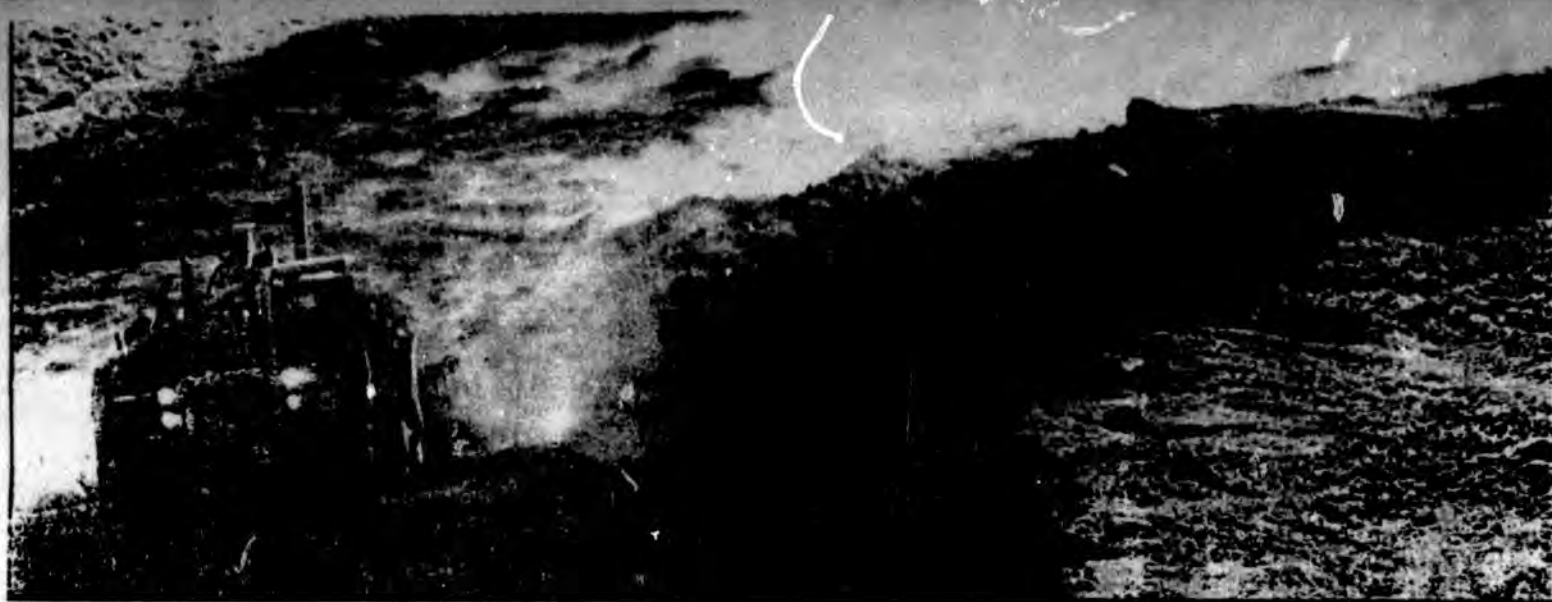


ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1579 SCOMM 59: JNT. COMMITTEE ON ECONOMIC RECOVERY, 1988

1376



Below-freezing temperatures create wisps of steam as fresh soil is overturned along the bulldozed Point MacKenzie road.

Road: Borough may push through to

Continued from page A-1

The lowest bidder had submitted a bid of just over \$1 million.

"It's nice to be able to do what you say you can do," said Cole as he drove along the road earlier this week. "I've always maintained we could do it, if we did it this way."

Cole, 65, has plenty of experience building roads and other projects in Alaska. He owned a construction company in Anchorage. He supervised the construction of Section 1 of the trans-Alaska pipeline. He's worked for large contractors.

The Point MacKenzie road wasn't much of a challenge, he said.

"This was just a little road," Cole said.

The road to Point MacKenzie has been a favorite project of the borough assembly for about a year. It's been talked about for at least 20 years, however.

The idea was to open up a link to tidewater within the borough.

A prime port site lies near the end of the road. Another dock juts out in the arm about a mile away.

Until now, the only way to get to either site has been on foot, boat or off-road vehicle.

The road has been a catalyst for new ideas in the borough.

Starting this summer, ferry service is scheduled to begin between Anchorage, Kenai and Point MacKenzie.

A Japanese construction firm has announced its interest in tunneling under Knik Arm to connect Anchorage with the borough.

Another firm, Susitna Industries, has been working on plans for a \$51 million to \$70 million investment on the point's east side, Ric Davidge, the borough's development services director, said.

Point MacKenzie farmers have asked the state for an unused grain terminal at Seward to set up at the existing dock. They say barging in feed from Seattle will cut their costs.

Without the road, Borough Manager John Hale said, the development at Point MacKenzie would not be possible. And it's

development and jobs that the Valley's sagging economy desperately needs.

Jobs are another reason Cole wanted the borough to build the road itself using rented equipment.

When the borough advertised for bidders, the lowest was submitted by an Outside firm that Cole thinks wouldn't have hired many folks from the borough.

"We have put \$700,000 into an economy that's dying," Cole said. The money has paid for big dozers, scrapers and the men to run them. The trees cut from the road's path have been neatly stacked in piles for a later sale.

"A private contractor wouldn't have done that," he said.

Best of all, Davidge said, the borough has done it all on its own. "We haven't used a dime of state money."

The new section of road begins at the Point MacKenzie Road just past Holstein Avenue. It ends on a ridge almost directly across Knik Arm from Fort Elmendorf.

Tuesday night, Cole plans to ask the assembly to let him push a spur road down to the beach where Carl Anderson's dock sits, a place called Knik Landing. That's where the farmers want to erect the grain terminal.

When the road is complete, Cole and Hale plan to set up a huge spotlight across Knik Arm and shine it towards Anchorage.

1 IN THE SENATE

BY HENSLEY, FAIKS AND BINKLEY

2

SENATE BILL NO. 244

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to prevailing rate of wages in
regions of the state; and providing for an effective
date."

8

9

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

10

* Section 1. AS 36.05.010 is amended to read:

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Sec. 36.05.010. WAGE RATES ON PUBLIC CONSTRUCTION. A contractor
or subcontractor who performs work on public construction in the
state, as defined by AS 36.95.010(3), shall pay not less than the
current prevailing rate of wages for work of a similar nature in the
region in which the work is done. The current prevailing rate of
wages for each pay period is that contained in the latest determina-
tion of prevailing rate of wages issued by the Department of Labor
before the end of the pay period for the region in which the work is
done.

20

* Sec. 2. AS 36.05.010 is amended by adding a new subsection to read:

21

22

23

24

(b) The Department of Labor shall determine the prevailing rate
of wages for each region of the state. The regions are based on the
census areas established for the 1980 census. The regions are as
follows:

25

(1) Southeastern region, consisting of census areas

26

(A) 070 (Haines Borough);

27

(B) 080 (Juneau Borough);

28

(C) 100 (Ketchikan Gateway Borough);

29

(D) 160 (Prince of Wales-Outer Ketchikan Census Area);

- 1 (E) 170 (Sitka Borough);
2 (F) 180 (Skagway-Yakutat-Angoon Census Area); and
3 (G) 220 (Wrangell-Petersburg Census Area);
4 (2) Southcentral region, consisting of census areas
5 (A) 020 (Anchorage Borough);
6 (B) 090 (Kenai Peninsula Borough);
7 (C) 130 (Matanuska-Susitna Borough); and
8 (D) 200 (Valdez-Cordova Census Area);
9 (3) Southwestern region, consisting of census areas
10 (A) 010 (Aleutian Islands Census Area);
11 (B) 040 (Bristol Bay Borough);
12 (C) 050 (Dillingham Census Area); and
13 (D) 120 (Kodiak Island Borough);
14 (4) Yukon region, consisting of census areas
15 (A) 030 (Bethel Census Area);
16 (B) 210 (Wade Hampton Census Area); and
17 (C) 230 (Yukon-Koyukuk Census Area);
18 (5) Central region, consisting of census areas
19 (A) 060 (Fairbanks North Star Borough); and
20 (B) 190 (Southeast Fairbanks Census Area);
21 (6) Northern region, consisting of census areas
22 (A) 110 (Kobuk Census Area);
23 (B) 140 (Nome Census Area); and
24 (C) 150 (North Slope Borough).

25 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

JOINT COMMITTEE ON ECONOMIC RECOVERY
INFORMATION INDEX

Senate Bills:

- SB 333 - An Act relating to wage, salary, and benefit claims having priority in certain bank liquidations and to certain bank reports required by the Department of Commerce and Economic Development; - Senate Labor & Commerce Committee.
- SB 392 - An Act relating to delinquent loans of Alaska Industrial Development and Export Authority; - Sen. Halford
- SB 408 - An Act relating to Alaska stabilization assistance program; - Sen. Kelly and Sturgulewski
...Memorandum - Sen. Kelly to All Senators 2/9/88
 - Sen. Kelly to Tam Cook 2/9/88
...Letter - Anthony J. Gumbiner to David Rose 2/18/88
...Text - A Conceptual Plan for an Alaska Stabilization Assistance Program - David Rose.
...Memorandum - Dave to Jan 1/29/88
...Article - Anch Daily News - "Value of Mat-Su Property plunges 15 to 20 percent" - 2/8/88
...Text - Proposal for the Establishment of the Hallwood Alaskan Real Estate Stabilization Trust.
- SB 409 - An Act making a special appropriation to the Alaska stabilization assistance fund; - Sen. Kelly and Sturgulewski
- SB 471 - An Act establishing a program in the Alaska Industrial Development and Export Authority to guarantee loans and to refinance debt; - Sen Halford
...Memorandum - Jack Chenoweth to Sen Faiks 2/11/88
...Text - FINANCIAL ASSISTANCE, Guaranteed Loans General Information
...Letter - Robert P. Gray to Sen. Faiks, Halford and Sturgulewski 12/21/87
...Letter - J.K. Sieberts to Sen Faiks 12/12/87
- SB 474 - An Act increasing property exemptions. - Sen. Halford.
- SB 476 - An Act creating the supplemental assistance fund for Railbelt Communities;.... - Sen. Halford
- SB 477 - An Act making a special appropriation to the Department of Community and regional Affairs for supplemental municipal assistance to Railbelt communities; - Sen. Halford

SCR 32 - Urging the state's financial institutions to adopt more flexible lending and collection policies.

House Bills:

HB 402 - An Act relating to the Alaska Industrial Development and Export Authority; Rules Committee/Governor

HB 429 - An Act relating to an optional exemption from municipal taxation - L & C Committee

HB 430 - An Act relating to the neighborhood business development program; - L & C Committee

HB 431 - An Act making an appropriation to the neighborhood business development fund; - L & C Committee

HB 432 - An Act authorizing the Alaska Housing Finance Corporation to accept trades in certain cases; - Rep. Donley

HB 433 - An Act establishing a moratorium on judicial and nonjudicial foreclosures; - L & C Committee

HB 434 - An Act relating to municipal development and redevelopment - Rep. Menard

HB 457 - An Act relating to the Alaska stabilization assistance program; - Rep. Pettyjohn

HB 458 - An Act making a special appropriation to the Alaska stabilization assistance fund; - Rep. Pettyjohn

Proposed Bills:

An Act providing interim payment reductions of the monthly mortgage payments payable by certain mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; - Sen. Halford

An Act providing a temporary reduction of the rate of interest payable by mortgagors on mortgage loans purchased by the Alaska Housing Finance Corporation; - Sen. Faiks

An Act establishing a moratorium on judicial and nonjudicial foreclosures; - Sen. Halford

Urging state agencies that make loans to withhold approval of loans for new construction in areas in which availability of business and commercial facilities and residences substantially exceeds demand. - Sen. Faiks

Relating to opportunities offered by the present crisis in residential housing. - Sen. Faiks

Relating to the Alaska Industrial Development and Export Authority. - Sen. Faiks

FDIC Information:

Letter - Senators Jones and Sturgulewski and Representative Gruenberg to Lamar Kelly, FDIC 2/5/88

Article - Anchorage Daily News 2/20/88 - Real Estate Bailout? No way witnesses say.

Reports and Letters:

Municipality of Anchorage Economic Recovery Program - Mayor Tom Fink.

Summary of Anchorage Economic Development Corporation proposal for purchase and management of FDIC assets - Robert B. Flint.

Economic Recovery Task Force - Anchorage Chamber of Commerce.

Article - Anchorage Daily News - It's time to take economic action - Scott Hawkins.

Article - Seattle Times 2/7/88 - Agency set up to sell assets seeks bailout.

Can State Spending Speed Alaska's Economic Recovery? - ISER

Letter - David L.T. Knudson to Senators Sturgulewski, Faiks, Halford, and Kelly 2/11/88.

Letter - Joseph E. Heintz, Peat Marwick Main & Co. to Governor Cowper 1/8/88.

The Recession, the Real Estate Crash and Alaska's Economic Prospects - Gregg Erickson, OMB

Options to Improve the Alaskan Economy - David A. Rose, PFDC

Memorandum - Commissioner Hugh Malone to Representative Gruenberg 2/19/99.

Memorandum - Alfred G. Zangri, Economist, Dept. of Revenue to Milt Barker, Dpty Commissioner Dept. of Revenue 2/12/88.

Fact Sheet: The Southwest Plan - FSLIC 2/5/88

Commonwealth North Report

Fortune Properties Market News Vol 4, Issue 1, 1988 - Connie Yoshimura.

A Development Venture Company: An Appropriate Financial Institution for Alaska - Peter McDowell.

Article - Anchorage Times 1/28/88 - Sealaska Eyes FDIC Properties.

Alaska Investment Bank & Trust: A Real Estate Holding Company for the People of Alaska - John M. Bashaw 2/15/88.

