

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1574 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1371

Peat Marwick

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JAN 18 1988

January 8, 1988

*Presented
to Govt. Comm.*

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

Dear Governor Cowper:

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

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

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

Very truly yours,

Signature

Joseph E. Heintz

ECONOMIC RECOVERY TASK FORCE

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

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

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

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

AHFC

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

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

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

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

Real Estate Market

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

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

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

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

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

AIDEA

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

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

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

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

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

Employment Incentives Fund

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

- * An applicant could apply for capital funds up to

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

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

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

Public Forum

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

February 11, 1988

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

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

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

Here is a better way to stabilize real estate markets.

A Tax to Promote Orderly Alaska

Real Estate Markets

To promote orderly transfer of real estate properties
 or portfolios of real estate properties, the State of Alaska
 of real estate properties, the State of Alaska shall impose
 a market stabilization tax. The tax shall be levied on the
 or financial portfolios of real estate properties, and shall
 at a price less than 80% of the fair market value of the
 balance on that property or portfolio of real estate properties.
 State of Alaska to ensure a tax on the sale of real estate
 estate property (or portfolio of real estate properties) shall
 equal to 80% of the outstanding mortgage balance on that
 on that real estate property, less the sales price of the real
 sales price of the real estate property.

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

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

Sincerely yours,

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



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

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

A BRIEFING PAPER AND ECONOMIC PROSPECTUS

Prepared by

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

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

Prepared for

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

December 8, 1987

UNIVERSITY OF ALASKA, ANCHORAGE

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

INSTITUTE OF SOCIAL AND
ECONOMIC RESEARCH

MEMORANDUM

DATE: December 1, 1987

TO: Governor Steve Cowper

FROM: Lee Gorsuch, Director, ISER

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

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

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

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

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

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

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

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



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

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

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

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

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



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

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

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

Figure 2.1

ALASKA EMPLOYMENT INDEX--PART I.

Percent of January 1980 Level

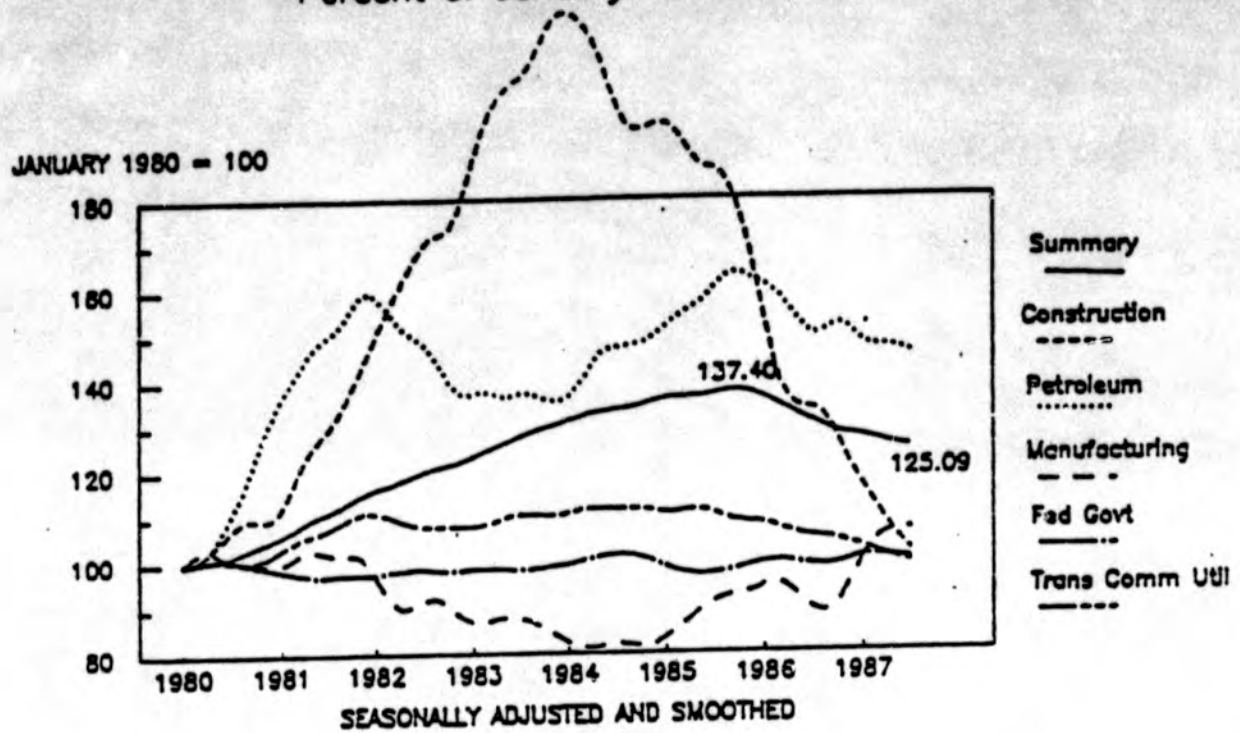


Figure 2.1

ALASKA EMPLOYMENT INDEX--PART II.

Percent of January 1980 Level

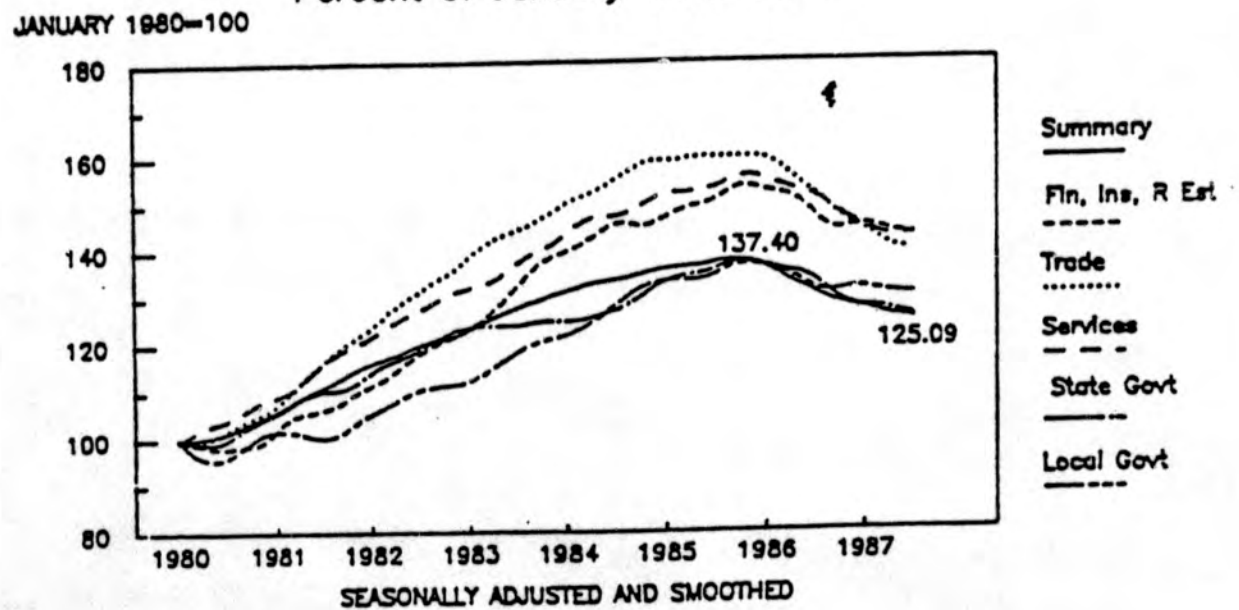


TABLE 2.2. JOB LOSS FROM THE CYCLICAL PEAK
(seasonally adjusted annual average in thousands)

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

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

^bPeak month--January 1984.

Figure 2.6

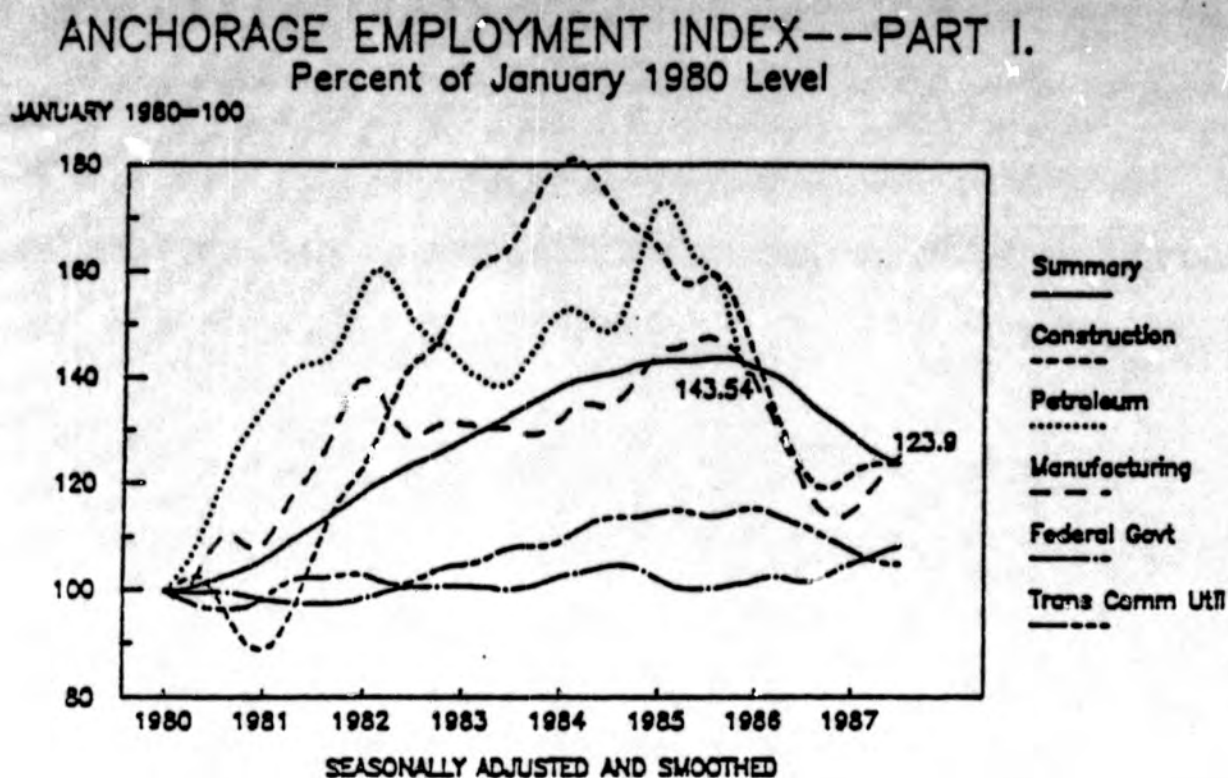


Figure 2.6

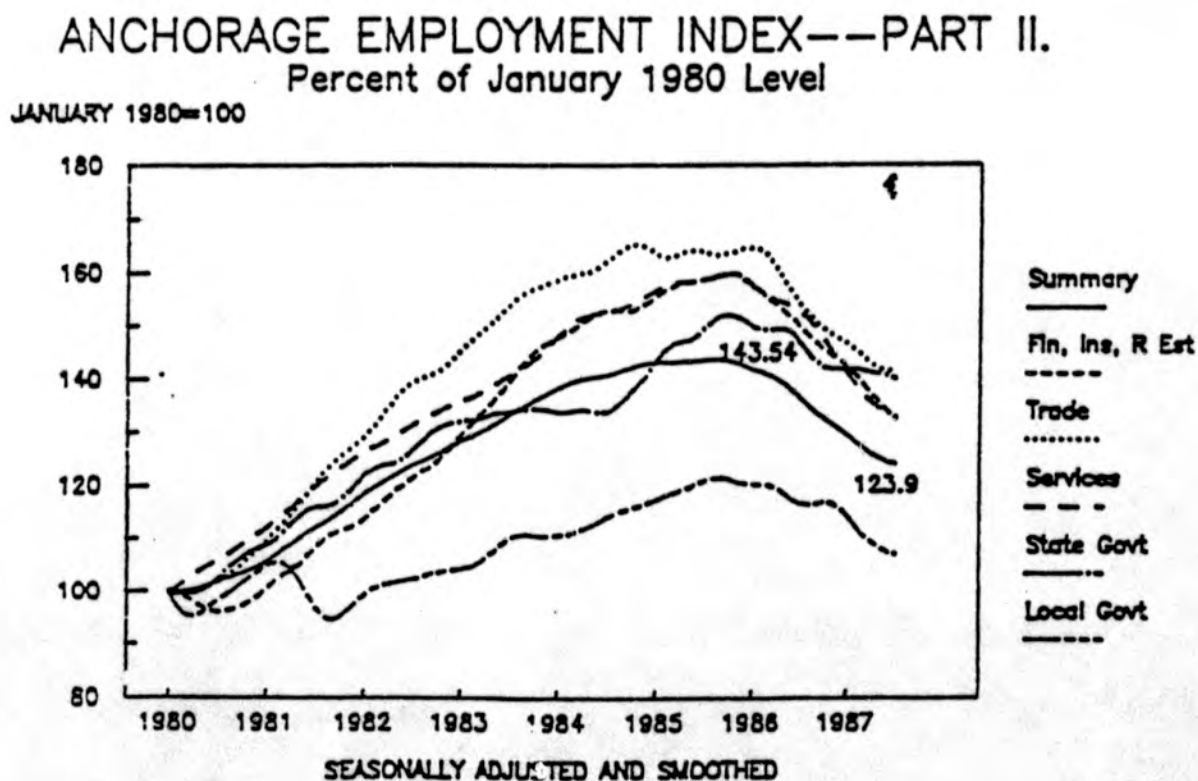


Figure 2.11

ALASKA BASIC INDUSTRY EMPLOYMENT (AHFC STUDY)

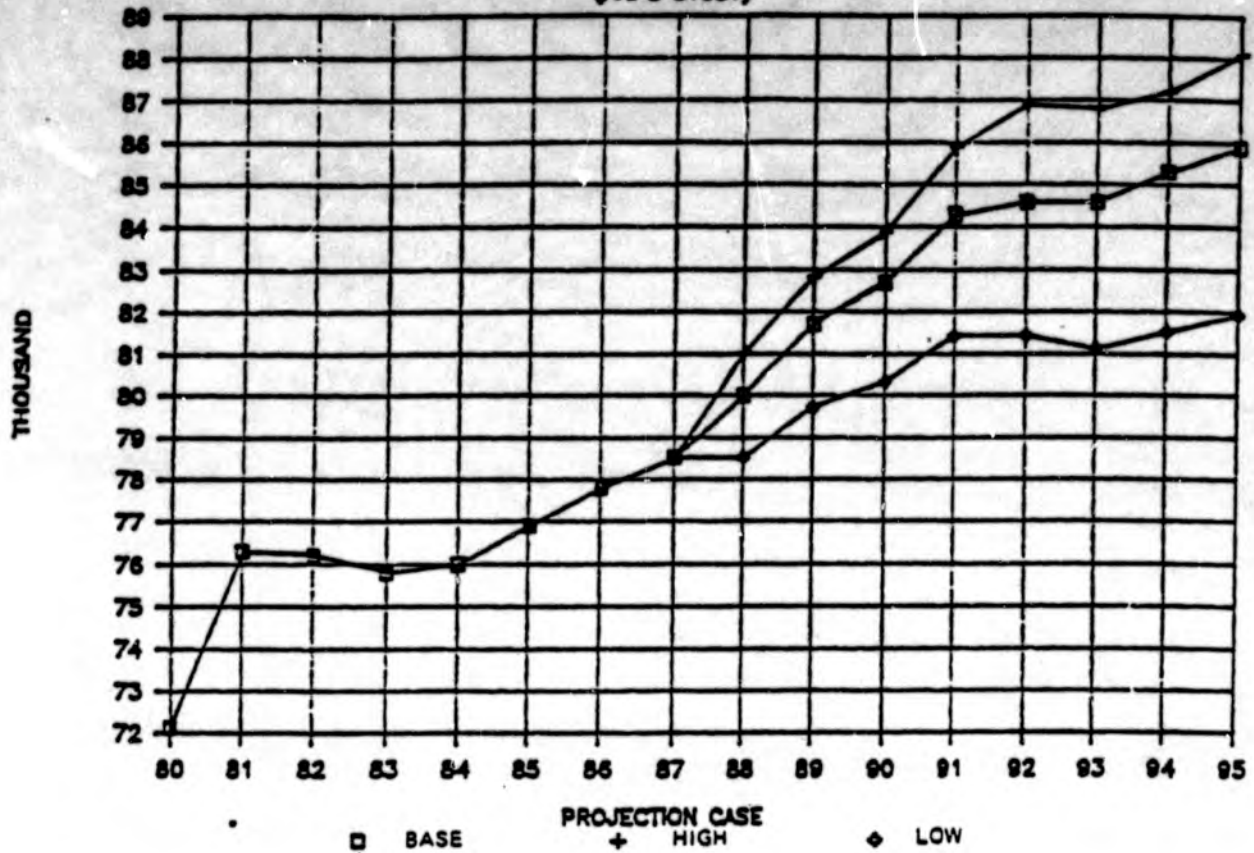


Figure 2.12

STATE-LOCAL GOVERNMENT EMPLOYMENT (AHFC STUDY)

