

# ALASKA ECONOMIC TRENDS

AUGUST 2008

## Alaska's Home Mortgages

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#### Alaska's Unemployment Insurance

Legislators increase benefits and shift the tax burden

#### Employment Scene

Unemployment rate at 6.8 percent in June



ALASKA DEPARTMENT OF LABOR  
& WORKFORCE DEVELOPMENT

Sarah Palin, Governor  
Commissioner Click Bishop

# ALASKA ECONOMIC TRENDS



ALASKA DEPARTMENT OF LABOR  
& WORKFORCE DEVELOPMENT

Sarah Palin, Governor of Alaska  
Commissioner Click Bishop

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Cover: KeyBank, one of eight banks and 14 credit unions in Alaska, is pictured in a July photo. It's at Seward and Third streets in Juneau. KeyBank's corporate headquarters is in Cleveland. The bank is in The B.M. Behrends Bank Building, built in 1914. Bernard Behrends had a variety store across the street, and when the Bank of Juneau failed in 1896, he advertised he was in the banking business as a service to his customers. He later built the bank, according to the Juneau-Douglas City Museum. To see a picture of the bank in about 1947, go to vilda.alaska.edu and type "Behrends Bank" in the search box. Photo by Sam Dapcevich

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**Correction**  
The Cost of Living article in the June issue of *Trends* incorrectly said that Callan Associates, a consultant for the Alaska Permanent Fund Corporation, had forecasted a 2.8 percent Anchorage inflation rate for the next five years. Callan Associates' forecast was for the U.S. inflation rate, rather than for Anchorage.



## Home, Sweet Home

By Governor Sarah Palin

Home may be where the heart is, but thanks to strong, rapid appreciation in home prices in Alaska, it's also where individual and family wealth has grown. Despite some dire situations for our neighbors down south, the news for Alaska homeowners is mostly good and our housing market has remained strong.

This month's *Trends* focuses on foreclosures and delinquencies – and mortgage lending activity – in Alaska's housing market. While much of the country has relied on the real estate boom to both maintain growth and to mask deeper issues, our state economy is becoming more diverse and is supporting a healthy real estate market, rather than one driven by speculation.

Certainly there have been more mortgage foreclosures than in previous years and mortgage lending activity has fallen statewide. Yet real estate prices remain quite strong and stable.

While the numbers vary across the state, in the second half of 2007 the average price of a single-family home fell a modest 1.1 percent, but the price for condominium and multi-family properties both increased, 4.5 percent and 13.3 percent respectively.

Of about 5,800 mortgage loans in Alaska, four out of five were for single-family homes. At \$324,054, the highest average sales price is in Juneau, followed by Anchorage, the Ketchikan Gateway Borough and Bethel Census Area. The least expensive single-family homes are in the Kenai Peninsula and Matanuska-Susitna boroughs.

With 435 foreclosures statewide between January and June 2008 – the highest first-half figure since 2003 – the number of foreclosures is rising. But compared to the national average of 2.5 percent, Alaska's 0.8 percent is the second-lowest among all states. Only Montana's at 0.7 percent is lower.

Last month, *Trends* covered the cost of living in Alaska. Housing is the single biggest component – for many, 30 percent to 50 percent of family income. This has a significant impact on our labor force, both attracting and keeping the best people we can. When members of our workforce leave our state, they often cite the lack of affordable housing as the single biggest reason. When skilled and professional workers consider making a home in Alaska, housing is the number one obstacle.

We will continue to work through the Alaska Housing Finance Corporation to provide Alaskans access to safe, quality, affordable housing. AHFC manages a variety of programs designed to improve the quality of all housing throughout Alaska. It recently announced \$200 million for its nationally recognized home weatherization program and \$100 million for home energy rebates to homeowners making energy upgrades to their homes. For more information about AHFC or its programs, contact Bryan Butcher, director of government relations and public affairs at [bbutcher@ahfc.state.ak.us](mailto:bbutcher@ahfc.state.ak.us) or (907) 330-8445.

Alaska homeowners realize the place they live is, over time, a good investment. But like all investments, it will have ups and downs. The good news is that in recent years, there have been few downs in Alaska real estate.

## Activity is down in the second half of 2007 compared to a year earlier

**M**ortgage lending activity – the number of loans, their dollar volume and sales volume – fell statewide in the second half of 2007 compared to a year earlier. The average sales price for a single-family home fell slightly, while it increased for condominiums and multi-family homes.

The average loan-to-value ratio for all property types combined increased substantially over the year, as increases in the average sales prices of condominiums and multi-family properties weren't enough to offset the across-the-board gains in average loan amounts.

The Alaska Department of Labor and Workforce Development, under contract with the Alaska Housing Finance Corporation, conducts the Survey of Mortgage Lending Activity every quarter. This article is based on the results of that survey, which summarizes total loan activity reported

by participating lenders for the second halves of 2006 and 2007.<sup>1</sup>

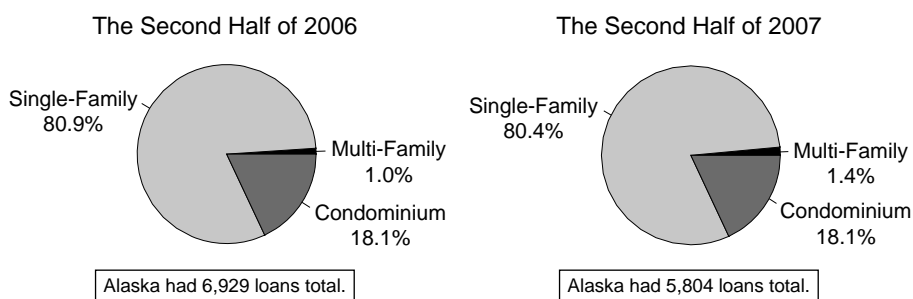
The lenders who were surveyed are Alaska's major government and private mortgage providers, as well as subsidiary companies for which the parent company reported data. Changes in loan activity over time may be affected not only by changes in the market but also by changes in the list of lenders participating.

