benefits, including:
- Significant savings in operating expenses;
 - Management teams capable of providing the leadership and controls necessary to achieve viability;
 - The ability to permit higher cost deposits to be reduced by cash flow from investments supported by lower cost deposits;

- Merging within one institution complex financial investments that currently are located in several institutions, with attendant unnecessary costs;
- Attract capital to a market that currently has too many inefficiencies to produce a reasonable return on new capital;

Whereas The Board initiated an analysis of possible means to reduce operating and deposit costs in support of the Southwest Plan, thereby enhancing confidence in the thrift industry, with the following directions:

- Retain a competitive environment within the district, preserving the basic nature of its thrift industry, while delivering financial service to customers efficiently and effectively;
- Reduce or eliminate duplications and redundancies in the financial services industry, which currently are adding to operating costs;
- Identify the most capable management to implement the plan;
- Provide a mechanism for reducing the expenses and controlling losses in troubled assets;
- The efficient use of FSLIC resources in resolving problems;
- Shares of the future profits of assisted institutions for FSLIC;

Whereas The analysis has reported, in pertinent part, that:

- Consolidation would provide for an integrated approach to the existing insolvencies rather than resolving cases less effectively on a case-by-case basis;
- Fourteen geographical regions can be identified in Texas; consolidation should occur within the framework of these geographical market areas, some of which are local, some regional, and some multiregional (but not statewide);

- Consolidation could significantly reduce the number of savings and loans and deposit-gathering offices within those markets;
- Consolidation should provide immediate operational savings, exclusive of conversion costs, of several hundred million dollars per year;
- Additional, even greater, savings may be achieved through resulting reductions in the cost of funds to insured institutions throughout the Ninth District;
- Further savings are possible through the consolidation of shared complex financial assets in a single institution, eliminating or simplifying management costs and litigation;
- The key to these savings, as well as to reducing the long-run cost to the FSLIC, is the identification and selection of strong management;
- By retaining an interest in the future profits of assisted institutions and their assets, the FSLIC stands to share in the savings that result from the plan; and

Whereas The Board concludes that the resources of the FSLIC are sufficient to support a strategy of consolidation if pursued in accordance with the analysis considered by the Board.

Now therefore be it resolved that:

The strategy of consolidation should be pursued as part of the Board's Southwest Plan and its overall efforts to restore the financial health of the thrift industry and preserve the financial health of the FSLIC;

The FSLIC, in consultation with the Board's Office of Regulatory Policy, Oversight and Supervision, the Federal Home Loan Bank of Dallas, and other appropriate state and federal regulatory agencies shall:

- Within the limits of the Board's authority, identify and foster the retention of the most capable management in the consolidated institutions, with a view toward both satisfying the institutions' immediate needs for capable management and minimizing the long term costs of the FSLIC;
- Develop such a strategy that will consider the multiregional nature of the Ninth District in general and the State of Texas more specifically;
- Provide a procedure that will permit new capital to be introduced into consolidated local, regional, and multiregional institutions within Texas on a cost-effective basis;
- Promote fairness by providing potential investors and managers the opportunity to compete for the right to participate in the plan on an equitable basis, to the ultimate benefit of the FSLIC fund;
- Foster the consolidation of complex financial assets in which conflicts among participants are raising costs;
- Provide necessary procedures and staffing for continuing a strategy of consolidation; and
- Proceed with implementation in as expeditious a manner as possible.

By the Federal Home Loan Bank Board

KEY PARAMETERS

- Preserve basic structure and competition of thrift industry.
- Eliminate duplication and over-branching

GUIDELINES USED IN DEVELOPING SOUTHWEST PLAN

- Retain competitive environment within district, preserving basic nature of thrift industry, while delivering financial service to customers efficiently and effectively.
- Reduce or eliminate duplications and redundancies in financial services industry, which currently are adding to operating costs.
- Identify most capable management to implement plan.
- Provide mechanism for reducing expenses and controlling losses in troubled assets.
- Minimize use of cash in resolving problems.
- Gain future share of profits from assisted institutions for FSLIC

POTENTIAL RESULTING THRIFTS (ASSETS)

LOCAL UP TO \$800 MILLION

REGIONAL \$800 MILLION - \$2.5 BILLION

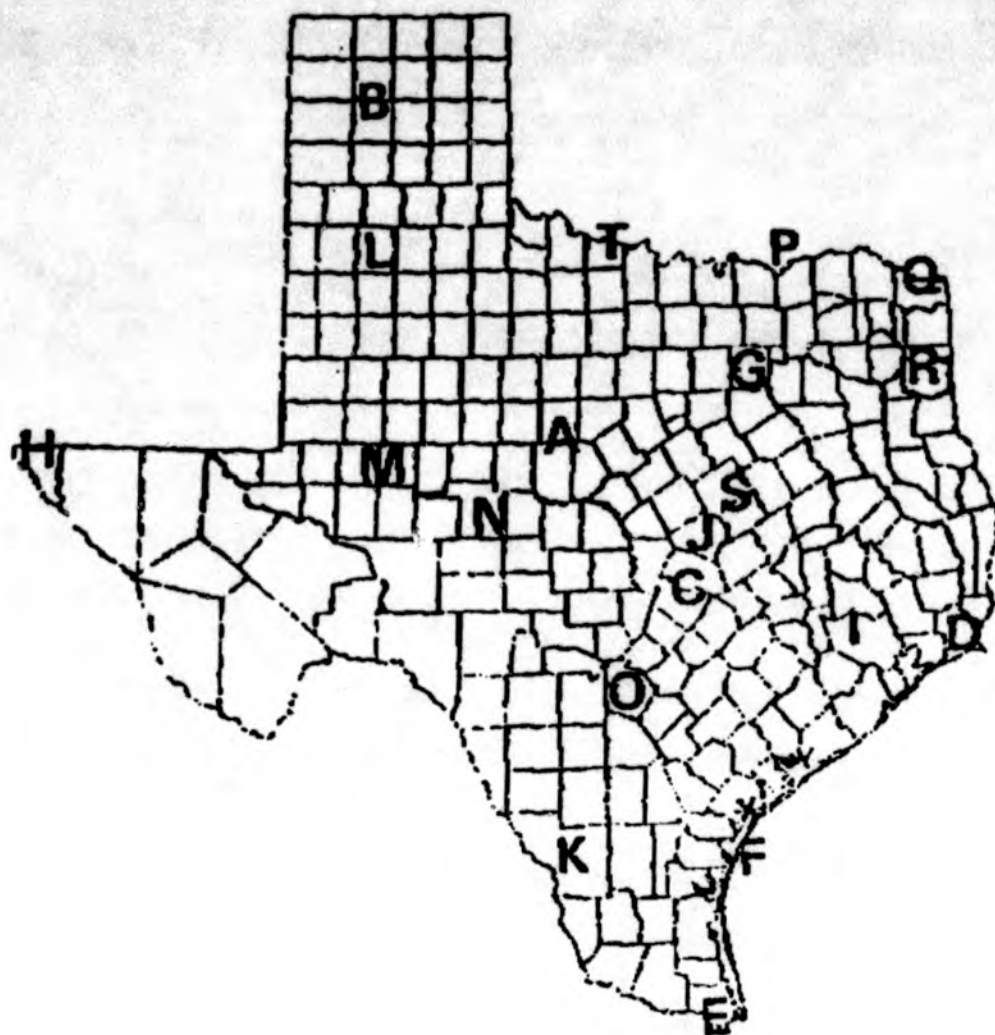
MULTI-REGIONAL MORE THAN \$2.5 BILLION

STATEWIDE NONE

SIZE OF THRIFTS

	<u>PRE-PLAN</u>	<u>POST-PLAN</u>
0 - \$100 MILLION	45%	53%
\$100 - \$500 MILION	39%	29%
\$500 MILLION - \$1 BILLION	8%	6%
OVER \$1 BILLION	8%	12%

TEXAS MAJOR METRO AREAS IN PROPOSED REGIONS



	MSA	IN REGION
A	ABILENE	14
B	AMARILLO	12
C	AUSTIN	8, 10
D	BEAUMONT- PORT ARTHUR	4, 5, 6
E	BROWNSVILLE- McALLEN	9, 11
F	CORPUS CHRISTIE	4, 7, 8, 9
G	DALLAS/ FORT WORTH	1, 2, 3 2, 3, 14
H	EL PASO	11
I	HOUSTON- GALVESTON	4, 5
J	KILLEEN-TEMPE	8
K	LAREDO	9, 11
L	LUBBOCK	12
M	MIDLAND- ODESSA	13
N	SAN ANGELO	13
O	SAN ANTONIO	8, 10
P	SHERMAN-DENTON	3
Q	TEXARKANA	3
R	TYLER- LONGVIEW	3
S	WACO	8, 14
T	WICHITA FALLS	14

TEXAS MAJOR METRO AREAS IN PROPOSED REGIONS

<u>REGION</u>	<u>ANCHOR AREA</u>	<u>GEOGRAPHIC DESCRIPTION</u>
1	DALLAS	DALLAS ONLY
2	DALLAS/FORT WORTH	THE METROPLEX
3	DALLAS TO TEXARKANA INCLUDING FT. WORTH, TYLER, LONGVIEW, SHERMAN DENTON, ETC.	(NORTH AND EAST TEXAS)
4	HOUSTON, GALVESTON, BEAUMONT, ORANGE, CORPUS CHRISTI	(TEXAS COAST)
5	HOUSTON, GALVESTON	(TEXAS COAST)
6	BEAUMONT, ORANGE	(TEXAS COAST)
7	CORPUS CHRISTI	(TEXAS COAST)
8	SAN ANTONIO, AUSTIN, CORPUS CHRISTI, KILLEEN, BRADY, WACO	(CENTRAL TEXAS AND THE HILL COUNTRY)
9	CORPUS CHRISTI, RIO GRANDE VALLEY, LAREDO	(SOUTHERN TIP OF TEXAS)
10	SAN ANTONIO, AUSTIN	(CENTRAL TEXAS)
11	EL PASO TO BROWNSVILLE	(ENTIRE RIO GRANDE BORDER)
12	LUBBOCK, AMARILLO	(PANHANDLE AND PLAINS)
13	MIDLAND, ODESSA, SAN ANGELO	(WEST TEXAS)
14	ABILENE, WICHITA FALLS, FT. WORTH, WACO	(NORTH AND WEST CENTRAL TEXAS)

**Non-viable thrifts should be
"packaged" with creative FSLIC
financial and regulatory assistance
to create marketable entities.**

CONCLUSION

- Consolidation Works
- FSLIC Can Afford
- Thrift Benefit Nationwide

REQUESTS FOR STATEMENTS OF INTEREST

The Federal Savings and Loan Insurance Corporation ("FSLIC"), an agency of the Federal Home Loan Bank Board, is considering a plan of action for the Southwest regional restructuring of savings institutions. The FSLIC may provide economic and non-economic assistance where it deems appropriate to assist in the restructuring of involved institutions. The purpose of the Southwest regional restructuring is to realize economies of scale, reduce operating expenses and eliminate redundancies in office locations while preserving adequate services, competition and basic structure in each locale.