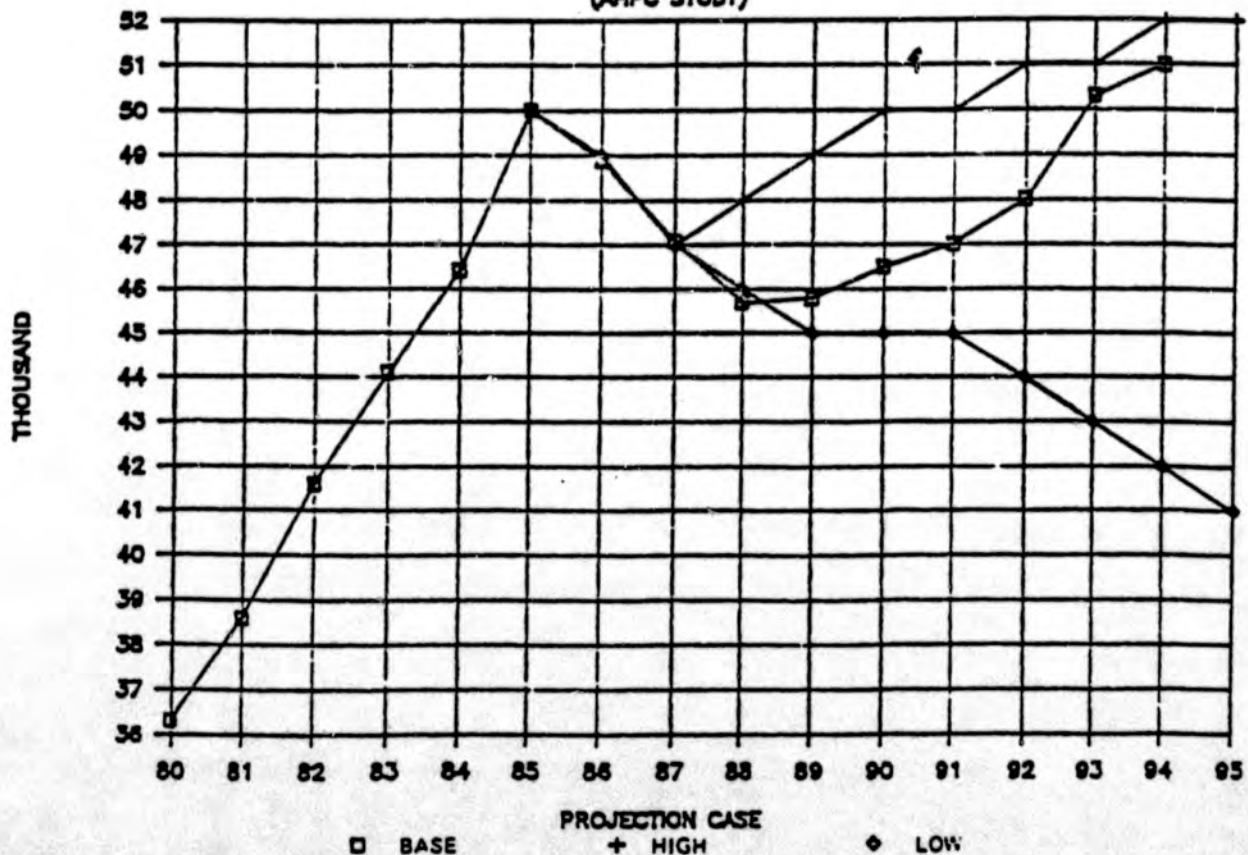


Figure 2.15

ALASKA INFRASTRUCTURE EMPLOYMENT (AHFC STUDY)

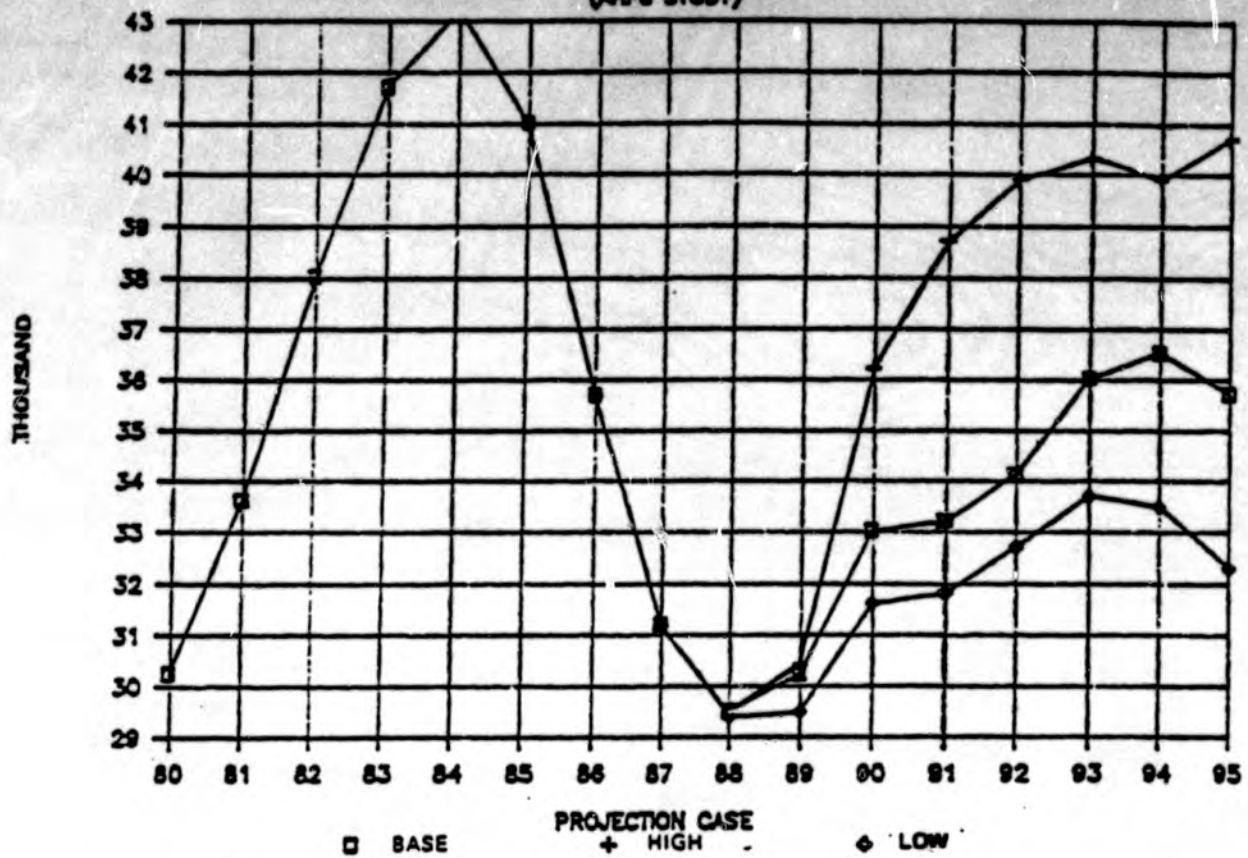


Figure 2.16

ALASKA SUPPORT INDUSTRY EMPLOYMENT (AHFC STUDY)

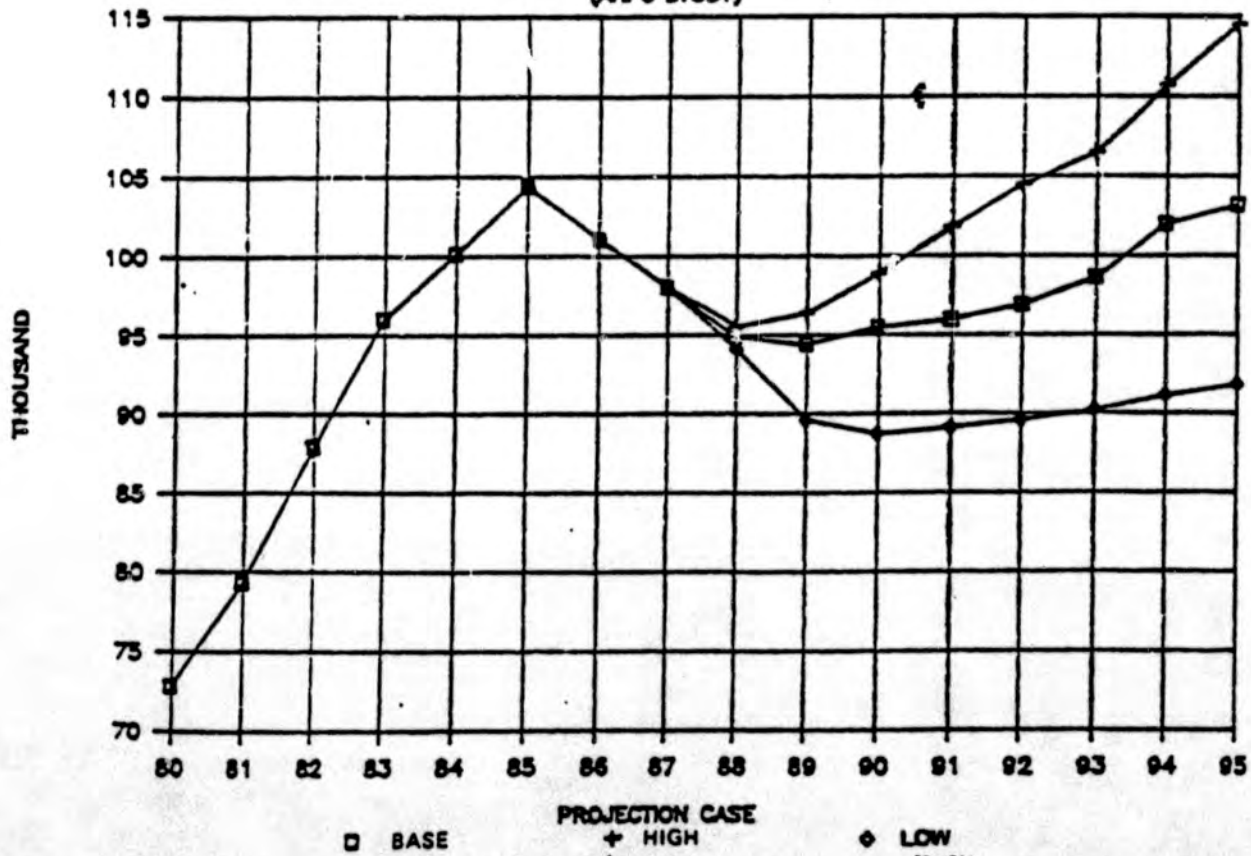


Figure 2.17

ALASKA WAGE AND SALARY EMPLOYMENT (AHFC STUDY)

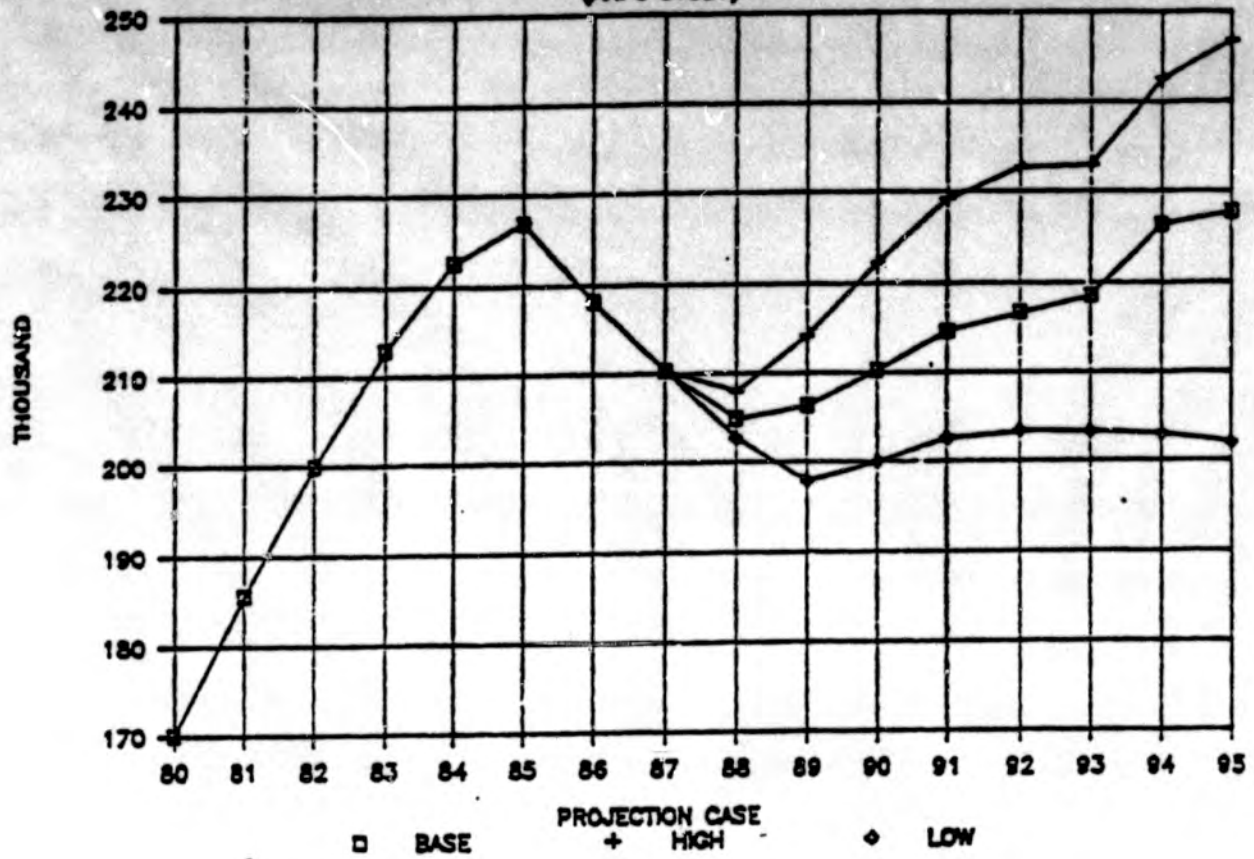


Figure 2.18

ALASKA REAL PERSONAL INCOME (AHFC STUDY)

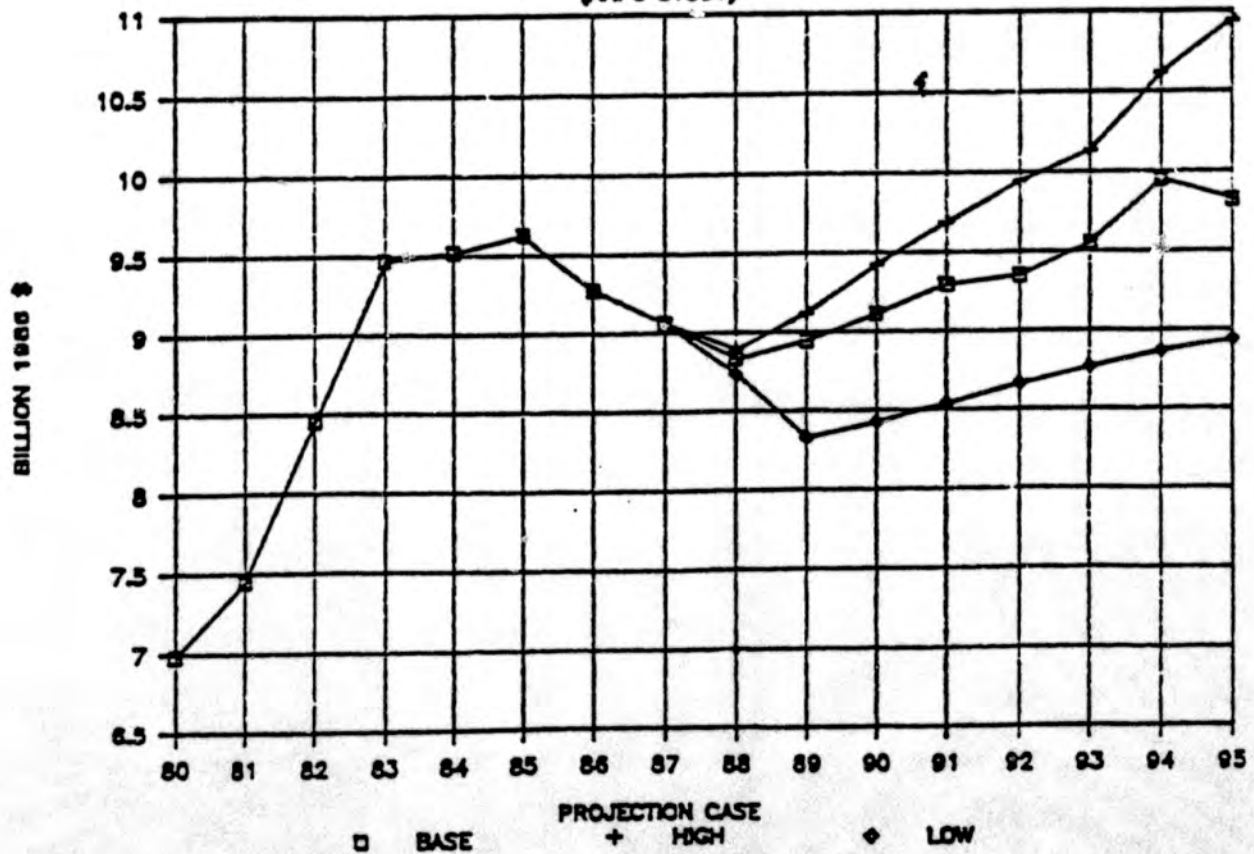


Figure 2.19

REAL PER CAPITA DISPOSABLE INCOME (AHFC STUDY)