### Single-family homes

Four out of every five loans that originated in Alaska during the second half of 2007 were for single-family homes – 4,669 out of 5,804, or 80.4 percent. That share is slightly less than the 80.9 percent figure for the comparable period a year earlier. (See Exhibit 1.) Overall, the number of single-family loans dropped 16.7 percent from the 5,604 loans that were issued in the second half of 2006. (See Exhibit 2.)

Statewide, in the second half of 2007, the average sales price for single-family homes decreased 1.1 percent year-over-year to \$265,987. (See Exhibits 3 and 4.) The state's highest average sales price for single-family homes was in

## 1 Number of Loans by Type of Home The second half of 2006 vs. the second half of 2007, Alaska



Note: Multi-family homes are defined in the Alaska Quarterly Survey of Mortgage Lending Activity as residential buildings with four or more individual units. Buildings with two or three units (duplexes and triplexes) weren't counted.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

<sup>1</sup> The survey provides specific data for eight of Alaska's 28 boroughs and census areas. Specific data aren't provided for the remaining 20 boroughs and census areas, which fall into the "rest of state" category mentioned in the exhibits.

## Foreclosures and Delinquencies: Alaska vs. the U.S.

National picture isn't necessarily representative of local conditions

By Brian Laurent, Research Analyst

The decline of the housing market and the resulting rise in foreclosures make news on a daily basis and it's a challenge to put a positive spin on what's happening on a national level. For those of us in Alaska, though, one has to ask, "But how are things here?" After all, as the saying goes, all real estate is local.

The Alaska Department of Labor and Workforce Development recently began collecting foreclosure data based on public records. An analysis of the numbers dating back to 2000 revealed that there were 830 foreclosures in Alaska in 2007, which was a 38.1 percent increase over 2006's figure. It was also the highest number since 2003, when there were 880. (See Exhibit A.)

Reviewing the data for the first half of 2008 revealed that the elevated level will more than likely continue this year. There were 435 foreclosures statewide between January and June 2008 – the highest figure for the first half of any year since 2003.

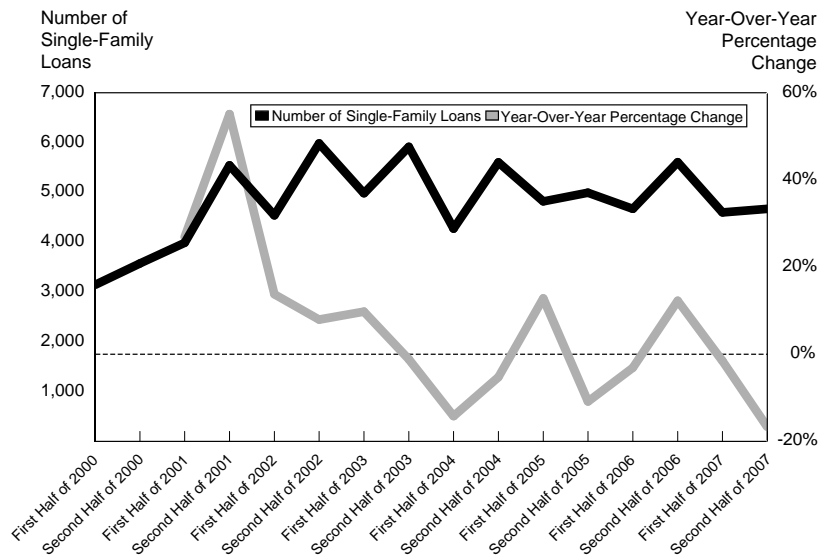
Through 2005, the highest number of the state's foreclosures was in the Matanuska-Susitna Borough.<sup>1</sup> (See Exhibit B.) This is striking considering that the borough's population is only a third of the Municipality of Anchorage's,<sup>2</sup> the area with the second-highest number.

Continued on Page 12

<sup>1</sup> For purposes of this foreclosure sidebar article only, all references to the Mat-Su Borough are synonymous with the Palmer Recording District. The vast majority of people living in the Mat-Su Borough live in the Palmer Recording District, which is mostly a subset of the borough, but the district's southeast boundary falls slightly outside the borough's boundary. Most of the borough's major communities are within the district; the main exception is Talkeetna. For more information about the district, go to the Recorder's Office Web site at [dnr.alaska.gov/recorders/findYourDistrict.cfm](http://dnr.alaska.gov/recorders/findYourDistrict.cfm). The Recorder's Office is within the Alaska Department of Natural Resources.

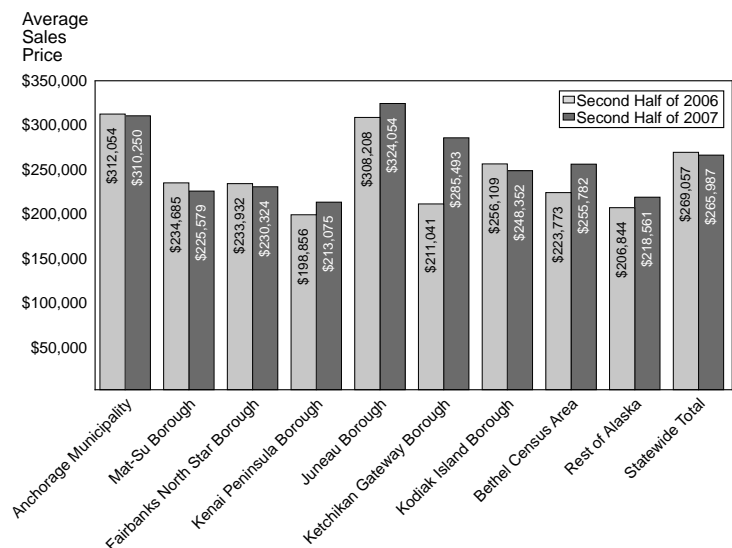
<sup>2</sup> For purposes of this foreclosure sidebar article only, all references to the Municipality of Anchorage are synonymous with the Anchorage Recording District, which includes the municipality and smaller communities, such as Skwentna, Susitna and Whittier.