The FSLIC is requesting statements of interest from parties desirous of participating in the Southwest regional restructuring. The FSLIC will consider responses from principals only. A Request for Proposal ("R.F.P.") may be requested from:

Coordinator
Southwest Regional Development
FSLIC
1700 G Street, N.W.
Washington, D.C. 20006

Indications of interest should clearly state the following:

1. The asset size of the savings institution(s) you are contemplating to acquire.
2. Preliminary estimates of the amount, type and source of capital you are willing to infuse into the acquired entity or entities.
3. The region(s) or local area(s) in which you may be interested, unless the party has no geographic constraints.
4. The general characteristics of the types of institutions in which you are most interested.

The FSLIC is seeking interest for three types of acquisitions:

1. Local institutions limiting service to their local communities and having an asset base of up to \$800 million.
2. Regional institutions serving the area of the state in which they are located and having assets of \$800 million to \$2.5 billion.
3. Multi-regionals serving more than one region and having assets in excess of \$2.5 billion.

Interested parties will be required to submit confidential biographical and financial information in order to be pre-screened to receive additional information regarding institutions that may be

involved in the restructuring. The required information for the pre-screening process will be provided to those who have indicated an interest.

The FSLIC, in consultation with the Office of Regulatory, Policy, Oversight and Supervision and the Federal Home Loan Bank of Dallas, will determine the acceptability of those seeking to be pre-screened. Such determinations will consider:

- o The financial strength, ability, amount and type of capital that the interested party will provide when pursuing consolidation within the targeted area;
- o The strength of proposed management;
- o Applications for acquisitions with the Southwest submitted within the last 12 months to either the Dallas Bank or FSLIC;
- o A key consideration in any of FSLIC negotiations for assisted acquisitions or mergers will be the preservation of as much of the basic structure and preservation of competition in each locale while restructuring these institutions to realize economies of scale, reduce operating expenses and eliminate redundancies in office locations.

FSLIC will provide to any interested party guidelines for equity sharing by FSLIC. Such guidelines will be subject to change without notice.

If requested, the R.F.P. will offer, on a confidential basis, financial summaries and projections of combinations available within market areas. Such information will also offer preliminary projections of potential branch closures, operating expenses reductions,...

Institutions not under a Consent to Merge Agreement will be notified if a proposal has been made affecting them. If they decline to be considered as a part of an approved plan of consolidation their Directors will be so notified by FSLIC, together with an estimate of increased costs to the plan and to their own operation.

FSLIC will approach some institutions that are not under a Consent to Merger Agreement and that appear to be good candidates and encourage them to submit proposals.

Questions regarding the R.F.P. should be directed to the coordinator listed above or to _____ at the Federal Home Loan Bank of Dallas.

Statements of interest should be submitted at your earliest convenience but no later than _____.

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ADDENDUM

PRE-SCREENING REQUIREMENTS

The following information must be submitted in order to ascertain the identity and legal form of a potential acquirer and to develop a basis for a preliminary financial evaluation:

FINANCIAL INSTITUTIONS

Financial Institutions that wish to be included on the National Marketing List are required to submit the following information:

On the institution's letterhead, a statement indicating their interest to be placed on the National Marketing List;

A statement detailing geographic and asset preferences; plus

Name, address and telephone number of the contact person to whom marketing information should be addressed.

Submission of this information will allow for inclusion on the FSLIC's National Marketing List. However, invitation(s) to submit a proposal is subject to supervisory clearance from an institution's primary regulator. The general parameter used to determine those financial institutions to be invited is twice the asset size of the target institution. Exceptions to the general parameter must be coordinated with the institution's primary regulator and the FSLIC.

INDIVIDUAL INVESTORS

A completed copy of the Investor's Information Form and the Confidential Biographical and Financial Report (FHLBB Form 1393) or a signed personal financial statement with supporting schedules detailing assets and liabilities.

Executed Affidavit that the information supplied is true and accurate.

Executed Certification regarding criminal and civil litigation.

A statement indicating business/financial background and/or management resources that will be made available for the acquired institution.

Additional information may be required in the course of the pre-screening process.

ADDENDUM: Page 2

COMPANIES (CORPORATIONS, PARTNERSHIPS, ETC.)

A copy of the company's annual report to shareholders for the last two years and the most recent quarterly statement (consolidated when appropriate).

1934 Act Reporting Corporations must also provide Forms 10-K, plus the recent 10-Q and proxy statements.

A statement that the financial information supplied is true and accurate.

A statement indicating the company's business/financial capabilities and management resources that will be made available for the acquired institution.

In addition, principals of non-publicly traded corporations must submit those items listed under the Individual Investors section for each principal involved in the transaction.

Note: All prospective acquirors are subject to credit and background checks. Once the pre-screening has been completed, you will be notified by the Marketing Section of the Mergers and Acquisitions Division/FSLIC.

REQUIREMENTS FOR CORPORATE AND PRIVATE INVESTORS TENDERING A PROPOSAL

In order for the FSLIC to proceed with an evaluation of a proposal tendered by a private or corporate investor, the offeror is required to submit the following additional information:

- 1) Statement as to the amount and source of capital to be provided.
- 2) Adequate evidence that the capital is available, e.g., letter of credit, commitment letter, subscription agreements, escrow verification, etc.

For those parties seeking to infuse non-cash capital, especially where no readily discernible market exists, please provide detailed information regarding the type of assets, the fair market value and the method of valuation used. Additional information may be required.

This information must be submitted no later than the submission deadline for receipt of proposals on this institution.

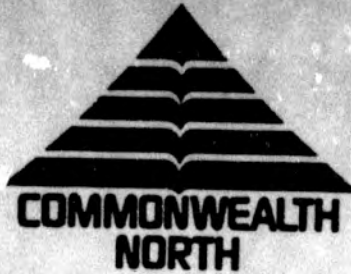
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ADDENDUM: Page 3

The FHLBB/FSLIC reserves the right to reject an offeror's proposal based upon on inadequate demonstration of financial capability, inadequate management experience/depth or other factors which would impair the restoration of the savings institution to viability.

Please direct Client Clearance Pre-Screening questions and information to:

Mr. Thomas L. Batties
Marketing Director
Mergers and Acquisitions Division
1700 G Street, N.W.
Washington, D.C. 20552
(202) 254-2593



EMBARGOED UNTIL

FEBRUARY 23, 1988 7 AM

PRESS RELEASE

The annual earnings from the Permanent Fund, after dividends have been distributed to all Alaskans, can and should be used as a positive, counter-cyclical force in the Alaska economy. So says a report released today by Commonwealth North, a bi-partisan organization of community leaders who study public policy issues affecting Alaska and its future.

"The use of Permanent Fund earnings is a sensitive and easily misunderstood issue," said Dave Chatfield, Chairman of Commonwealth North's Permanent Fund Committee. "The highly charged environment surrounding this issue has made Alaska's political leaders hesitant to act. As a result, the central question has remained unanswered: What are we saving this money for?"

The committee recommends that when statewide economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be added to the principal of the Permanent Fund for "inflation-proofing".

Comparing this approach to the way the Federal Reserve Board uses monetary policy to control inflation and combat recession, Chatfield said that Alaska's Permanent Fund earnings could play an equally important and significant role in Alaska through fiscal or spending policy.

"Our aim is to help level out the sharp peaks and valleys of Alaska's historic economic cycle," said Chatfield. "Used as we have suggested in this report, the Permanent Fund earnings can help reduce the dramatic fluctuations."

The committee endorsed the annual dividend program as beneficial and opposed using Permanent Fund earnings for state government operations except in dire emergencies. It also recommended that a portion of the \$516 million currently in the Permanent Fund's Earnings Reserve Account be set aside to establish an Alaska Development Fund.

This fund would help provide financing for the construction of major, revenue-generating, in-state investments which would help expand and diversify the Alaska economy.

To research and determine the feasibility of such projects, Commonwealth North urges that the Alaska Legislature establish an Alaska Development Board, patterned after the Permanent Fund Trustees. To qualify for board approval and endorsement before the Legislature, projects would have to demonstrate an assured source of repayment, through the generation of revenues, tariffs, rents or user fees. Examples include docks, railways, causeways, electrical generation units, water systems and waste water plants.

"The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example," Chatfield said.

The 12-page report is available at a cost of \$5 from Commonwealth North at 935 West 3rd Avenue, Anchorage, Alaska 99501.

For a list of the members of the Permanent Fund committee and a description of Commonwealth North, please see the inside back cover of the report.

**A POSITIVE
COUNTER-CYCLICAL FORCE
IN THE
ALASKA ECONOMY**



037306

037307

SUMMARY:

The Permanent Fund represents visionary public policy and, as a savings account, has been well managed. Its earnings should be used as a counter-cyclical force to funnel monies into the grassroots economy through local government in particularly troubled economic times. When times are good, these earnings should be placed in the Fund. The more fundamental crisis, the long-term lack of diversification in the Alaska economy, must also be addressed by the Legislature. To research revenue-generating proposals, the Legislature should establish an Alaska Development Board, the specifics of which are outlined in this report.

A report by
The Commonwealth North
Permanent Fund Committee

First printing . . . February 1988

935 West Third Avenue
Anchorage, Alaska 99501

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IN ADDITION TO DIVIDENDS, WHAT SHOULD THE EARNINGS OF THE PERMANENT FUND BE USED FOR?

The Alaska Permanent Fund was created by a public referendum in 1976. It was established as an inviolate trust with the principal of the Fund to be invested in perpetuity. The beneficiaries of the trust were to be all present and future generations of Alaskans.

At its origination, nearly everyone agreed upon one purpose for the Fund — to remove a portion of Prudhoe Bay revenues from the appropriations table, making them unavailable for state spending. This has worked. Indeed, 22% of the \$26 billion in oil revenues received by the state since Prudhoe Bay production began has been deposited into the Permanent Fund, saved and invested. At the end of 1987, total assets of the Fund totalled close to \$9 billion.

Although the citizens of Alaska are nearly unanimous in their enthusiasm for the Fund and its management, there is less of a consensus on how to use the Fund's earnings, except for the popular dividend program. These earnings since 1978 total \$4.3 billion, 30 percent of which was distributed as dividends to the Alaska people.

Numerous conflicting proposals have been introduced on how to best use the earnings of the Fund. Most of these proposals have been met with suspicion and cries from some quarters warning against "raiding the Fund." This highly charged environment has led to hesitancy and inaction by Alaska's political leaders, and the central question has gone unanswered: what are we saving this money for?

What are we saving this money for?

During the mid-1980's there was little need for using the "non-dividend" or undistributed earnings. Times were good generally throughout the state. Local and regional economies were booming, fueled by oil activity at Prudhoe Bay and the attendant revenues amassed by state government. After the distribution of dividends to all Alaska residents, the remaining Permanent Fund earnings were simply set aside and from time to time added to the corpus of the Fund by the Legislature with encouragement from the Governor.