DETAILED WEST MOUNTAIN STATE FUND # 1
FUND # 1 & 2 Balance Sheet as of 12/31/87

LINE #	DESCRIPTION	AMOUNT	PERCENT	TOTAL
1-100	100,000.00	100.00%	100,000.00	100,000.00
2-200	120,000.00	120.00%	120,000.00	220,000.00
3-300	100,000.00	100.00%	100,000.00	320,000.00
4-400	100,000.00	100.00%	100,000.00	420,000.00
TOTAL	420,000.00	420.00%	420,000.00	420,000.00

TOTAL ASSETS	420,000.00
LAND	0.00
IMPROVEMENTS	0.00
TOTAL LESS ASSETS TRANSFERRED	0.00
GRAND BALANCE	420,000.00
AFTER RESERVATIONS	420,000.00
TITLE 1 DEBT	0.00
TITLE 11 DEBT	0.00
ANNUAL LEASE	0.00
PAYMENT	0.00

PROJECTED ANNUAL	0.00
DEBT SERVICE	0.00
PROJECTED FUNDING	0.00
TOTAL PROJECTED ANNUAL	0.00
DEBT SERVICE ON	0.00
ESTIMATED COST	0.00

DETAILED WEST MOUNTAIN STATE FUND # 1
FUND # 1 & 2 Balance Sheet as of 12/31/87

LINE #	DESCRIPTION	AMOUNT	PERCENT	TOTAL
1-100	100,000.00	100.00%	100,000.00	100,000.00
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3-300	100,000.00	100.00%	100,000.00	320,000.00
4-400	100,000.00	100.00%	100,000.00	420,000.00
TOTAL	420,000.00	420.00%	420,000.00	420,000.00

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TITLE 1 DEBT	0.00
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4-400	100,000.00	100.00%	100,000.00	420,000.00
TOTAL	420,000.00	420.00%	420,000.00	420,000.00

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LAND	0.00
IMPROVEMENTS	0.00
TOTAL LESS ASSETS TRANSFERRED	0.00
GRAND BALANCE	420,000.00
AFTER RESERVATIONS	420,000.00
TITLE 1 DEBT	0.00
TITLE 11 DEBT	0.00
ANNUAL LEASE	0.00
PAYMENT	0.00

PROJECTED ANNUAL	0.00
DEBT SERVICE	0.00
PROJECTED FUNDING	0.00
TOTAL PROJECTED ANNUAL	0.00
DEBT SERVICE ON	0.00
ESTIMATED COST	0.00

**ARLF BOARD GUIDELINES FOR RESTRUCTURING
JUNE 25, 1987**

MAR 9 1988

Because of a high incidence of ARLF delinquency, and because options of foreclosure and bankruptcy will in many instances lead to substantial loss of loan fund revenue, loss of loan fund collateral, and disruption of viable farm operations in Alaska, the Director of the Division of Agriculture and the Board of the ARLF are jointly adopting the following guidelines for restructuring of troubled debt.

It is the goal of the Division and of the Board to prevent ARLF held collateral and ARLF revenues, and at the same time to encourage struggling farmers to continue operating where their operations are still viable. The plan may be made economically efficient. This plan is expected to allow farmers to continue operating by permitting payback of outstanding debt under new terms. It is also expected to transfer the risk of financial failure, and the time, effort, and expense, to the producer. It utilizes principles adopted by the U.S. Department of Agriculture and standards for troubled debt restructuring adopted by the U.S. Department of Housing for the US Treasury and by FICO in their new standards. It is also consistent with standards adopted by the U.S. Department of Housing for Alaska producers dealing with the problem of debt.

The major points of this plan are as follows:

1. The ARLF Board and the Department of Agriculture will jointly develop and implement restructuring guidelines. The guidelines will be based on the following principles:
 - a. The guidelines will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
 - b. Debt restructuring will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
 - c. Debt restructuring will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
2. Debt restructuring will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
3. Debt restructuring will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
4. Debt restructuring will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
5. Debt restructuring will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
6. The total amount of debt will be based on the principle of "pay as you go" and will be designed to provide a means of restructuring debt which is both fair and equitable.
 - a. Tier I will be 33% of the Total ARLF Debt, which is to be repaid on an annual basis, structured with periodic payments compatible with the cash flow of the borrower.
 - b. Tier II will be the remaining 66% of the Total ARLF Debt, and will not accrue interest. However, upon any breach of conditions of restructuring by the borrower, interest on the entire remaining balance will begin accruing at the statutory interest rate on judgments in the State of Alaska.
7. At the end of the first year and annually thereafter and upon receipt of all the required payments for the prior year, 5% of the original debt will be shifted from Tier II to Tier I and begin accruing interest; the balance remaining in Tier II will not accrue interest. This will result in total repayment over a 20 year term.

8. Those farm assets given up pursuant to paragraph 3 above, may be leased during the term of the restructured loan for 1% annually of the value of assets applied to reduce debt at the time of restructuring.
9. The borrower may purchase the land and improvements from the State at any time during the period of the restructured loan at an amount equal to the unpaid principal balance of the Restructured ARIF Debt, minus a discount of 1% of each year remaining in the 20 year loan term.
10. At the option of the borrower, existing land clearing loans with ARIF and AAAC, may be included in tiers 1 and 2 or be placed in moratorium at the time of restructuring. If placed in moratorium, they will remain in moratorium only as long as the land is used for agricultural use.
11. All other loans will be taken off payment suspension.
12. The restructured loan will have special policies.
13. Borrowers who took a payment suspension from November 1, 1987 and are still in payment suspension as of March 1, 1988.
14. Borrowers who are in payment suspension as of March 1, 1988 and are still in payment suspension as of March 1, 1989.

JAN 8/11


SHORETT & RIELY
REAL ESTATE APPRAISERS & CONSULTANTS
310 K STREET, SUITE 501, ANCHORAGE, ALASKA 99501-2046

FEB 19, 88
MAR 07 1988

ANCHORAGE (907) 276-1851
SEATTLE (206) 441-4900
SAN JOSE (408) 294-6733

December 31, 1987

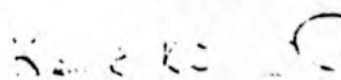
SYNOPSIS OF
1987 FOURTH QUARTER
ANCHORAGE APARTMENT MARKET VACANCY SURVEY

Attached are the results of the fourth quarter, 1987, Anchorage Apartment Rental Vacancy Survey. The overall vacancy for the fourth quarter of 1987 was 23.8%. This is 1% higher than the 22.8% overall vacancy in the third quarter of 1987, and it also represents an approximate 1% decline from the 1986 fourth quarter vacancy of 24.7%. Although the vacancy rate indicates a slight decline from 1986 to 1987, the rental rates for apartments have also dropped. As to price classification, the vacancy rate for low cost units has significantly increased between the fourth quarter 1986 and the fourth quarter 1987. In contrast, the vacancy for mid and high cost units has decreased during the same time period. The changes are summarized as follows:

	<u>Fourth Quarter 1986</u> <u>Vacancy</u>	<u>Rate</u>	<u>Fourth Quarter 1987</u> <u>Vacancy</u>	<u>Rate</u>	<u>% Change</u>
Low Cost	30.0%		42.0%		+ 40%
Mid Cost	21.7%		17.2%		- 21%
High Cost	21.6%		13.6%		- 37%
Overall Vacancy	24.7%		23.8%		- 4%

Please refer to the attached summary sheet for additional information. I would like to thank all of the apartment and property managers for cooperating in this survey and I look forward to talking with you soon for the first quarter, 1988 survey.

Sincerely,


Ken E. Kincaid, Appraiser

KEK/1h

ANCHORAGE APARTMENT VACANCY SURVEY
=====FOURTH QUARTER 1987

Price Range	Total # Surveyed	% Vacant			Total # Vacant	Total % Vacant
		Eff 1 Bed	2 BED	3 BED		
Low Cost	1,738	40.4%	45.1%	39.4%	730	42.0%
Mid Cost	2,489	20.5%	12.0%	13.5%(1)	427	17.2%
High Cost	1,466	12.5%	14.2%	14.1%(1)	200	13.6%
TOTAL	5,693	24.5%	23.0%	27.7%	1,357	23.8%

Price Ranges	EFF & 1 BED	2 BED	3 BED
Low Cost	\$0-\$325	\$0-\$425	\$0-\$500
Mid Cost	\$326-\$450	\$426-\$550	\$501-\$600
High Cost	\$451+	\$551+	\$601+

(1) Interpret with caution due to limited size of sample.

This apartment survey is conducted by Ken E. Kincaid
of Shorett & Riely 276-1851.

(C) Copyright 1987 Shorett & Riely

By LARRY CAMPBELL
Daily News reporter

The people at Clark Junior High School won't have to risk getting skewered when they sit on the gymnasium's wooden bleachers next year. And Williaw Elementary, just down Bragaw Street from Clark, will finally get some new ceiling tiles and a coat of paint.

The Anchorage School District has money to spend this summer, about \$10.4 million granted by the Alaska Legislature in the so-called "jobs bill" passed earlier this session and signed by Gov. Steve Cowper.

The district is going to use the money to spruce up and fix up at most schools, and create between 250 and 300 jobs, according to Louis Overstreet, executive director of capital projects.

Besides replacing Clark's bleachers, which are 27 years old and splintering badly, many other projects are planned, like interior and exterior painting, landscaping, replacing floor and ceiling tiles and carpeting, upgrading ventilation systems and resurfacing parking lots and hockey rinks at schools from Government Hill to O'Malley.

Overall, the district has plans for about 300 projects this summer

at 62 locations. To oversee that many projects, the district will hire five temporary project managers for about six months to keep the scattered work coordinated, Overstreet said.

"It's labor intensive, and that's what the legislature said it wanted," Overstreet said. "But it's going to be a logistical nightmare. At one school, we could have electricians, sheetrockers and painters all working on different projects and we've got to keep them from getting in each other's way."

"It works out to spending about \$165,000 every working day. That's going to be tough."

The legislature intended for the money to be spent this summer. In addition, the district faces its own constraint of finishing projects before the three-month summer vacation is over and students return to classes. Some construction projects from last summer, such as the refurbishing at Service High's library, didn't make the deadline, and students and construction crews had to work around each other for a while.

The district must also finish surveying 77 buildings for asbestos and file a report with the federal government and the governor's office by October.

"An em...
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AHFC chief encourages holding properties

By LARRY PERSILY
The Associated Press

JUNEAU — The executive director of the Alaska Housing Finance Corp. has discussed with federal mortgage insurers the possibility of holding some foreclosed property off the market until prices recover.

Such a proposal to balance supply and demand — and avoid further erosion of housing prices — has been suggested by the legislative economic recovery committee.

No legislative approval or funding would be required for AHFC to take foreclosed property off the market, said Ron Lehr, executive director of the state home loan agency.

Agreement from other investors, primarily mortgage insurers, would be needed, Lehr said.

"You need to be able to convince investment partners that it will have the effect you say it will have," he said.

"I need their cooperation ... we can't do it all by ourselves," Lehr said.

AHFC is working with the Federal

*"I need their cooperation
... we can't do it all by
ourselves."*

— AHFC director Ron Lehr

Housing Administration, Veterans Administration, Federal National Mortgage Association and others to develop a plan for the agencies to manage supply and demand by holding back some of their properties.

AHFC holds 3,800 housing units taken over in foreclosure actions, Lehr said. About one-third are mobile homes, one-third condominiums and one-third single-family and duplex units.

The agency foreclosed at the rate of about 300 units a month in 1987.

Despite a generally poor economy, some of the homes are selling, Lehr said. "Our sales have gone up considerably in the last year."

AHFC sold 20 foreclosed homes in January 1987 and 120 units in December 1987.

"The prices definitely have firmed" for single-family homes, Lehr said. Condos and mobile homes are the biggest problem, he said.

In a draft report, the House subcommittee on housing and banking of the Joint Committee on Economic Recovery has recommended AHFC and other mortgage holders consider demolishing some substandard, unsafe and unsalable housing units.

The subcommittee draft report says demolishing some units would help eliminate low-end units from the market, stabilizing prices for homes left on the market.

"There's probably some housing out there that's probably best to tear down," Lehr said.

But, he said, if owners believe property may be needed in two or three years, it's better to take the property off the market and then put it back on sale in the future.

Permanent f applications

INTERNATIONAL VENTU...
foreign investments for the perm...

The Associated Press

JUNEAU — Alaskans v...
nent fund dividend applica...
urging people to make s...
numbers to avoid having...
from the oil money paymer...

State revenue officials...
tions will be distributed...
Applications also will be a...
tion offices after April 11.

Generally, people who f...
early receive their divid...
issued beginning in October.

The IRS requires 20 per...
than \$600 to be withheld u...
social security number. The...
\$813.

Applicants who provide...
receive the full dividend am...

Sunday

Anchorage Daily News

Sunday, March 20, 1988

Banks make a plea

But don't call it
a bailout, they say

By STAN JONES

Daily News reporter

Three money-losing Alaska banks are asking the legislature to boost their industry with up to \$25 million in state cash, but they say it's to help their customers, not themselves.

Alaska Statebank, Alaska Continental Bank and Home Savings Bank have hired three heavyweight lobbyists at a cost of \$75,000 to try to get their proposal, called "The Economic Stabilization Act of 1988," through the legislature.

Despite its sweeping title, the bill deals only with banks. It would have the state invest in small, state-chartered institutions, using money from the Alaska Housing Finance Corporation, the Alaska Industrial Development and Export Authority, the Railbelt Energy Fund "or any other state financing entity designated by the Commissioner of Commerce and Economic Development."

"Our basic premise is of course that, to stabilize the economy, you need to stabilize the banking system," said Alaska Statebank president Derrell Smith. "We are concerned that there will be a lack of credit available."

Business

Without the state help, he said, banks might not have enough money to lend to small business customers to get them through the recession and keep their employees at work.