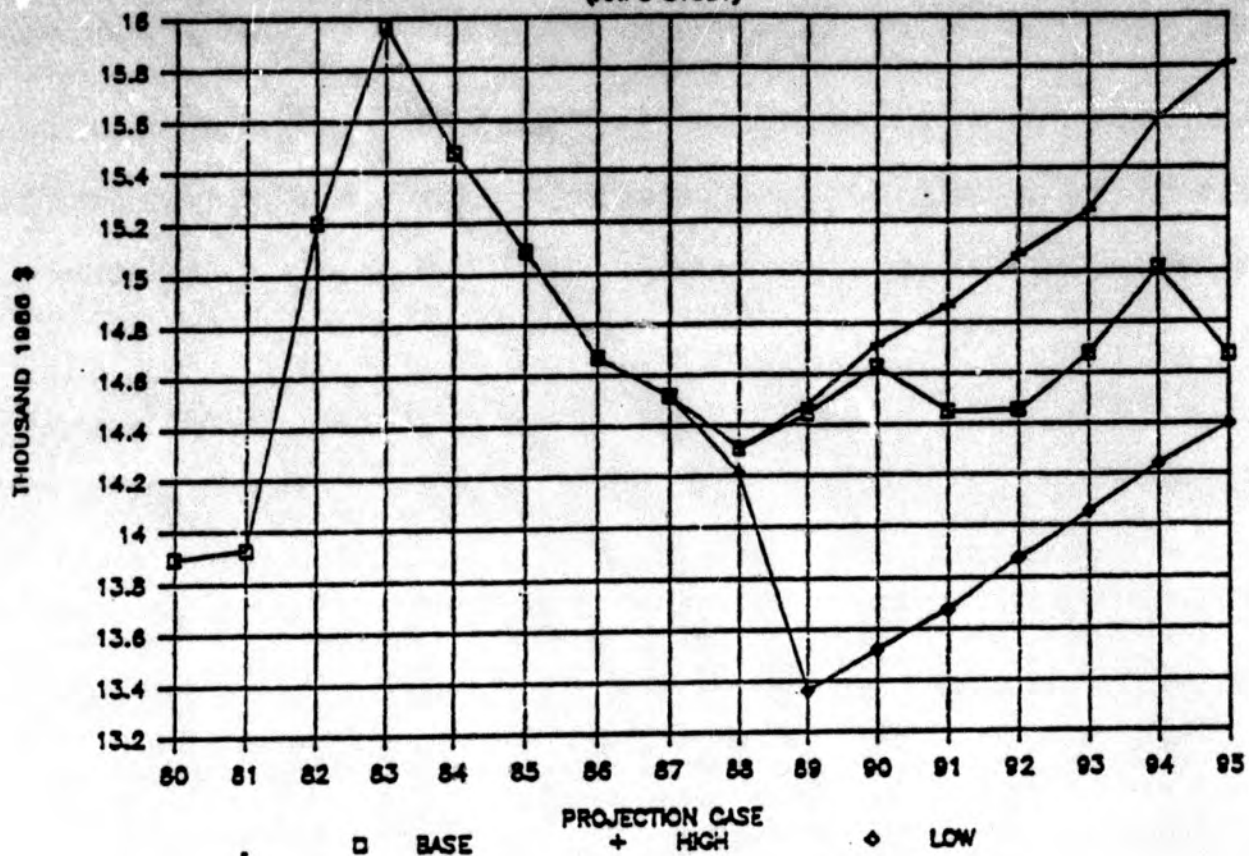


Figure 2.20
ALASKA POPULATION
(AHFC STUDY)

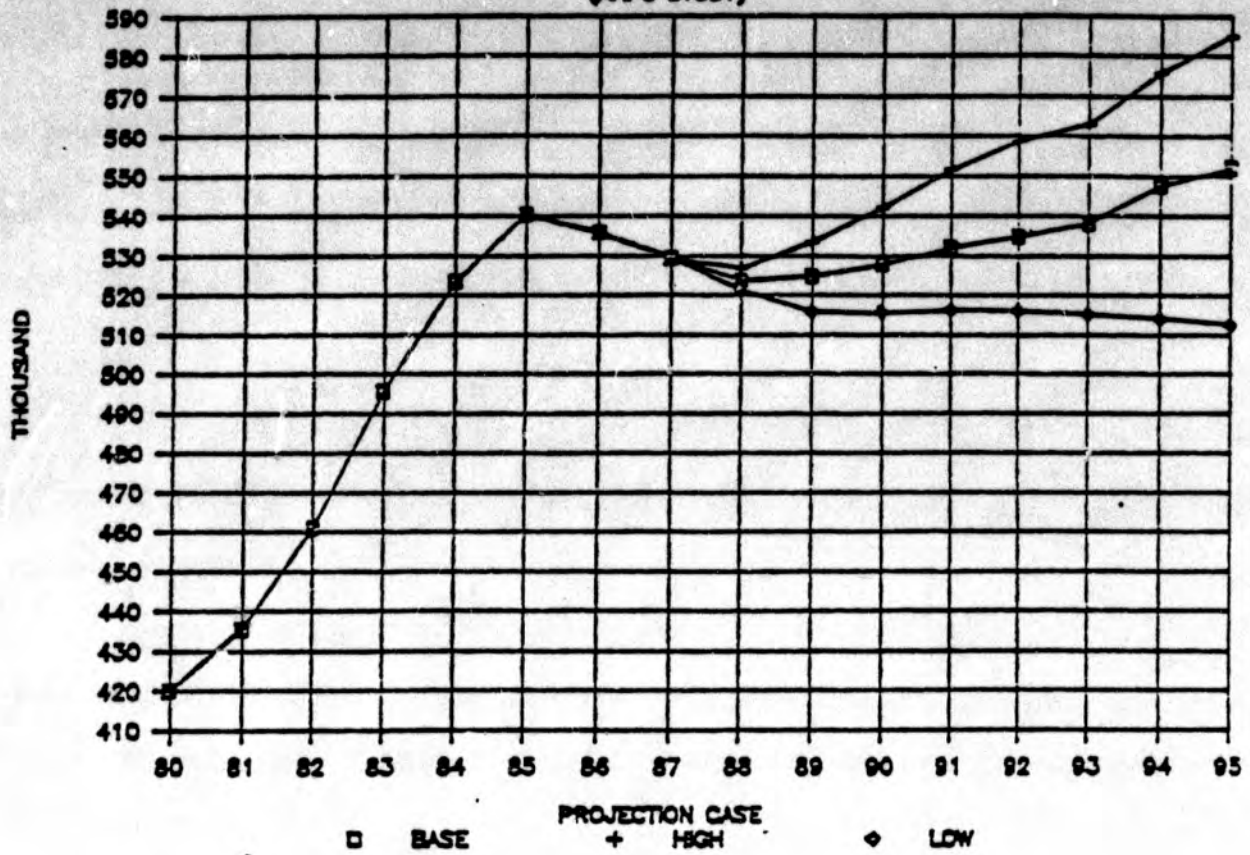


Figure 2.21
ALASKA HOUSEHOLDS
(AHFC STUDY)

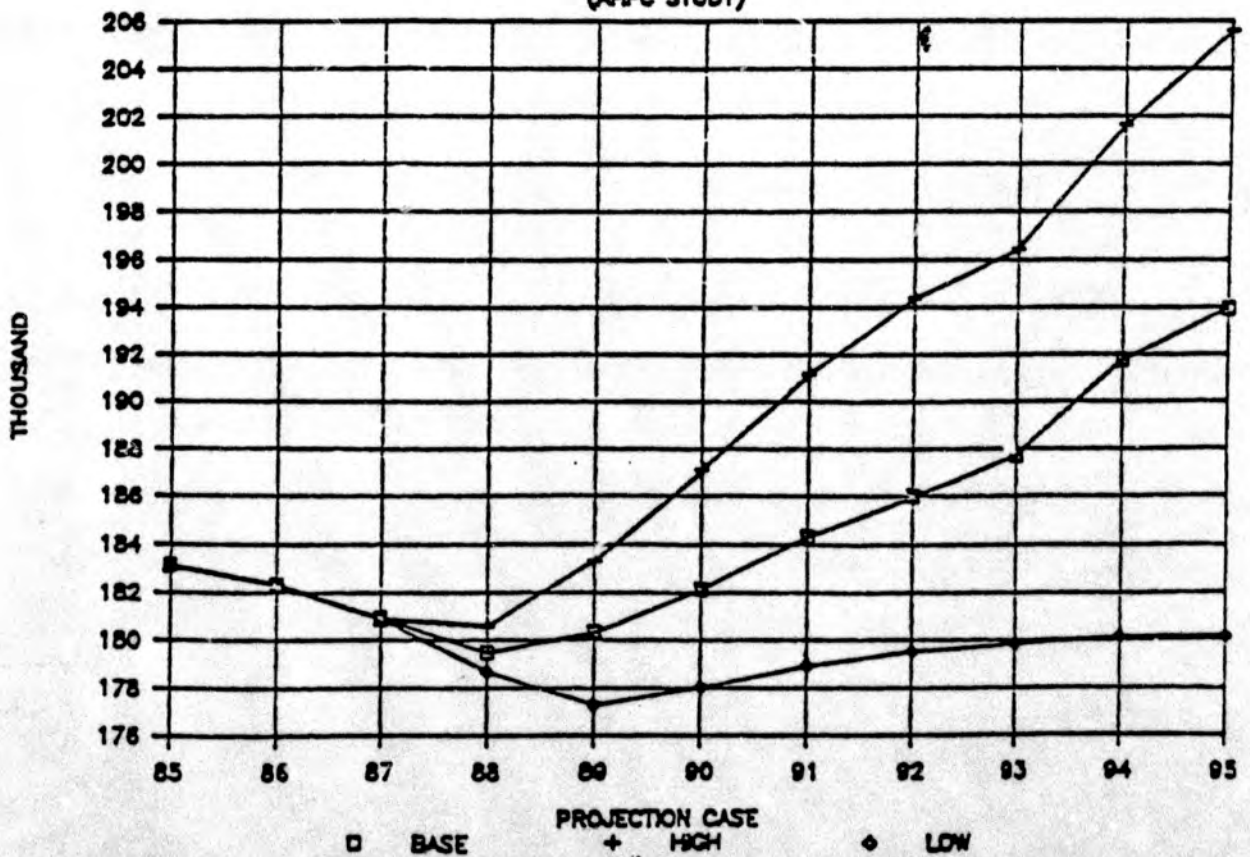


Figure 2.13

PETROLEUM REVENUES: GENERAL FUND (AHFC STUDY)

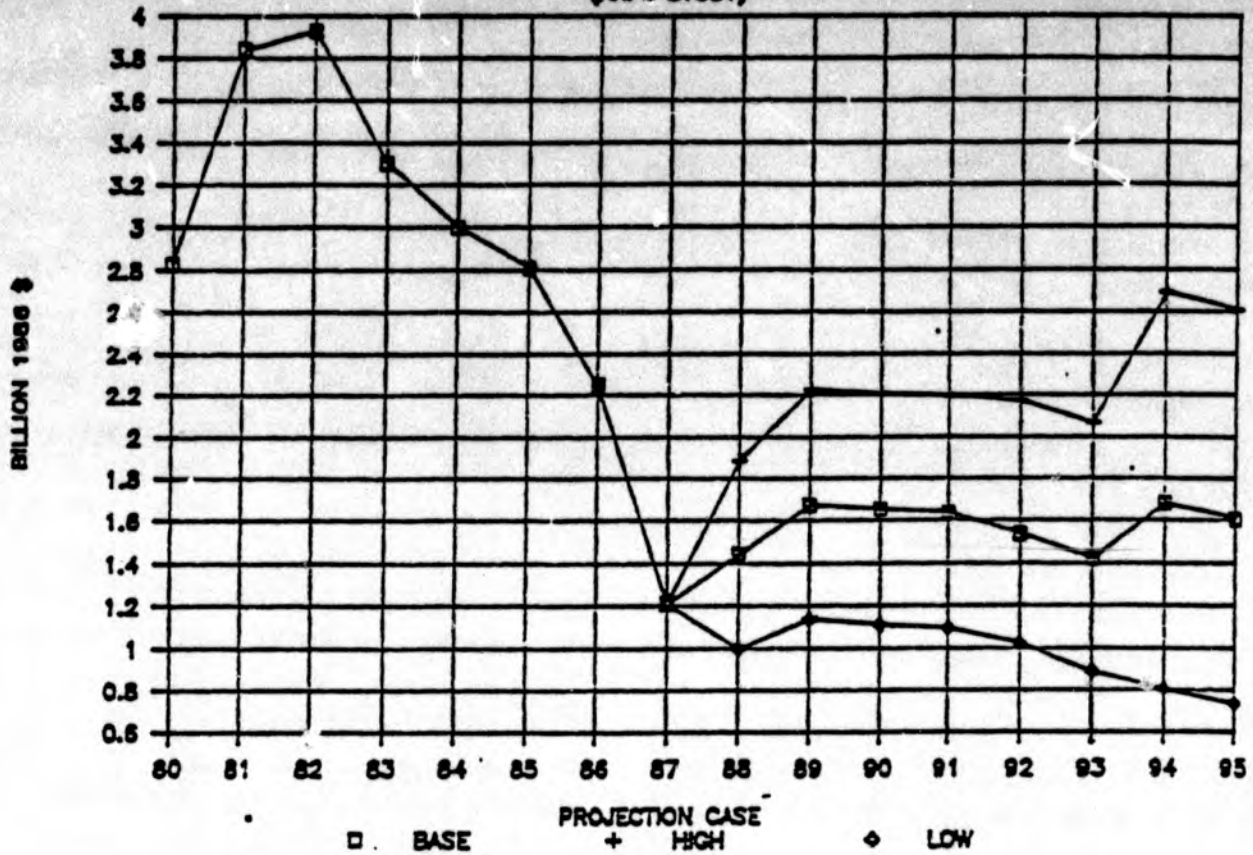


Figure 2.14

STATE EXPENDITURES : GENERAL FUND (AHFC STUDY)