However, as 1988 begins, many Alaskans face difficult economic circumstances, and there is a growing sense of urgency and frustration.

"We've been saving money for a rainy day," many say. "Can't they see it's raining out there?"

"This recession is not a dip, it's an abyss," said an Anchorage property owner and builder. Many of his colleagues have filed bankruptcy, walked away from years of investments, and left Alaska. State and federal regulators have either closed or merged eight financial institutions. Thousands of residents have lost their homes and businesses.

Economists who look beyond the immediate crisis to the long-term economic health of the state express grave concern that North Slope oil production will begin a steady decline within 24 months.

It is against this backdrop that the Board of Directors of Commonwealth North commissioned a committee to study the Permanent Fund and how best its earnings might be utilized to help Alaskans, both in the short-term and in the long-term.

The Committee met weekly for three months. It heard presentations from policy makers and reviewed materials provided by the Permanent Fund staff and other sources.

After weeks of debate, the Committee determined that, in addition to dividends, the earnings have the capacity to play a major positive role in the Alaska economy. The members then prepared the following report.

RECOMMENDATIONS

Recommendation One:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

Recommendation Two:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation proof" the Fund.

Recommendation Three:

The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

Recommendation Four:

Using a portion of the \$516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Recommendation Five:

The Permanent Fund dividend program is beneficial and should be continued; however, there should be a limit on the size of the dividends.

Recommendation Six:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth, but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

Recommendation Seven:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Recommendation Eight:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

RECOMMENDATION ONE:

Permanent Fund earnings should be used as a positive, counter-cyclical force in the Alaska economy.

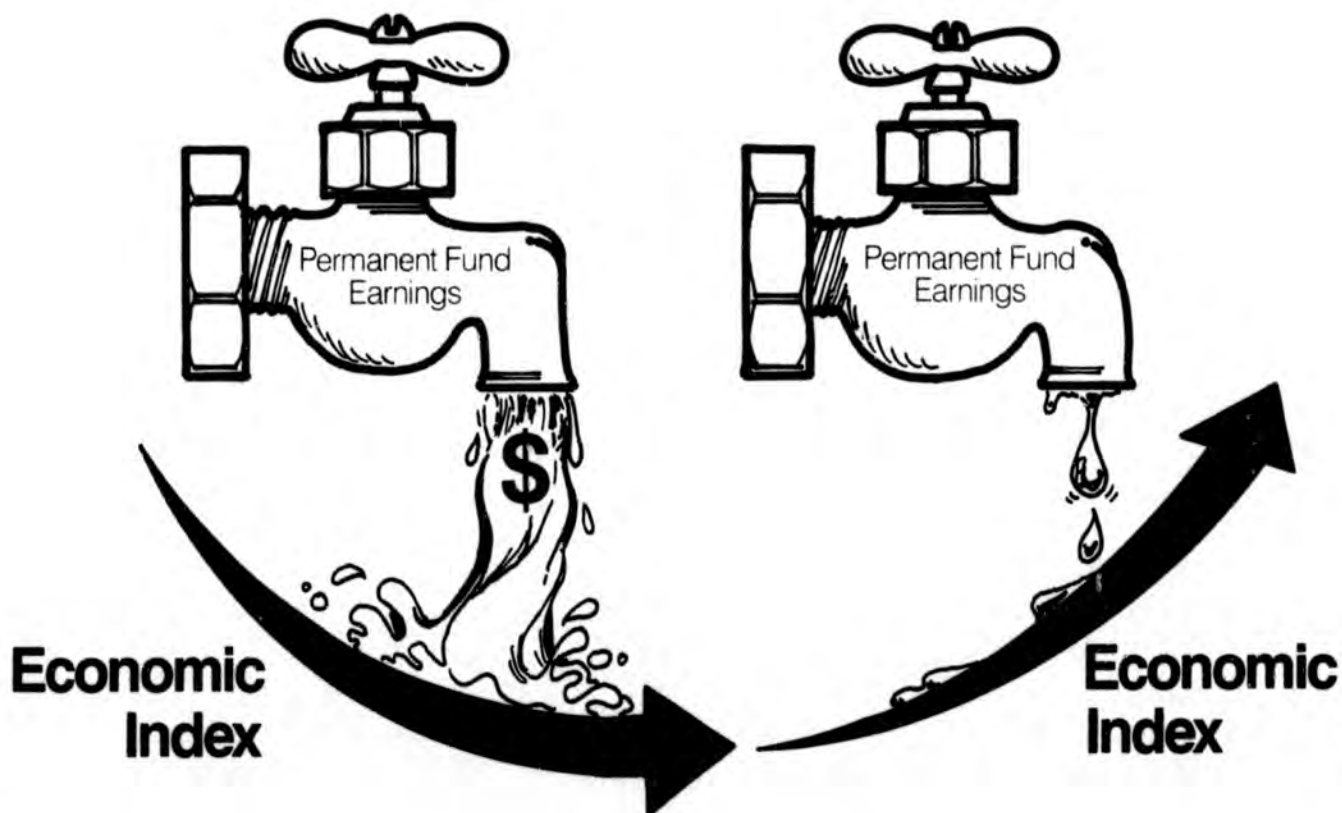
Earnings from the Permanent Fund can and should help level the peaks and valleys of Alaska's traditional boom and bust economic cycles. Appropriations of the earnings should be an important aspect of the state's overall fiscal policies, with additional money injected into the economy during hard times and money withdrawn from the economy during times of rapid growth.

At the national level the Federal Reserve Board has achieved success in controlling inflation and in combatting recession. The Board makes its decisions based on a number of leading and trailing economic indicators. The instruments it uses in pursuing its objectives are monetary in nature, i.e., interest rates and other mechanisms which affect the quantity of money in circulation.

Although Alaska has no comparable monetary tools, Alaska's Permanent Fund earnings could play an equally important and significant role through fiscal (appropriation) policy. This approach should and can be handled carefully so that the earnings are used wisely and distributed fairly throughout the state.

Establishing an economic "spigot"

To begin with, the Legislature should establish a broad-based economic index, written in law, which will determine when Permanent Fund earnings should be injected into the economy and when they should be withdrawn.



This index should include available Alaska economic indicators such as

- Consumer spending
- Savings and investments
- Public and private sector employment
- Wage and salary rates
- Housing starts
- Retail and wholesale sales
- Value of contract construction
- Personal income
- Gross state product
- State revenues

This index will enable the Alaska Legislature and the Governor to determine objectively the performance of the economy and its outlook and become the basis for formulating the state's fiscal policy.

If the index begins to drop, the administrative department, legislative committee, or board of advisors the Legislature designates would recommend appropriation of a portion of the earnings. If the index rises, such spending would be reduced or terminated and the earnings retained instead. In this way, the Permanent Fund would operate as a counter-cyclical force designed to minimize the volatility of economic contractions and expansions.

RECOMMENDATION TWO:

When economic indicators dip dramatically, Permanent Fund earnings should be appropriated directly to municipalities on a per-capita basis. When indicators climb, those earnings should be used to help "inflation-proof" the Fund.

Because of the unique nature of the Permanent Fund, drawn from one-time resource revenues and held in trust for all, it is recommended that the flow of money from the earnings (apart from the dividends) be directed to local governments on a consistent per-capita basis. In this way each local entity can make its own judgments as to what its citizens most need, whether jobs, street repair, tax relief, etc. This dispersion will strengthen local decision-making authority and responsibility.

In the unorganized borough, service areas or regional education districts should be the recipients of these funds so that the per-capita disbursement reaches all Alaskans.

The Legislature may wish to establish certain parameters for local governments to use in order to ensure that this special distribution of the Permanent Fund earnings is spent in the most economically beneficial manner. For example, services obtained with these funds should be contracted out to private firms wherever possible. This approach will support the private sector while permitting more rapid expansion and reduction of services without enlarging local bureaucracies.

Use of an impersonal barometer such as the index suggested above and a per-capita formula will help to negate the regional and personal politics which too often dominate the legislative spending process.

RECOMMENDATION THREE:

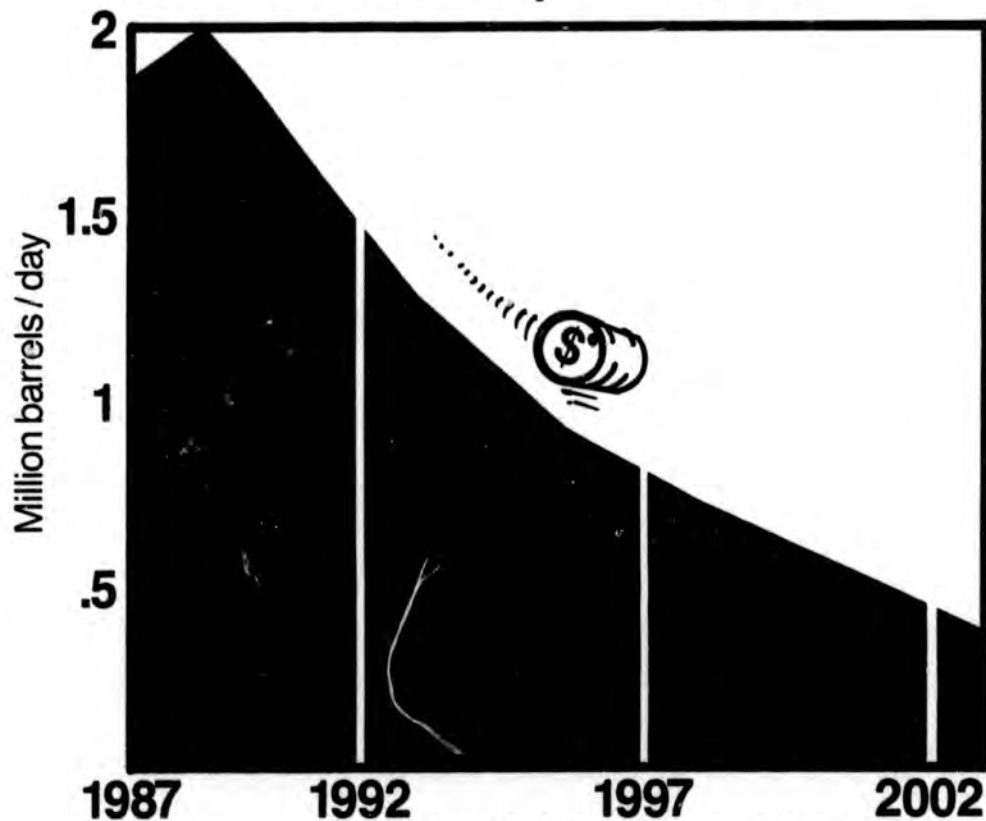
The Alaska Legislature should create an Alaska Development Board, empowered to research and recommend to the Legislature major revenue-generating, in-state investments which further expand and diversify the Alaska economy.