## Number of Single-Family Loans Alaska, 2000 to 2007 2



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

## Single-Family Homes Sales prices by borough and census area 3

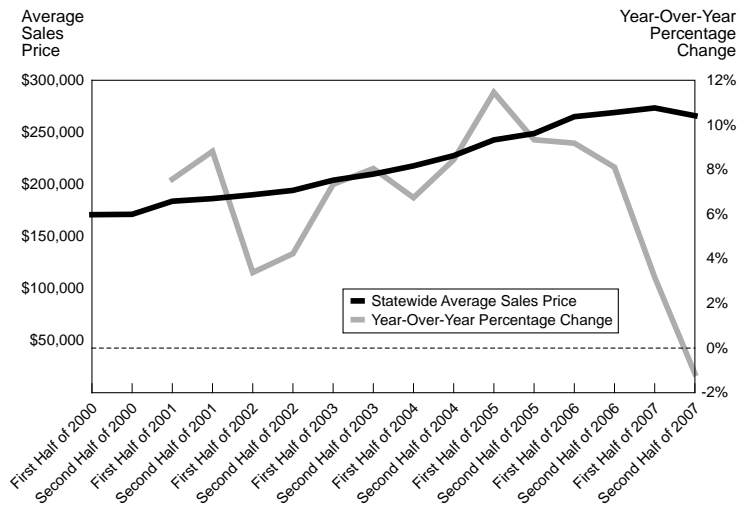


Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

the Juneau Borough at \$324,054. That was 5.1 percent higher than the \$308,208 it was during the second half of 2006. The Municipality of Anchorage<sup>2</sup> was next at \$310,250, which was 0.6

<sup>2</sup> The Municipality of Anchorage includes Chugiak, Eagle River and Girdwood. All references to Anchorage in this article are to the Municipality of Anchorage.

## 4 Single-Family Homes – Statewide Average sales price, 2000 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

which was 3.9 percent lower than in the second half of 2006. (See Exhibit 6.)

The average sales price in the Ketchikan Gateway Borough escalated 35.3 percent in the second half of 2007 to reach \$285,493, making its single-family homes the third highest in the state. The Bethel Census Area also saw its average increase considerably over the year. It rose 14.3 percent to \$255,782 – the fourth highest in the state. (See Exhibit 7.)

The total dollar volume of single-family home loans statewide fell 11.8 percent, or \$142.8 million, to \$1.07 billion in the second half of 2007. The average loan amount, however, increased 5.9 percent to \$228,603.

The average loan-to-value ratio for single-family homes statewide was 85.9 percent, up from 80.3 percent in the second half of 2006. All areas throughout the state saw their respective ratios increase as borrowers put less money down and financed more of the cost of their home.<sup>3</sup>

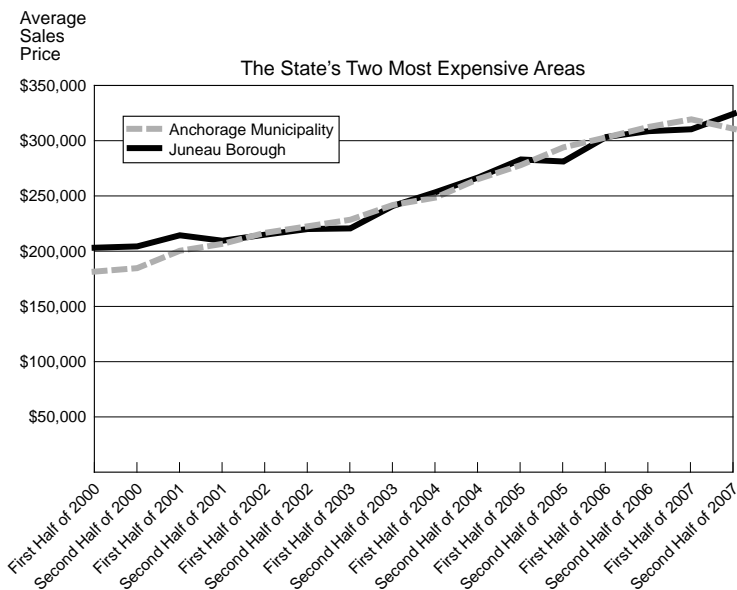
The Ketchikan Gateway Borough had the highest increase in average loan-to-value ratio, rising almost nine percentage points from 79.3 percent to 88.0 percent in the second half of 2007.

Loan-to-value ratios increase when the average loan amount for an area grows more (or contracts less) than its corresponding average sales price. The Ketchikan Gateway Borough's substantial increase in its loan-to-value ratio, for example, was due to its average loan amount growing 50.1 percent over the year compared to the 35.3 percent jump in the average sales price.

Anchorage had almost half Alaska's single-family loan activity with 49.3 percent of the loan dollar volume. The Mat-Su Borough had 16.7 percent and the Fairbanks North Star Borough was next with 14.3 percent. (See Exhibit 8.)

<sup>3</sup> Average loan-to-value ratios are the average loan amount divided by the average sales price. The traditional 30-year fixed rate mortgage with 20 percent down has an 80 percent loan-to-value ratio. An increasing average loan-to-value ratio is an indicator that homeowners might be stretching to buy their homes.

## 5 Following a Similar Path Average sales price of single-family homes



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

percent lower than the \$312,054 it was a year before. (See Exhibit 5.)