"We think that even if we take this money and we use it to, say, keep a gas station alive that fails in three years, in three years its employees will have a better chance of finding other employment in Anchorage than they have now," he said.

The state's investment, which Smith estimated could total \$15 million to \$25 million, would take the form of preferred stock or a type of loan called a "subordinated debenture."

In either case, if the bank later failed, the state would recover its investment out of any money left after the bank's depositors and creditors were paid off, but before its stockholders got anything, according to Smith.

The bill would limit the program to state-chartered banks with assets of less than \$150 million. According to a report from the Alaska Divi-

See Page B-4. BANKS

BANKS: Some lobbyists go to bat in Juneau

Continued from Page B-1

sion of Banking and Securities, that boils down to the three banks behind the bill, plus three more: Denali State Bank and Mt. McKinley Mutual Savings Bank in Fairbanks, B.M. Behrends Bank of Juneau and Mt. McKinley Mutual Savings Bank of Fairbanks.

All three of the bankers pushing the bill lost money in 1987, according to reports from various bank regulators and the banks themselves. Home Savings and Alaska Statebank lost \$6.3 million each and Alaska Continental lost \$1.5 million.

Alaska Statebank and Alaska Continental finished the year with net worths of \$7.8 million and \$1.5 million, respectively.

Despite the injection of some \$4 million in fresh capital over the past 18 months by its owners, the losses whittled Home Savings' equity capital — or net worth — to \$168,000 at the end of 1987, according to a report from the Federal Home Loan Bank of Seattle, which regulates and finances the institution.

In a Feb. 29 memo to Rep. Red Boucher, D-Anchorage, Home Savings chairman Bob Gillam discussed a federal plan to help banks in the southwestern United States and said the adoption of a similar plan for Alaska was "critical to our survival and to that of the entire savings bank industry in Alaska."

Despite their losses, the bankers say they need state money only to better serve their customers, not to stay afloat. "Our bank, we feel, will make it without it," said Smith. "This isn't a do-or-die bill for Alaska Statebank."

Buz Hoffman, president of



Anchorage Daily News/Erin Hill

H. Derrell Smith

Alaska Continental, said he needs to raise \$400,000 to meet regulatory guidelines, and can do so without help from the state. But he said he would be interested in the state program if it gave him a chance to expand his lending activity.

"This loan, if authorized, would allow our company to make hundreds of millions of dollars worth of real estate loans in the state of Alaska at a time when no one else will do it," said Gillam of Home Savings.

Smith said the proposal would allow him to keep many of his recession-bitten small business borrowers in operation until the economy revives.

When banks close, said Smith, troubled business people who had lines of credit at the failed banks are unable to establish new credit at a new bank, whereas their old banks would have kept them afloat in hopes of a recovery. So Smith believes it's a mis-



take for economic recovery plans to focus exclusively on bank assets now in the hands of the Federal Deposit Insurance Corp.

"It's like the paramedics coming to the scene of a major accident to work on dead people," he said. "What we need is to have the paramedics work on the people that are wounded but will make it."

Even if the banks that got the money should close and leave the state with no way to get its investment back, said Smith, the extra time the money would give the bank and its customers would make it worthwhile for the state.

Alaska Continental's Hoffman said the money is needed to preserve Alaska's mix of state-regulated and federally regulated institutions. "The state is running a real danger of losing the small banks it controls that push loans to the small person," said Hoffman.

He rejects any suggestion that the program would constitute a bank bailout since the state would, in theory at least, earn interest on its investment and get it back some day.

In Juneau, the proposal is under study by the state Department of Commerce and Economic Development.

"As drafted, it's a long way from anything that would be acceptable," said Commerce Commissioner

State to try to beat state's recession blues

Tony Smith. "My sense is that we will not go for any bank bailout, but if there's an investment that makes sense that can be properly secured, it may be considered."

Smith and state bank regulator Willis Kirkpatrick said that if the commerce department does endorse the idea, it will probably attach several conditions. The state's investment would have to be fully secured, possibly with liens on the bank's office buildings and branches, they said. Also, any management problems would have to be cleaned up, the bank wouldn't be allowed to pay dividends until the state got its money back, and there would be salary limits for bank officials.

"If I were to recommend to the governor that we end up owning stock in the banks, I think he'd level me," Smith said. "Our goal is a sound, diversified banking system not owned by the state."

Ed Dankworth, one of three lobbyists hired to push the proposal, agreed the plan will probably have to include some restrictions to protect the state and prevent anyone in the bank from benefiting directly if it is to have any hope of passage. "I don't think there's a great mood to go bail anybody out," he said.

But he said he was optimistic that a reasonable plan might fly. "They've loaned

money to a lot of other people, to agriculture and every other kind of business, so I'd like to see them at least take a look at our proposal," Dankworth said.

The other lobbyists on the project are Mitch Gravo and Bill Miles. Each of the three will be paid \$25,000 for his work, with the three banks splitting the cost equally.

Legislators seem to regard the idea of bank assistance with considerable skepticism, even though they don't reject it outright.

"My inclination is to be against it, but we haven't seen anything specific," said Rep. Kay Brown, D-Anchorage, who co-chairs a housing and banking subcommittee. "It seems to me that if we're talking about people who basically made poor business judgments, that is just something that has to be lived with. We can't, obviously, bail out everybody who made a poor business judgment."

~~Smith said the state's plan to pick the winners and losers is the goal.~~

Policy considerations aside, said Brown, there's the question of where the money would come from. "If we have limited funds, are we going to be putting them into propping up banks?"

~~Brown's subcommittee chairman is Rep. Steve Bieger, R-Anchorage. He said he would support~~

proach with caution any effort to relieve the commercial sector of the economy. "The committee has been exceedingly reluctant to get into that area, either because it didn't look like the state could make proper or prudent business decisions in that area or it just wasn't an appropriate use of state money."

~~Some bankers are also skeptical about the state buying into their industry.~~ "I really don't think the state has any business investing in banks on a basis like this," said ~~Bill Moran~~ Mr., the head of First Bank in Ketchikan. But he said he wouldn't object if the investment was properly underwritten.

~~Bill Gray~~ president of the National Bank of Alaska, believes the public policy question confronting the legislature is whether the state should invest in any business. "If it was a big retailer of some kind, nobody would think of the state coming in and taking an equity position," Gray said.

Gray takes issue with the proposition that maintaining small, state-chartered banks is necessary to ensure that small customers will find a place to do business.

~~Gray said that small customers from Skagway and other communities would be able to do business with the state bank.~~

loss recognized under consolidated return principles or as may be prescribed by regulations. These loss deferral rules do not apply to sales of inventory in the ordinary course of business between two corporations if one or both of them are foreign corporations. These loss deferral rules also do not apply to a loss on the repayment of a loan to another member of the controlled group if the loan is payable in a foreign currency and the loss is due to a reduction in value of the foreign currency.

Indirect transactions include sales through a stock exchange. You may not deduct your loss on the sale of stock through your broker if, for example, under a prearranged plan a related person or entity buys the same stock that you had owned.

Property received from a related party. If you sell or exchange at a gain property you received from a related party, you recognize the gain only to the extent that it is more than the loss previously disallowed to the transferor. This rule applies only to the original transferee.

Example 1. You sell stock with a cost basis of \$10,000 to your brother for \$7,600. Your loss of \$2,400 is not deductible. Later he sells the same stock to an unrelated party for \$10,500, thus realizing a gain of \$2,900. His reportable gain is only \$500, the excess over the \$2,400 loss not allowed to you.

Example 2. Assume the same facts as in Example 1, except that your brother sells the stock for \$6,900 instead of \$10,500. His recognized loss is only \$700. He cannot deduct the loss that was not allowed to you.

Ownership of stock. In determining whether an individual directly or indirectly owns any of the outstanding stock of a corporation for purposes of a loss on a sale or exchange, the following rules apply.

Rule 1. Stock owned, directly or indirectly, by or for a corporation, partnership, estate, or trust is considered to be owned proportionately by or for its shareholders, partners, or beneficiaries.

Rule 2. An individual is considered as owning the stock owned, directly or indirectly, by or for his or her family. Family includes only brothers and sisters, half-brothers and half-sisters, spouse, ancestors, and lineal descendants.

Rule 3. An individual owning (other than by applying rule 2) any stock in a corporation is considered to own the stock owned directly or indirectly by or for his or her partner.

Rule 4. For purposes of applying rules 1, 2, or 3, stock constructively owned by a person under rule 1 is treated as actually owned by that person. But stock constructively owned by an individual under rules 2 or 3 is not treated as owned by the individual for again applying either rule 2 or 3 to make another person the constructive owner of the stock.

If you transfer a patent for value, see *Inventions*, as discussed later in this Part, for transfers to certain related persons that will not qualify for capital gain treatment.

Cancellation or Sale of a Lease

Payments for the cancellation or sale of a lease received by a tenant may result in a gain or loss from the sale or exchange of a capital asset. If the lease was used in the tenant's trade or business, the gain or loss is a section 1231 gain or loss, see *Section 1231 Property*, later. If the lease was for the tenant's home, a gain would be taxed as a capital gain but any loss would not be deductible.

Payments received by a landlord (lessor) for cancellation of a lease are ordinary income and not capital gains.

Cancelling a Sale of Real Property

If you sell real property to an individual and the sales contract gives the buyer the right to return the property to you for the amount paid, you may not have to recognize gain or loss on the sale. You will not recognize gain or loss if the property is returned to you within the same tax year as the sale. However, if the property is returned to you in a future tax year, you must recognize gain or loss in the year of the sale. In the year the property is returned to you, your new basis in the property will be equal to the amount you give back to the buyer.

Foreclosure, Repossession, or Abandonment

If the owner (borrower) does not make payments due on a loan secured by property, the lender (mortgagee or creditor) may foreclose on the mortgage or repossess the property. The foreclosure or repossession is treated as a sale or exchange (even if voluntarily conveyed to the lender) from which the owner may realize gain or loss (discussed below). In another situation, the owner may abandon the property. The abandonment is treated as a disposition from which the owner may realize ordinary income or loss (see *Income or loss on abandonment*, later).

If the owner is personally liable for repayment of the loan, then the above sale or exchange, or the abandonment of the property, may give rise to discharge of indebtedness income to the owner (see *Owner personally liable for debt and income or loss on abandonment*, later).

Further, if investment credit property is transferred or abandoned, the owner may owe additional tax from recapture of the investment credit. See Publication 572, *General Business Credit*.

Gain or loss on foreclosure or repossession.

The owner's gain or loss from the sale or exchange described above is figured in the same way as a gain or loss from sales or exchanges generally. The gain or loss is the difference between the owner's adjusted basis of the property transferred and the amount realized. See *Figuring Gain or Loss in Part I*, earlier.

Amount realized. If the owner is not personally liable for repayment of the debt secured by the property transferred, the amount realized by the owner includes the full amount of the debt discharged by the transfer, or, if greater, the sales proceeds. The full amount of the debt discharged is included even if the property's fair market value is less than the amount of the debt discharged.

If the owner is personally liable for the debt, and the fair market value of the property transferred is less than the amount of the debt discharged, the amount realized by the owner does not include the amount of the debt discharged that is more than the fair market value of the property. In this case, the owner may realize ordinary income from discharge of indebtedness for that part of the discharged debt not included in the amount realized. See *Owner personally liable for debt*, later.

Capital or noncapital asset. If the property transferred is a capital asset, the owner's gain or loss is a capital gain or loss. If the property is not a capital asset, the gain or loss is an ordinary gain or loss, unless the property is the kind that can be treated as a capital asset. See *Ordinary or Capital Gain or Loss*, earlier.

Loss. A loss realized by the owner of property transferred through foreclosure or repossession is figured in the same way as a loss from sales or exchanges generally. See *Figuring Gain or Loss in Part I*.

No deduction is allowed for loss on *personal residence or other property held for personal use*, unless the loss is from a personal casualty or

theft. Also, no deduction is allowed for loss on the *transfer of any property between related parties*. See *Capital Assets and Sales and Exchanges Between Related Parties*, earlier.

The owner will have a deductible loss if the adjusted basis of business or investment property transferred through foreclosure or repossession more than the amount realized (discussed earlier). Depending on whether the property is a capital asset, the loss may be an ordinary loss or a capital loss. See *Ordinary or Capital Gain or Loss*, earlier. For information on the way ordinary losses are deducted, see Part III. For information on ordinary losses (normally from dispositions of section 1231 property), see Part IV and Form 4797, in Part V.

Example. In 1985, Harold Boggs purchased unimproved real property as an investment at a cost of \$77,000. He paid \$12,000 cash and obtained a \$65,000 note secured by a mortgage on the property. Harold repaid \$5,000 of the principal before he encountered financial difficulties and defaulted. At a foreclosure sale, the property was sold for \$60,000, the unpaid balance of Harold's mortgage loan. His loss on the transaction is \$17,000 (\$77,000 basis minus \$60,000 realized from the foreclosure and used to pay off the mortgage). Since Harold's foreclosed property was held for investment and is a capital asset held for more than 6 months, Harold's loss is treated as a long-term capital loss.

Gain. If the amount realized by the owner of property transferred through foreclosure or repossession is greater than the adjusted basis of the property, the excess is a gain, taxed in the same way as a gain from sales or exchanges generally. Gain from property held for personal use is taxed as a capital gain. Property used in a trade or business and held for more than 6 months is section 1231 property. Gain on sale or exchange of section 1231 property, whether by foreclosure or repossession, may qualify as long-term capital gain. See *Section 1231 Property*, later.

Example. John purchased property for \$34,000. He paid cash of \$7,500 and assumed a \$26,500 mortgage. During the year John had financial problems and the mortgage was subsequently foreclosed. The net proceeds from the foreclosure sale are \$35,000, representing an increase in the value of the property. Of this amount, John received \$8,500. His gain is \$1,000 (\$35,000 proceeds less \$34,000 basis).