As mentioned earlier, Prudhoe Bay production will begin a rapid decline within the next 24 months. According to the Alaska Division of Oil and Gas, that decline will reduce the trans-Alaska pipeline throughput from today's 2 million barrels a day to 500,000 a day by the year 2002.

In other words, in just 14 years, production from the resource development activity which now accounts for 82% of state revenue will be just one-quarter of what it is today.

Unless other major sources of revenue are developed, Alaska has a calamity in the making. No other Alaska resource comes close to the potential of North Slope oil for generating revenues. In FY 82 these revenues peaked at \$4.1 billion, but by FY 87 they had dropped to \$1.7 billion. If oil prices stay in the \$16-\$18 range, Prudhoe Bay revenues in 2002 will be just \$425 million (in nominal dollars).

Estimated Production of Alaska North Slope Crude Oil



Statistics: Alaska Department of Natural Resources

The Alaska Development Board

The crying need, the missing element in Alaska's overall state spending and investment strategy, is an aggressive program to diversify the economy and replenish the sources of jobs and revenues now provided on the North Slope.

To begin to accomplish this end in a thoughtful but activist manner, the Legislature should create an Alaska Development Board similar in structure to the Permanent Fund board of trustees. The task of this new board would be to research, study feasibility, and recommend to the Legislature and the Governor major revenue-generating, in-state capital investments which can help diversify the economy into the next century.

Projects that would qualify would have to have an assured source of repayment; i. e., they must have the capacity to generate substantial revenues through tariffs, rents, and user fees. Examples include docks, railways, causeways, electrical generation units, water systems, and wastewater plants.

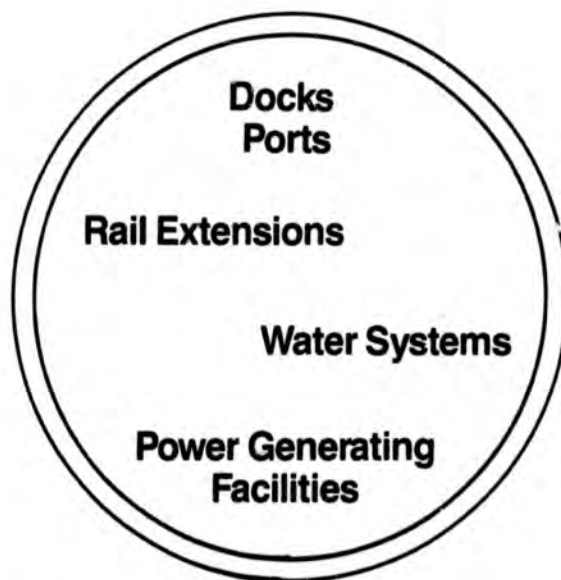
The infrastructure needed to attract one or more U.S. Navy vessels to homeport in Alaska is an excellent example. The Navy traditionally rents such facilities over a many year period.

Only revenue-generating projects would be considered.

It is vital that a distinction be drawn between capital projects, such as quality-of-life facilities (of which Anchorage's Project 80's is a prime example) and the kinds of revenue-generating projects that can pay their own operating and maintenance costs and return the original start-up investments to the state. It is only the latter which would be considered by the Alaska Development Board.



**Capital projects which
require on-going taxes
or revenues to operate.**



**Revenue-generating projects
which pay back investments
and cover own O/M costs.**

The Alaska Development Board



Membership of the Board

The members of the Board should be appointed by the Governor and approved by the Legislature. They should be given an arm's length relationship and a mandate to take a statewide viewpoint, just as the Permanent Fund Trustees divorce themselves from the special interest entanglements of the political process. Individuals must be named to this board on the basis of professional qualifications, emphasizing experience in designing, financing, guiding, and operating major projects of the magnitude which can strengthen Alaska's economic future.

RECOMMENDATION FOUR:

Using a portion of the \$516 million in the Permanent Fund's Earnings Reserve Account, the Legislature should establish an Alaska Development Fund.

Funding for the projects recommended by the Development Board and approved by the Legislature can be derived from several sources, including revenue bonds through the Alaska Industrial Development and Export Authority (AIDEA). This approach was used to finance the construction of the road to the vast Red Dog lead and zinc reserve northeast of Kotzebue.

In addition, the Legislature should set aside a one-time deposit of a portion of the undistributed earnings from the Fund. This large pool of dollars, known as the Earnings Reserve Account, currently contains \$516 million. Another possible source to establish an Alaska Development Fund is the windfall monies from oil litigation such as the Dinkum-Sands settlement (\$329 million). The reserves in the Alaska Development Fund would be saved and invested by the Permanent Fund Trustees until they are appropriated by the Legislature to facilitate projects recommended by the Development Board.

The Legislature has the final say.

It is important to emphasize that the Alaska Development Board would not have the power to allocate monies from the Alaska Development Fund. That prerogative would remain with the Legislature (with the concurrence of the Governor) which is charged by the Constitution with the task of appropriating funds.

RECOMMENDATION FIVE:

The Permanent Fund dividend program is beneficial and should be continued; however there should be a limit on the size of the dividends.

One of the very positive benefits of the Permanent Fund dividend has been the link it has created between the citizens of the state and the government. Just as personal income taxes in other states keep citizens alert to the spending decisions of their elected representatives, so the Permanent Fund dividend program has made Alaskans sensitive and attuned to how resource revenues are used.

Since the program's inception, a total of \$1.48 billion has been distributed and the benefits to the state's economy are recognized by nearly all Alaskans. The size of the dividend distribution, however, should be capped at an amount such as 40% of the annual earnings, as recommended last year by the State Senate, or at \$1,000 per person per annum.

RECOMMENDATION SIX:

Use of Permanent Fund earnings to "inflation-proof" the Fund should be encouraged in times of economic growth but, in depressed economic times, a routine annual appropriation for this purpose should not occur automatically.

A portion of the Permanent Fund's earnings has been used annually to strengthen the Fund and help it to grow and combat inflation.

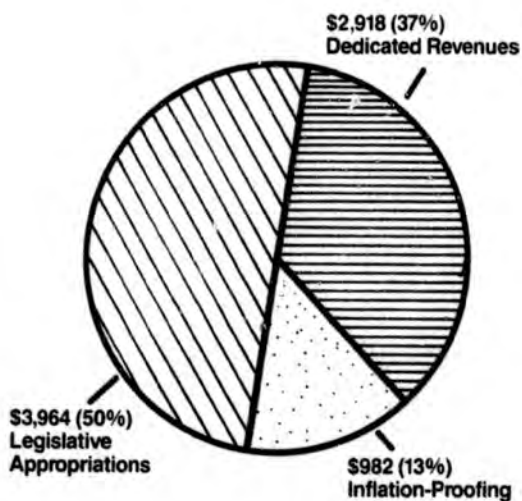
The Legislature has also demonstrated fiscal wisdom by appropriating large additional sums to the principal of the Permanent Fund during years of affluence. In fact, an impressive \$3.964 billion of the Fund resulted from such actions. This policy has been a wise one, especially in times of great wealth.

But "inflation-proofing" in a seriously depressed economy does not fulfill the original intent of the Fund which was to benefit all generations of Alaskans, including those currently trying to survive and make ends meet. In times of a shrinking economy, "inflation-proofing," if continued apace, will choke out all other uses of the earnings when, instead, a portion of those earnings should be injected into the economy through Alaska's communities as recommended herein.

And, as suggested in Recommendation One, it should be written into law that, in times of growth and expansion in the state's economy, the Fund should be strengthened by the Legislature through redeposit of the earnings.

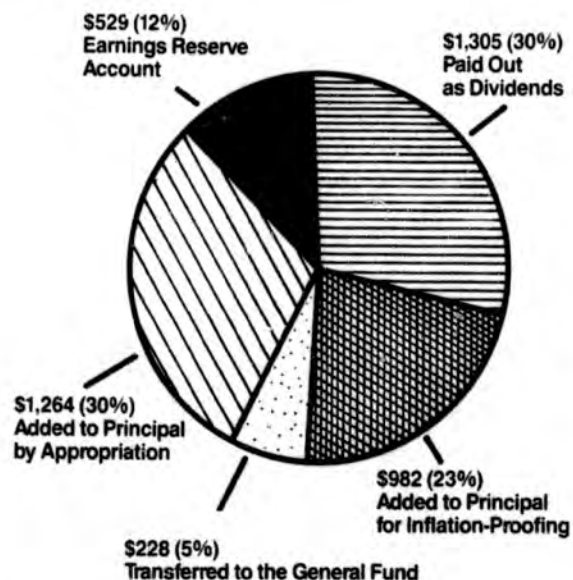
SOURCE OF PERMANENT FUND

Contributions to Principal Since Inception
Total at June 30, 1987: \$7.86 Billion
(in millions)



USE OF EARNINGS

Distribution of Earnings 1978 - 1987
Total Net Earnings: \$4.3 Billion
(in millions)



Such action will help combat the erosion of the Fund due to inflation, avoid overheating of the economy and at the same time reduce public spending.

But the Legislature should not make annual anti-inflation appropriations regardless of the real world circumstances being faced by Alaska's citizens.

RECOMMENDATION SEVEN:

Permanent Fund earnings should be used for state government operations only in dire emergencies.

Alaskans are keenly aware that state government grew rapidly at the advent of Alaska's oil wealth, far outdistancing all other states as to number of employees per capita, wage levels and benefits.

The waste in state government must be dealt with and the excesses curbed.* None of the earnings from the Permanent Fund should be allocated to state government operations in the foreseeable future, absent a major calamity or emergency.

To date, the earnings have been almost entirely used for inflation-proofing the Fund or dividends distributed equally to all Alaska residents. The recommendation in this paper that earnings be used as a counter-cyclical force in the economy calls for a per-capita distribution, maintaining the philosophy that this Fund is held in trust by all residents of the state and therefore any distribution should be made on an equal basis.

It should be remembered that approximately 85% of all royalties and revenues derived from North Slope oil activities are funneled directly into the General Fund out of which the Legislature appropriates monies for government operations. It is the firm conviction of this committee that earnings from the remaining 15% set aside in the Permanent Fund should be added to the General Fund only in case of a major calamity or emergency.

* Note: For strategies to reduce state government spending without precipitating a "crash landing", see the December 1986 Commonwealth North report, *Alaska's Budget Crisis, Facing the Facts — Closing the Gaps*.

RECOMMENDATION EIGHT:

Strategies for using Permanent Fund earnings, including those in this report, should be written in statute, not incorporated into the state Constitution at this time.

Public policies for using Permanent Fund earnings should be written in statute and thus remain flexible so that the Governor and the Legislature can respond to changing circumstances. World oil prices, the main determinant in state revenues, are too volatile to incorporate spending policies into the Constitution.

A number of fixed formulas were reviewed and studied carefully, including the 40-30-30 amendment proposed by the State Senate last session. All of them contain a number of excellent concepts. They should not, however, be incorporated in the Constitution.

Likewise, Commonwealth North's 1982 recommendation to create a Capital Investment Fund through a Constitutional amendment should be replaced by the approach outlined in this report.