Although its average sales price rose 7.2 percent, the Kenai Peninsula Borough had the state's least expensive single-family homes in the second half of 2007 at an average of \$213,075. The Mat-Su Borough was next at \$225,579,

## Single-family homes – a glimpse at the 2000 numbers

Comparing average sales prices of single-family homes around the state from the second half of 2007 to the same time period in 2000 reveals marked increases. Statewide, the average jumped by more than half, 55.3 percent, from \$171,302. (See Exhibit 9.) Three boroughs had increases that were even higher: Anchorage (68.3 percent), Mat-Su (61.2 percent) and Juneau (58.9 percent).

Even the areas that had increases of less than the statewide average saw their averages make significant upward movement as well. The Fairbanks North Star, Ketchikan Gateway and Kenai Peninsula boroughs all had increases in their respective average sales prices of more than 50 percent. The lowest increases were seen in the Bethel Census Area (45.4 percent) and Kodiak Island Borough (34.1 percent).

In seven years, Alaska went from having one area, Juneau, with an average sales price for single-family homes greater than \$200,000 to having all eight boroughs and census areas in the survey surpassing the \$200,000 mark.

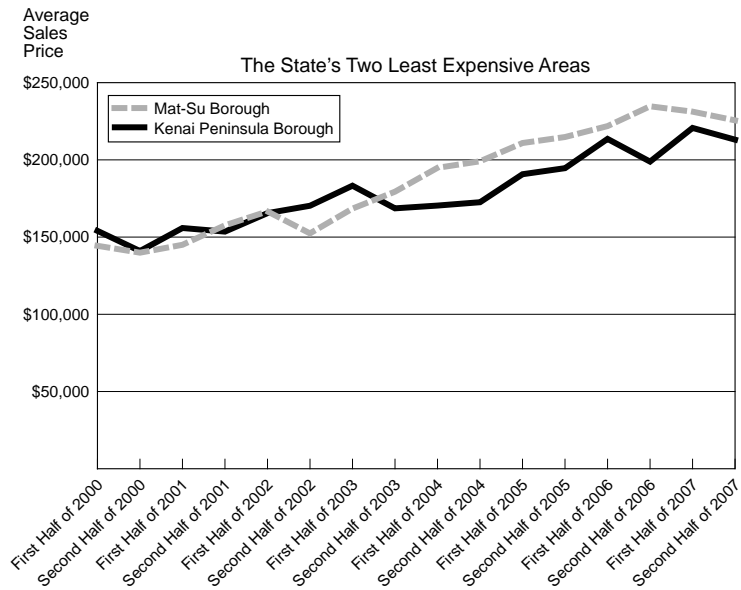
## Condominiums

Statewide, condominium loan activity fell 16.2 percent, dropping from 1,255 loans in the second half of 2006 to 1,052 in the second half of 2007. The majority of those loans and their corresponding dollar volume were for condominiums in Anchorage. In the second half of 2007, 86.8 percent of the state's condominium loan dollar volume originated in Anchorage. That's slightly larger than the 85.3 percent share it had a year before that. (See Exhibit 10.)

The statewide average sales price of condominiums increased 4.5 percent to \$187,427 in the second half of 2007, compared to a year earlier. (See Exhibits 11 and 12.)

## Kenai Peninsula is Least Expensive Mat-Su Borough is close behind, 2000 to 2007

# 6



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

## Single-Family Homes The second half of 2006 vs. the second half of 2007, Alaska

# 7

	Second Half of 2006				Second Half of 2007			
	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio
Anchorage Municipality	2,495	\$245,013	\$312,054	78.5%	2,006	\$262,487	\$310,250	84.6%
Mat-Su Borough	1,070	\$193,648	\$234,685	82.5%	902	\$197,474	\$225,579	87.5%
Fairbanks North Star Borough	825	\$193,342	\$233,932	82.6%	743	\$205,428	\$230,324	89.2%
Kenai Peninsula Borough	438	\$163,140	\$198,856	82.0%	443	\$183,937	\$213,075	86.3%
Juneau Borough	311	\$238,338	\$308,208	77.3%	171	\$269,734	\$324,054	83.2%
Ketchikan Gateway Borough	57	\$167,420	\$211,041	79.3%	41	\$251,236	\$285,493	88.0%
Kodiak Island Borough	109	\$227,751	\$256,109	88.9%	112	\$222,791	\$248,352	89.7%
Bethel Census Area	22	\$206,615	\$223,773	92.3%	20	\$239,080	\$255,782	93.5%
Rest of Alaska	277	\$171,967	\$206,844	83.1%	231	\$183,559	\$218,561	84.0%
Statewide total	5,604	\$215,943	\$269,057	80.3%	4,669	\$228,603	\$265,987	85.9%

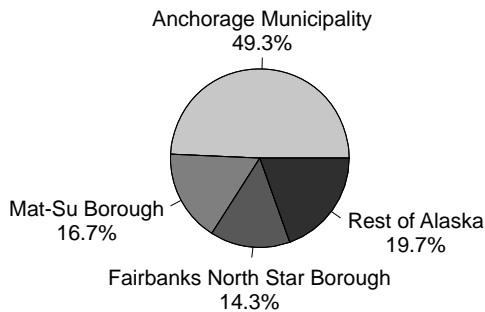
Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

The Kenai Peninsula Borough was home to the highest average condominium sales price in the second half of 2007 at \$238,375. That's 77.2 percent higher than the \$134,500 it was a year earlier. It's important to keep in mind, though, that because the number of condominium sales remains low in the borough, small fluctuations in loan activity tend to exaggerate trends in aggregate figures.

The average sales price for Anchorage increased 4.8 percent to reach \$190,954, while the aver-

## 8 Anchorage Has Nearly Half Single-family loan amounts by borough

Loan Dollar Volume – Second Half of 2007



Alaska had \$1.07 billion in loans for single-family homes.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

age in the Mat-Su Borough increased 1.9 percent to \$182,356. (See Exhibit 13.)