Owner personally liable for debt. If property is transferred through foreclosure or repossession to satisfy a debt secured by the property, the owner may realize ordinary income from discharge of indebtedness. However, the income may not be recognized in certain cases, such as a debt cancellation intended as a gift, an insolvent debtor, or bankruptcy. See Publication 908.

The income from discharge of indebtedness is in addition to the gain or loss from the sale or exchange (transfer of property). This ordinary income from the discharge of indebtedness may be realized if:

- 1) The owner is personally liable for repayment of the debt secured by the property transferred to satisfy the debt, and
- 2) The fair market value (FMV) of the property transferred is less than the amount of debt discharged.

In this case, the amount realized by the owner does not include the amount of debt discharged that is more than the FMV of the property transferred. However, the owner may have ordinary income from discharge of indebtedness for that part of the discharged debt not included in the amount realized.

Example. Frank is personally liable for repaying a mortgage on his investment property. After Frank stopped making payments on the mortgage, the lender foreclosed on it. The balance due was

500. When the property was transferred to the lender, its FMV was \$6,000 and Frank's adjusted basis in it was \$8,000. Frank realized a capital gain of \$2,000 (\$8,000 basis minus \$6,000 amount realized) and ordinary income from discharge of indebtedness of \$1,500 (\$7,500 mortgage debt discharged minus \$6,000 FMV of property transferred to satisfy the debt).

Income or loss on abandonment. If the owner is personally liable for a debt secured by property that has been abandoned, and the debt is cancelled, the owner may realize ordinary income from discharge of indebtedness to the extent of the unpaid debt. However, the income may not be recognized in certain cases, such as a debt cancellation intended as a gift, an insolvent debtor, or bankruptcy. See Publication 908.

Loss from abandonment of business or investment property is deductible as an ordinary loss up to the amount of the property's adjusted basis when abandoned. However, if the property is later foreclosed on or repossessed, there may be gain or loss, figured as discussed earlier under *Gain or loss on foreclosure or repossession*. The abandonment loss is taken in the tax year in which the loss is sustained. The owner, however, may not deduct any loss on his or her personal residence or other property held for personal use, unless the loss is from personal casualty or theft.

Reporting income or loss. The owner of property transferred through foreclosure or repossession to satisfy a debt reports gain or loss on the transfer in the same way as for a gain or loss on sales or exchanges generally. See Part V.

Reporting Gains and Losses. If the owner who transfers or abandons property realizes taxable income from discharge of indebtedness, that income is reported on line 21 of Form 1040.

Abandonment loss. The owner who abandons business or investment property may have an ordinary loss up to the amount of the property's adjusted basis when abandoned. This loss is reported on Form 4797, Part II, line 10.

Form 1099-A. If a lender (including a governmental unit) has acquired an interest in property that was security for a loan, or knows that such property has been abandoned, the lender must provide the owner with a copy of Form 1099-A, *Information Return for Acquisition or Abandonment*, or with an equivalent statement. For acquisitions or abandonments in 1987, the lender must furnish the owner with the statement or copy of the form by February 1, 1988.

Form 1099-A gives the information needed to determine whether or not the owner has income or loss on the acquisition or abandonment of his or her property. If the owner believes any of the information on the form is inaccurate, he or she should contact the issuer of the form immediately. Otherwise, the owner should figure income or loss and report it as discussed in this publication.

Seller's (lender) gain or loss on repossession. If you finance a buyer's purchase of property and later acquire an interest in the property through foreclosure or abandonment, you may have a gain or loss on the acquisition. For more information, see Publication 537, *Installment Sales*.

If you acquire an interest in property that was security for a loan, or have reason to know that the property has been abandoned, you must file an information return with the Internal Revenue Service and also report the information to the borrower. See Form 1099-A, above.

Sale of a Business

The sale of a business is not usually a sale of one asset.

Sole proprietorships. A sole proprietorship usually has many assets. When sold, the assets of the business must be classified as capital assets, depreciable property used in the business, real property used in the business, or property held for

sale to customers, such as inventory or stock in trade. The gain or loss on each asset is figured separately. The sale of capital assets results in capital gain or loss; the sale of real property or depreciable property used in the business results in gain or loss from a section 1231 transaction (explained later); and the sale of inventory results in ordinary income or loss. See *Goodwill* for information on the allocation of the sales price when goodwill exists.

Partnerships. An interest in a partnership or joint venture is treated as a capital asset when it is sold, except that the part of any gain or loss that is from unrealized receivables or inventory items that have appreciated substantially in value will be treated as ordinary gain or loss. Unrealized receivables include the ordinary income potential in certain depreciable property (see Part IV of this publication) owned by the partnership, to the extent of the gain that would have been realized if the partnership had sold the depreciable property at its fair market value when the partnership interest was sold. The amount realized on the sale of a partner's interest includes partnership liabilities for which a partner is relieved. For information on partnerships, see Publication 541, *Tax Information on Partnerships*. Also see *Goodwill*, later.

Corporations. Your interest in a corporation is represented by stock certificates. When you sell the certificates, you usually realize capital gain or loss. For information on the sale of stock, see Publication 550, *Investment Income and Expenses*.

In general, corporate liquidations of property are treated as a sale or exchange. Gain or loss is generally recognized by the corporation on the liquidating sale of its assets. Gain or loss is also generally recognized on a liquidating distribution of assets as if the corporation had sold the assets to the distributee at fair market value. This rule generally applies to distributions after July 31, 1986, unless the corporation is completely liquidated before 1987, and to distributions not in complete liquidation made after 1986. For more information, get Publication 542, *Tax Information on Corporations*.

Inventions

An invention is usually a capital asset in the hands of the inventor whether or not a patent or patent application has been obtained. The inventor is the individual whose efforts created the property and who qualifies as the original and first inventor or joint inventor.

Substantial rights. If you acquire all the substantial rights to patent property before the invention is reduced to practice (tested and operated successfully under operating conditions) for a consideration paid to the inventor, when you dispose of your interest you may obtain the special tax treatment (discussed later) if you are not the employer of, or related to, the inventor. However, if you purchase patent property after it is reduced to practice, the property may be treated as either a capital or noncapital asset, depending on the circumstances.

All substantial rights to patent property means all rights that are of value when they are transferred. The right to prohibit sublicensing or subassignment of rights, or the keeping of a security interest (such as a lien), or a reservation calling for forfeiture for nonperformance, are not treated as substantial rights for these rules and may be kept by the holder.

In the following situations, all substantial rights were not transferred, and the transferor is not entitled to the special tax treatment described later:

- 1) The rights are limited geographically within a country (limiting the rights to one or more whole countries could be a transfer of all substantial rights).

- 2) The rights are limited in time to a period that is less than the remaining life of the patent.
- 3) The rights are limited to fields of use within trades or industries that are less than all the rights that exist and have value at the time of the grant.
- 4) The rights are less than all the claims or inventions covered by the patent that exist and have value at the time of the grant.

Special tax treatment. If you are the inventor or an individual who acquired all the substantial rights to the patent property and you transfer all the substantial rights or an undivided interest in all such rights, the transfer will be treated as a sale or exchange of a long-term capital asset. This treatment applies even if you have not held the patent property for more than 6 months and the payments received are made:

- 1) Periodically during the transferee's use of the property, or
- 2) Contingent on the productivity, use, or disposition of the transferee's rights in the property.

Related persons. The special tax treatment does not apply if the transfer is either directly or indirectly between you and your employer or related person as defined earlier under *Sales and Exchanges Between Related Parties* with the following changes:

- 1) Members of your immediate family include your spouse, ancestors, and lineal descendants, but not your brothers or sisters or half-brothers or half-sisters.
- 2) An individual and a corporation are considered related parties if the individual owns, directly or indirectly, 25% or more in value of the outstanding stock of the corporation.
- 3) A partnership and a partner, if the partner owns, directly or indirectly, more than 50% of the capital or profits of the partnership (other than an interest in the partnership).
- 4) Two partnerships, if the same persons directly or indirectly own more than 50% of the capital or profits of each.

If you come within the definition of a related taxpayer independent of family status, the brother-sister exception does not apply. Thus, a transfer between a brother and sister, one of whom is the beneficiary and the other the fiduciary of a trust, is a transfer between related parties. The brother-sister exception does not apply because the trust relationship is independent of the family status.

Trade secrets (technical "know-how") are generally eligible for capital gain treatment on their sale or exchange. A transfer of a trade secret is a sale or exchange, if the transfer includes all substantial rights to the trade secret. The substantial rights that must be transferred are the right to use the trade secret in perpetuity or until it becomes public knowledge and no longer protectable under the laws of the country where the transferee operates, and the exclusive right to prevent further disclosure.

Copyrights

Literary, musical, or artistic compositions, or other property are not treated as capital assets if you own personal efforts created them, or if you got the property in such a way that all or part of your basis in the property is determined by reference to a person whose personal efforts created it (for example, if you get the property as a gift). The sale of such property, whether or not it is copyrighted, results in ordinary income and is generally reported on Form 4797, *Gains and Losses From Sales or Exchanges of Assets Used in a Trade or Business and Involuntary Conversions*.

However, if you get such property or a copyright to it in any other way, the amounts you get for granting the exclusive use or right to exploit the

MEMORANDUM

Sen. Sturgulewski
State of Alaska

TO: See Distribution

DATE: March 7, 1988

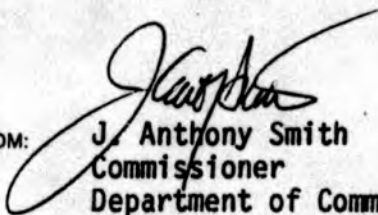
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SUBJECT: Comments on Various
Economic Recovery
Proposals

FROM:


J. Anthony Smith
Commissioner
Department of Commerce and
Economic Development

Due to the number of issues being discussed relative to legislative suggestions for possible actions to address our economic troubles, we are providing the following comments on a number of various issues/bills.

1. SB 392 & HB 402 -- AIDEA -- These bills address the issue of bank participation with AIDEA and the current statutory withholding of such participation because of the "2% rule." The Governor's bill, HB 402, also addresses a number of other issues which the Board of AIDEA has identified as limitations on AIDEA's ability to be responsive to the current economic conditions. The Department of Commerce and Economic Development supports both of these bills, and strongly supports passage of the entire package of proposals contained in HB 402.
2. SB 471 -- AIDEA Loan Guarantees and Refinancing -- Both of these issues have been the subject of considerable discussion among the board members of AIDEA. There is not at this time a consensus of opinion on the board on the relative merits or structure of either proposal. All members of the board are most concerned about preserving AIDEA's current bonding ability and ratings. Hence, close scrutiny must be utilized when incorporating any new financial service into AIDEA's powers.

The Department of Commerce and Economic Development is conceptually supportive of both proposals. With respect to the guarantee program, we believe it is most appropriate to fund the reserve for such a program by new appropriation to AIDEA. For consideration, we suggest that a portion of the current unappropriated portfolio of DCED's Division of Investments be appropriated to fund a reserve for the insurance program. The funded reserve will be the only asset offered to insure against losses, e.g., neither AIDEA nor the state

pledge any additional assets or responsibility. There will be losses in the program irrespective of the quality of the underwriting standards, but these losses will appear at least a year or two in the future. We also recommend that there be a 1-to-4 ratio of reserves to program commitment at the start with the Board of AIDEA having the flexibility to adjust reserves to reflect actual experience. This means that there needs to be an appropriation of loans which will generate \$25 million if we are to do \$100 million in guarantees for the program to have the impact desired. We recommend a \$100 million program at the start.

3. HB 422 -- Payment for Purchases by Various Public Entities -- DCED supports this expansion of current law.
4. HB 429 -- Optional Exemption from Property Taxes on Vacated Land -- The Department is supportive of this concept and would suggest elimination of the limitation of its applications by removing the 30-year-old requirement on improvements currently included in the bill. So long as this proposal does not directly affect the revenues of the state, and is optimal for local governments, it should be considered.
5. HB 430 - 431 -- Neighborhood Business Development Programs and Appropriation -- The Department is conceptually supportive of these bills. We understand the difficulties associated with balancing the state's budget and do not represent that this is an essential \$3 million item. Hence, a threshold question is identifying a source of funding.

In addition to HB 429, 430, and 431, it is our perception that an appropriate public sector response to the supply/demand problem is public acquisition of developments for purposes of parks, neighborhood upgrade and to eliminate obsolete or nonconforming properties. Thus, special appropriations to entities such as the Heritage Land Bank and local governments would allow local governments and the state to take advantage of present price levels to improve the quality of life while beneficially impacting the supply/demand problem.

6. HB 432 -- AHFC Trades -- We are conceptually supportive of this bill; although by this time the Labor and Commerce Committee is fully cognizant of the limitations on AHFC's ability to unilaterally achieve the ends sought in this bill. The approach currently undertaken by the Labor and Commerce Committee seems to reasonably address this issue.

There are other changes in AHFC which would allow the agency to manage its revenues to be part of the solution rather than part of the problem. For example, AS 18.56.098 needs to be altered so that the interest rate formula is more flexible. Some recommended changes are:

Financial Provisions Changes - Currently, many AHFC financial provisions are "hard-wired." For instance, the interest rate formula as specified in AS 18.56.098 permits no flexibility in interest rate calculation, even though at times adding some flexibility could significantly help the market at little or no additional cost to AHFC.

One way to add some flexibility would be to develop a mechanism whereby the maximum amount of assistance that AHFC can provide for any individual loan is set, but the specific way in which it was applied would be flexible. Another possible change would be to permit more flexibility in the amount of assistance if the whole market was in bad shape. For instance, if the delinquency rate in a particular market exceeded, say, 10%. Additional assistance would have to be targeted at certain groups to achieve specified outcomes, or very quickly AHFC could use up its available resources.