If the recommendations in this report are adopted by the Legislature and function successfully, then there will be no need to lock them into the Constitution. Public support will keep them intact. If they are poorly managed, or fail to be successful for other reasons, they can and should be changed by a future Legislature without having to go through the Constitutional amendment process.

Commonwealth North is a non-profit corporation, organized and existing under the laws of the State of Alaska. Non-partisan in nature, its purpose is to inject enlightened vitality into the world of commerce and public policy.

As well as providing a forum for national and international speakers, working committees study critical issues facing the state and the nation and prepare well-researched action papers, such as this one.

**THE COMMONWEALTH NORTH
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COMMITTEE:**

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Connie Yoshimura
Malcolm B. Roberts
Executive Director



HALLWOOD

Alliance Bank

February 19, 1988

Senator Arliss Sturgelewski
Box V, Capitol
Juneau
Alaska 99811.

*15 Mts - may be sufficient
carry loan
100% of asset value but
out sale - out sale 800 mm
@ 10%*

Dear Senator Sturgulewski,

Mr. Anthony J. Gumbiner of The Hallwood Group, has asked me to send you a copy of the Hallwood Alaskan Real Estate Stabilization Trust proposal which is enclosed.

If you have any questions, please do not hesitate to call me.

Sincerely,



FRED H. BURROW
President

:khc1/30

Alliance Bank

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

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

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

Background

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

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

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

*Probably
total is
700-800mm
all around*

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

The Proposal

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

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

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance

with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

It is intended that Hallwood will act as the Trustee for the Trust which would be established for a ten-year period expiring in March 1998. If all of the Trust assets have not been sold off by this time, then the Trust will come to an end unless a new five-year liquidating trust is established by the Beneficiary Institutions.

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirements of the Procedures Agreement will assure the Beneficiary Institutions that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets. Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

Generally the Trustee will limit expenses to any necessary management costs such as taxes, insurance and maintenance and to its own office budget and outside professional fees. Additionally, the trust may expend sums necessary to preserve its properties or prevent the enforcement of liens superior to the Trust's mortgage loan assets.

As to borrowing funds, the Trust Agreement will provide that borrowings shall not exceed an aggregate of 10% of total Trust assets at appraised value and further that borrowings may only be made from the State of Alaska, secured on any future profit which may be realized from future sales of Trust Assets. Under such borrowings we would expect the State to roll over interest payments to the extent that such payments were not available out of Trust cash flow. It is not anticipated that the Trust will need to avail itself of this borrowing facility and it is anticipated that the cash flow from the prospective sale of Trust assets together with the \$15 million cash contribution which will be contributed by the State of Alaska (see "Assistance from the State of Alaska") will be sufficient to fund all ongoing operations of the Trust. *15MM*

Under the terms of the Distribution Agreement, the Trustee will first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute:

a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.

b) If such drawdown shall have been made then any such profit shall first be applied to repay with interest any advance made by the State.

The Trustee will be empowered to sell off blocks of property to other trusts or corporations dedicated to a long term holding period such as that currently proposed by the Commissioner for the Department of Commerce and Economic Development for the State of Alaska and Sealaska Corporation.

As to the tax consequences of the Trust to the Beneficiary Institutions, the Trust will be treated as a "Grantor Trust" for federal income tax purposes and as such, all tax trust consequences flow through the Trust to its beneficiaries in accordance with their respective interests. The Trust beneficiaries are fully insulated, on the other hand, from any liability which might arise out of the various Trust Assets.

To ensure that the Trust will distribute all distributable proceeds in a timely manner and in accordance with the proper percentages to the Beneficiary Institutions, the Trust Agreement will require that the Trust's financial statements will be examined by a firm of independent certified public accountants. Following each examination, the accountants will issue a letter to the Beneficiary Institutions stating whether all distributions have been made in accordance with the Trust Agreement and the Distribution.

The Trust Agreement will also require the Trustee to furnish the following reports to beneficiary banks:

- a) A monthly statement of cash receipts and cash disbursements with a detailed description of all sales or dispositions of Trust property and of any modifications, amendments or extensions of obligations owing the Trust.
- b) A quarterly unaudited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all distributions made during such quarter.
- c) A semi-annual summary of the status of each Transferred Asset and a description of any negotiations then in progress concerning the sale or other disposition of such Transferred Asset.
- d) An annual audited balance sheet, income statement, statement of Trust principal, statement of changes in financial position and a schedule of all dispositions made during the year.
- e) In connection with the examination of the annual reports and financial statements, the independent certified public accountants must issue letters stating:
 - i. that the sales and distributions made during the preceeding year were in accordance with the terms of the Trust Agreement, Procedures Agreement and Distribution Agreement, and,

- ii. With respect to the internal financial controls and practices of the Trust, setting forth such recommendations as the independent certified public accountants may consider appropriate.

Assistance from the State of Alaska

In order to ensure that the Trust is funded with sufficient working capital, we shall request the State of Alaska, through one or more of its agencies, to subscribe the sum of \$15 million in cash to the Trust for which the State shall receive a beneficial interest in the Trust, in proportion to its subscription.

When it is anticipated that this \$15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, we shall request the State of Alaska to enter into a standby credit agreement with the Trust whereby the State will agree to advance to the Trust up to 10% of Trust Assets based on the appraised value as at March 31, 1988, secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Assistance from State Agencies

We shall also ask state agencies such as AHFC and AIDEA to assist by placing moratoriums on financing new supply of Real Estate. These restrictions can be waived if local government so requests.

Marketing

Immediately following the establishment of the Trust, the Trustee shall prepare a five-year cash projection to determine how quickly the Beneficiary Institutions can reasonably expect the transferred assets to be sold and to what extent their interests could be converted into cash. At the outset the Trustee will review all of the non-performing real estate loans and real estate owned to identify essential problem areas. Problems involving construction, design, budgets, cash flow, management location, competition, marketing techniques and various other factors must be analyzed to determine the causes on non-performance or under-performance for each specific asset. Independent appraisals will have to be obtained to arrive at a minimum selling price for each real estate property and further, an initial status report must be prepared for the real estate unit for each asset containing the description of the asset, the loan history, net book value, current status, pending litigation.

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

Regarding loan workouts, the Trustee will evaluate the financial condition of the debtor and the prospect for recovery and will evaluate existing collateral and the prospect for obtaining additional collateral in addition to various types of loan modification, intervention in management or leasing, increased monitoring and control of collateral and possible turnaround methods may also be considered.

Both real estate owned and real estate loans deemed appropriate for foreclosure, i.e., future real estate owned, will be marketed for sale although particular care will be taken with regard to the amount and pricing of real estate offered for sale in the local Alaskan marketplace. The major marketing effort will be made to foreign, i.e., non-American, prospective purchasers through Hallwood's international network around the world.

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

In 1981 Hallwood restructured the Umet Trust, a New York Stock Exchange listed real estate investment trust formed by Union Bank of California, again holding a major portfolio of distressed real estate and real estate loans.

In 1983 Hallwood restructured the Institutional Investors Trust, yet another New York Stock Exchange listed real estate investment trust, this time formed by Donaldson, Lufkin, Jenrette, the New York investment bank, again holding a portfolio of poor quality distressed real estate. Finally, in 1984, Hallwood acquired the assets of The Twenty Seven Trust which was formed to liquidate the assets of the bankrupt Chase Manhattan Mortgage and Realty Trust for the beneficiaries of 26 creditor banks and the FDIC. This current proposal is based upon the arrangements entered into by the creditor banks and the FDIC for the liquidation of The Twenty Seven Trust's assets.

Over the years, Hallwood has liquidated the assets of all the above through its Cleveland-based Property Liquidation Division and has performed several similar functions in the United Kingdom where we have liquidated the assets of Bank and Commercial Holdings Limited acquired in 1978, West Kent Estates Limited acquired in 1980, Redfern and Rankpert Limited acquired in 1981 and the Globe Group of Companies acquired in 1985.

The total value of real estate properties and loans liquidated over the last five years is in excess of \$300 million.

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

Hallwood will also be organizing regular marketing trips to Alaska by foreign investors, many of whom may also be interested in other Alaskan commercial investment projects.

Management

The Trustee will enter into agreement with Alliance whereby Alliance will provide the Trust with management services on a non-profit, recovery of costs only basis, utilizing the services of Gordon Willhite and his 50-strong workout staff. The Trust will be administered from offices in Anchorage, and the Trustee will employ and/or retain employees, real estate consultants, real estate brokers, real estate management and leasing agents, appraisers, architects, engineers, mortgage correspondents, mortgage servicing agents, escrow agents, attorneys, accountants and any other such persons as the Trustee may deem necessary to assist it in fulfilling the purpose of the Trust.

In order to facilitate the sale of trust Assets, the Trustee may grant a loan to purchasers to facilitate such sale as follows:

1. Subject receiving a cash deposit of 20% of the purchase price, the Trust may grant a non-recourse loan secured by a valid first mortgage lien on the asset sold for a term of not more than twenty years on an amortizing basis at a variable rate of interest floating not less than one point above Alliance Bank minimum lending rate as posted from time to time.
2. Should an asset be sold with less than 20% deposit, then the Trustee may sell the asset with a twenty year amortizing loan as described above but with recourse to the credit of the purchaser.
3. If the deposit of 25% or more is received, then the Trustee may lend up to twenty years on an interest only basis as described above.
4. Under no circumstances may the Trustee sell with less than a 5% deposit.

Upon the formation of the Trust each of the Beneficiary Institutions shall be entitled to nominate a committee member to the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Distribution to Beneficiary Institutions

Subject to the unanimous vote of the Institutional Beneficiaries following the establishment of the Trust, the Trustee may arrange for the issuance and flotation of 7 year participating Loan Notes in a par amount equal to 80% of the appraised value of the Trust Assets. All or part of the Trust Assets may be sold in this way.

The Loan Notes will be non interest bearing but will be guaranteed as to principal in proportion to their beneficial interests by the beneficiaries of the Trust. We do not anticipate a joint and several guarantee.

Hallwood will arrange for the sale and distribution of the Loan Notes to investors who will be entitled to 100% of future distributions from the Trust thereafter, i.e., they will purchase at a 20% discount the future distributions from the Trust. Proceeds for the sale of the Loan Notes will be distributed to the Institutional Beneficiaries thereby providing a mechanism to "cash out" early at a discount.

Fees to the Trustee

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance.

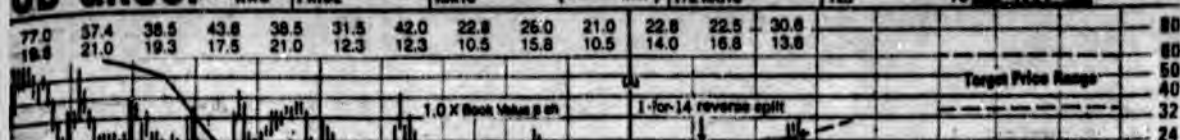
Hallwood will however expect to charge a normal commercial fee in respect of its best effort distribution of the Participating Loan Notes should this occur.