As was the case a year before, the least expensive condominiums in the second half of 2007<sup>4</sup> were in the Ketchikan Gateway Borough, where the average sales price dropped 19.3 percent to \$83,877. It was the only area to have a decrease. What's most interesting about this statistic is the borough had the largest percentage *increase* in its average single-family sales price in the state in the second half of 2007.

While the number of single-family loans dropped in the Ketchikan Gateway Borough (-28.1 percent), the number of condominium loans increased 85.7 percent. But once again, it's worth noting that wide variations aren't uncommon with such small sample sizes.

## 9 Single-Family Homes' Average Sales Price By borough and census area

	Second Half of 2000	Second Half of 2007	Percentage Change
Anchorage Municipality	\$184,303	\$310,250	68.3%
Mat-Su Borough	\$139,925	\$225,579	61.2%
Fairbanks North Star Borough	\$148,368	\$230,324	55.2%
Kenai Peninsula Borough	\$140,976	\$213,075	51.1%
Juneau Borough	\$203,908	\$324,054	58.9%
Ketchikan Gateway Borough	\$188,105	\$285,493	51.8%
Kodiak Island Borough	\$185,225	\$248,352	34.1%
Bethel Census Area	\$175,924	\$255,782	45.4%
Rest of Alaska	\$165,175	\$218,561	32.3%
Statewide Total	\$171,302	\$265,987	55.3%

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

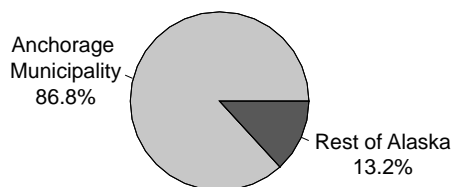
The total dollar volume of condominium loans statewide fell 7.6 percent, or \$14.6 million, to \$177.2 million in the second half of 2007. The average loan amount, however, increased 10.2 percent to \$168,439.

Alaska's average loan-to-value ratio for condominiums was 89.9 percent, up from 85.2 percent in the second half of 2006. The Fairbanks North Star Borough was the only area with a lower loan-to-value ratio year-over-year, as its

value fell from 90.5 percent to 87.2 percent. Otherwise, the remaining five areas all had increases.

## 10 Condominium Loan Dollar Volume Amounts by borough

The Second Half of 2007



Alaska had \$177.2 million in condominium loans.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

The average loan-to-value ratio in the Ketchikan Gateway Borough jumped 21 percentage points to 98.2 percent due to a combination of a substantial decrease in the borough's average sales price and an increase in the borough's average loan amount.

### Multi-family properties

Statewide, multi-family loan activity<sup>5</sup> increased 18.6 percent, rising from 70 loans in the sec-

<sup>4</sup> No condominium sales were reported in either the Kodiak Island Borough or the Bethel Census Area.

<sup>5</sup> The Alaska Quarterly Survey of Mortgage Lending Activity defines multi-family properties as residential buildings with four or more individual units. Buildings with two or three units (duplexes and triplexes) weren't included in the survey.



## The second half of 2006 vs. the second half of 2007, Alaska

ond half of 2006 to 83 loans in the second half of 2007. The number of units financed rose at an even faster clip, jumping from 756 units to 1,226 units, or 62.2 percent. (See Exhibit 14.)

The statewide average sales price of multi-family properties increased 13.3 percent to \$1,126,739, while the average price per unit fell 17.2 percent to \$76,280.

	Second Half of 2006				Second Half of 2007			
	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio
Anchorage Municipality	1,050	\$155,695	\$182,252	85.4%	894	\$172,077	\$190,954	90.1%
Mat-Su Borough	42	\$151,815	\$178,889	84.9%	47	\$164,966	\$182,356	90.5%
Fairbanks North Star Borough	76	\$127,023	\$140,313	90.5%	39	\$124,618	\$142,974	87.2%
Kenai Peninsula Borough	4	\$110,630	\$134,500	82.3%	14	\$196,126	\$238,375	82.3%
Juneau Borough	71	\$137,801	\$174,216	79.1%	41	\$155,653	\$174,837	89.0%
Ketchikan Gateway Borough	7	\$80,592	\$103,929	77.5%	13	\$82,409	\$83,877	98.2%
Kodiak Island Borough	0	n/a	n/a	n/a	0	n/a	n/a	n/a
Bethel Census Area	0	n/a	n/a	n/a	0	n/a	n/a	n/a
Rest of Alaska	5	\$292,416	\$368,340	79.4%	4	\$137,124	\$179,475	76.4%
Statewide total	1,255	\$152,798	\$179,297	85.2%	1,052	\$168,439	\$187,427	89.9%

Note: The abbreviation "n/a" means not applicable.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

Anchorage had the majority of both the multi-family loan dollar volume (82.3 percent) and number of units financed (78.0 percent) in the second half of 2007. (See Exhibit 15.) Anchorage's share of each category, though, fell from the second half of 2006.

Unlike the trends seen in single-family homes and condominiums, the average loan-to-value ratio for multi-family properties decreased in the second half of 2007, dropping from 74.0 percent to 70.4 percent.

### New versus existing construction

The Survey of Mortgage Lending Activity defines new construction as any residential housing constructed within 12 months of the survey date. Any loans that don't fit into the new construction category are classified as existing construction.