For instance, assume AHFC wanted to target the condo market, either for trade ups to mid-high range condos, or to encourage the purchase of some of the many low end condos. Many of the current condo loans were based on a loan amount of \$75-80,000, with an interest rate of 10-12%. Consider the following figures:

<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Payment</u>
\$ 80,000	10%	\$702
125,000	6%	749
50,000	6%	300

In one case, a borrower can buy much more "house" for approximately the same payment, whereas in the other case, a borrower could buy a \$50,000 condo (which was likely originally an \$80,000 condo) for a payment of less than half of the original. Properly targeted this could help stabilize price and reduce the inventory of foreclosed properties. It is our belief that the "equity underwater" problem could be stabilized in targeted projects by offering financing opportunities for full prices sales.

Other changes would deal with AHFC's role in disposing of its real estate portfolio. For instance, if current plans are successful, AHFC could well own entire condo projects. These projects could eventually be sold as condos, but they might also be sold as apartment buildings. If AHFC were able to manage the building (via a contract) and perhaps provide financing to the ultimate buyer, the total loss might be much less. Possibly other types of nonowner-occupied financings to help in disposal of foreclosed properties should be added.

More flexibility would be most helpful in workout situations. HOAP will be sufficient for a great number of troubled borrowers, others will need far more assistance. AHFC, in conjunction with the applicable insurance companies, should be able to provide assistance to these borrowers in a variety of ways -- much lower interest rate, deferral of principal payments, etc. To hold down the ultimate cost of the program and to provide more assistance than is needed, AHFC should be able to design various approaches to recapturing some of this assistance if the property ever appreciates in value beyond its original loan amount.

We have discussed with various individuals the thought of establishing a subsidiary corporation of AHFC which would be granted broader powers to address critical issues in Alaska's current housing market. Such a subsidiary may be charged with acquisitions and/or eminent domain powers to achieve public purposes. Further, it could facilitate the consolidation of condominium owners to allow for the conversion of other condominium projects to other uses, including apartment complexes and public sector housing. We believe all such ideas should be explored in detail and are appropriate items to try to adopt this legislative session.

Lastly, AHFC should be given broader investment powers so that it could participate in acquisitions such as Hollywood Vista and Willow Park when it makes economic sense for the agency.

7. HB 433 -- Moratoriums on Judicial and Nonjudicial Foreclosures -- This is intended as a parochial attempt to preserve for Alaskans a greater opportunity to preserve their residence at the expense of lenders, a good portion of whom are nonresident. Similiar legislation was adopted in two mid-western states as responses to the farm crisis. Their experience should be studied in detail before passage of this legislation.

While the approach has appeal on its surface, it appears to also generate considerable technical questions, especially with respect to bonded indebtedness of various Alaska debt issuers. Further, as probably the largest financier of Alaska real estate, various state entities, including the retirement funds, may be injured by this approach. We are also concerned about the potential ramifications if "outside" lenders respond to passage of this legislation by further restricting access of Alaskans to secondary money markets.

We are also confused by the language which suggests that a non-judicial foreclosure entitles the mortgagor to a right of redemption. This appears to be antithetical to the main purpose of nonjudicial foreclosures.

March 7, 1988

8. SCR xx -- Loan Approval Withheld for New Construction -- The Department has been asked to comment on a draft of this resolution. We do not agree with this approach. We do agree that financing agencies must be sensitive to the oversupply of several categories of real estate and should coordinate their financing policies to assure that they do not inadvertently exacerbate a serious problem. We also believe that the inventory of some classes of property may require additional construction to meet a growing demand in the near term. It would be much more appropriate, from our perspective, to allow market forces and coordinated state policy development, such as through the Alaska Housing Marketing Council, to address the concerns expressed in this draft resolution. For example, there are market segments which would be severely paralyzed by a generalized moratorium. It is more appropriate to add private sector representatives to the Housing Market Council.

We feel any response of this nature should be in the manner in which municipalities issue building permits and carry out inspections. As Chairman of AHFC, it seems indisputable that many of AHFC's problem projects were not inspected.

Other

Bridge Bank and Hallwood Trust - we conceptually support these, as well as other initiatives to have assets held by the FDIC or banks managed to minimize the adverse impact on the economy. There needs to be consideration given to both the management difficulties and the carrying costs which will be incurred. In addition, we need to recognize that any state guarantee or stand-by letter of credit could most likely be used.

There are three possible options at this time. Any one, or a combination of these, may work. They are the Anchorage Economic Development Corp., the Sealaska REIT group, and the Hallwood Trust. Should the state choose to participate in one of these structures, it should be prepared to contribute cash as well as properties. Cash flows to fund such an entity will not likely, in the short run, be sufficient to meet expenses. Hence, initial capitalization will be important to help assure success -- understanding that success includes the avoidance of increases of property liquidations.

Distribution

Garrey Peska, Chief of Staff, Office of the Governor
Bob Evans, Legislative Liaison, Office of the Governor
The Honorable Jan Faiks
The Honorable Max Gruenberg
The Honorable David Donley
Gregg Erickson, Office of Management & Budget,

JAS/sh5144M
3488c

MODERATE RISK

BIDCOs

Purpose

To help catalyze in Michigan the development of a new industry of private financial institutions, to fill the moderate risk/moderate return gap between the relatively low risk/low return financings that banks are positioned to provide and the high risk/high return financings that venture capitalists provide. While the Capital Access Program gives banks an important new tool to narrow that gap, there is a limit to how far banks, given their capital structure and regulatory system, can go. BIDCOs, over time, can eliminate the rest of the gap.

Program Description

The Michigan BIDCO Act, adopted in 1986, provides for licensing and regulation of business and industrial development corporation (BIDCOs) by the Michigan Financial Institutions Bureau, as a new class of private financial institution. The licensing and regulation system is not designed to prevent BIDCOs from taking risk, but instead focuses on preventing fraud, conflict of interest and mismanagement, and in promoting accurate recordkeeping and appropriate communication with shareholders. BIDCOs will not take deposits, but would get their capital from equity investments in the BIDCO, and by the BIDCO borrowing money. The prospect of BIDCOs being able to leverage their equity by borrowing money, perhaps over time achieving debt to equity ratios of up to 3 to 1, can play a key role in enabling BIDCOs to address the moderate risk/moderate return niche, while yielding good returns to the equity investors in the BIDCO.

BIDCOs have substantial flexibility in the types of financing tools they can use, e.g., subordinate loans with equity features, royalty financing for product development, straight equity investments, and guaranteed loans under the SBA 7(a) program. It is anticipated that among the various BIDCOs formed in Michigan there will be substantial diversity in geographic focus, as well as diversity in size, market, financing vehicles, capitalization, and approach.

While investing in BIDCOs should be a good investment, yielding a good return with relatively low risk, it is not easy to raise equity capital for something novel such as a BIDCO. To catalyze the process, the MSF is prepared to make equity investments in BIDCOs, contingent on BIDCO organizers raising at least \$2 in private equity for every \$1 of MSF equity. To give a boost to private institutional investors, the MSF is also prepared to take an extra portion of the downside risk in the unlikely event of a failure or liquidation of a BIDCO. Moreover, the MSF's stock in a BIDCO will be nonvoting stock, in order to emphasize the status of BIDCOs as private institutions, with private decision making on their loans and investments. The MSF will invest a maximum of \$2 million in any one BIDCO.

Public Funds

The MSF Board to date has allocated \$12,000,000 to be invested in BIDCOs. This would catalyze the development of a number of BIDCOs in Michigan, with total initial equity capital likely exceeding \$40 million, which could then be leveraged many times over. Taking into account the private equity that will be raised, the potential of BIDCOs to borrow money, the sale of guaranteed portions of SBA loans, and the ability of BIDCOs to attract additional capital to financings, it is estimated that the MSF could leverage its resources, over time, by 40 to 1. Ultimately the MSF will seek to sell its stock in BIDCOs at a profit, leaving behind an industry of permanent, ongoing institutions operating without any MSF investment.

Eligible Users

Any Michigan business.

How to Participate

Prospective BIDCO organizers apply to the MSF for an investment commitment, submitting a detailed business plan. The MSF's commitment can be an up-front commitment which would then help the prospective BIDCO raise the private equity. Once BIDCOs are formed, Michigan businesses would deal directly with the private BIDCO. As of June, 1987, the MSF had made investment commitments to two BIDCOs which are expected to be operational later in 1987. Numerous other groups are considering forming BIDCOs.

Contact

Jim Paquet, MSF (517/373-7550)

MODERATE RISK

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Contact

Jim Paquet, MSF (517/373-7550)

Alliance Bank

March 19, 1988

Mr. Gumbiner has asked us to transmit the enclosed updated "PROPOSAL FOR THE ESTABLISHMENT OF THE HALLWOOD ALASKAN REAL ESTATE STABILIZATION TRUST" to you in an effort to keep you informed.

Should you have questions or comments, they could be directed to him through my office.

Sincerely,

A handwritten signature in dark ink, appearing to read "Fred H. Burrow", with a large, sweeping flourish extending to the right.

Fred H. Burrow
President

Enclosure

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

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

Background

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

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

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

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

The Proposal

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

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

We anticipate that the transferred assets will consist of single family homes, condominium projects, apartment buildings, a few

office buildings and other commercial structures, shopping centers and parcels of raw and improved land. We also anticipate receiving non-performing or partly performing mortgage loans secured by real estate.

It is our intention that all transferred assets will be recorded in the Trust's books at fair market value as of March 31, 1988. The fair market value of real estate properties will be based upon current independent appraisals except for those assets where a sale was pending and subsequently closed. In those cases, the proposed selling price will be considered as a more accurate indication of fair market value. Fair market value of real estate loans will be based upon current independent appraisals. All appraisals will be carried out in accordance with accepted appraisal methods by a qualified independent appraiser who is a member of the American Institute of Real Estate Appraisers and who regularly performs appraisal services for major financial institutions. Credit will be given in the appraisal process for any income flowing from any transferred asset.

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

It is intended that a Procedures Agreement would be drafted to establish a minimum sales price for each of the Transferred Assets. Minimum sales prices will be based upon appraised values. The Procedures Agreement will also establish restrictions on financing by the Trust although it is intended that the Trust will offer financing to purchasers to assist in the sell-out (see "Marketing"). The requirement of the Procedures Agreement will assure the Beneficiary Institutions

that no asset will be sold for less than a certain fixed amount and that the deferred portion of any sales price will be properly secured and payable over a limited period of time. The Trustee's powers and duties would be governed by a Trust Agreement which will generally authorize the Trustee to preserve and manage but not to develop the Trust assets.^d Accordingly the Trustee has discretion, for the purpose of marketing, to obtain necessary appraisals, feasibility studies, engineering studies or marketing surveys. The Trust cannot undertake to develop unimproved properties to the extent of commencement of any sort of major construction.

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

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

Under the terms of the Distribution Agreement, the Trustee will

first satisfy itself that sufficient working capital is available to the Trustee to operate the Trust and will then distribute

- a) To the Beneficiary Institutions such sum as represents a proportional return of appraised value and any profit achieved thereon unless some drawdown shall have been made by the Trustee under the standby credit facility from the State of Alaska more particularly mentioned hereafter.
- b) If such drawdown shall have been made, then any such profit shall first be applied to repay with interest any advance made by the State.

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

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

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

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

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

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

Assistance from the State of Alaska

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

We anticipate that this \$15 million plus the proceeds of sale of Trust Assets will be sufficient to ensure the continuity of the Trust and the payment of all marketing and general and administrative costs and expenses of the Trustee, for at least one year. At the end of the year if the Trust requires further funding from the State, we shall report our then position and request a further sum of up to \$15 million for the next current year in the form of a loan from the State to be secured by a first lien on any profit that may be realized by the Trustee from future sales of Trust Assets, such loan to bear interest at current market rates. The Trust shall have the power to roll over interest payments until sufficient cash flow becomes available from profits generated from Trust operations to make

settlement. Repayment of interest and principal upon such loans drawn down during the life of the Trust shall have priority to any distributions of any profit which shall be made to Beneficiary Institutions.

Marketing

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

For real estate owned, professional quality sales packages will need to be prepared for each real estate property. Each package will contain a full description of the property site and

improvements, income and expense information, lease abstracts, information on available utilities, zoning, taxes, etc.

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

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

Hallwood is a public company listed on the New York and London Stock Exchange, specializing in the financial services industry and owned by approximately 35,000 shareholders and institutional investors. Prominent amongst these are the Fidelity Group of Boston, one of the largest fund managers in the United States, with offices in London, Hong Kong, Singapore, and various other countries. Fidelity owns approximately 11.2% of Hallwood's

equity. Another major shareholder is M&G, one of the largest fund managers in the United Kingdom, controlled by Kleinwort Benson, an international merchant bank with a major presence around the world. Hallwood has considerable expertise in the liquidation and management of distressed real estate. In 1979, Hallwood restructured First Pennsylvania Mortgage Trust, a New York Stock Exchange listed real estate investment trust, owning a major portfolio of distressed real estate and mortgage loans located throughout the United States.

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

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

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

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

Hallwood intends to offer the Alaskan real estate assets to investors in Japan, Hong Kong, Taiwan, Australia, New Zealand, Malaysia, Singapore, the Philippines, Korea, Canada, South America, Germany, Switzerland, Holland, the United Kingdom, France, Scandinavia and also in the U.S. Sales brochures will stress the current Alaskan economic climate and the cyclical nature of the economy and likelihood of early recovery. Foreign investors will be offered a speculative real estate investment on a highly leveraged, non-recourse basis. For the payment of a 20% deposit, buyers will be speculating on the dollar, the oil price and the Alaskan economic recovery with the benefit of an attractive loan package. In short, anywhere where there is a local investment market and no exchange controls, Hallwood will find and motivate an experienced local agent to offer Alaskan

real estate investment properties, both residential and commercial. Buyers will also be offered a management service where our local managers will, for a small fee, manage local investment properties on behalf of non-resident investors, seek new tenants and advise as to prospects for resale. We believe that marketing to foreign investors in this way will not pose a threat to the stability of the local market as an investor buying from Hallwood will be buying on a long term hold with a view to a large capital gain some years in the future.