The Trustee will expect to be reimbursed for all its necessary expenses expended in connection with the Trust's business.

February 18, 1988

The Hallwood Group Inc.
767 Third Avenue
New York, NY 10017

Tel: (212) 319-2360



1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
186.93	120.76	50.37	21.24	20.01	5.25	22.71	20.98	20.29	16.66	16.94	18.04	19.70	22.35	20.63	24.00
489.82	465.08	466.68	444.38	434.25	414.76	55	82	83	28	1.26	2.07	2.00	2.85	2.85	2.85
489.78	466.25	470.31	449.16	437.54	417.23	56	56	14	11	.84	1.79	1.56	2.45	2.45	2.45
6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16
940.90	892.65	830.26	666.18	428.68	322.45	28.94	26.27	30.12	23.24	27.92	18.49	16.65	13.65	13.65	13.65
21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
78	80	71	17	30	158	42	19	10	5	1	5	14.5	14.5	14.5	14.5
5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
186.93	120.76	50.37	21.24	20.01	5.25	22.71	20.98	20.29	16.66	16.94	18.04	19.70	22.35	20.63	24.00	20.63	24.00
489.82	465.08	466.68	444.38	434.25	414.76	55	82	83	28	1.26	2.07	2.00	2.85	2.85	2.85	2.85	2.85
489.78	466.25	470.31	449.16	437.54	417.23	56	56	14	11	.84	1.79	1.56	2.45	2.45	2.45	2.45	2.45
6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16
940.90	892.65	830.26	666.18	428.68	322.45	28.94	26.27	30.12	23.24	27.92	18.49	16.65	13.65	13.65	13.65	13.65	13.65
21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
78	80	71	17	30	158	42	19	10	5	1	5	14.5	14.5	14.5	14.5	14.5	14.5
5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
186.93	120.76	50.37	21.24	20.01	5.25	22.71	20.98	20.29	16.66	16.94	18.04	19.70	22.35	20.63	24.00	20.63	24.00
489.82	465.08	466.68	444.38	434.25	414.76	55	82	83	28	1.26	2.07	2.00	2.85	2.85	2.85	2.85	2.85
489.78	466.25	470.31	449.16	437.54	417.23	56	56	14	11	.84	1.79	1.56	2.45	2.45	2.45	2.45	2.45
6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16	6.16
940.90	892.65	830.26	666.18	428.68	322.45	28.94	26.27	30.12	23.24	27.92	18.49	16.65	13.65	13.65	13.65	13.65	13.65
21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21	21
78	80	71	17	30	158	42	19	10	5	1	5	14.5	14.5	14.5	14.5	14.5	14.5
5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5	10.5

FEB 22 1988

H. Norman Rokeberg
6534 Lakeway Drive
Anchorage, AK 99502

February 18, 1988

Senator Jan Faiks
Alaska State Senate
P.O. Box V
Juneau, AK 99811

Subject: Economic Recovery
Commercial Real Estate

Dear Ms. Faiks:

Attached is an outline of a plan to help stop the downward trend in Alaska's commercial real estate market. In a nutshell, it calls for "imploding" the failed inventory of properties held by the Alaska Industrial Development and Export Authority (AIDEA) on its existing equity.

A brief overview shows Anchorage's real estate problems are a result of over supply and diminished demand. The best statistical example can be seen in the office space market.

Presently, Anchorage has an inventory of 7.8 million square feet, of which 1.7 million is vacant, or 21.7 percent. (These are my preliminary year end numbers.)

During the past 15 years over 6 million square feet of office space was built with annual absorption of approximately 350,000 square feet per year. During the past two years we have experienced a net negative absorption of more than 400,000 square feet.

The drop in demand has depressed rent levels by more than 33%, for example, Class "A" rates have decreased from ranges of \$2.35 to \$1.50 per square foot per month. Income properties are valued on their ability to produce revenues. Warehouse and strip retail rents have dropped by as much as 40 to 50 percent.

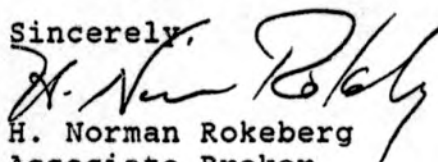
Jan Faiks
February 18, 1988
Page 2

AIDEA, in concert with poor commercial banking practices, was a primary cause of the over supply problem. When traditional mortgage lenders were constrained by prime rates of eighteen percent and more, the State of Alaska clearly meddled with market forces by stimulating construction with IDB subsidized loans. Buildings mushroomed and caused the 1985 real estate recession prior to the oil collapse.

I remain a firm believer in a free market, however, once the State disrupts that market with "economic engineering", it has a social as well as an economic responsibility to help correct its mistake.

Please call me at 563-5500 if you have any questions.

Sincerely,



H. Norman Rokeberg
Associate Broker
Jack White Company

HNR/sc

enclosure

cc: Tony Smith
Dave Rose
Ron Lehr

ALASKA ECONOMIC RECOVERY PROGRAM

Demolition of Commercial Property Alternative

Intent: Use equity of AIDEA to pay for demolition of properties foreclosed upon by AIDEA.

Purpose: Implementation of this public policy will: 1) diminish the supply of commercial property; 2) be a clear statement to the private sector that the state is acting to correct a recognized economic problem; and 3) minimize the demand on the public treasury.

Rationale: The State of Alaska's AIDEA was a proximate cause in creating an over supply of commercial properties. During the boom period of 1982 to 1985, AIDEA subsidized construction of more than 300,000 square feet of office space in the Anchorage market.

Assumptions: Given bond obligations in the 300 million range and an equity of approximately 300 million, AIDEA has the existing resources to assist in curing a problem it helped to create.

Suggested Mechanics: 1) As a first step AIDEA would endeavor to "work out" the problem loan; 2) failing a satisfactory work out, AIDEA would accept a deed-in-lieu or foreclose on property; 3) if a statutory foreclosure is instituted, AIDEA would attach the existing income stream (by assignment of rent provisions) to avoid "creaming" by the borrower; 4) after a suitable period (say six (6) months) if the property could not be resold for cash (i.e., non-AIDEA financing) then the building would be scheduled for demolition; 5) any existing tenants would be relocated and the leases terminated. In the event of relocation, the tenant would be granted a maximum ninety (90) day rent abatement to facilitate relocation; 6) upon completion of the above steps, AIDEA would contract for the total demolition of the building and

foundation; 7) AIDEA would bear the interim holding costs and demolition; 8) participating private lenders would be required to write off their portion of the loan; and 9) the land would be held by AIDEA as part of its asset base until market conditions allow for sale.

Legislative Action: The legislature would adopt the above procedures, together with a public directive prohibiting AIDEA from lending on commercial properties in urban areas anytime in the future.

Conclusions: A similar policy directive could be applied to residential housing loans held by AHFC.

This alternative is not a bail out, as it applies only to failed properties. However, it may aid the liquidity problem by encouraging deed-in-lieu return of property, and, therefore, save some borrowers from bankruptcy.

While this program is not a total solution, it has the following advantages: 1) it requires no state funding; 2) it is relatively simple to implement; 3) it uses an existing organization to execute; and 4) it can be started very quickly.

Submitted by: H. Norman Rokeberg

2/88

Funding Information

General Fund	\$6,828,000
Other Funds	-0-
	\$6,828,000

BY HERRMANN, GRUENBERG
AND SUND

1 IN THE HOUSE

2 HOUSE BILL NO. 492

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the Depart-
7 ment of Administration for grants and to the Office
8 of the Governor for operating expenses to implement
9 the Alaska bottomfish development plan; and providing
10 for an effective date."

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

12 * Section 1. The sum of \$2,638,000 is appropriated from the general
13 fund to the Department of Administration for payment as a grant under
14 AS 37.05.315 to the city of Unalaska for the Ballyhoo Road water project.

15 * Sec. 2. The sum of \$1,298,000 is appropriated from the general fund
16 to the Department of Administration for payment as a grant under AS 37.05.-
17 315 to the city of Unalaska for the Ballyhoo Road sewer project.

18 * Sec. 3. The sum of \$2,350,000 is appropriated from the general fund
19 to the Department of Administration for payment as a grant under AS 37.05.-
20 315 to the city of Unalaska for Ballyhoo Dock expansion, including related
21 upland improvements.

22 * Sec. 4. The sum of \$232,000 is appropriated from the general fund to
23 the Department of Administration for payment as a grant under AS 37.05.315
24 to the Municipality of Anchorage for a program to implement the Alaska
25 bottomfish development plan within the municipality.

26 * Sec. 5. The sum of \$250,000 is appropriated from the general fund to
27 the Department of Administration for payment as a grant under AS 37.05.315
28 to the Municipality of Anchorage to establish a computerized fisheries
29 information system within the Port of Anchorage to implement the Alaska

1 bottomfish development plan.

2 * Sec. 6. The sum of \$60,000 is appropriated from the general fund to
3 the Office of the Governor to fund a position in that office to coordinate
4 the implementation of the Alaska bottomfish development plan.

5 * Sec. 7. The unexpended and unobligated portion of the appropriations
6 made by secs. 4 - 6 of this Act lapse June 30, 1989.

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

ALASKA BOTTOMFISH DEVELOPMENT PLAN

If a company were in deep economic trouble it could do two things:

1. Analyze its strengths and invest resources into realizing the potential of these strengths so as to rebuild the company.
2. File bankruptcy and go out of business.

Our State does not have the luxury of going out of business for the people. We must build on our strengths, especially when different cities and regions of the State can cooperate with each other in real economic development.

The booming Alaska Bottomfish industry is such an opportunity - not our only opportunity - but an opportunity that is immediately realizable. There is a high rate of return to the State, and the potential for creating thousands of jobs for Alaskans.

The stakes are huge: 2 million metric tons of 43 different species of Bottomfish in the Bering Sea are harvested annually. That is 4.5 billion pounds of fish! The Bering Sea can be a perpetual Prudhoe Bay if we manage it wisely.

The Japanese estimate that the Bering Sea fishery is responsible for more than 500,000 jobs in Japan. This includes fishing and processing, value added reprocessing, transportation, marketing and the service industry necessary to keep it all operating. To make the best decisions they have the best fisheries research and information systems available.

As the Foreign fleets are being phased out, this fishery is being Americanized. But how much of this Americanization will benefit Alaska? That depends on what we do to take advantage of this opportunity. The State of Washington commissioned a study to determine its role in the Alaska Bottomfishery and found that 93% of the value of the fishery goes to Washington.

Now is the time for Alaska to stake our claim on the enormous economic potential of this industry during its developmental stage. This is an opportunity to put the "Bush vs: Anchorage" syndrome behind us and work together to put our State back on a sound economic footing.

Some of these plan elements are immediate, some are more long term. Along with seizing the immediate opportunities, we need to look out for the long-term interests of the whole State in this endeavor. As a coordinated effort this plan is substantial enough to really accomplish something. The plan includes capital projects and policies designed to capture a large share of the Bottomfish industry for Alaska.