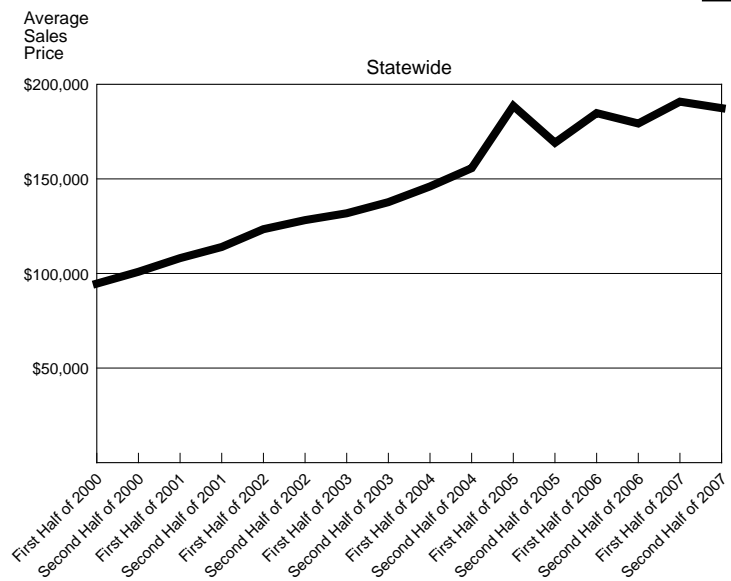
### New construction

Statewide, loan dollar volume of new construction fell \$61.1 million, or 22.9 percent, from the second half of 2006 to \$205.4 million in the second half of 2007. The average sales price rose 3.5 percent, however, to \$305,490. (See Exhibit 16.)

Of the total statewide dollar volume of loans, 15.7 percent went toward new construction during the second half of 2007. The Mat-Su

## Average Sales Price for Condos 12

Average nearly doubled in seven years



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

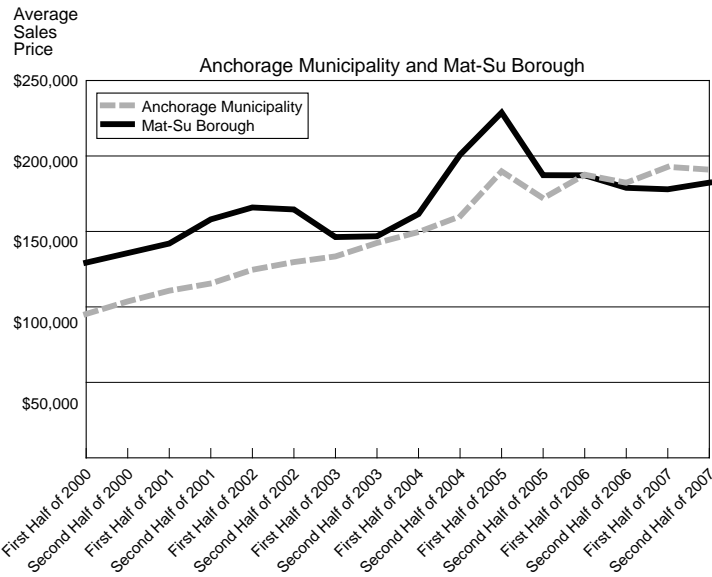
Borough's comparable rate was almost double the statewide value at 30.5 percent. (See Exhibit 17.)

For all building types combined, the statewide average sales price for new construction was 18.8 percent higher than existing construction's during the second half of 2007.

The average sales price for new construction was highest in the Ketchikan Gateway Borough.

# 13 Mat-Su Had Been More Expensive

## Average sales price of condos, 2000 to 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

average sales price increased 16.4 percent to \$393,627, while Juneau's increased 1.2 percent to \$362,656.

The state's least expensive new construction continued to be in the Mat-Su Borough. The average sales price there decreased 5.1 percent in the second half of 2007 to \$249,595. The borough's percentage of Alaska's loan dollar volume also fell, dropping from 34.8 percent to 27.9 percent. Although the total number of loans in Mat-Su also decreased over the year, the borough did retain its ranking as the area in the state with the most new construction loans at 285 – 20 more than Anchorage.

The largest decrease in average sales price for new construction was in the Fairbanks North Star Borough. The average there dropped 17.0 percent from \$313,590 to \$260,270. The borough's loan-to-value ratio jumped markedly from 69.1 percent to 89.6 percent as its average loan amount moved in the opposite direction from its average sales price, increasing 7.7 percent.

Overall, the statewide loan-to-value ratio for new construction was 81.5 percent in the second half of 2007, compared to 77.7 percent in the second half of 2006.

### Existing construction

Alaska's loan dollar volume for existing construction fell \$81.9 million, or 6.9 percent, from a year before to \$1.10 billion in the second half of 2007. Yet the average sales price rose 1.6 percent to \$257,192. (See Exhibit 18.)

The number of existing construction loans decreased 13.6 percent to 4,979 over the same period.

The eight boroughs and census areas in the survey all had average sales prices for existing construction of more than \$200,000 in the second half of 2007.

The Juneau Borough remained home to the state's highest average sales price for existing construction. The average rose 10.7 percent to

# 14 Multi-Family Homes

## The second halves of 2006 and 2007

	Second Half of 2006	Second Half of 2007
Total loans statewide	70	83
Average loan amount	\$736,124	\$793,600
Average sales price	\$994,461	\$1,126,739
Loan-to-value ratio	74.0%	70.4%
Number of total units statewide	756	1,226

Note: Multi-family homes are defined in the Alaska Quarterly Survey of Mortgage Lending Activity as residential buildings with four or more individual units. Buildings with two or three units (duplexes and triplexes) weren't included in the survey.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

It increased 24.4 percent to \$515,750 in the second half of 2007. The borough also had the highest average sales price in the state in the second half of 2006 (\$414,500); however, the small number of loans in the borough – two in the second half of 2006 and four in the second half of 2007 – makes its averages prone to wide fluctuations over time.

Anchorage and Juneau swapped positions in the second half of 2007 in regard to their respective statewide ranking positions of the average sales price of new construction. Anchorage's

\$313,878. Juneau also had the largest percentage decrease in the number of loans to finance existing construction – 47.1 percent, or 172 loans, to 193.