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

Management

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

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

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

Upon the formation of the Trust, each of the Beneficiary Institutions shall be entitled to nominate a committee member to

the Trust Committee. The Trust Committee shall have the power to remove the Trustee and appoint a successor Trustee in the event of any breach of the Trust Agreement, Procedures Agreement or Distribution Agreement.

Fees to the Trustees

Hallwood as Trustee will not receive any fee in respect of its services hereunder as it is acting to preserve its own financial interests as 85% shareholder of Alliance. In effect, Hallwood will be receiving an indirect fee in that Alliance staff costs in its workout department will be partially reduced by the formation of the Trust.

In the event that Hallwood exercises its put to the FDIC and is thereafter no longer a major shareholder of Alliance, Hallwood's services as manager and Trustee will still be available to the Trust on a fee basis should Beneficiary Institutions request Hallwood to continue its Trusteeship.

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

March 17, 1988

The Hallwood Group Incorporated
767 Third Avenue
New York, NY 10017
Tel: 212-319-2360



Official Business

Alaska State Legislature

Senate

A
P.O. BOX V
State Capitol
Juneau, Alaska 99811

March 22, 1988

Dr. Lester C. Thurow
Dean
School of Economics
Massachusetts Institute of Technology
E52-473
Cambridge, Massachusetts 02139

Dear Dean Thurow:

Thanks again for your willingness to examine the enclosed materials and confer with me again, with a view to providing advice to the Legislature of Alaska.

By this letter, I want to reiterate the concerns that led me to consult you on these matters.

The economy of the "railbelt" -- the region of Alaska which lies between Seward and Fairbanks, and includes Anchorage (where I come from) -- is in shambles today. Some observers think that things are "bottoming out", and others foresee more disasters ahead.

Some observers say the Legislature should do nothing, and argue that it was in part policies of state government which precipitated the present crisis. I think that they mean that at the peak of the oil boom, the legislature authorized subsidies for home construction and home ownership, and created loan programs which provided financing for office buildings.

It is also argued that if more banks fail, there is no reason for legislative concern; when the market warrants additional institutions, they will come to Alaska (and Alaska does allow interstate bank operations).

It is contended, too, that the present economic plight has "winners" as well as "losers". For example, the "winners" are said to be tenants of apartments whose rental rates have declined, or small business people who have smaller overheads today because of the prevailing economic downturn. The "losers" are portrayed as investors, or "speculators", people who took risks and should understand that capitalism can be harsh, or even cruel, but that it is not government's business to "bail out" those who may not have been "prudent".

Of course, there is a contrary view that more bank failures will promote a very undesirable oligopoly in financial services, notwithstanding the survival of credit unions. There is also concern that unless the state works to stabilize

property values, there will be a "downward spiral" that will further erode the tax base for local governments, cause more people (including small businesses) to be "under water", produce more layoffs (in both public and private sectors), have adverse psychological effects, and reduce the liquidity and lending capacity of the banking system.

The tenant, some Alaskans will contend, who is enjoying lower rents is probably also making less money at the workplace, if he or she is even employed, and is likely to encounter reduced fringe benefits, such as health coverage. The small business renting office facilities at lower cost probably has reduced revenues, too, and a much tougher time getting working capital from lenders -- especially if the value of any collateral which the business offers is reduced in the present economy.

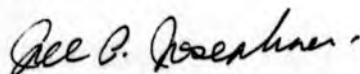
After you have reviewed the materials attached, I would appreciate another call at (907) 465-4525. We could then discuss how, when, and under what conditions you might be willing to participate with senators and representatives by teleconference. I should add that I have talked to the President of the Senate, Senator Jan Faiks, the Majority Leader of the House of Representatives, Representative Max Gruenberg, and the co-chair of the Senate Committee on Economic Recovery, Senator Arliss Sturgelewski, and they are all interested in receiving any comments or recommendations you might have.

Should you have any questions, or if there are other materials I can supply, please don't hesitate to let me know.

Thank you for your interest and responsiveness to my request. As a lay person, I have been an admirer of your writings and commentary in The New York Review of Books and other periodicals and forums, and I value very much any advice you can give us. I find that all of us here, regardless of party affiliation, are interested in doing what makes good public policy sense. The economic situation, perhaps, is in a way bringing out the best in Alaska's elected officials because the situation is too serious for "business as usual".

With best wishes, I am

Sincerely,



Joe P. Josephson

cc: Hon. Jan Faiks
✓ Hon. Arliss Sturgelewski
Hon. Lloyd Jones
Hon. Max Gruenberg

MISCELLANEOUS INFORMATION

FILE 3

State of Alaska

House Majority Leader

COMMITTEES

HOUSE HEALTH, EDUCATION
AND SOCIAL SERVICES
HOUSE JUDICIARY
HOUSE RULES



Representative Max F. Gruenberg, Jr.
District 11
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465-4968/4986

914 CLAY COURT
ANCHORAGE, ALASKA 99503
(907) 276-6844

September 30, 1988

MEMORANDUM

To: Representatives Boucher, Miller, Ulmer, Adams,
Brown and Donley

From: Caroline Lombard *C. Lombard*

Re: Herc Committee

Enclosed are materials that were handed out at Thursday's meeting -- two letters we have received regarding HCR 52 and correspondence from Donn Hopkins, who testified at the meeting.

cc: Rep. Ben Grussendorf
Sen. Arliss Sturgulewski
Sen. Lloyd Jones
Rep. Alyce Hanley

STEVE COWPER, GOVERNOR

DEPARTMENT OF EDUCATION
EDUCATIONAL FINANCE AND SUPPORT SERVICES

GOLDBELT PLACE
801 WEST 10TH STREET
P.O. BOX F
JUNEAU, ALASKA 99811-0500

September 8, 1988

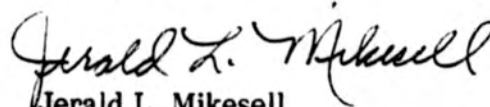
The Honorable Max F. Gruenberg, Jr.
3111 C Street, Suite 440
Anchorage, Alaska 99503

Dear Representative Gruenberg:

Thank you for the opportunity of reacting to HCR 52. I have reviewed the bill and the suggested alternative. I feel that having such information available on a quarterly basis would be extremely beneficial to all involved in making decisions relating to the economy.

Reports generated by the University of Alaska's Institute of Social and Economic Research are always well done. I have no suggestions or recommendations at this time.

Sincerely,



Jerald L. Mikesell
Director

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

DIVISION OF FINANCE

STEVE COWPER, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811-0204
PHONE: (907) 465-2240

September 23, 1988

The Honorable Max F. Gruenberg, Jr.
Representative
3111 C Street, Suite 420
Anchorage, AK 99503

Dear Representative Gruenberg:

Thank you for the opportunity to respond to your proposed resolution and bill which would provide for a report on the State's economy. While the Division of Finance would be involved only to extent that we may be requested to provide data, I do have a couple of contacts and suggestions.

First, the University of Alaska is in the process of coordinating a project to identify sources of financial and social data from various sources around the state. I would suggest that you contact Dr. Thomas A. Gaylord, Director of the Office of Institutional Research, University of Alaska, Eighth Floor, Gruening Building, Fairbanks, Alaska. Also, I have been informed that Lee Gorusch of the Institute of Social and Economic Research in Anchorage may be of some assistance.

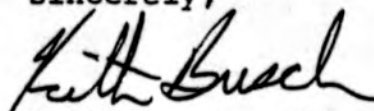
With regard to your specific proposal, I would like to make an observation from my past experiences. The Division of Finance is able to provide summary information on State expenditures and employees. However, there is a limit to our ability to summarize this data and it has been my experience that other agency data bases have similar constraints. For example, the University of Alaska recently requested that we provide a summary of State expenditures by the location making the purchase. We were unable to do this. The State's accounting system is able to summarize where the purchase is being made, in other words where the vendor is, but we are unable to determine the location making the purchase. To the extent that research information is requested at a detailed level, the cost of extracting and maintaining this financial information becomes increasingly expensive. Therefore, I would suggest, as your resolution and bill appears to do, that financial reports and financial information be maintained at the highest level possible.

Representative Max F. Gruenberg, Jr.
September 23, 1988

Page 2

Again, thank you for the opportunity to respond to your proposed legislation. If I may be of any further assistance, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Keith Busch".

Keith Busch, CPA
Director

KB/gyr

14/3D1/091588-09

cc: Commissioner John M. Andrews
Department of Administration

Jack Fagnoli
Office of the Governor

Donn Hopkins
FBKS

PROPOSED ALASKA DEVELOPMENT FUND

The Alaska Permanent Fund offers an unique opportunity for financing the rapid growth of the Alaska economy. Instead, it is being used by borrowers outside of Alaska to finance economic growth in other states. And the so-called "dividends" which are paid to Alaska residents have no greater impact on the Alaska economy than do welfare checks. What a waste!

Waste of another Alaska resource is even more critical: waste of the human resources. Alaskans are not using their abilities to the fullest. Many are leaving the state.

Combine those resources, money and brainpower, in a creative way and all of Alaska's resources will be put to highly efficient use. There is one way to do that:

1. Give each Alaskan the option of (a) continuing to receive his "dividend" or (b) participating in ownership and management of the (proposed) Alaska Development Fund. If he selects option "b" a Development Account will be established for him

in the Alaska Development Fund.

2. Each year his "dividend" will be deposited in his Development Account. The amount deposited will be augmented by an equal share of all royalties, severance taxes and other income received by the State during the preceding year from sale of non-renewable resources that are not otherwise distributed according to law. Ideally, the only other distribution would be to the Permanent Fund.

3. Every owner of a Development Account may nominate an existing or new Alaska business for inclusion on a roster of businesses approved to receive a loan from the Alaska Development Fund. Procedures similar to those followed by the U. S. Small Business Administration will be used to determine which of those businesses nominated will be placed on that roster.

4. Every owner of a Development Account may then loan all or part of the balance in his account to a business on the roster of approved busi-

notes. The loan must be used, only, for purchase of real estate, capital equipment, and raw materials.

5. The rate of interest on the loan will be the same as that charged by the Small Business Administration or such higher rate as may be necessary to attract the desired total loan amount.

6. ^{net} All of the income from the amount loaned from a Development Account is paid to the owner of the account. Payments on the principal are returned to the account. Pre-sold portions of the income (interest) needed to compensate the Fund due to inflation and loan defaults and for costs of account administration are charged to each account.

7. Balances remaining in Development Accounts will be managed in the same way as the Permanent Fund.

8. Account owners may own and or work for the businesses to which they loan money from their account.

9. Funds in Development Accounts of persons who die or leave the state are treated as income to the Fund. Interest on outstanding loans from such accounts accrue to the estate of the deceased, to the departed person.

Advantages of this use of non-renewable resource income are:

1. The current value of the resource is preserved, forever, for use by future generations of Alaskans.

2. The people who live, work, and invest in Alaska receive interest income derived from successful investments.

3. The people who need loans to pay for capital investments have a ready source of finance.

4. Many people will consider a variety of business and investment opportunities, maximizing use of available brainpower.

5. Borrowing businesses and loan amounts can be almost any size.

Larger businesses will have to convince more account owners to invest.

6. Many, relatively efficient, worker-owned and -managed businesses will be established.

Disadvantages of this use of non-renewable resource income are:

1. Under the "ideal" situation, basic and special services will have to be paid for by taxes and user fees. This requirement could also be considered an advantage, because (a) assessment of government costs will be more fair and (b) there will be more careful oversight of government if Alaskans have to pay, directly, for government services.

2. There may be more risk of capital funds than if they were managed, solely, by professional money managers, as is now the case. However, careful oversight of the Alaska Development Fund managers, especially of those who place nominated businesses on the roster, should keep the losses to an acceptable minimum. And

Alaska would not be subject to as much loss if the National Economy should collapse. It would still have, in the State, all of the buildings and other capital goods purchased by the Alaska businesses to which the loans were made.

ECONOMIC POLICY ACT OF 1988

(Draft by Donn Hopkins, 1-15-88)

WHEREAS Alaskans are suffering because of economic conditions outside the state; and

WHEREAS Alaskans bear the costs of transporting natural resources out of the state, and goods and services into the state; and

WHEREAS Alaskans have available for use in the state all of the natural, financial, and human resources necessary to create a potentially self-sufficient economy, not dependent upon outside economic conditions and not subject to such transportation costs; and

WHEREAS continuing policies of the legislature are for the state to foster the economy of Alaska through purposeful development of the state's abundant natural resources, and to undertake activities that serve as a catalyst to responsible economic development (AS 44.99.100.); and

WHEREAS the Department of Commerce and Economic Development has all duties and powers necessary and proper in relation to economic development and planning for the state (AS 44.33.020 (20));

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

1. Economic policy plan is the aggregate of all policies in the state constitution, laws, and regulations, both expressed and implied, which materially affect the state economy.

2. The Department of Commerce and Economic Development shall

(a) describe in from 500 to 1,000 words the current Alaska economic policy plan,

(b) design alternative economic policy plans which would improve the Alaska economy, some of which could produce a near-self-sufficient economy,

(c) project the effects of each plan on the human, financial, and natural resources which now are or which in the future will be available for use in the state,

(d) estimate the probable economic, social, and environmental costs and benefits of each policy plan, and

(e) present its findings, together with any comments the governor may care to make on them, to the legislature three hundred sixty days from the effective date of this Act.

3. The legislature intends, in calling for and funding this economic planning, that

(a) the planning involve concerned citizens, businesses, and governments,

(b) to the extent practicable, staff work be done by current state employees,

(c) only, resource information which has already been published or assembled be used, and

(d) analyses be done using an existing national or regional economic model best suited to the task.