The capital projects portion of the plan would be a supplemental capital budget. We do not seek to alter the Governor's Jobs Bill as it is a necessary relief measure which will distribute State money throughout the whole State. However, along with relief, it is necessary for the State to target economic development projects which will move the State's economy ahead.

PLAN ELEMENTS:

1) Primary production: Many companies want to locate onshore in Alaska. Our communities do not have the basic infrastructure to accommodate this development. \$6 million in capital projects in Unalaska/Dutch Harbor will bring \$60 million dollars of private investment in fish processing, cold storage, salvage and other associated services. The projects are a water and sewer extension and an 800 foot extension of the City Dock. (See attached project description #1). It is Unalaska's #1 capital projects priority.

St. Paul harbor completion - \$4 million is already included in the Governor's capital budget so the Bottomfish industry can locate some of their operations in the Pribilofs.

2) Services and marketing: Anchorage is the logical location for the service center for Alaska's Bottomfish industry. It means millions of dollars a year to Seattle's economy and it can mean the same thing for Anchorage's economy if we analyze which segments of the service industry it is reasonable to locate in Anchorage. We can then design an aggressive campaign to show our existing businesses which services are needed and also convince new businesses to locate in Anchorage.

The obvious industries are cold storage and transportation at Anchorage International Airport, banking, primary and secondary processing, office location (the price is right), fisheries data bank location, retailing parts and commodities to rural fish production centers such as marine repair parts, food, automobiles, processing equipment, etc.

The cost of this project is \$232,000. (See attached project description #2)

3) Value added processing: Most of the value added in the Bottomfish industry is in processing the product to final form. Most of our seafood leaves the State in the least processed form possible, sometimes even frozen whole.

The purpose of the Fisheries Industrial Technology Center (FITC) in Kodiak is to provide research and training on value added processing techniques. Dr. Jong Lee expresses the philosophy of the Center: "When I think of fish I see money -- Kodiak is left with the fish guts and the smell and somebody else gets the money."

The FITC will be an important addition to Alaska's strategy to keep more of the jobs in Alaska. This project is 7 million dollars and is Kodiak's #1 capital project priority. (See attached Project Description #3)

4) Information Systems: A computerized fisheries information system is necessary to provide information on fisheries performance, research and import/export marketing information. This information system would be a function of the Port of Anchorage through a working agreement with other ports and private users in Alaska who would pay for operational costs through users fees. The cost for establishing the system, including hardware is \$250,000. (See attached project description #4)

5) To become more self-sufficient in port and harbor development, Southwest Alaska should form into an Economic Development District under EDA or should join with Anchorage and other Alaskan ports to form the Alaska Port Authority.

6) Support the proposal by Southwest Alaska Municipal Conference before the North Pacific Fisheries Management Council (NPFMC) to implement the priority U.S. cargo carriers and bulk fuel distributors are given under the Magnuson Act. The proposal would require foreign JV processors to utilize domestic support capacity before foreign operations could be brought in. This would mean millions of dollars of support activity for Alaskan ports.

7) Support the allocation of a percentage of the total Bottomfish quota directly to Alaska coastal communities as a Community Development Quota. The smaller villages especially need this development quota to ensure that they will benefit from Bottomfish development. Federal Bottomfish limited entry proposals could otherwise legally disenfranchise our people from participating in the fishery.

8) Orient our local and University school systems to train Alaskans so they can fully participate in the development of the fishery. So often we wring our hands about other people taking our work when in fact we also need to make the commitment to offer qualified people.

The State legislature should amend the State raw fish tax law to allow processors to check off 3% of their fish tax which would be administered by the Department of Education. Funds would be granted to secondary school systems to allow for development of fisheries education programs in local schools.

9) Establish the Governor's proposed Alaska Science and Technology Foundation. This is necessary to accomplish applied research to keep us current with new trends in the industry.

10) Extend the effective date of the State's investment tax credit program on fish tax to encourage on shore processing development. Last year this program was responsible for more than \$49 million of private investment in onshore operations.

11) Resource protection: Establish a mandatory observer program on floating processing vessels. Support enforcement measures to control foreign fishing in our waters, including a mandatory check-in, check-out system. Support bi-lateral agreements with the Soviet Union on taking fish management control in the "Donut hole" under the closed and semi-closed seas section of the Law of the Sea Convention. Oppose increases in the Bottomfish quota at this time until illegal foreign fishing and other management uncertainties can be eliminated.

CONCLUSION: The State has a responsibility not only to provide relief for hurting Alaskan communities. We also have the responsibility to build our economy for the future. This Bottomfish development plan is an ambitious but realistic proposal to ensure that Alaskans benefit from this developing industry. Other people may be able to indicate further opportunities in Bottomfish development. This is a good start.

The additional capital project portion of this plan is \$13.7 million dollars. The appropriation of these funds is a sound investment in the future of Alaska.

For more information contact:

Paul Fuhs, Mayor, City of Unalaska, (907)581-1251
Jerome Selby, Mayor, Kodiak Island Borough, (907)486-5736
Tom Fink, Mayor, City of Anchorage, (907)343-4804

CITY OF UNALASKA

P.O. BOX 89
UNALASKA, ALASKA 99685
(907) 581-1251

SYNOPSIS OF ESSENTIAL CAPITAL PROJECTS CITY OF UNALASKA FY 89



Ballyhoo Road Water and Sewer

WATER

The water project would replace approximately twenty thousand feet of World War II vintage water line varying in size from 3 inch galvanized iron to 12 inch wood stave line. The new line would be 12"-20" ductile iron pipe.

The Delta Western Complex which presently exists is seriously under utilized because there is not enough water pressure to provide sprinklers in two of their new warehouses.

Icicle Seafoods has brought in a barge for fish processing and has a long term development plan for property they have leased from the Ounalashka Corporation. Without additional water capacity these plans will not be able to be carried out.

The Ounalashka Corporation has had a number of inquiries from processors, and service providers about leasing land along the road, but the lack of city services makes the land undevelopable. There is no other area of the community that is close to tidewater that can be used by deep draft vessels. The total cost of the water project is estimated to be \$2,638,000.

With the addition of the Icicle barge which is now processing fish, there has been a substantial reduction in water pressure at the Ballyhoo Dock, the major watering point for large vessels. This slows the turnaround time on the dock, worsening the dock congestion problem.

SEWER

The sewer project would extend the city sewer system to this area which is presently unserved. It would bring in approximately 10,000 feet of sewer line which would make the area useful. DEC has prohibited further development of the area without a public sewer.

The Ounalashka Corporation and the City of Unalaska, both of which are land owners along Ballyhoo Road have had to turn down requests for long term land leases because of the lack of a public sewer in the area.

The City of Unalaska has had some preliminary engineering done on this project which gives a cost estimate of \$1,298,000 for a conventional system. This would assure a relatively trouble free line which would be handling extensive industrial activity.

DOCK EXPANSION

The third priority component of the City of Unalaska's capital requests is the expansion of the Ballyhoo Dock. This project would include an 800 foot extension to the existing 400 foot dock, removal of rock from a hillside on the property to provide additional staging area, and placement of the rock in the water to increase the amount of available land for storage and transshipment of cargo.

We expect fifteen to twenty factory trawlers to be using the facility in the next year. We have presently seven factory trawlers each using the facility every twenty days to load supplies and unload three million pounds of fish product at each off load.

In addition Petro Marine Services has put a multi-million dollar tank farm on the uplands on the Ballyhoo Dock property. This tank farm has pumped many millions of gallons of fuel oil to fishing, processing, and cargo vessels in the six months it has been in operation. The agreement we have with Petro Marine calls for first priority to be given to vessels loading and unloading cargo. The lack of additional docking facility reduces Petro Marine's ability to deliver fuel, and revenue to the city from the sale. In the first two weeks of this year, 114 fishing vessels were denied moorage at city dock facilities due to lack of space.

The companies desiring to locate on Ballyhoo Road if we can provide the basic infrastructure are: Icicle Seafoods, Artic Storm, Amfish and Golden Alaska (fish processors); Sunmar, Delta Western and Sealand Services (shipping and cold storage); Fred Devine Salvage and Marco-Seattle (vessel repairs); and Hokodate Seimo Sengu a net manufacturer.

The total cost of the dock project is \$2,350,000.

UPDATE!

COMING UP
ON
PUBLIC
TELEVISION

A

Currents

The Question: Should we legalize
private salmon farming
in Alaska?

The Players: Norwegian Businessmen;
Washington &
British Columbia
Fish Farmers;
Alaskans - Pro & Con

The Place: KTOO-TV

The Time: Thursday, April 7th
8:00 pm

Watch this special half-hour documentary as it re-airs
with an **UPDATE** on the current status of
mariculture legislation.

**KTOO-TV is Southeast
Alaska's only
regional television station.**

KTOO TV
JUNEAU

Opinion

Friday, March 11, 1988

Mayor Fink's solution part of the problem

Tom Fink is a special type of politician, even by Alaskan standards.

He is intelligent and straightforward. He can be charmingly inflexible. He's unaccommodating in victory and unrepentant in defeat. I like him.

Now that Tom Fink is mayor of Anchorage, he's been visiting Fairbanks to drum up some sort of Railbelt coalition of municipal and business leaders. He proposes a joint effort to persuade the Legislature to divert a few hundred million dollars from somewhere (the Permanent Fund) to a massive welfare program for the "haves."

There's a certain appealing ring in Mayor Fink's pitch. The end of the state spending spree after the 1986 oil price crash certainly brought its share of hardships. If the state government has money in the bank, Mayor Fink suggests, why not spend a little of it to soften the blow?

But Mayor Fink's solution is, in fact, the problem itself.

In talking about state budget cuts, we must keep in mind how there are several components of



**Fred
Pratt**

Views expressed here do not necessarily represent those of the Daily News-Miner

the state budget and cuts in each one affect regions of the state in different ways.

The state operating budget for the current fiscal year is about what it was four years before, in Fiscal Year 1984. This part of the budget, which covers the day-to-day operations of the state government, peaked in FY 1985 at just under \$3 billion, and has since been cut 11 percent to \$2.63 billion this year.

The capital budget, which covers construction projects and major purchases, dropped 75 percent in the same period, from \$1.44 billion in FY 85 to \$358 billion in FY 88.

State loans declined about the same proportion as the capital

budget, from \$372 million in FY 85 to \$77 million this year.

Thus, if you're in a community like Juneau that gets a lot of money from the operating budget for state employee salaries, you weren't hurt as much as a community that gets most of its state spending in the form of capital projects and state loans.

Fairbanks has a healthier mix of operating money, construction and loans. Anchorage, on the other hand, pulled more money from the state treasury for the direct benefit of its private industry sector; construction companies, builders who rely on state mortgages and businesses that rely on state loans.

That's why the cut in state spending has hurt Anchorage so much.

In 1981, for instance, Anchorage's share of state loan programs was \$1,237 per capita, compared to \$809 per capita in Fairbanks and \$989 per capita statewide.