The state's lowest average sales price was in the Kenai Peninsula Borough at \$201,540, a 5.3 percent increase over the second half of 2006. The Ketchikan Gateway Borough had the second-lowest average at \$214,652 – an 11.6 percent jump from the second half of 2006 that was also the second-highest increase in the state.

The Bethel Census Area had the highest rate of change in its average sales price for existing construction. The average there increased 22.2 percent to \$260,745. On the opposite end of the spectrum, the comparable figure in the Kodiak Island Borough was the only one in the state to decrease in the second half of 2007. It fell 3.2 percent to \$241,763.

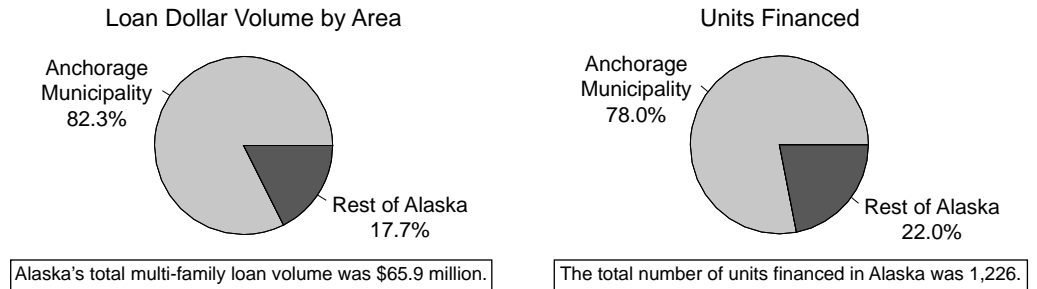
Loan-to-value ratios for existing construction increased in all areas but one – the Bethel Census Area. In the second half of 2006, the Bethel Census Area had the state's highest average loan-to-value ratio by far at 97.0 percent. That figure fell to 92.6 percent in the second half of 2007.

While the loan-to-value ratio in the Bethel Census Area was

## Highest Multi-Family Volume in Anchorage **15**

Loan dollar volume and units financed, Alaska

The Second Half of 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

## New Construction **16**

The second half of 2006 vs. the second half of 2007, Alaska

	Second Half of 2006				Second Half of 2007			
	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio
Anchorage Municipality	388	\$267,033	\$338,117	79.0%	265	\$316,876	\$393,627	80.5%
Mat-Su Borough	437	\$212,119	\$262,897	80.7%	285	\$201,435	\$249,595	80.7%
Fairbanks North Star Borough	179	\$216,549	\$313,590	69.1%	145	\$233,220	\$260,270	89.6%
Kenai Peninsula Borough	67	\$186,179	\$245,656	75.8%	69	\$224,054	\$290,711	77.1%
Juneau Borough	18	\$263,382	\$358,329	73.5%	20	\$274,738	\$362,656	75.8%
Ketchikan Gateway Borough	2	\$264,600	\$414,500	63.8%	4	\$408,750	\$515,750	79.3%
Kodiak Island Borough	17	\$264,907	\$289,994	91.3%	12	\$268,896	\$311,449	86.3%
Bethel Census Area	2	\$202,500	\$327,500	61.8%	0	n/a	n/a	n/a
Rest of Alaska	53	\$165,615	\$218,429	75.8%	25	\$176,236	\$229,271	76.9%
Statewide total	1,163	\$229,146	\$295,019	77.7%	825	\$248,994	\$305,490	81.5%

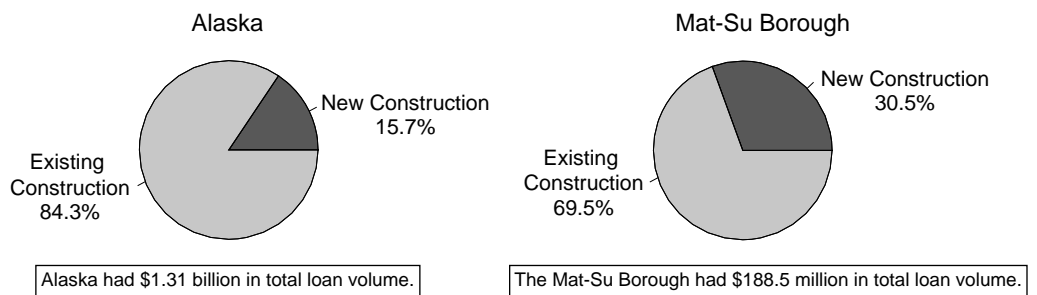
Note: The abbreviation "n/a" means not applicable.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

## Loans for New and Existing Construction **17**

Mat-Su's new construction share nearly double statewide's

Loan Dollar Volume – Second Half of 2007



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

# 18 Existing Construction

## The second half of 2006 vs. the second half of 2007, Alaska

	Second Half of 2006				Second Half of 2007			
	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio	Number of Loans	Average Loan Amount	Average Sales Price	Loan-to-Value Ratio
Anchorage Municipality	3,207	\$223,189	\$280,199	79.7%	2,688	\$242,050	\$284,646	85.0%
Mat-Su Borough	679	\$181,839	\$216,097	84.1%	672	\$195,116	\$217,907	89.5%
Fairbanks North Star Borough	727	\$181,137	\$204,965	88.4%	649	\$195,480	\$219,763	89.0%
Kenai Peninsula Borough	382	\$158,677	\$191,324	82.9%	390	\$177,567	\$201,540	88.1%
Juneau Borough	365	\$219,635	\$283,458	77.5%	193	\$263,985	\$313,878	84.1%
Ketchikan Gateway Borough	62	\$154,482	\$192,384	80.3%	50	\$194,739	\$214,652	90.7%
Kodiak Island Borough	92	\$220,886	\$249,848	88.4%	101	\$218,422	\$241,763	90.3%
Bethel Census Area	20	\$207,027	\$213,400	97.0%	21	\$241,409	\$260,745	92.6%
Rest of Alaska	232	\$177,566	\$212,297	83.6%	215	\$182,856	\$216,576	84.4%
Statewide total	5,766	\$205,851	\$253,090	81.3%	4,979	\$221,931	\$257,192	86.3%

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation, Alaska Quarterly Survey of Mortgage Lending Activity

the only one over 90 percent in the second half of 2006, there were three areas that surpassed that threshold in 2007.