4. This Act may be referred to as the Economic Policy Act of 1988.

**SUGGESTED SCHEDULE OF WORK FOR
PROPOSED ECONOMIC POLICY ACT OF 1988**

(by Donn Hopkins 1-15-88)

WITHIN 30 DAYS

1. Select leader and current State employees for project.
2. Complete staffing.
3. Select contractors, if required.

WITHIN 60 DAYS

4. Form consultive committees.
5. Select economic model.
6. Assemble and index available data.
7. Adopt detailed schedule for completion of work.

WITHIN 90 DAYS

8. Adopt Alaska economic regions for analyses. The six regional planning units used in Alaska Regional Profiles may be most appropriate.

9. Adopt time periods for projections. A minimum of four are suggested: short-term (2 years), mid-term (6 years), long-term (18 years), and ultimate development (time dependent on policies).

As used here, ultimate development is, either, a steady-state economy, or, a climax economy. The fourth time period ends for an economic policy plan when the steady-state or

the climax is reached. It could be reached in less than 18 years.

Projections should be made of the number of years steady-state economies would endure. Economic declines which begin after 18 years could, also, be analyzed. All projections should extend no longer than 50 years because projections of conditions at that time are highly speculative.

10. Select economic, social and environmental characteristics to be used in the projections and estimates.

11. Adopt a tentative format for the project reports, including headings for text and names for tables, graphs, and maps.

WITHIN 120 DAYS

12. Select several ultimate-development economies to be studied. Include one derived from the current Alaska economic policy plan. Include one that is the smallest near-self-sufficient economy which can compete, successfully, in Alaska with Outside suppliers. Include a near-self-sufficient economy which gives Alaskans their highest economic standard of living of any near-self-sufficient economy. If different, include one that gives Alaskans their highest economic standard of living. Include, initially, such other ultimate-development economies as can reasonably address major concerns of the consultative committees.

13. Design for analysis a range of economic policy plans which could produce the above described self-sufficient

economies and other economies which offer substantial potential benefits to Alaskans. The initial analyses will suggest alternatives.

WITHIN 150 DAYS

14. Identify the types, and project the amounts, of human, financial, and natural resources that would be required, under each policy plan, to create (and maintain for steady-state economies) each of the ultimate-development economies, by economic region, during each time period.

15. Estimate productivity per worker and per capital invested for each of these economies, regions, and times.

16. Estimate economic and total standards of living for each such condition.

17. Using the initial results of the analysis, redesign the policy plans to increase their efficiency and range, and repeat steps 14 through 16 until further redesign would appear to offer no significant benefits.

WITHIN 180 DAYS

18. Prepare a preliminary report on the results of the investigation to date.

WITHIN 210 DAYS

19. Publish the preliminary report, and circulate it to the consultive committees and to the news media.

tain responses to the contents of the report from
committees and the general public.

WITHIN 240 DAYS

21. Using the comments received, select for final analysis seven policy plans, redesigned as necessary to address the responses. The policy plans should include the current policy plan, three near-self-sufficient policy plans, and three other economic policy plans which best represent the range of other policies considered practicable by the staff and the respondents.

22. Repeat the analyses done under steps 14 through 17, above.

WITHIN 270 DAYS

23. Prepare a final report on the investigation.

24. Submit a draft of the final report to the Governor for review and comment.

WITHIN 300 DAYS

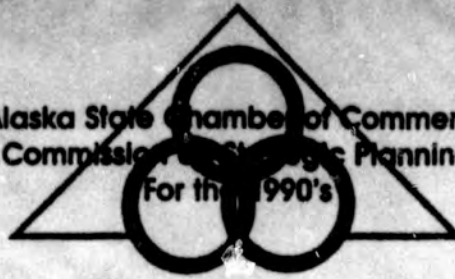
25. Make the report "camera ready".

26. Incorporate the Governor's comments.

WITHIN 360 DAYS

27. Publish the report and transmit it to the Legislature.

Alaska State Chamber of Commerce
Commission on Strategic Planning
For the 1990's



Harold Heinze, Co-Chairman
ARCO Alaska, Inc.

Peter McDowell, Co-Chairman

*Per Frank
see pg 14.28*

J. Brattain J. Brecht G. Easley D. Gottstein R. Huhndorf D. Langworthy A. Parrish W. Soboleff M. Thompson J. Usibelli R. Wien R. Williams M. Willis

REPORT TO

ALASKA'S ECONOMIC LEADERS

JUNE 1987

This Report was reproduced for the Alaska State Chamber of Commerce Convention and Trade Show, October 7-10, 1987, by the School of Business and Public Administration, University of Alaska Southeast, 1108 F Street, Juneau, Alaska 99801

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Technical support for this report was provided by Mary Ann Higgins, Marketing Planning & Management Consultants, Anchorage.

The conclusions in this report are those of the Alaska State Chamber of Commerce Commission on Strategic Planning for the 1990's.

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INTRODUCTION

The Commissioners

The sixteen Commissioners included:

- Harold Heinze, Co-Chairman, ARCO Alaska, Anchorage
- Peter McDowell, Co-Chairman, Juneau
- Janna Brattain, Merrill Lynch, Pierce, Fenner & Smith, Inc., Anchorage
- Julius Brecht, Wohlforth, Flint & Gruening, Anchorage
- George Easley, Alaska Aggregate Corporation, Anchorage
- David Gottstein, J. B. Gottstein, Anchorage
- Roy Huhndorf, Cook Inlet Region, Inc., Anchorage
- Don Langworthy, IBM, Anchorage
- Al Parrish, Westmark Hotels, Anchorage
- Dr. Walter Soboleff, Sealaska Corporation, Tenakee Springs
- Morris Thompson, Doyon, Ltd., Fairbanks
- Joe Usibelli, Usibelli Coal Mine Co., Healy
- Richard Wien, Florcraft, Inc., Fairbanks
- Gary Wilken (alternate), Wilken-Alaska, Inc., Fairbanks
- Bob Williams, Chevron USA Inc., Kenai
- Mary Willis, Humana Hospital, Anchorage

The Commissioners were also joined by seven observers, including:

- Robert Atwood, Anchorage Times, Anchorage
- Al Fleetwood, Enserch Alaska Services, Inc., Anchorage
- Mark Hazelwood, ARCO Alaska, Anchorage
- Francis Hurley, Archdiocese of Anchorage
- George Krusz, Alaska State Chamber of Commerce, Juneau
- Byron Mallott, Sealaska Corporation, Juneau
- Sally Smith, Alaska State Chamber of Commerce, Anchorage

The Mission

In November 1985, the Commission adopted the following Mission Statement:

"The charge to the Commission is to build a statewide coalition of thoughtful Alaskan economic leaders to identify and consider the implications and opportunities of the major social, political, and economic issues facing Alaska into the 1990's.

The Commission will develop and communicate a framework and unified strategies for the Alaskan political economy that draw strength from our abilities and highlight our common concerns.

Recognizing that:

- We have accumulated a permanent fund of intellectual capital more than adequate to the task at hand.
- Diversity of economic forms, cultures, and governance institutions is necessary so capitalism may thrive.
- It is important to draw upon all elements of the Alaskan private sector in identifying and achieving common goals.
- Alaskans traditionally reject monolithic solutions in favor of maximum self-determination.
- There is a social responsibility dimension to the economy that must be considered."

Purpose of a Strategy

Alaska needs an economic framework and strategies to:

- * Keep abreast of changing economic conditions
- * Account for conditions unique to the state
- * Set priorities among the numerous State and local government actions that are important to economic performance
- * Identify and curb actions harmful to economic progress
- * Coordinate related actions that have economic impact.

A strategy does not imply the development of detailed plans nor a presumption to direct the activities of the private sector. To the contrary, a strategy is important for assuring the development of a market-driven and competitive economy.

The Methodology

In the summer of 1985, Alaska State Chamber of Commerce Chairman Al Fleetwood established the Commission on Strategic Planning for the 1990's. Now, two years later, after numerous meetings, teleconferences, letters and memoranda, and review of volumes of material, the Commission has prepared its findings and action recommendations.

The charge of the Commission is to build a STATEWIDE coalition of thoughtful -- and thought-provoking -- Alaskan economic leaders. The goal of the coalition is to study the implications and opportunities of the major socio-political and economic forces which are affecting the Alaskan economy today and will be facing the Alaskan economy into the 1990's.

Toward that end, the Commission's co-chairmen, Harold Heinze and Peter McDowell, recruited representatives of major industries with diverse philosophical perspectives from various geographic regions throughout Alaska.

Each member of the Commission explained his or her industry and the factors for success in that industry. Members also prepared work products which included issue papers and factors for success background papers on the basic and secondary economic sectors affecting the Alaskan economy and the strategies for development which the Commission identified.

Because the Commission recognized that business people simply do not have the time to go through a long, traditional strategic planning exercise, they decided the end-product should be reduced to its essence ... a simple idea or framework that everyone could understand. They decided that it would not be useful to create a 'big plan' for business or the State of Alaska. The goal became the creation of a framework -- simple, adaptable to various regions, situations and specific local conditions. This framework they christened the "Export Model of the Alaskan Economy."

THE FRAMEWORK: An Economic Model for the Alaskan Economy

When the State Chamber started the Commission on Strategic Planning in 1985, they felt that what would be of most use on a statewide basis was to provide a framework to businesses (and governments) for strategic planning. This framework had to come from the "free enterprise, business perspective." The

result was the "Export Model of the Alaskan Economy."

The Commission reached consensus on its major conclusion: that an 'export model' is the approach which best facilitates evaluation of the Alaskan economy. Business sectors which primarily bring cash IN to the state (as opposed to sending cash outside the state or churning it within the state) would be part of the Export Model.

If a business understands its position in its local market relative to the Model, it will more easily be able to identify strategic decisions that will be required to remain competitive and profitable. Thus, the Model can become a stimulus for economic development.

Some Definitions

What we are talking about in economic terms is an "economic base analysis." An economic base analysis identifies the key economic activities of a community/region/state/nation. It divides the local economy into two segments:

- (1) Firms and individuals serving export markets;
- (2) Firms and individuals serving markets internal to the local economy.

The goods and services which the community sells outside its boundaries are considered exports. Exports include ALL sales made outside the community, not just trade with foreign nations. The remaining goods and services serve the local market. Local would be defined as the geographic region being studied.

In this division of markets, there is a cause and effect relationship. Export markets are considered to be the prime mover of the local economy. If employment serving this market rises or falls, employment serving the local market is presumed to move in the same direction. Thus, if a basic industry must lay off workers, the local retail merchant will feel the impact as the laid-off workers have less to spend ... or leave that local economy. Because of the prime mover role, export sector economic activity is considered as "basic." Employment which serves the local market is considered adaptive and is called "secondary."

Basic economic activity drives secondary economic activity usually in the same relative proportions over time. A change in basic activity will eventually produce a proportionate change in secondary activity.

Why Exports?

Exports help the Alaskan economy to grow. Exporters with big payrolls make it grow proportionately faster than exporters with smaller payrolls ... because large "basic sector" projects tend to cause more activity in the secondary (service) sectors of the economy -- as described earlier.

Jobs not tied directly to exports are important, of course. The more goods and services available in-state, the lower the leakage of purchasing power from the economy. This growth in

such "support" sector jobs is, however, severely constrained by growth in the export sector ... the lower the exports ... the lower the level of support required.

In the recent past, Alaska had a large export surplus mainly because of Prudhoe Bay ... now that has changed. The wellhead value of the oil industry contribution to net exports has fallen by two-thirds from 1985 (\$12 billion) to 1986 (\$4 billion).

Export/basic sector projects have a "multiplier" effect. They create more jobs in total than those related to the basic industry project. A job at a new defense installation, for example, will set off a chain of transactions that results in one or two other jobs being created in trade, services, or other support industries.

Alaska needs all the export projects it can get. Size of the enterprise is not so much the issue, but rather its viability. This will require better analysis ... to see where in the Alaskan economy a particular venture fits. Thus, the Commission suggests the Export Model as the initial framework to analyze the economics of projects, communities, regions and the state as a whole.

PRIMARY/BASIC EXPORT SECTORS

The basic export sectors playing the prime mover role in Alaska's economy are oil and gas, fishing, timber, minerals, coal, travel/tourism, national defense, federal civilian services, and the permanent fund dividend.

The following table depicts the Export Model summarizing the Alaskan economy in 1986. The Commission estimated the gross values of "exports" from the state for the basic sectors.

The gross value of oil and gas declined from \$12 Billion in 1985 to \$4 Billion in 1986. Oil is almost two-thirds the value of total exports ... even after the drastic drop in the price of oil from 1985 to 1986. Looking at the change in that one number for oil and gas, however, makes clear what has been happening in the Alaskan economy.

The value of fish caught by resident fishermen in Alaskan waters in 1986 is estimated to be \$300 million. Research indicates that an additional \$600 million goes to fishermen from other states.

The dollars generated from timber are estimated to be about \$200 million, primarily from round log, pulp, cant and heavy timber exports to East Asian markets.

The minerals number of \$100 million may be slightly high as placer miners were severely affected by environmental regulations in 1986.

Coal, at \$25 million primarily represents coal exports to Korea.

The travel/tourism figure, estimated at over \$500 million for 1986 (excluding transportation to and from Alaska), is interesting because of potential growth -- and that it represents only three months of activity.

"EXPORT MODEL"

Of The Alaskan Economy

1986

		<u>Millions</u>
Oil And Gas		\$4,000
Fishing		300
Timber		200
Minerals		100
Coal		25
Travel/Tourism		500
Defense	1,600	
Other Federal	1,300	
	<u>2,900</u>	
Less Federal Taxes	2,000	900
Permanent Fund Dividend		300
Total Estimated Value		<u>\$6,325</u>

Defense and the federal civilian sectors have definite growth potential due to Alaska's unique geopolitical situation, its remoteness, other natural features, and abundant public domain. Defense spending in Alaska is about \$1.6 billion. Other federal spending is about \$1.3 billion, for a total of approximately \$2.9 billion. Federal taxes paid by Alaskans were estimated to be about \$2 billion, leaving a residual of \$900 million contributed by the federal government to the state.