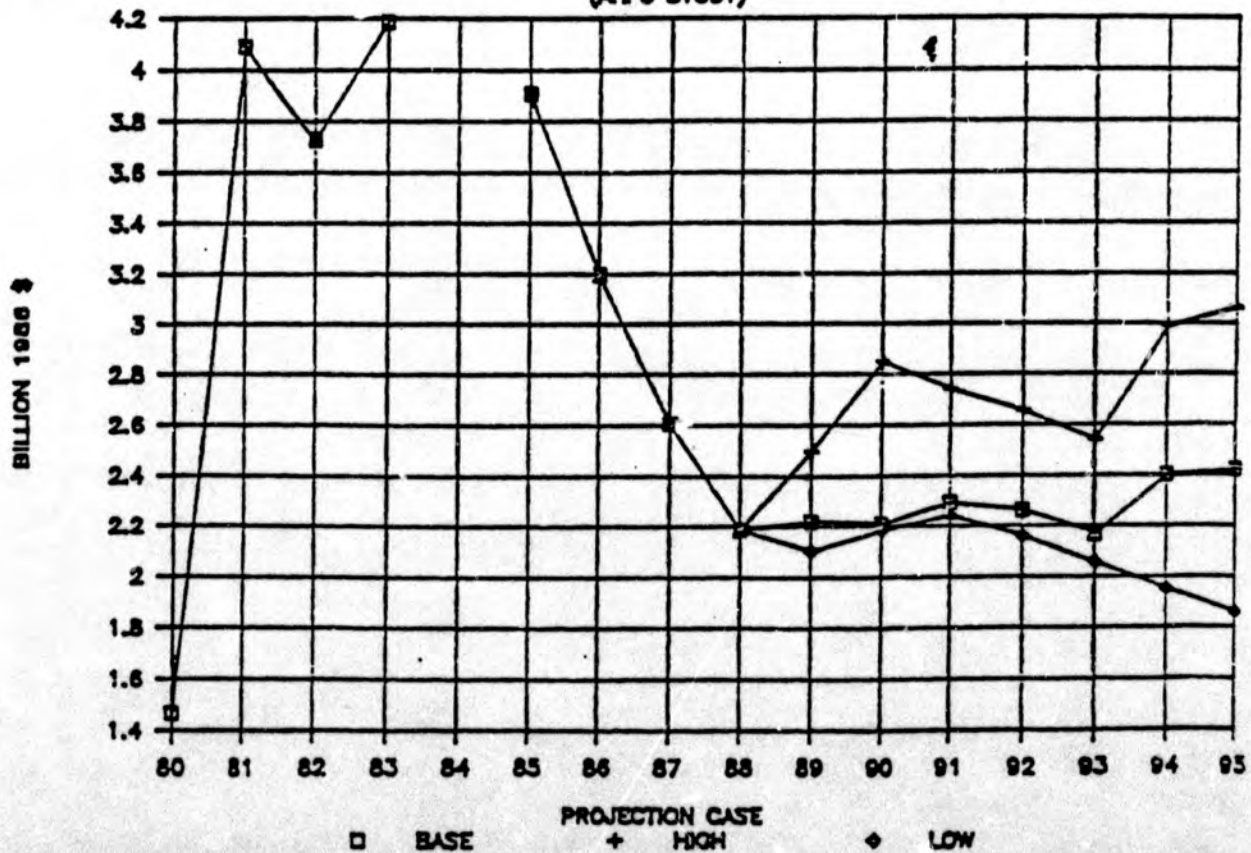


Figure 2.26

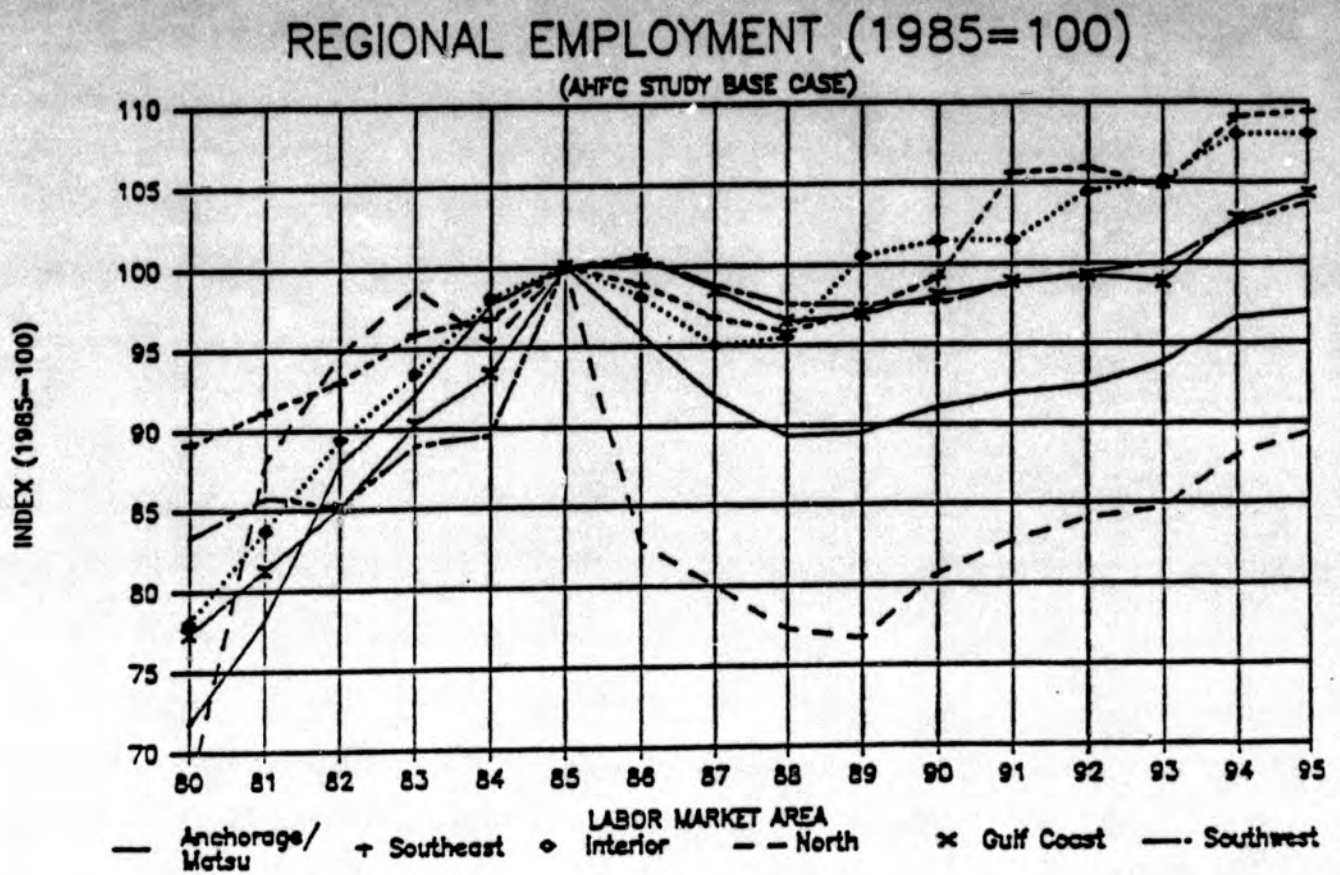


Figure 2.27

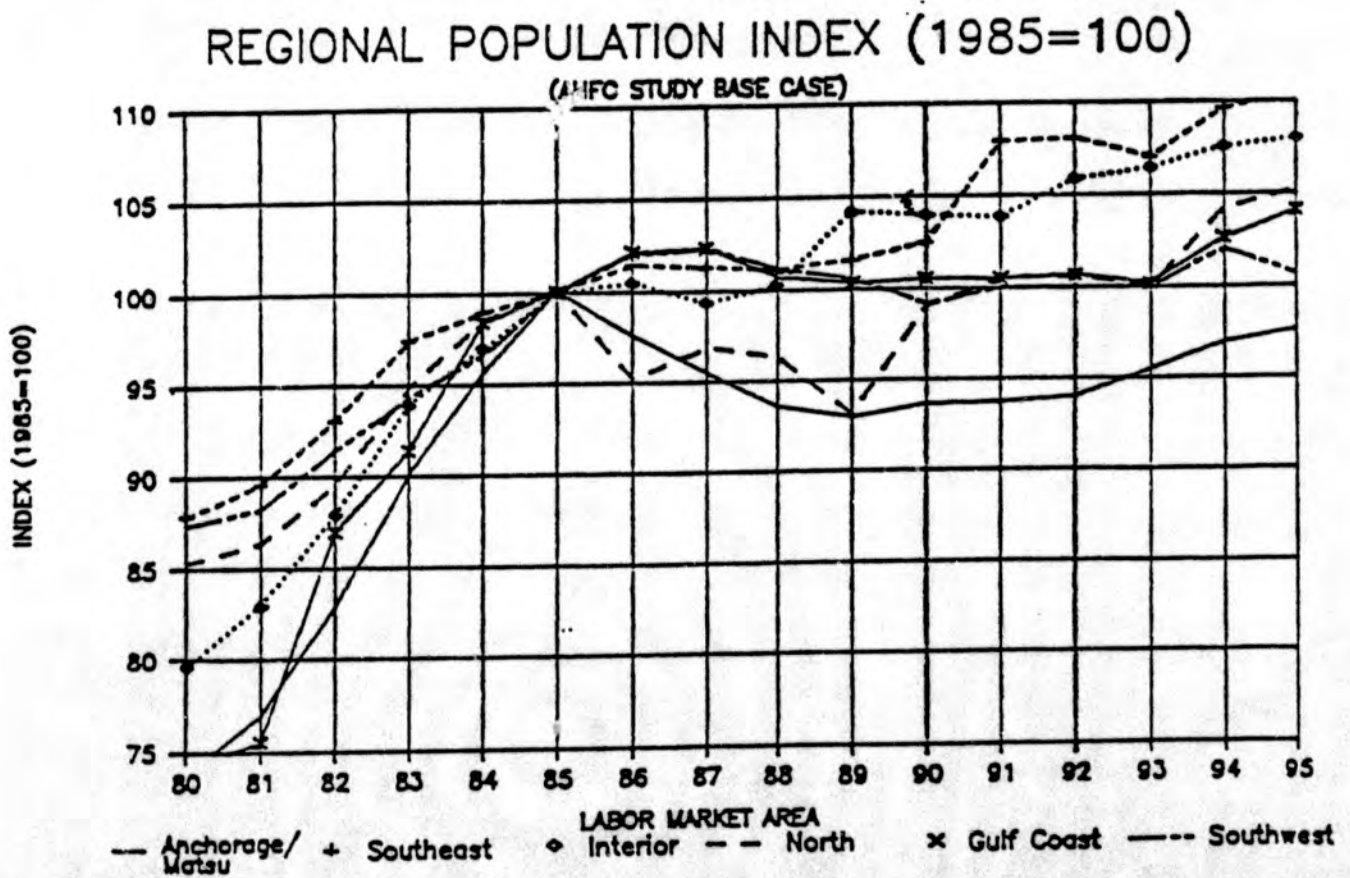


Figure 2.28
ANCHORAGE/MATSU POPULATION
(AFC STUDY)

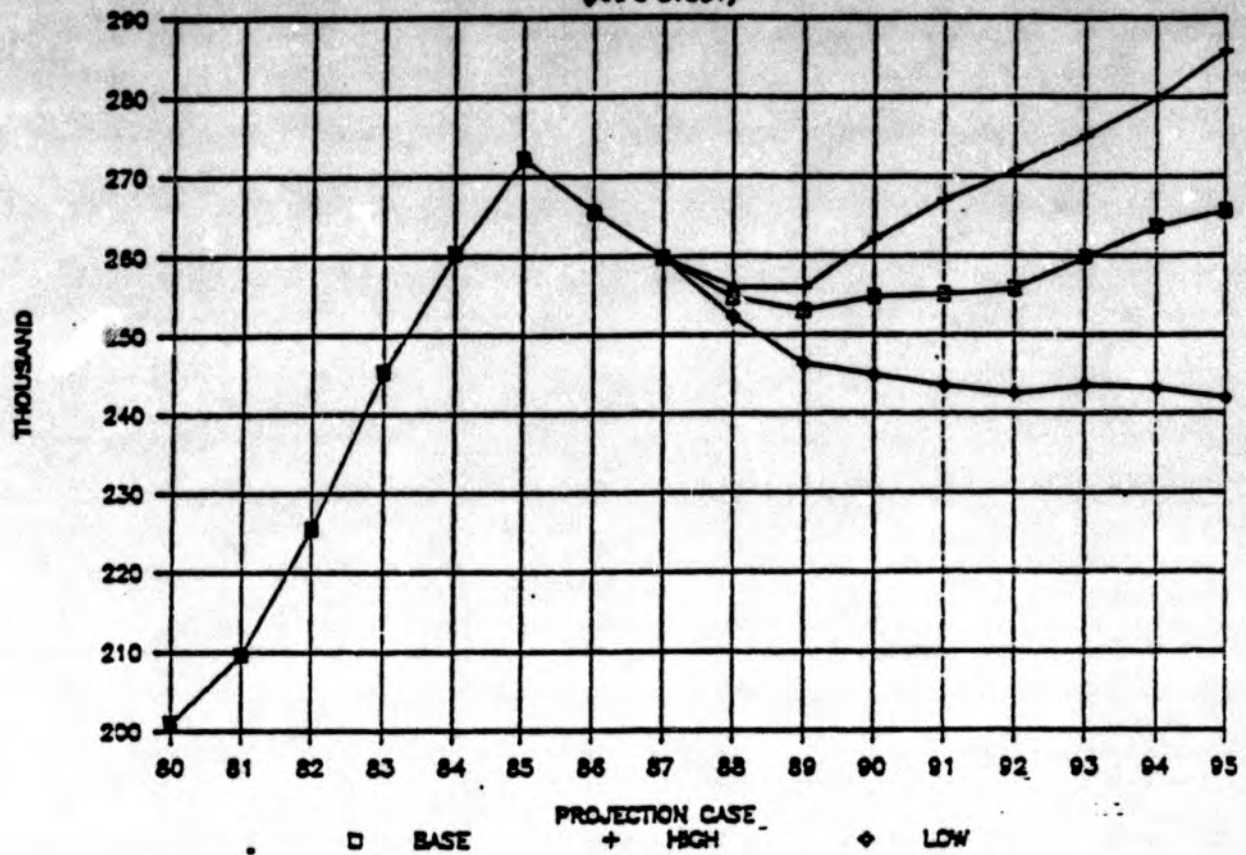
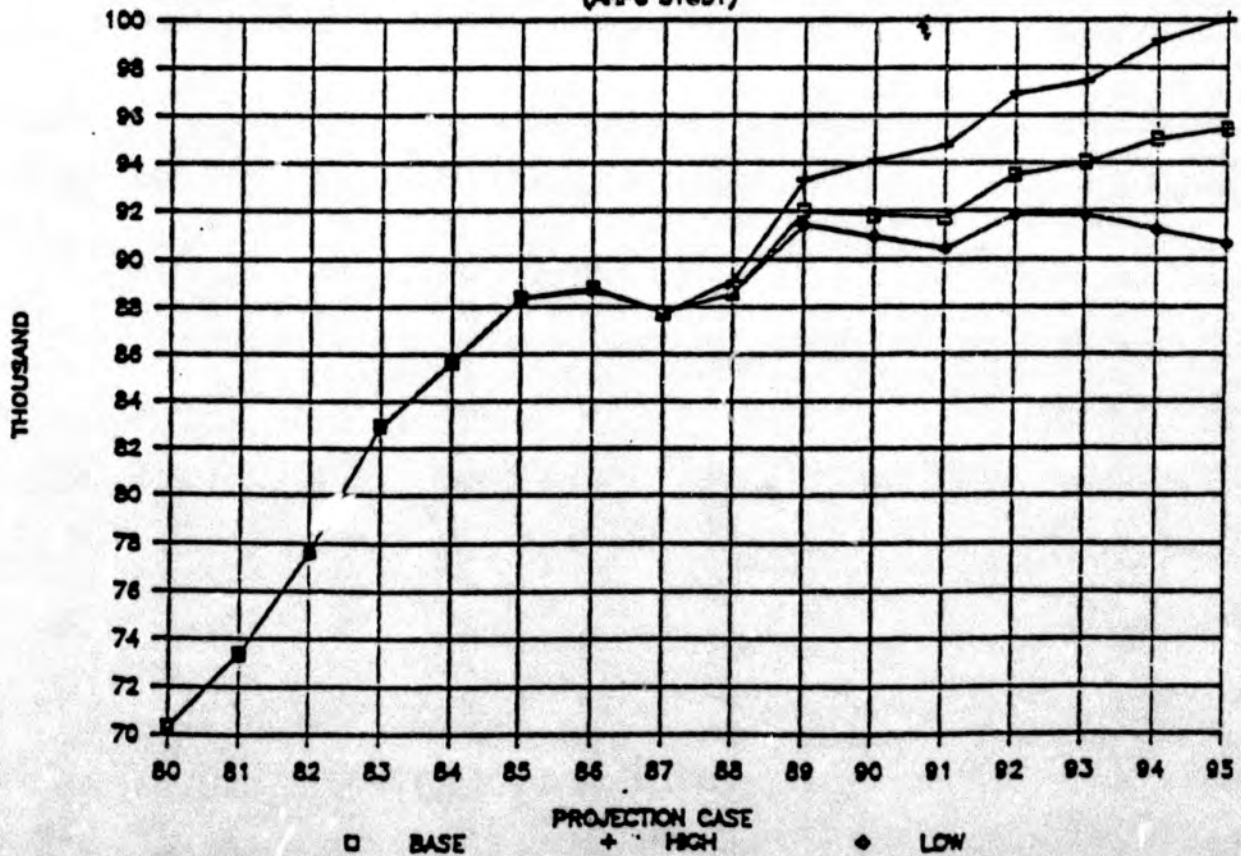


Figure 2.29
INTERIOR POPULATION (GREATER FAIRBANKS)
(AFC STUDY)



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

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

A. PETROLEUM REVENUE ASSUMPTIONS

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

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

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

B. FISCAL ASSUMPTIONS

B.1. State Appropriations

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

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

16. Large Project Corporate
Income Taxes

Zero [RTCSX].

B.4. Miscellaneous

17. State-Local Wage Rates

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

C. INDUSTRY ASSUMPTIONS

1. Trans-Alaska Pipeline

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

2. North Slope--ANWR
Petroleum Development
and Production

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

3. Upper Cook Inlet
Petroleum Production

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

4. OCS Development

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

5. Oil Industry Headquarters

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

6. Healy Coal Mining

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

7. Beluga Chuitna Coal
Production

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

8. U.S. Borax

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

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

19. Light Army Division
Deployment

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

20. Federal Civilian
Employment

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

21. Tourism

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

22. State Hydroelectric
Projects

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

D. NATIONAL VARIABLE ASSUMPTIONS

1. U.S. Inflation Rate

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

2. Real Average Weekly
Earnings

Growth in real average weekly earnings averages 1 percent annually.

3. Real Per Capita Income

Growth in real per capita income averages 1.5 percent annually.

4. Unemployment Rate

Long-run rate of 6.5 percent.

E. REGIONAL ASSUMPTIONS

1. Population

Regional population growth allocated on the basis of employment growth.

2. Employment

No significant shifts in the location of support industries.

Agency set up to sell assets seeks bailout

Washington Post

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

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

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

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

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

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

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

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

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

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

Several real-estate developers and congressmen

man / Seattle Times

lp

happy

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

I should be getting on with it. Said: "If you clear a line, a great deal of the there. light bulbs. You create

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

the roots from one of

ster service compan-
al rates and addition-

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

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

7, \$63 per hour for
itional labor hour pro

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

-8159, \$47 per hour
our for inside line, \$47
1 15-minute period for

1605, \$37.50 per
additional half-hour.