Last year, after the cuts, Anchorage's loans were down to \$158 per capita, virtually the same as Fairbanks' and considerably less than the state average of \$263 per capita.

The comparison is even more

clear in state mortgages. In FY 87 Anchorage got \$278 million in Alaska Housing Finance Corp. mortgage money for its overblown housing industry, which works out to about \$1,200 per capita. In Fairbanks we got \$61 million in state mortgages, or \$841 per capita.

In the past decade the Alaska Housing Finance Corp. sold bonds to borrow more than \$4 billion that it loaned back out in the form of home mortgages, more than half going to Anchorage. The AHFC bonds make up half the state's total debt burden.

The Anchorage housing industry is overbuilt because the state was subsidizing mortgages. The state further subsidized Anchorage's sprawling growth with road projects and low-interest loans to strip mall developers.

But before we feel too sorry for Anchorage, let's remember a few more things.

Unemployment in Anchorage last December was 8.2 percent, while in Fairbanks it was 12.9 percent without even counting all the guys from Anchorage who come up here to take jobs away from Fair-

banksans out of our union halls.

The number of people unemployed in Anchorage was 8,229, compared to 4,112 here. That means that Anchorage, with three times our population and labor force, has only twice as many people out of work.

The Anchorage mayor's solution is to pump more money into the very programs that so disproportionately benefited Anchorage in the past, and from which the governor and Legislature have wisely cut the greatest amount of surplus spending.

In effect, Anchorage is like a drunk who's been knocking down three shots for our two. It's no wonder if Anchorage is suffering a worse economy: "hangover".

Mayor Fink's solution to his city's binge isn't an aspirin and a late morning snooze. He's asking for some "hair of the dog," another huge round of state spending.

It's hard to see how that will help Fairbanks.

Fred Pratt, a freelance writer living in Fairbanks, is a reporter and long-time observer of Alaska politics.

Fairbanks

CITY BRIEFS



TODAY

6 p.m.—Fairbanks Libertarian Party Supper Club meeting, 1604 Madison Dr. Information: 479-4250.

6:30 p.m.—Military Retiree Council meeting, NCO Club, Fort Wainwright. Plans for social will be completed. Information: 457-4697.

8 p.m.—Nugget Squares dance, Alaskaland Dance Center. Caller: Gordy Oseth. Cues: June Kaiser. Information: 488-6970.

8 p.m.—Farthest North Dairy Goat Association meeting, North Pole. Information: 488-9615.

8 p.m.—Midnight Sun Chapter No. 6, Order of the Eastern Star meeting, Masonic Temple, 809 First Ave. Information: 479-6861.

8:30 p.m.—University Contra

Joling named News-Miner news staff chief

Dan Joling, who has worked as a reporter, legislative correspondent, columnist and copy editor since joining the Daily News-Miner in 1978, today was named the newspaper's managing editor.

Joling, 33, a native of Wisconsin, has been writing the newspaper's Hometown Reporter column since July 1986. He recently had been promoted to assistant city editor.

The appointment, effective March 28, was announced by Charles Gray, president and general manager of the newspaper.

Joling has a master's degree in journalism from the University of Missouri and a bachelor's degree with honors in English literature from Bethel College in St. Paul, Minn. In 1977, he was a participant in Missouri's highly regarded Washington, D.C. graduate-reporting program, covering regional issues for several newspapers, primarily the Yakima (Wash.) Herald-Republic.

"I believe working in daily journalism is a privilege and a trust," Joling said. "A newspaper is the primary vehicle used by citizens in



DAN JOLING
Promoted

reassignment to the copy desk where he is in charge of the Saturday and Sunday AMs editions. Sturgis served as managing editor from 1975 through August 1986. He is an investor in and recently was named president of Epicenter Press Inc.—a new Alaska-based book publishing company incorporated in January.

Joling was born in Sheboygan, Wis. He and his family moved in 1962 to Rhinelander, Wis., Joling graduated from high school in

Borough pushes

By PATRICK HUND
Staff Writer

The borough joined the city Thursday in calling upon the state to make it a crime to possess marijuana in the home.

The Fairbanks North Star Borough Assembly Thursday voted 6-3 in favor of a resolution that says current law "sends a harmful and mixed message to the youth of our state by having a law which allows the use and possession of marijuana in the home . . ." The Fairbanks City Council approved a similar measure Wednesday.

The State Senate recently approved a measure that would make marijuana possession in the home a crime. The bill is awaiting consideration in the State House.

Assemblyman Ed Linkous said every student organization in the state has recognized that marijuana use is a problem and wants the situation rectified.

Assemblyman J.B. Carnahan said young people need to recognize the effects of the drug. "We as adults need to send a clear message to our children," he said.

(Others assembly members sup-

porting the measure were: Walt Johnson, Joe Ryan, Chris Birch and Jerry Norum.

Assembly members Buzz Otis, Valerie Therrien and Jeff Weltzin voted against the resolution, while Paul Chizmar and Sandra Stringer were excused from the meeting.

Therrien said the resolution is not in compliance with the state constitution.

"This is one more attempt by the assembly to take away the rights of privacy of the people," she said.

Weltzin agreed with Therrien.

"They're willing to give up sacred rights of Alaskans," he said. "It's too sacred to be tampered with."

Weltzin said that state laws already prohibit the sale of marijuana and possession by a minor.

In other action, the assembly voted 8-1 to take some land from Alaska Northwest Properties Inc. by eminent domain if the company does not sell a parcel of property at the borough's offer of \$526,570, which exceeds the appraised value.

The assembly plans to authorize building a new elementary school on the site off Loftus Road to re-

Report of the Subcommittee on Small Business

Joint Committee on Economic Recovery

members

Rep. Red Boucher, Chair
Rep. Bill Hudson, Vice-chair
Rep. Johnny Ellis
Rep. Adelheid Herrman
Rep. Lyman Hoffman
Rep. Steve Frank

Background

The Small Business Subcommittee held seven teleconferences between February 4 - 16, 1988. The teleconference sites included Anchorage, Juneau, Fairbanks, Mat-Su, Homer, Bethel, Sand Point, Kodiak and Dillingham. The Small Business Subcommittee's agenda was to listen to, identify the needs of, and network small businesses with the agencies and services currently available.

Discussion

The participants most frequently said they lacked information about what funding, services and agencies are available to help them.

Small business has long been touted as the backbone of the American economy. A recent study indicates that the formation and expansion of firms that employ fewer than twenty people have generated virtually all of America's net employment gains since 1981.

The strength of Alaska's economy rests on a vigorous and diverse small business community. Small business produces more new jobs, ideas and technology than any other sector. As they prosper, new enterprises account for significant government revenues, and their innovative entrepreneurial policies stimulate industries to greater productivity.

Policies favoring economic diversification, import substitution, and value-added exports are an unqualified call-to-action for Alaska's small businesses and manufacturers. As other states with similar policies have discovered, direct investments in the development of marketable products is the most cost effective and expedient means of establishing a stable employment base.

The Subcommittee on Small Business has reviewed the following programs and services already established in the state and believes that the efforts of business assistance should be focused through a delivery system that utilizes these programs and services.

The Small Business Development Center of Alaska (SBDC) represents a unique partnership between the Alaska Department of Commerce and Economic Development, the Small Business Administration, and the statewide University of Alaska System. SBDC has offices in Juneau, Fairbanks, Anchorage, Kenai, Kodiak, Valdez, Bethel, Kotzebue, Nome and Ketchikan.

The Small Business Development Center is funded by the State of Alaska and the Federal Small Business Administration. Because of its association with a federal agency and the state University system, SBDC can access national, state and local procurement systems, international trade networks and various databases.

The Small Business Development Center provides instruction in the areas of development of new ideas for products and services, financial management, marketing, export and importing financing information, export and import trends and potential of a region. Additionally, it offers courses, seminars and workshops on current business topics. SBDC has a natural tie with the Alaska Center for International Business which, like SBDC, is a part of the University system.

The Alaska Center for International Business conducts research, including research on market information and market strategies, relating to trade by businesses in the state with foreign nations, and, in particular, Asian nations.

Additionally, the Center for International Business assesses the potential of various markets for the state's natural resources and technical and informational resources. It identifies and analyzes the import requirements of and trade barriers to commodity sales in other nations. It also identifies the state's trade competitors and assesses the public policy and programs used by the competitors to foster trade with potential markets for the state's goods and services.

Another program that has been invaluable for its hands-on technical assistance and training to small businesses in rural Alaska is the Alaska Business Assistance Center. The Business Assistance Center helps rural Alaskans through the myriad requirements of establishing and running a small business in the state. The Business Assistance Center has helped many people regarding loan foreclosures. Foreclosing on loans is cumbersome and confusing to rural Alaskans, and the Assistance Center has prevented many people from losing their loans and their livelihood. Through the efforts of the Assistance Center, many loans have been saved before they got to the point of foreclosure.

The three-year-old Made In Alaska program of the Department of Commerce and Economic Development remains the most substantive state effort to stimulate manufacturing jobs in Alaska to date. However, this program remains unfunded.

The problem, as previously discussed, deals with informing and offering instructional assistance to small business persons. The Small Business Subcommittee believes that networking and instruction can be implemented very easily. The University of Alaska Anchorage Department of Instructional Television Service has the equipment and facilities to produce and edit the courses, seminars and workshops that are being planned by the Small Business Center, the Alaska Business Assistance Center, the Center for International Business and the Made in Alaska Program.

These tapes can then be distributed and aired on the public access channel on the

local cable television systems. Currently there are twenty-four cable systems in the state. Under this plan, interested persons will be able to view these instructional and informational programs in their homes. Additionally, Public Service Announcements over the RATNET system can be utilized to make areas of the state not served by cable television aware of what is available and who to contact for more information, etc.

In Anchorage, these programs can be viewed by those who do not currently have cable television. The Anchorage schools, with the exception of Bartlett, are cabled. Interested business persons can go to their neighborhood schools to view the various taped programs on the public access channel.

Another way for interested business persons to utilize these programs will be through the municipal library systems. Tapes could be checked out, just like a book, and viewed on a VCR.

The implementation of this plan will further the intent of CSHB 40 which was enacted to develop and implement a cost-effective policy for managing the state's information and information technology resources so that state government may better serve the people.

The Small Business Subcommittee believes the small business person will also benefit from the Alaska Neighborhood Business Initiative. This would be a valuable referral tool for small businesses and manufacturers.

Conclusions

If the state is going to work towards stabilization and expansion of our economy, then we should be doing everything possible to establish a climate conducive to the development and communication of ideas of small business.

Small business in Alaska is concerned with the proliferation of regulations and other expensive permitting processes on both the local and state level, all of which increase the costs of doing business.

There is a need for a regulatory clearing house to receive the complaints and constructive proposals of small business. The clearing house would work to reduce the costs of doing business.

The budget efforts for this business assistance system should involve all departments and agencies that are concerned with small business.

In addition to improving the business climate, the State needs to find new ways to improve the competitiveness of Alaska manufactured products.