All dollar values are "wellhead," "ex-vessel" or "point-of-production" numbers. Travel/tourism, the permanent fund dividend, and federal government expenditures, while not true exports in the technical sense of the word, were considered such because of their capacities to bring wealth into the state. The 1986 Permanent Fund Dividend, estimated at \$300 million, was initially excluded. The decision was made to add the Permanent Fund Dividend into the model as the dividends do represent net dollars flowing INTO the state (although not directly from a basic economic industry).

SECONDARY SERVICE/SUPPORT SECTORS

The Commission identified transportation, world markets/international trade, private retail and wholesale trade and services, state government services, transportation and construction services, and local government services as the essential secondary sectors active in the Alaskan economy. These industries are often the "facilitators" or "conditions precedent" which make the importation of wealth possible. Transportation is

a good case in point. While transportation does not directly generate wealth, it does facilitate the importation of wealth and does have the effect of increasing wealth.

Transportation and Construction

After careful analysis and discussion, the Commission agreed that the transportation and construction industries per se are not importers of wealth to Alaska. Rather, they provide services to the other segments of the Alaskan economy. Under this premise, economic activity related to transportation and construction is an "effect" caused by other wealth generating activities or opportunities and not a "cause" in itself.

World Markets/International Trade

The effects of the globalization of the U.S. economy are felt with varying degrees of intensity in different states and regions. For example, states that depended on resource industries such as timber in Washington and Oregon, and copper in Montana and Arizona, found their economic mainstays drastically diminished or lost to foreign producers in the 1970's. These economies are just now beginning to turn around.

Farm states have been badly hurt by lagging exports, due in part to unfavorable exchange rates -- some of which may be improving. Most recently, since the beginning of 1986, the drop in oil prices has severely affected Texas, Oklahoma, Louisiana, and other oil-producing states.

What does this mean for Alaska? World markets are volatile and subject to rapid change. The natural resource (basic) sectors which fuel our economic engine are primarily dependent on the unpredictability of the world economy and world politics. This means that awareness of these interdependencies is key to economic success in Alaska.

There is economic opportunity in changing international markets. For example, the travel/tourism industry has identified over 600,000 tourists in Japan and 400,000 tourists in Germany who would be interested in coming to Alaska in the next five years. The challenge now is how to reach those markets.

Similarly, the Alaskan commercial fishing, mining, and timber industries can benefit from knowledge of their foreign markets' changing demands. New business concepts need to encompass worldwide market strategies for the 1980's and 1990's. Some of these might include:

- * Finding approaches for gaining access to rapidly growing markets -- whether in computer software, hardware, telecommunications, or commercial fishing.
- * Adjusting expectations to realistically lower levels of expected return in high-potential growth markets, in order to establish market share, compete and maintain long-term capital/cash flows.
- * Targeting key country markets in several geographic regions (including the U.S., Europe, Japan, and the rest of Asia) for market entry, growth and cash flow, as well as to control the share and cash flow of key competitors.

- * Creating new business tools to deal with currency fluctuation, exchange risks, and countertrade.
- * Developing joint venture, trade or direct investment opportunities in foreign business climates.

State and Local Government

In some regions and communities State and local government services are considered part of the basic/primary economic sectors. They actually may be a "basic" sector in a community such as Seward -- which has a large proportion of its "export" dollars attributable to State government. However, for the purposes of developing a framework from which to view the STATEWIDE Alaskan economy, the Commission felt they are clearly secondary economic sectors -- in that they do not provide the basic "fuel" for the economic engine. For example, 85 percent of the revenues of the State of Alaska were generated by the oil and gas industry during the early 1980's. If economic activity did not occur in the oil and gas sector, there would be considerably less State government services.

STRATEGIES FOR DEVELOPMENT

As explained in the earlier description of how the 'Export Model' works, just as a basic sector industry creates jobs ... declines in such industries result in job loss. By mid-1986, lower oil prices were projected to require cuts in State government expenditures, which included reducing state employment. These cuts in the secondary government economic sector, in turn, result in losses in other secondary industries.

It is critical that Alaska's economic leaders act now to reverse this trend of job losses. No single major economic event is on the immediate horizon to rescue the state in the near term.

What will be required is economic leadership, prioritization and analysis of opportunities, and most importantly, the courage to act now to safeguard the economic future of Alaska. Toward that end, the Commission has developed several "Strategies for Development" for immediate action.

Perhaps the most important work of the Commission was the identification of these "Strategies for Development." The Commission felt it essential to focus on new directions for economic growth and diversification ... as well as to provide continued support for the existing basic economic sectors currently being pursued -- such as tourism and the natural resource industries. (The current basic sectors are important -- but the Commission was also interested in a new focus on areas of economic potential which may have been overlooked).

Six strategies were identified. In addition to the overall strategy of continued support for all the existing basic sectors, the "Strategies for Development" also include three development alternatives which aim at expanding the export sectors of the Alaska economy -- as defined by the Model. The export sector priorities identified are high technology and software development, increasing the national defense presence in Alaska, and the expansion of Alaskan participation in the growth and Americanization of the commercial fisheries off the coast of Alaska. The other two strategies for development identified are

primarily import substitution alternatives. Their objective is to reduce the leakage of insurance premium and financial investment servicing dollars outside of the state of Alaska.

Continued Support for Existing Basic Sectors

Alaska has a resource-based economy. The Commission recommends continued support of the other basic sectors identified as strengths in the Export Model: coal, minerals, oil and gas, timber, and travel/tourism.

By suggesting additional strategies, the Commission does not imply that resources in terms of finance or personnel should be removed from existing economic developments which are cost-effective and producing positive results. On the contrary, the Commission supports continuation of programs such as the one developed for the travel/tourism industry. The State needs to put its economic investment dollars in viable programs which have the highest potential success rate as well as highest potential return on the investment. The Commission supports and encourages development initiatives at the local and regional level in Alaska, especially those like the pursuit of the 1994 Winter Olympics.

High Technology/Software Development

A 1983 survey by the Congressional Office of Technology Assessment found 150 programs in 22 states designed to promote

technology as a major sector of the state's economy. By 1985, 40 states reported initiatives in this area. These initiatives cover a wide range of activities from investing in applied research and development to providing financing for new product development and management assistance to fledgling entrepreneurs.

What is "High Technology?" One definition is "adding more mind power than muscle power to a product." The Commission developed a partial list of types of industries which could fit this category. These include:

- Arctic Science
- Bio-Technology
- Electronic Design and Assembly
- Renewable Energy
- Software Development
- Telecommunications

From this list, the Commission selected software development as one industry which has high potential as a viable development initiative for Alaska.

Current characteristics of the software industry make it an attractive economic development target. The market is being driven by rapidly changing electronic capabilities -- existing now and in the research stages. Other positive software industry features include inverse price/performance ratios, an expanding number of users, expanding number of networks, massive parallel systems, and break-throughs in artificial intelligence and robotics.

Most importantly, the compound growth rate (CGR) for

software sales estimated through 1995 is 18.5 percent, second only to telecommunications. The actual 1985 total industry revenues for systems and application software worldwide was \$13.6 billion. This market is expected to grow to \$43.6 billion by 1991, with an estimated CGR of 21 percent. If Alaskans were to capture even one-half of one percent of this market, the gross revenues would be over \$200 million.

The following are other market characteristics:

- * 15,000 vendors in 1985
- * 15 companies produced over \$100 million in revenues
- * Lotus posted \$226,000,000 in 1985 revenue
[a firm not even in existence in 1980]
- * Protected intellectual property
- * High margin products
- * Low start-up costs
- * Key factor for success: creative ideas, not "next to market access"

Other states are aggressively pursuing this strategy for development:

NORTH CAROLINA has established five technology centers, distributed throughout the state. They started early, offer a certain lifestyle, favorable tax laws, and a work ethic attitude. In addition, they formed a partnership between higher education, government, and the private sector to push the program.

MASSACHUSETTS AND NEW YORK offer special credits for research and development, real property tax reduction, and small business advisory assistance through the state college systems. They also provide financing for software start-ups through their

"Business Development Corporations," and loans from state pension funds.

ILLINOIS provides inexpensive office space, grants and seed money, and has established the Illinois Venture Fund and Illinois Technology Centers.

HAWAII started their technology development program about three years ago. The plan was to break ground in 1986 for three "high-technology" parks. Also, a high-tech center was planned for the University of Hawaii -- promoting 10 high-tech disciplines. Other assets include lifestyle and geography.

Strategy for Success

HOW CAN ALASKA COMPETE? First, Alaska can offer incentives for software start-ups to locate in Alaska. These would include real property (possibly free state or municipal land ... for a certain lease period), loans, and/or credits. The credits would be to encourage investment and research and development -- aiming at attracting companies committed to Alaska for the long-run. Tax incentives could include eliminating the "unitary" tax.

The most common structure for administering a state technology development program is a joint public/private body that includes representatives of the university and private business communities as well as the government. The organizations can be established as independent public agencies, private non-profit corporations, or may act in an advisory capacity to existing state agencies.

Two types of structures could provide the impetus for development of the software industry in Alaska. The first, "Software Development Technology Center(s)," housed at the University of Alaska, would be a vehicle for conducting research, and to create a reservoir of basic technological knowledge and human expertise needed for future entrepreneurial vitality. Such centers can be designed to attract new businesses, to encourage the creation of new firms through the spin-off of new products, or to help solve the technological problems of existing businesses.

The second, an "Alaskan Software Development Corporation" could be set up to develop incentives, draft required legislation, procure funds, and administer the program.

Attracting More National Defense Installations

The objective of this strategy for development would be to expand the military presence in Alaska by establishing a formal mechanism for promoting new Department of Defense (DOD) installations in Alaska.

The Air Force, Army, Navy, Marines, Air National Guard, Army National Guard, Reserves, U. S. Coast Guard, and the Corps of Engineers have a significant impact on the state of Alaska. As indicated earlier, their total contribution to export dollars was estimated to be \$1.6 billion in 1986.

Manned installations of DOD and the U. S. Coast Guard are established at more than 30 locations throughout the State. There are very large bases with several thousand people and

numerous outposts with fewer than 100. In addition, there are a large number of installations, such as radio relay sites, which are not staffed on a regular basis. Due to limited living accommodations at many remote and isolated locations, assigned personnel are often not accompanied by their families. In locations where community housing is available, members of the military are accompanied by their families.

As of September 1985, the military labor force and employment totaled approximately 30,000. This number translated to a total services population of over 80,000 -- about 16 percent of the State total -- including retirees, inactive duty personnel, and dependents.

The existing military installations are shown on the following map.

Strategy for Success

HOW CAN ALASKA COMPETE FOR DOD DOLLARS? Alaska has a strong military tradition and unique geopolitical defense position -- considering its proximity to the Soviet Union and that the Soviet fleet is the largest in the world.

The State needs to, first, identify defense projects which are compatible with Alaska's needs and which meet needs of the DOD. Examples might include (1) security/privacy needs -- easily supplied by Alaskan communities' remote locations, (2) transportation infrastructure, and (3) electric power, which would also meet Alaskan goals and objectives.

PRIMARY MILITARY INSTALLATIONS IN ALASKA

BY REGION



Secondly, the State needs to present a written proposal explaining how Alaska can meet DOD requirements for "XYZ project." This approach fits with the Pentagon mode of operation of responding to -- not generating -- proposals. Alaska needs to be SOLD as a "site." To facilitate new projects the State could offer incentives to DOD in the form of land (free, or on a long-term lease), or providing matching funds (at a minimum) for road and/or power line improvements.

What kinds of projects are suggested? Several current projects provide a preview. For example, the 6th Light Infantry Division is adding 3,700 jobs and \$500 million to the economy. The Backscatter over-the-horizon radar project will add \$450 million and 500 jobs. Dew Line upgrades are worth an additional \$100 million. The Acoustic Measuring Range near Ketchikan will add 40 jobs and \$20 million.

Potential projects could include underwater communication, "cold" storage dispersal, getting on the "Port of Call" list -- which can bring in up to \$1 million/day for every day in port, and/or having Kodiak, Dutch Harbor, or Barrow become designated as an "Arctic Port" for the Pacific Navy.

Alaska needs to build on its strengths. A key geopolitical location, a strong military tradition, and an available pool of recently retired high-ranking military personnel make this initiative workable. The State needs an ambassador/lobbyist to the DOD who has a strong service record, preferably a staff-ranked officer, who stayed in Alaska out of a liking for the state.

There are various ways that this could work. One suggested by the Commission is to appoint an ambassador to the Department of Defense. An "Ambassador" and staff could be stationed in the Pentagon -- assessing DOD needs and developing proposals, which would be presented to the Governor. The Commission felt it important that an ambassador have the clear backing of the Governor ... and report to Juneau through the Office of the Governor.

Expansion of Alaskan Participation in the Americanization of Commercial Fisheries

According to the State of Alaska and the North Pacific Fisheries Management Council, fish caught in Alaskan waters in 1986 were valued at approximately \$890 million. Experts now predict that the Bering Sea bottomfishery alone may yield \$500 million in domestic revenues for 1987. The opportunity is there.

The table on the following page details the value of Alaskan commercial fisheries (in millions of dollars) to resident and nonresident fishermen from 1976 through 1986.

If Alaskans were able to capture a larger portion of the harvest and of the value-added processing, the Alaskan economy could increase its basic sector substantially.

The Commission defined the objectives for expansion of Alaskan participation in the growth and Americanization of the fisheries off the Alaskan coast as two-fold:

- (1) Optimize the harvest in Coastal Zone waters.
- (2) Obtain greater in-state share of fishery resources.