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

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

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

35-1116, by the job.

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

neighbor's yard and fouled
Who would be liable? I
ys follows negligence, but
d liable for not tracing the
is?

rance agent for University
d that if roots caused a
ould take care of the
d after the cause, but not

and secure

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

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

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

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

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

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

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

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

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

HOME LOANS

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



ANCHORAGE CHAMBER OF COMMERCE
ECONOMIC RECOVERY TASK FORCE

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

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

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

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

AHFC

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

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

RECEIVED

JUN 8 1988

ANCHORAGE CHAMBER OF COMMERCE

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

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

Real Estate Market

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

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

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

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

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

AIDEA

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

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

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

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

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

Employment Incentives Fund

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

- * An applicant could apply for capital funds up to

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

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

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

Public Forum

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

MEMORANDUM

TO: Senate Joint Economic Recovery Committee members
FROM: Senator Jones
RE: FDIC liquidation policy proposal

Attached is AIDA's response to Mr. Lowe's proposal from our last meeting.

PROPOSAL TO ECONOMIC RECOVERY COMMITTEE

MARCH 3, 1988

FDIC sells troubled loans to AIDA for 25¢ on the dollar - no recourse to FDIC. Fund assets until resold up to maximum of 12 months.

AIDA to sell to banks at 30¢ on dollar. AIDA to pay carrying costs, taxes repairs etc but not collection costs.

AIDA to buy back uncollectable loans up to 5 years. Could resell them at any price to anyone - no recourse.

Banks be allowed to buy loans up to a given per cent of capital if a branch in area of loan - on first go around. After that any bank could purchase.

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

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

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

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

This plan could be implemented using a TASK FORCE of bank representatives, FIDC and AIDA officials. The services of a consulting firm and legal counsel (such as SEAFIRST can provide) could bring the program into existence.



ALASKA INDUSTRIAL DEVELOPMENT
AND EXPORT AUTHORITY

1577 "C" STREET • SUITE 304 • ANCHORAGE, ALASKA 99501-5177 • (907) 274-1651

March 7, 1988

Mr. Jim Lottsfeldt
Office of Senator Lloyd Jones
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

SUBJECT: Proposed Liquidation of FDIC Assets

Dear Mr. Lottsfeldt:

Thank you for forwarding the outline of the FDIC liquidation plan to me. My understanding is that you would like the Authority's comments on such a proposal before the scheduled 5:00 pm meeting on Monday, March 7, 1988.

My understanding of the proposal would have the Authority purchase the assets currently held by the FDIC in the amount of approximately \$200.0 million for .25¢ on the dollar or for about \$50.0 million. The Authority would then sell to Alaskan banks these same assets for .30¢ on the dollar or about \$60.0 million. It also appears the banks will have recourse to the Authority to put any loan back to the Authority and be paid for it for a period of five years. It also appears the Authority will pay the carrying costs, i.e. taxes, insurance, repairs, etc. even while the banks "own" the loan.

I am unsure what such a program would accomplish. The banks should endorse such a program in that it appears they receive a five year risk free option to sell the property for greater than .30¢ on the dollar and if it does not work out, the Authority will repurchase the loan from them.

Mr. Jim Lottsfeldt

March 7, 1988

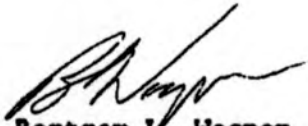
Page Two

The proposal seems a trifle bizarre in that there has been much discussion on "FDIC Dumping" yet here we are dumping first to the Authority for .25¢ on the dollar, then the banks have the option of dumping to someone else. While hopefully not sounding too negative, this appears to be an exercise in activity that most likely accomplishes nothing. The end result is the banks would sell the property most likely to the same people, firms and groups, etc. that the FDIC will.

The "carrot", I guess, for having the Authority assume the risk on the loans (the banks have recourse to put them back to the Authority) is the differential between what they are purchased for, (\$50.0 million) and sold to the banks for, (\$60.0 million).

What is overlooked is that this portfolio has already been picked over once by National Bank of Alaska and some of these loans may be worth 80% to 90% of their par amount while I am sure many are worthless. I question how the sale of such marginal properties will be the negative force discussed when much of the testimony has illustrated the flight to quality in commercial space.

Respectfully,



Bertram L. Wagon
Executive Director

BLW/ss



ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

February 9, 1988

Honorable Kay Brown
Joint Committee on Economic Recovery
Alaska State House
P.O. Box V
Juneau, Alaska 99811

Re: FDIC Asset Purchase

Dear Representative Brown:

All of the proposals dealing with the acquisition of the \$300 million Alaska FDIC portfolio require a prospective purchaser to conduct a thorough analysis of the assets. At a potential price range of \$75 to \$125 million no purchaser can simply take the FDIC's price since, as receiver, the FDIC is required to maximize its own return for the benefit of bank creditors, stockholders and itself. The proposed \$250,000 appropriation in the Jobs bill for this analysis is thus an essential step no matter what solution is eventually found to this problem.

The Development Corporation has accepted the FDIC's offer to review 20 sample files from the portfolio to establish the basic assumptions under which we would conduct a full review. We have assembled a three-person team of Alaska banking experts with loan, real estate and finance expertise who will begin work on these files this week. We will be happy to share their conclusions with the Legislature. A full review would require a much larger team working over a period of several weeks. In the meantime, we urge the passage of the \$250,000 appropriation in order that the Development Corporation can facilitate the total review when and if necessary.

Very truly yours,

Scott Hawkins
President

550 West 7th Avenue
Suite 850
Anchorage, AK 99501
Telephone (907) 258-3700

WOHLFORTH, FLINT & GRUENING

Pod

TO: Subcommittee on Banking and Housing
Joint Committee on Economic Recovery

FROM: Robert B. Flint

RE: Summary of Anchorage Economic Development Corporation
proposal for purchase and management of FDIC assets.

The Anchorage Economic Development Corporation or its nonprofit subsidiary proposes to purchase at a discount assets owned by the FDIC acquired from Alaska Bank of the North and First Interstate Bank. Book value of the portfolio is approximately \$330 million.

CONTENTS OF PORTFOLIO

The assets consist largely of loans in the amount of approximately \$245 million that have not been foreclosed which include \$103 million in loans presented to NBA and returned and \$142 million in classified and delinquent loans. \$37 million in addition loans have been charged off. \$28 million is foreclosed real estate and \$20 million are bank premises.

PURPOSE OF TRANSACTION

The AEDC would manage the portfolio with the following goals:

1. Reduce or prevent future foreclosures in order to keep Alaskans in their business and homes.
2. Manage owned real estate without a negative impact on real estate market. Warehouse property as necessary.
3. Produce cash flow needed to operate program and repay financing.
4. Distribute profits, if any, to public and nonprofit economic development organizations statewide.

Economic stabilization rather than ^{near}~~now~~ term profit is the overall goal.

PURCHASE OF ASSETS

1. The assets will be purchased from the proceeds of a bond issue. Cash flow must be sufficient to service debt and operating expenses. Negotiated price must not require subsidy.

2. Terms of sale will depend on appraisal of portfolio.

3. Financing will require a) credit enhancement, or b) FDIC to take part cash, part subordinated debt or c) both.

4. Credit enhancement can take the form of a State "moral obligation".

\$250,000 REQUEST

The purchase cannot proceed without a thorough assessment of the FDIC portfolio with banking, real estate and financial experts. The \$250,000 will fund such an assessment. If the sale takes place the \$250,000 will be repaid from bond proceeds. If it does not it becomes a grant.



ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

**ANCHORAGE ECONOMIC
DEVELOPMENT CORPORATION**

\$250,000

Appropriation to Review FDIC Properties

- BUDGET -

\$ 150,000	Accountants
65,000	Banking Consultants
25,000	Legal Fees
<u>10,000</u>	Administrative Expenses
\$ 250,000	TOTAL

Time to complete study after award - 30 days.

550 West 7th Avenue
Suite 850
Anchorage, AK 99501

FDIC LIQUIDATION PROCEDURES

- Establish a permanent FDIC office in Anchorage to liquidate assets
- Evaluate assets based on financial statements and collateral
- List and sell real estate for independent appraised value
- Bulk sale performing loans to highest bidder
- On non-performing loans, attempt workout with debtors/guarantors (this includes compromises, refinance, extension or modifications of terms, interest moratorium, substitution of collateral). Bulk sale to highest bidder
- Refer assets for litigation (including foreclosure) when workout efforts fail
- Repossess collateral when workout efforts fail

*Q Receivership may requirement to go to
appropriate ct Natl or State Bank.
(may have to go to receivership ct.).*

FDIC PLAN IF ASSETS ARE SOLD

- Temporary FDIC office in Anchorage would be closed

Uniform Appraisal Instructions To Appraisers For FDIC Real Estate Properties

(Not Required for Residential Single Family Properties)

1. Appraisals are to be made assuming a sale on a cash basis; however, if the appraiser is uncomfortable with supplying a valuation on a cash basis because of lack of comparable sales on a cash basis, a valuation based on typical terms, as provided for in item 2 below, may be used instead. If the appraiser prefers, he/she may also value the property on both a cash basis and on a typical terms basis. FDIC does not want fire sale or liquidation value appraisals.
2. Appraisals are expected to reflect values based on sales prospects considering existing economic conditions.
3. When an appraiser supplies a valuation based on typical terms, FDIC needs specifics as to what the appraiser feels are typical terms for the subject property. For example, x percent (%) down payment, x-year mortgage, with or without a balloon payment in x years and x percent (%) interest rate.
4. All appraisals are to be on an "as is" basis.
5. Estimates to complete essential repairs and to cure violations should be provided, and the appraiser should specify whether those expenses (with a breakdown) have already been considered in estimating the property's appraised value.
6. The FDIC believes in an intensive marketing program and normally expects to sell a property within 6 - 12 months of acquisition.
7. All appraisals, including updated appraisals, must be in writing.
8. Generally, appraisals should be based on existing zoning; however, the appraiser may value the property based on both current zoning and any other zoning the appraiser feels is likely obtainable within a short period. The likelihood of the alternative zoning should be explained in the report for all cases in which the appraiser feels it is appropriate to supply both valuations.
9. When an appraiser is valuing distressed property solely on a land value basis that implies demolition or removal of improvements, the cost of demolition and/or removal should be netted against the land value with the estimated costs of removal so reflected.
10. The account officer is requested to supply the appraiser with a copy of the property's legal description, the survey, leases for income producing properties, etc.

11. The appraiser should provide the amount of annual property taxes and any past due taxes in the appraisal report.
12. The appraisal may be used for multiple purposes, such as bids at foreclosure sales, large protective advances, operating budgets, and sale of the property.
13. A copy of these instructions should be made a part of the appraisal report.

Bank of the North/
First Interstate Bank
Geographic Distribution of Loans
Summary

06-Feb-88
File Name: 015Geogstrat.001

Summary	Anchorage Birdwood		Nome Kotzebue Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Marilla Big Lake Willow Talkeetna		Valdez Glennallen Copter Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL **	

** Unknown locations were found only for Bank of the North Chargeoffs
All others in this category are located within Alaska.

** Figures on Bank of the North Chargeoffs for "Other Alaska"
and "Outside Alaska" are approximate.

** Totals reflect gross loan balances; i.e.,
"Participations Sold" balances plus FDIC book value.

06-Feb-98
File Name: 0156geostrat.wkl

Summary	Anchorage Birdwood		Nome Bethel Barrow Prudhoe Bay		Chugiak Peters Creek Eagle River		Fairbanks Delta Jct/Tok North Pole Eielson AFB		Homer Seward		Kenai Soldotna		Juneau Douglas		Palmer Wasilla Big Lake Willow Talkeetna		Valdez Glennallen Copper Center		Other Alaska/ Unknown **		Outside Alaska		TOTAL #		
First Interstate																									
Real Estate/Const	57,411,882	94	337,368	1	715,128	2			1,290,472	4	861,983	5			8,065,047	18			549,118	1	3,975,404	14	73,226,422	139	
Other Real Estate	17,921,277	60			142,050	4			632,335	7	802,394	4	671,356	1	1,940,908	27		1	1	98,900	1			22,209,221	105
Commercial	33,041,204	131	16,694	1	4,338,519	14	243,871	2	748,671	11	1,452,239	7	220,127	3	2,109,437	21	66,861	2	60,286	2	1,552,932	14	43,850,841	208	
Installments	346,426	12					20,711	1	1,606	2	48,855	6			26,613	3			28,031	3	27,508	4	499,749	31	
Subtotal	108,720,789	297	354,082	2	5,195,697	20	264,581	3	2,673,084	24	3,165,471	22	891,483	4	12,162,006	69	66,862	3	736,335	7	5,555,843	32	139,766,233	483	
	77.78%		0.25%		3.72%		0.19%		1.91%		2.26%		0.64%		8.70%		0.05%		0.53%		3.57%				
Judgements	457,732	18			26,060	2			23,734	2	38,827	3			53,729	4	62,174	1			60,038	5	722,294	35	
Charge-Offs	7,862,691	96			65,586	5			121,108	4	450,308	8			637,991	21			4,017,872	39	424,015	12	13,579,571	185	
Subtotal	8,320,423	114			91,646	7			144,842	6	489,135	11			691,720	25	62,174	1	4,017,872	39	484,053	17	14,301,865	220	
	58.18%				0.64%				1.01%		3.42%				4.84%		0.43%		28.09%		3.38%				
FIB Total	117,041,212	411	354,082	2	5,287,343	27	264,581	3	2,817,925	30	3,654,606	33	891,483	4	12,853,726	94	129,036	4	4,754,207	46	6,039,897	49	154,068,098	703	
	75.96%		0.23%		3.43%		0.17%		1.83%		2.37%		0.58%		8.34%		0.08%		3.09%		3.92%				



Official Business

Alaska State Legislature

House

Pouch V
State Capitol
Juneau, Alaska 99811

February 5, 1988

Mr. Lamar Kelly
FDIC
25 Ecker Street, Suite 1900
San Francisco, CA 94105

Dear Mr. Kelly:

This letter confirms our conversation of Thursday, February 3, 1988. We recognize the FDIC's desire to avoid the possible adverse effects of a sale of FDIC-owned property, and we share your concern. Actions by the FDIC and its successors in interest, if not carefully planned and monitored, may have profoundly adverse effects on other banks, on the Anchorage economy and, as a result, on the Alaskan economy statewide.

We look forward to meeting with Messrs. Chenault and Hone next Monday and Tuesday, when the Joint Committee on Economic Recovery has scheduled a hearing at which they will testify.

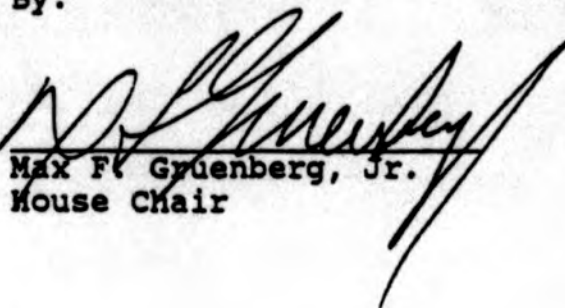
During our preparatory discussions and that hearing we expect to learn the details of the problem and explore all possible solutions. We would like the legislature and the FDIC to work together and find an equitable solution as speedily as possible. Given the time needed to develop, draft and pass the necessary legislation, we believe this process can, if begun next week, if necessary be completed by no later than the date the legislature adjourns, May 9, 1988.

As we explained in the telephone conference yesterday, the Alaska State Legislature, like all other state legislatures, operates under constitutional, statutory, and procedural rules and requirements. Thus, any solutions that contemplate a statutory enactment will require the approval of a majority of the members of each house. Accordingly, no committee or group of legislators can purport to commit those majorities in advance of the event. At the same time, we can represent

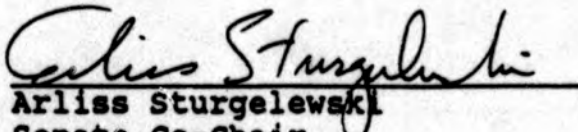
that members of both houses, of both parties, including those of us who have been designated to consider and develop possible solutions, are personally committed to working with you and your representatives diligently, and in good faith. We look forward to starting this process on Monday.

Cordially,

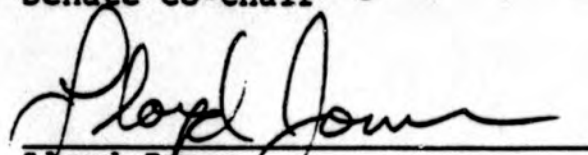
The Joint Committee on Economic Recovery
By:



Max F. Gruenberg, Jr.
House Chair



Arliss Sturgelewski
Senate Co-Chair



Lloyd Jones
Senate Co-Chair

ALASKA

REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

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

Alaska's Economy: What's Ahead?

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

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

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

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

and the economic projections.

Methods of Economic Forecasting

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

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

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

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

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

ALASKA REVIEW OF SOCIAL AND ECONOMIC CONDITIONS

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Alaska's Economy: What's Ahead?

Oliver Scott Goldsmith is professor of economics with ISER.

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

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

BACKGROUND: ALASKA'S ECONOMY

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

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

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

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

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

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

Taken together, those circumstances meant that

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

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

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

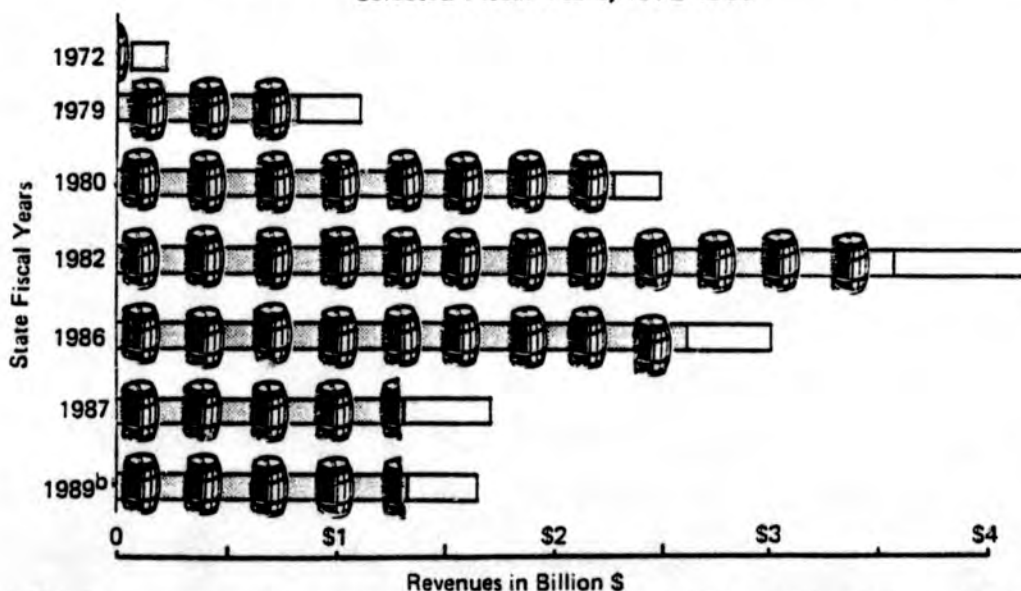
less than 1982 revenues. As of late 1987, state officials estimate that petroleum revenues in fiscal 1989 will be in the neighborhood of \$1.7 billion. Even as petroleum revenues decline, they will continue to make up more than 80 percent of the state's unrestricted general fund revenues.

THE BOOM

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

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

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

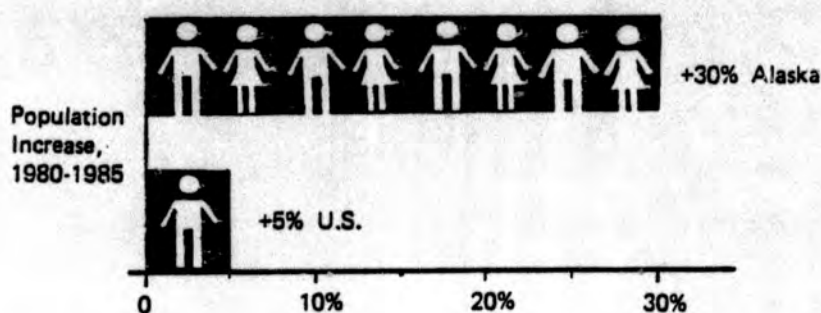


^aIncludes just unrestricted general fund revenues; excludes restricted revenues, which are mainly federal grants-in-aid. Graph represents actual revenues received with no adjustment for inflation.

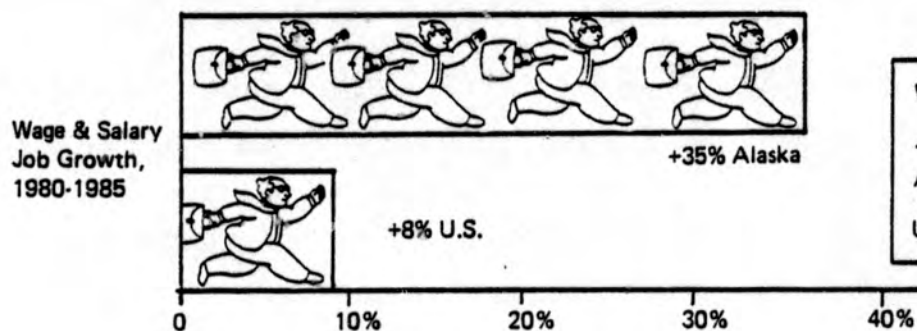
^bEstimate as of June 1987.

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

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



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



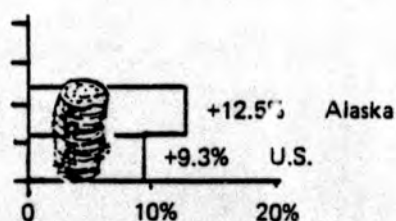
Wage & Salary Jobs	1980	1985
Alaska	170 thousand	227 thousand
U.S.	90 million	97 million

Total Personal Income Growth, 1980-1985



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

Growth in Real per Capita Disposable Income, 1980-1985



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

ments, among many other things.²

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

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

THE RECESSION

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

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

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

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

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

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

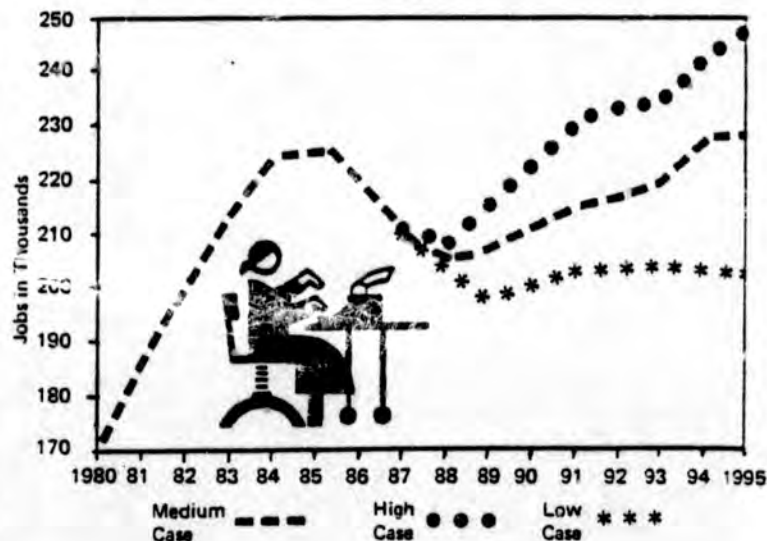
Job Loss

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

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

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

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



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

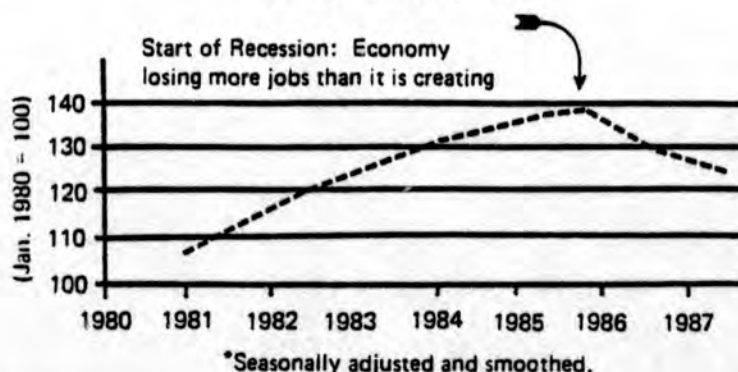
Figure 9 shows actual numbers of jobs by industry at the start of the cycle in January 1980; at the peak of the boom (individual industries peaked at somewhat different times); in July 1987; and in mid-1988, when our medium case projects that the economy will bottom out.

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

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

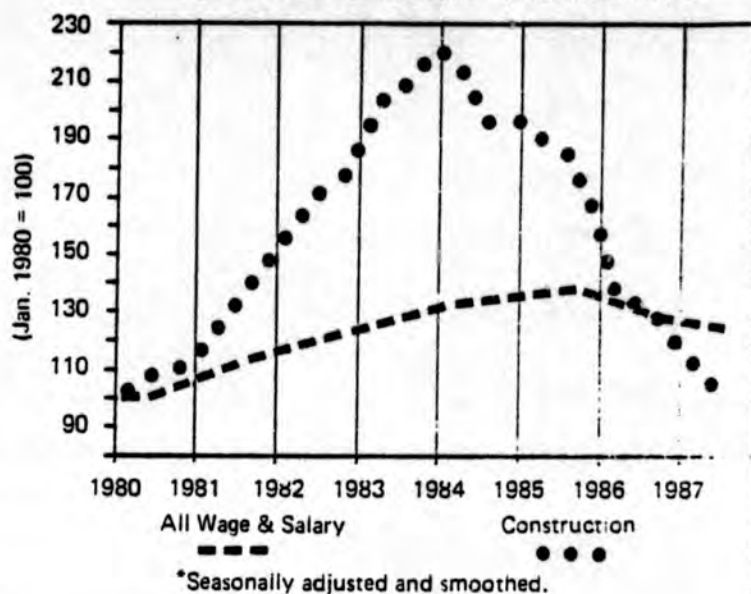
⁴The 38 percent growth in wage and salary jobs as measured on a monthly basis from January 1980 is slightly higher than the growth as measured from annual average employment in 1980—the 35 percent shown in Figure 2.

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



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

Figure 5. Alaska Construction Employment Index*



Construction Jobs

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

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

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

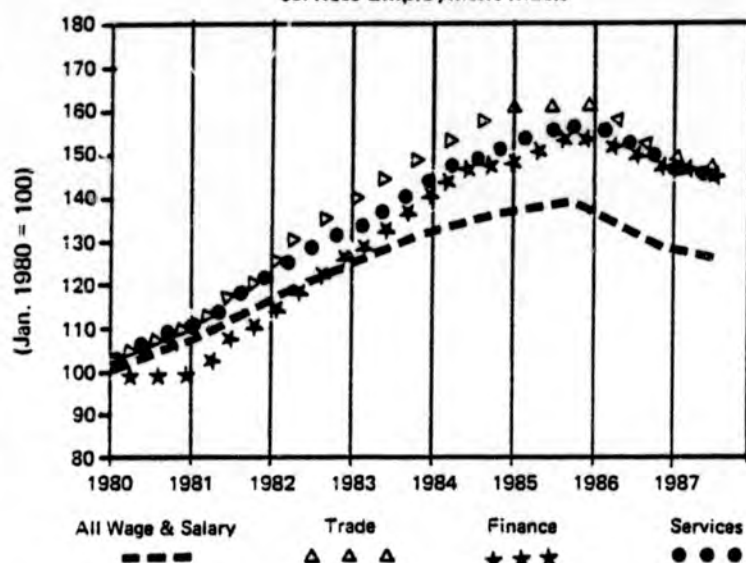
relatively low. By mid-1988, numbers of construction jobs in Alaska will be down about 65 percent from the peak 1984 level (Figure 9).

Trade, Finance, and Service Jobs

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

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

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



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

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

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

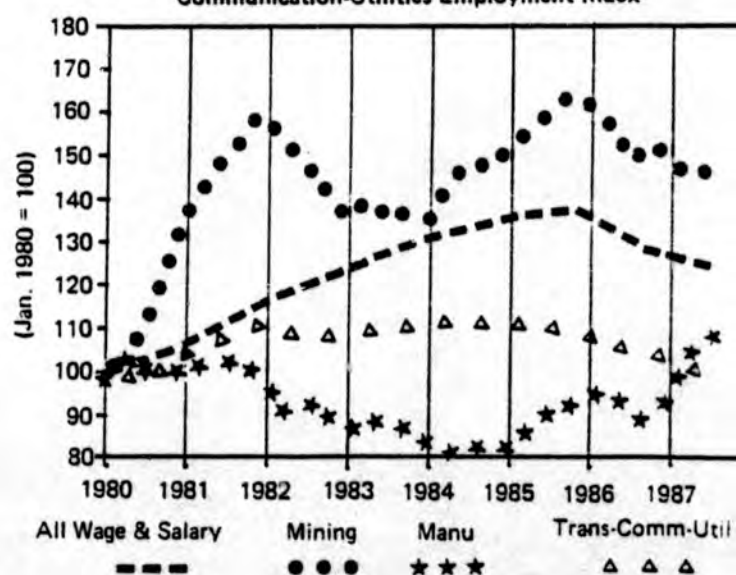
Mining, Manufacturing, and Transportation, Communications, and Utilities Jobs

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

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

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

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



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

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

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

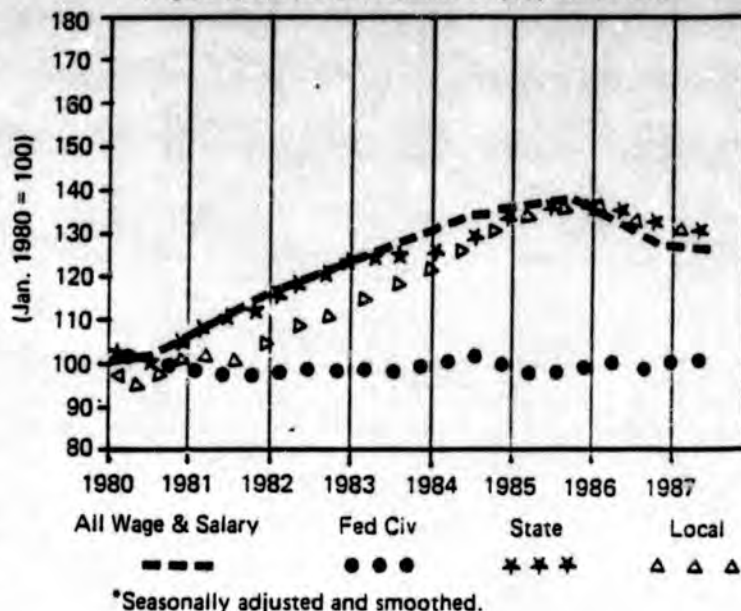
Alaska's manufacturing industries depend not on state government spending but on the size of the harvests and the demand for Alaska's fish and timber. In the early 1980s, when other parts of the economy were growing, overall employment in manufacturing actually dropped—and during the recession, when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

Government Jobs

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

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

Figure 8. Alaska Government Employment Index*



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

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

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

Income Loss

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

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

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

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

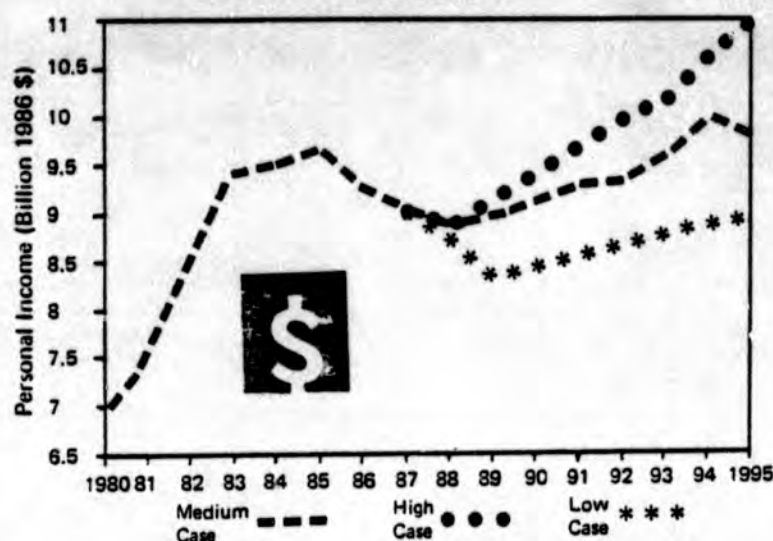
^aEmployment in various industries peaked at somewhat different times, but mostly in late 1985. Federal civilian and manufacturing employment did not peak in 1985.

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

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

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

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



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

Population and Household Losses

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

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

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

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

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

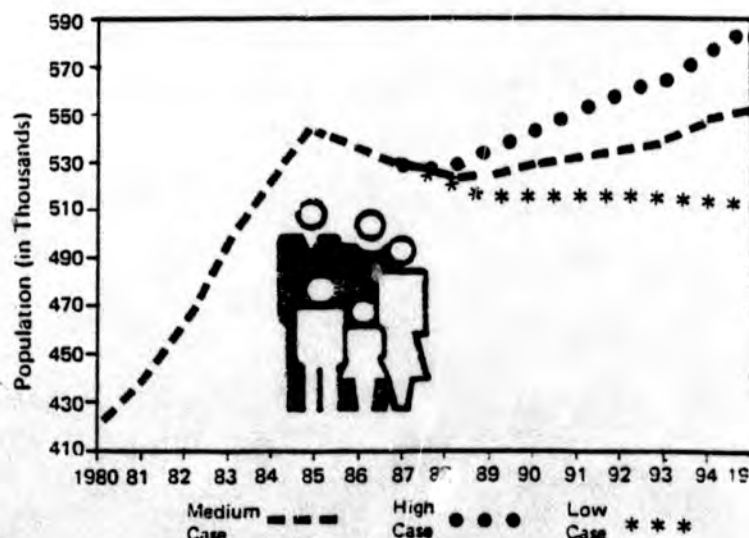
Regional Effects of Recession

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

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

Anchorage and the adjacent Mat-Su Borough

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



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

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

THE RECOVERY: ECONOMIC PROJECTIONS

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

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

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

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

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

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

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

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

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

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

⁶Including royalties in the petroleum industry.

Figure 12. Alaska Basic Industry Employment 1986

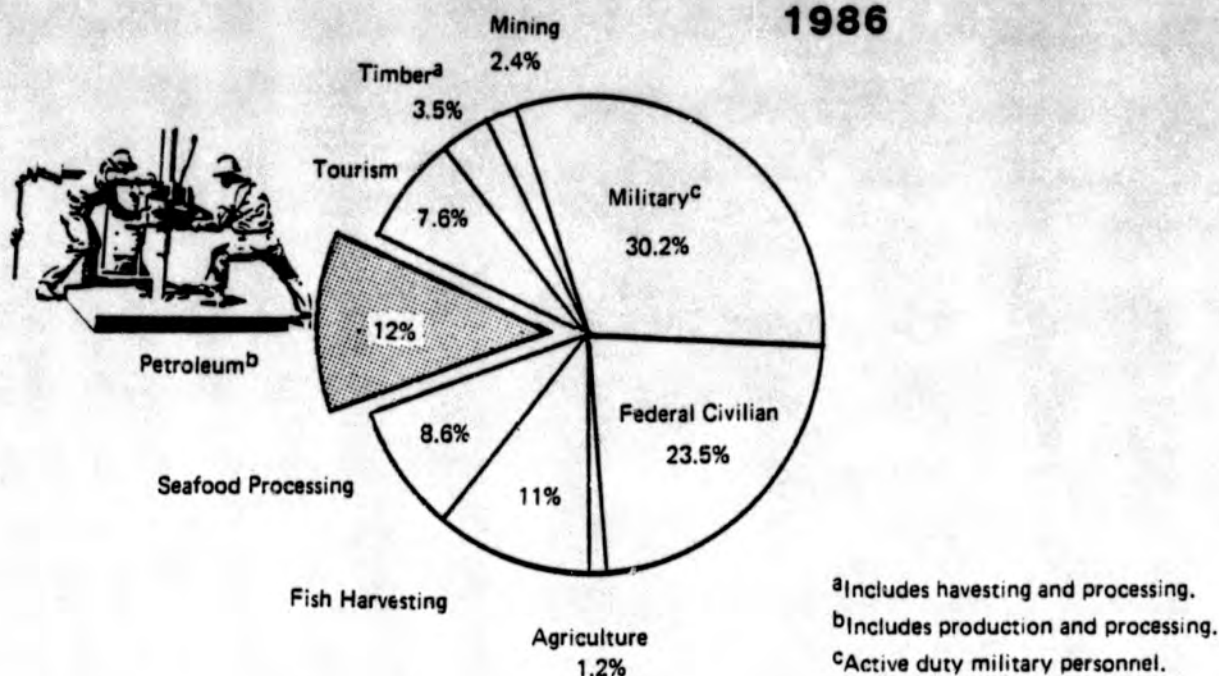
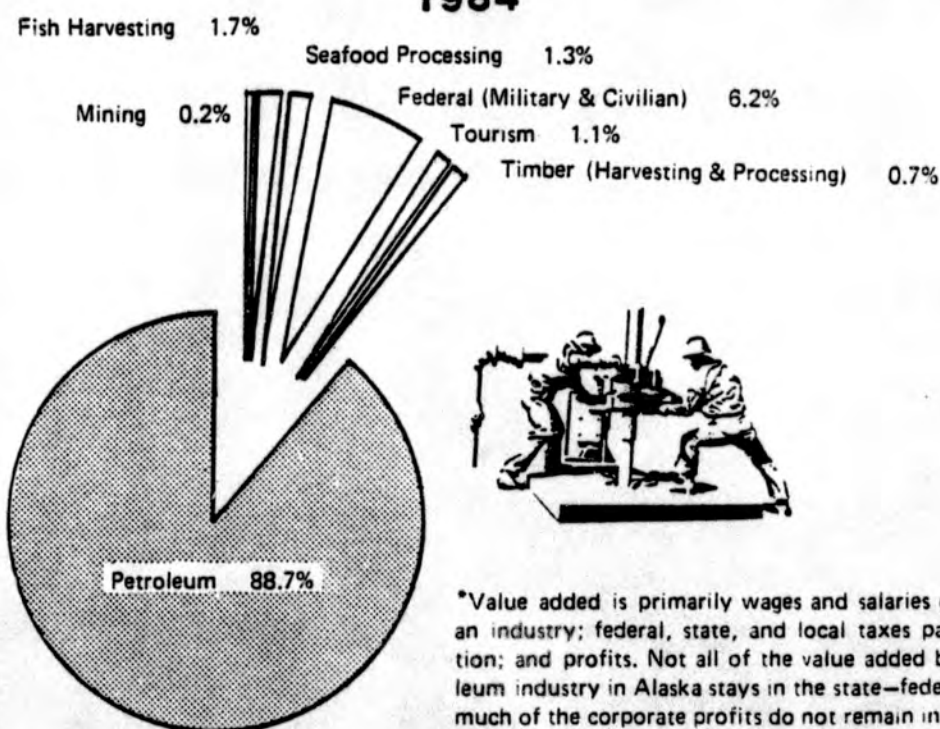


Figure 13. Value Added* of Alaska Basic Industries 1984



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

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

Summary: 1980-1995

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

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

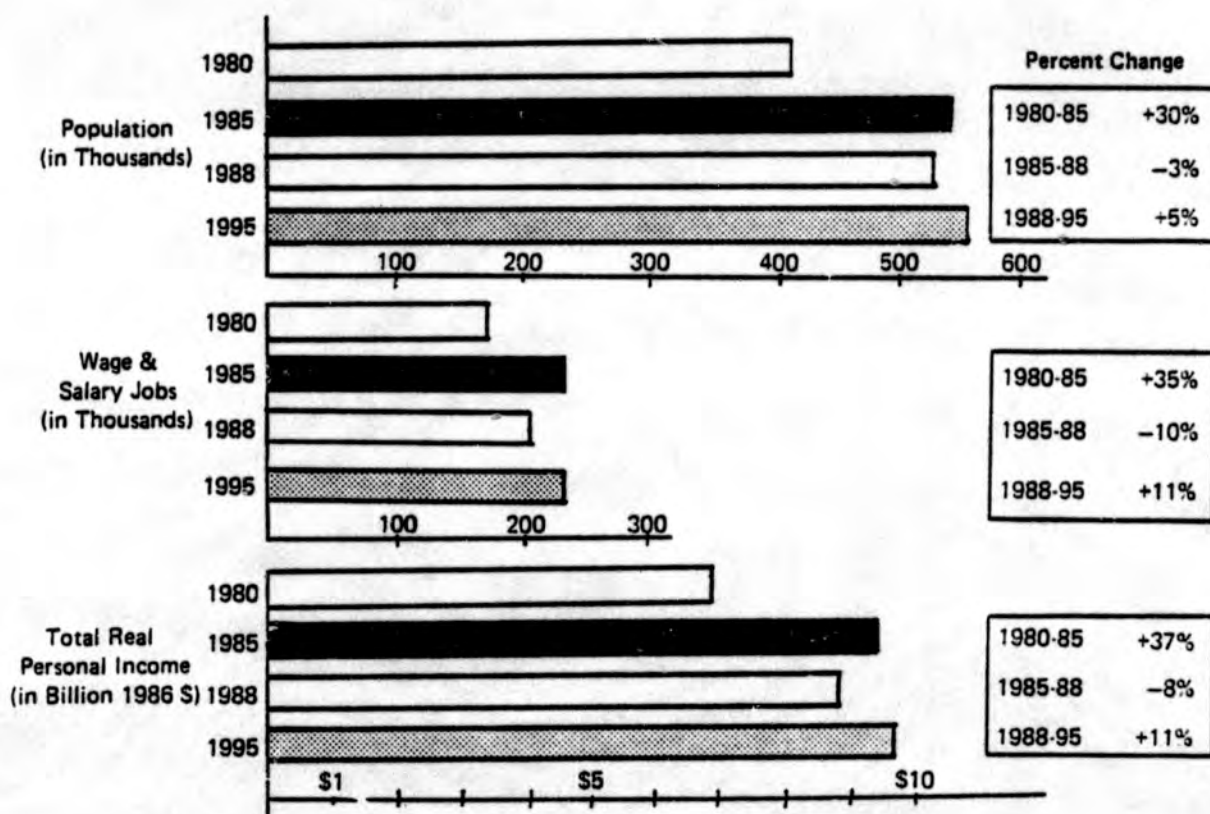
Alaska's population grew 30 percent between 1980 and 1985. Between 1985 and mid-1988 it will likely drop about 3 percent, and grow by 5 percent between 1988 and 1995.

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

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

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

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



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

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

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

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

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

Wage and Salary Jobs

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

Figure 3 shows that under the medium case, numbers of wage and salary jobs would regain their 1986 levels by 1994. If the economy grows faster, Alaska could have about 8 percent more jobs by 1995; under the worst case, very few jobs would be created between 1988 and 1995.

New Basic Industry Jobs

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

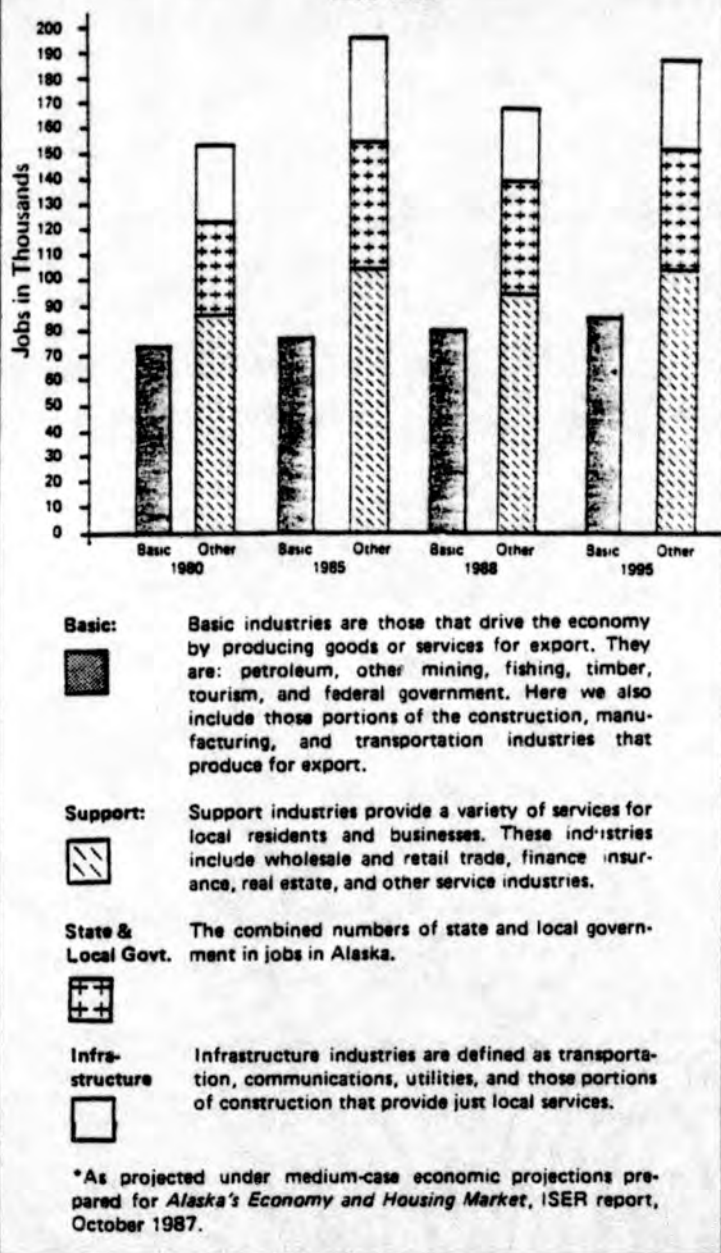
As Figure 16 shows, numbers of basic industry jobs could be slightly higher or somewhat lower if the economy grows faster or slower than under the medium case.

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

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

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

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



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

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

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

Future of State and Local Government Jobs

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

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

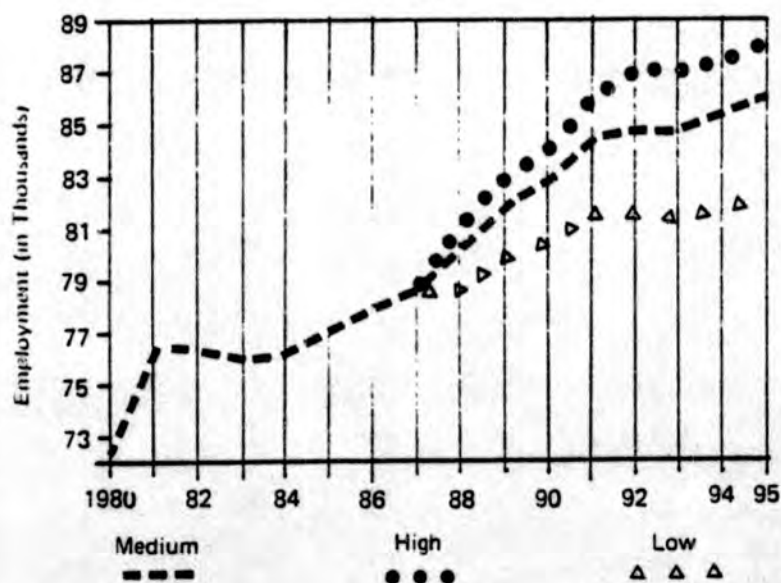
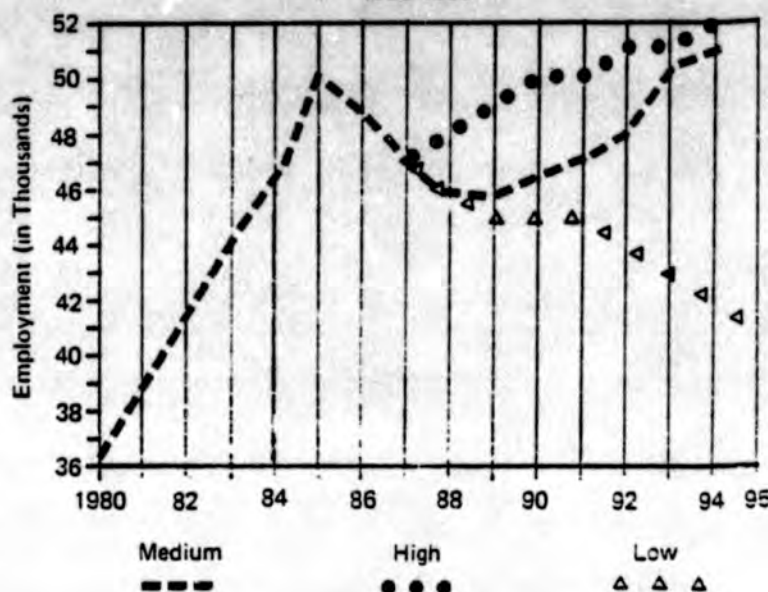


Figure 17. Alaska State and Local Government Employment, Historical and Projected Under Three Cases, 1980-1995



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

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

Could the state keep spending near its current level, if oil prices stabilized slightly above or slightly below the current world price of about \$13 a barrel? For the state government to maintain its current spending level of about \$2 billion annually (in 1986 dollars) through 1995 would require using some combination of a number of possible sources: potentially large cash settlements of pending litigation, a portion of Permanent Fund earnings, personal income taxes, or increased petroleum tax rates. The timing and the specific choices among these possible measures would have slightly different effects on the overall state economy. We are not advocating any of these measures—we are just pointing out that they

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

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

Infrastructure and Support Jobs

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

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

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

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

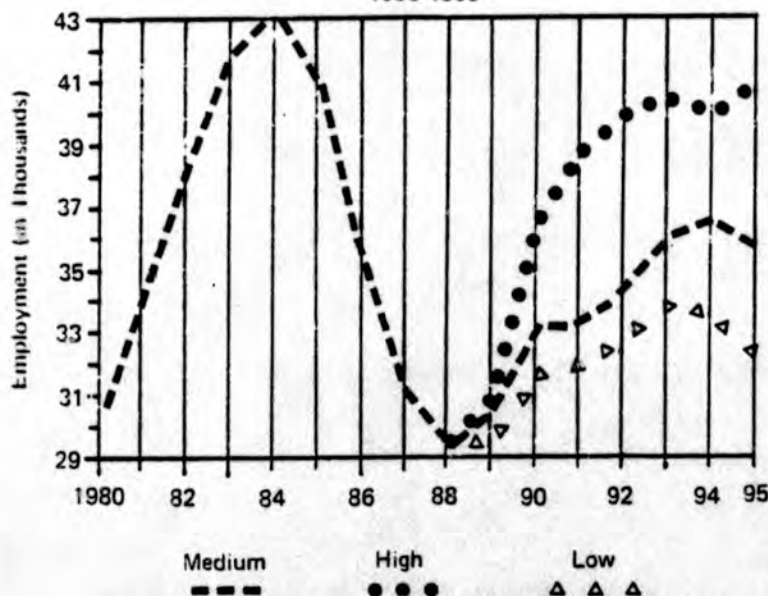
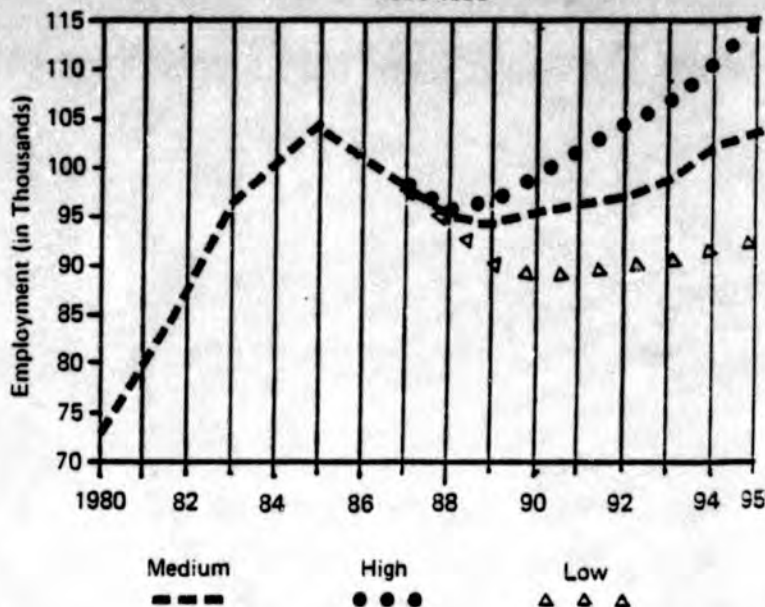


Figure 19. Alaska Support Industry Employment, Historical and Projected Under Three Cases, 1980-1995



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

Personal Income

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

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

Population and Household Growth

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

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

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

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

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

Regional Economic Recovery

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

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

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

INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH

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

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

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

OTHER ISER PUBLICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Sen. Arliss Sturgulewski
AK State Senate
P.O. Box V
Juneau, AK 99811

SUGGESTED LEGISLATIVE PROGRAM

1. A strong economic stimulation package consisting of the following as possible measures:
 - a. Municipal Assistance in the amount of \$100 million dollars at the rate of \$200.00 per capita to each local government.
 - b. A substantial capital improvement program not including buildings, but including deferred maintenance on buildings, and roads.
 - c. A residential loan modification agreement through AHFC which would enable people to reduce their payments and the extra interest added onto the tail end of the loan.
 - d. Tear down the old sub-standard ASBA buildings and ASBA buy new buildings from AHFC and give it a note until such time as ASBA gets federal money to do it.
 - e. Commercial loan modification agreement at AIDA and the payments reduced and the interest added onto the tail end of the loan.
 - f. A program to buy out some foreclosed mortgages of commercial properties such as Zamarelli's strip malls at 1984 land values, and then boarding up or tearing down the buildings.
 - g. An extra dividend.
 - h. Legislation to authorize Bradley Lake to go forward without APUC's approval.
 - i. Offer up to \$100 million dollars for capital improvements to bring the Navy into Southcentral Alaska and also assist in making oil available at less than market prices to the Navy.
 - j. Appropriate 1.5 million to get the Court Building started this Spring in downtown Anchorage.
 - k. A guarantee loan fund wherein banks will hold 10% of a loan and with 90% guarantee from a State agency.
 - l. Pay off local government bonds.
 - m. A Job Corps Program.
2. A \$100,000,000 Capital Improvement Program for Anchorage, the following projects with a priority as shown:

(See Attachment)

Last item -- 16 million for miscellaneous capital improvements.

Directory of Projects and Proposals with Direct Economic Impact

January 27, 1988

State of Alaska
Office of the Governor
Division of Policy

This directory identifies proposed programs and activities in the FY 88 and FY 89 budget with direct positive economic impacts over the next 18 months. Although this compilation is focused on the operating budget, the reader will also find loan programs and capital projects with special economic impacts listed under certain agencies.

The Division of Policy has collated information provided by each submitting agency. The data that are summarized in this compilation have been reviewed by the submitting agencies to enhance the accuracy and consistency of the original information.

OFFICE OF INTERNATIONAL TRADE

3601 C Street
Anchorage, AK 99503-5935
561-5585

Trade Leads

The trade leads program puts interested commercial and trading parties into contact with each other, for purposes of doing business. For example, the 16 new jobs and the \$500 thousand contract for Alaskan glacier ice and bottled water delivered to Japan by Wetco, Inc., in 1987 was directly attributable to State-generated trade leads efforts.

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Foreign Investments

The purpose of the foreign investments program is to attract foreign investments to Alaska. For example, Idemitsu Kosan was initially approached by the Office of International Trade through the Tokyo trade office. This year, Idemitsu Kosan signed a joint venture agreement on the Wishbone Hill bituminous coal development project in the Mat-Su Valley. Once developed, this project will produce more than one million tons of coal per year, and, under the current royalty structure, should bring the State approximately \$1 million of royalty annually. Also, it should provide the Alaska Railroad with approximately \$9.5 million in freight hauling fees.

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

International Marketing

This new effort, initiated in FY 89, will consist of an international trade digest published on a regular basis by the Office of International Trade. The digest will facilitate the placement of advertising in foreign publications, targeting on trade shows.

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: FY 89

Foreign Trade Offices

Foreign trade offices are maintained in Tokyo and Seoul, and an honorary trade representative is contracted in Taiwan. Through these offices, Alaskan producers obtain up-to-date foreign market information, ideas for new products, and introductions to foreign buyers.

One example of the value of these offices is the Idemitsu Kosan/Wishbone Hill coal development project, which began with the discovery by the Tokyo office that Idemitsu Kosan, Japan's largest energy company, was switching from petroleum- to coal-fired generators.

Cost of Program: within existing budget; not broken out separately

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: ongoing

DEPARTMENT OF ADMINISTRATION

P.O. Box C
Juneau, AK 99811-0200
465-2277

Risk Management/Assistance to Contractors

This program assists contractors in meeting State contracting requirements, and in that respect enhances the participation rate of in-state bidders and vendors.

Cost of Program: within existing budget; not broken out separately

Effects on Alaska Personal Income: increases in-state contract expenditures

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: ongoing

New Procurement Code

The new procurement code provides greater efficiency and equity in procedures for meeting the State's procurement needs, and encourages greater participation by smaller vendors and suppliers.

Cost of Program: within existing budget not broken out separately

Number of Jobs Created: unknown; will favor Alaskan vendors

Effects on Alaska Personal Income: more contracts and expenditures retained in-state

Geographic Area of Impact: statewide

Commencement and Duration of Effects: 1/1/88 and on

Vacancy-Based Recruitment Program

This program entails two separate but related efforts. One is an outreach effort to inform local residents about State position vacancies, using electronic communications among State offices, Job Service Centers, and Legislative Information Offices.

The second is a monthly information dissemination effort focusing on recruitment for jobs in rural areas. It comprises a 5-minute radio program aired on some 30 rural

stations, a series of 30-second public service announcements on tape and hard copy, and monthly recruitment highlights that are provided to about 35 rural newspapers and 25 Native organization publications.

Cost of Program: within existing budget; not broken out separately

Number of Jobs Created: fills existing State positions statewide, with rural emphasis

Geographic Area of Impact: statewide, with rural emphasis

Commencement and Duration of Economic Effects: ongoing

DEPT. OF COMMERCE & ECONOMIC DEVELOPMENT

P.O. Box D
Juneau, AK 99811-0800
465-2500

Economic Development and Marketing Program

Existing and new staff will work to support regional economic and business development by providing information and technical assistance.

Cost of Program: \$509.8 thousand (incremental)
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
immediate and ongoing

Alaska Housing Market Council

The Council provides statewide information and referral hot-line services (not intervention) to persons experiencing difficulties meeting residential mortgage obligations. Created by administrative order in March 1987, the program has a \$400.0 thousand budget funded equally through the Permanent Fund, the Alaska Housing Finance Authority, the Alaska State Building Authority, and AIDEA.

The program currently receives approximately 50-80 calls per day, and to date has successfully averted a number of residential home loan foreclosures.

Cost of Program: \$400 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
ongoing

"Made In Alaska" Program

This program identifies products made in Alaska, and encourages Alaskans to purchase such products.

Many Alaskan artisans and craftspeople say that their retailers insist on them being certified under this program as it is a major selling point in the sale of such products.

Cost of Program: \$2 thousand
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
3/21/86 - 6/30/88

Small Business Development Centers

This program offers a range of management and manufacturing assistance to owners and managers of Alaska businesses. It is jointly sponsored by the U.S. Small Business Administration, the University of Alaska statewide system, and DCED's Office of Enterprise.

Cost of Program: \$200 thousand GF, \$200 thousand federal funding

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
10/1/86 - 9/30/87

Minority Business Development Program

This program is designed to enhance the business opportunities of minority Alaskans by increasing minority participation in all areas of State procurement and economic development. Services offered include training, promotion, information and referral, and other forms of assistance.

Cost of Program: \$75 thousand GF, \$75 thousand federal funding

Number of Jobs Created: 667 fulltime (indirect), based on \$20,000.0 thousand in procurement contracts received by clients

Effects on Alaska Personal Income: \$16 million (indirect) @ 80% of contracts

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
4/1/87 - 3/31/88

Market Access Program (Bonding)

The MAP program conducts research on insurance and bonding markets, and provides related information to Alaskan businesses that are having difficulty obtaining insurance and bonding coverage.

Cost of Program: within existing budget; part of market surveillance

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:
ongoing

Bank Monitoring Program

This program monitors events and developments in Alaska's banking and financial sectors, and provides bank examining services. Through its efforts, three Alaska banks were reorganized instead of closed, and some \$400-\$500 million in assets were saved from potential liquidation in Anchorage.

Cost of Program: \$424.8 thousand

Number of Jobs Created: prevented closure of 3 banks, with total of 434 employees

Effects on Alaska Personal Income: \$18.6 million (compensation for 434 bank employees)

Geographic Area of Impact: statewide, mainly Anchorage

Commencement and Duration of Economic Effects: ongoing

Investments Work-Out Program

The Investments Work-Out program, operated by the Division of Investments, offers assistance to borrowers if they experience difficulty in meeting their debt obligations with the State. By modifying loan terms, the program prevents the borrower's loss of assets through foreclosure by the State.

Cost of Program: \$191.6 thousand

Number of Jobs Created: none, but job loss is prevented

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects: ongoing

Alaska-Hire In Seafood Industry Program

Through this program, the Alaska Seafood Marketing Institute coordinates a cooperative newspaper advertising campaign aimed at encouraging Alaskans to seek employment in the seafood industry by registering with the Job Service. Ads are funded by the Department of Labor and the Pacific Seafood Processors Association

The Department of Labor estimates that more than 9 thousand jobs in Alaska's seafood industry were filled in 1987 through the Job Service.

Cost of Program: \$10 thousand

Geographic Area of Impact: statewide

Commencement and Duration of Economic Effects:

5/87 - 12/87

Alaska-Hire In Tourism Industry Program

Through this program, DCED is attempting to increase the number of Alaskans who are employed in the tourism and visitors industries. The program works in concert with the Alaska Visitors Association and local sponsors to coordinate and sponsor newspaper campaigns advertising the availability of tourism-related employment opportunities around the state.

Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
5/87 - 12/87

ARDOR Program (CIP)

Funding from this federal program provides technical assistance to regional economic development groups.

Cost of Program: \$300 thousand federal funding
Geographic Area of Impact: statewide
Commencement and Duration of Economic Effects:
immediate

Bradley Lake Hydroelectric Project (CIP)

The Bradley Lake hydro project is a \$300 million hydroelectric power generation facility located on the Kenai Peninsula. Its construction, scheduled to begin this summer, will offer over 150 jobs. Financing comes from the Railbelt Energy Fund and revenue bonds.

This program requires new legislation (HB 356).

Cost of Program: \$7 million (Railbelt Energy Fund) this year
Number of Jobs Created: 348
Effects on Alaska Personal Income: \$75 - \$90 thousand
Geographic Area of Impact: Kenai Peninsula
Commencement and Duration of Economic Effects:
7/88 - 9/91

APA - Four Dam Pool

Existing APA funds will be used to complete hydroelectric projects at Swan Lake and Tyee Lake (southeast), Terror Lake (Kodiak) and Solomon Gulch (Kenai), creating approximately 107 short-term jobs. While many of these jobs require skills in electrical, mechanical and

civil design and construction, a number of unskilled laborers will also be employed.

Small-Scale Rural Energy Cost Reduction Program (CIP)

This program consists of special limited-scale capital projects aimed at lowering the cost of energy in Alaska's rural and remote areas.

Cost of Program: \$3.57 million Power Development Revolving Loan Fund (PDRFL); \$28 million loan and bond funds

Number of Jobs Created: 105 (PDRFL), 325 loan and bond funds

Geographic Area of Impact: statewide, rural

Commencement and Duration of Economic Effects: 18 - 24 months

AIDEA - Red Dog Mine & Port Project

The infrastructure for the Red Dog Mine project, located in the Northwest Arctic Borough north of Kotzebue, includes construction of a port facility near Kivalina and some 52 miles of road accessing the actual mine site. Financing for the project comes from AIDEA.

Cost of Program: \$150 million (bonding)

Number of Jobs Created: 200 construction, 400 operations

Effects on Alaska Personal Income: est. \$20 million

Geographic Area of Impact: Northwest Arctic Borough

Commencement and Duration of Economic Effects: long-term

AIDEA - New Debt Financing Program

AIDEA's new debt financing programs are aimed at providing short-term liquidity and relief through interest rate buy-downs, and at assisting Alaskan producers in obtaining export financing.

Cost of Program: \$25 thousand

Number of Jobs Created: maintain existing jobs

Geographic Area of Impact: Anchorage

Commencement and Duration of Economic Effects:

FY 89 - FY 90

FDIC

Federal Deposit Insurance Corporation

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

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

Date: March 4, 1988

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

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

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

<u>Commercial Loans</u>		<u>ANBN</u>		<u>FIB</u>	
<u>Secured by:</u>	<u>#</u>	<u>BV</u>	<u>#</u>	<u>BV</u>	
Commercial RE	175	21.0mm	178	35.4mm	
A.R. & Contract Rights	97	10.5mm	38	8.3mm	
Inventory	45	2.0mm	26	6.9mm	
Equipment	184	13.0mm	176	17.0mm	
Stocks	4	3.0mm	0	.2mm	
Miscellaneous	3	1.2mm	65	4.3mm	
Unsecured	94	3.5mm	61	3.4mm	
Totals	602	54.2mm 59.2mm	549	76.3mm	

Laurence D. Schannault
 March 4, 1988
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<u>Real Estate Mortgage Loans</u>	<u>ANDN</u>		<u>FID</u>	
<u>A. Real Estate Construction Type</u>	<u>#</u>	<u>DV</u>	<u>#</u>	<u>DV</u>
Land Acquisition (Comm)	3	2.7mm	4	838,257
Land Acquisition (Res.)	4	341,000	--	--
Land Development (Res.)	7	3.2mm	11	4.3mm
Commercial-Apartments	7	1.2mm	2	4.4mm
Commercial-Retail Offices	1	500,000	--	--
Commercial-Offices	1	2.0mm	1	3.7mm
Commercial-Warehouse	3	3.4mm	3	3.8mm
Single Family Residences	36	3.2mm	24	6.2mm
Other	2	1.2mm	4	5.1mm
Totals	64	18.4mm	54	28.3mm

<u>B. Covered Transaction-Type</u>				
Condom	7	400m		N/A
Zero Lot Lines	7	600m		
SFR	7	700m		
Vacant	3	160m		
Commercial	1	375m		
Mobile Homes	1	68m		
Hotel/Motel	1	680m		
Other	1	210m		
Totals	28	3,193m	0	*

* FTR did not segregate covered transactions.

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	<u>ANBN</u>		<u>FIB</u>	
<u>C. Amortized/Term-Type</u>	<u>#</u>	<u>BV</u>	<u>#</u>	<u>BV</u>
SFR	60	5.0mm	167	13.3mm
Conventional 2-4 Units	10	1.2mm	30	5.1mm
FHA	3	100,000	--	--
VA	2	160,000	--	--
Commercial	20	2.9mm	148	24.4mm
Vacant Lots	2	50,000	9	4.8mm
Other	13	500,000	12	5.6mm
Totals	110	84.8mm	266	63.2mm
GRAND TOTALS	804	84.8mm	969	167.8mm

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

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

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

Should you have any questions, please call.

JC:cn

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

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

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

REAL ESTATE PROPERTIES OWNED
PAGE 2

SUBSIDIARY ACCOUNT

BANK NUMBER: 5915

BANK: ALASKA NATIONAL BANK

BANK NUMBER: 2766

BANK: FIRST INTERSTATE BANK

TOTAL

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

10
(22,099,494.62)

12
(22,499,494.62)

The Subsidiary accounts consist of owned bank buildings.

MORTGAGE LOANS

ANBN

FIB

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

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