The largest percentage point change in loan-to-value ratios was in the Ketchikan Gateway

Borough. The average loan-to-value ratio there increased 10 percentage points to 90.7 percent. That significant rise occurred because the average loan amount increased 26.1 percent, while the average sales price's percentage increase was less than half of that value at 11.6 percent.

### Foreclosures and Delinquencies *Continued from Page 5*

That dynamic, however, changed in 2006. Foreclosures in Anchorage increased 166.1 percent just since 2005 to reach 306 in 2007. Meanwhile, Mat-Su's foreclosures held steady, rising slightly from 184 to 187 during the same time frame. The 186 foreclosures in Anchorage during the first half of 2008 is 66.1 percent ahead of last year's pace.

So, foreclosures are on the rise. But to gauge the relative impact of the foreclosures on Alaska's housing market, it's helpful to compare the state's rate of foreclosure to that of the nation as a whole.

The Mortgage Bankers Association's National Delinquency Survey represents roughly 80 percent to 85 percent of outstanding first mortgages. According to the most recent NDS, 2.5 percent of the nation's 45.2 million outstanding first mortgages were

in foreclosure during the first quarter of 2008, while an additional 5.6 percent were at least one payment past due.<sup>3</sup>

Foreclosures in Alaska during the first quarter of 2008, on the other hand, comprised 0.8 percent of the more than 92,000 loans surveyed. Alaska had the second-lowest percentage among all states. Only Montana's rate of 0.7 percent was lower.

Delinquency in Alaska was also lower than the national average. Past-due mortgages made up 3.4 percent of surveyed loans in the state, putting Alaska in 44<sup>th</sup> place out of the 50 states and the District of Columbia.

Much of the blame for today's housing woes has been leveled on the prevalence of subprime mortgages. These

loans were offered to homebuyers who may not have otherwise been able to qualify for a standard 30-year fixed rate mortgage due to poor credit. To compound the issue, according to Mortgage Bankers Association statistics, about half the nation's subprime mortgages that are now outstanding have adjustable rates.

These loans, known as adjustable rate mortgages, or ARMs, have short-term introductory rates (lasting three, five or seven years, for example). After the temporary, "teaser rate" period expires on the loans, the interest rate resets to a higher rate, correspondingly increasing the homeowner's monthly mortgage payment. The problem is, mortgage lenders qualified potential buyers based on the lower, short-term monthly payment as opposed to the payment based on the higher interest rate to come.

<sup>3</sup>The national numbers in this sidebar aren't seasonally adjusted.

*Continued on Page 13*

## Foreclosures and Delinquencies *Continued from Page 12*

Subprime lending hasn't been as prevalent in Alaska as it has been in the Lower 48. During the first quarter of 2008, subprime loans made up 10.7 percent of the surveyed mortgages, compared to 12.3 percent nationally.

Subprime loans inherently have higher levels of risk to lending institutions; therefore, mortgages were originated with higher interest rates for those with credit issues to compensate for the additional threat of default. Nationally, one out of every six subprime mortgages during the first quarter of 2008 was at least one payment past due. An additional 10.7 percent were already in foreclosure. All told, roughly 1.5 million subprime loans were at least one payment past due, if not already in foreclosure.

Alaska is quite a different story, however. Less than 8 percent of subprime mortgages were delinquent and 2.8 percent were in foreclosure during the first quarter of 2008. Both of those rates are the lowest in the country. So, not only do subprime mortgages comprise a smaller proportion of Alaska's loan portfolio, but their rates of delinquency and default stand in sharp contrast to what's playing out nationally.

What's happening in Alaska isn't isolated to our neck of the woods either. In the Pacific Northwest, Washington and Oregon have also experienced lower rates of default in not only their subprime portfolios, but in their overall loans as well. It's only when one travels farther down the coast to California when the rate of foreclosure rises well above the national average.

### Data methodology

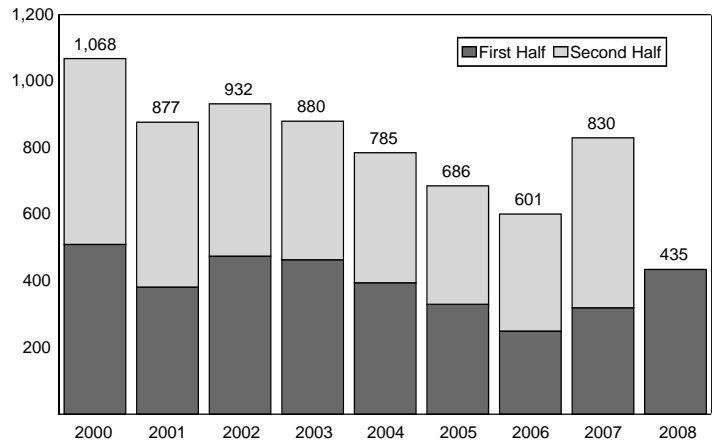
The Recorder's Office is a repository of over 6.6 million documents that represent all legally recorded documents in Alaska. The foreclosure data were pulled from the Recorder's Office database through a custom program created to identify every document

where a foreclosure was recorded since the year 2000. Foreclosures against companies were excluded to focus primarily on the housing market. The standard recorded document for foreclosures is a "trustee deed."

The qualified recordings were then organized by quarter and by region for the largest recording districts.

## A Alaska Foreclosures 2000 to the first half of 2008

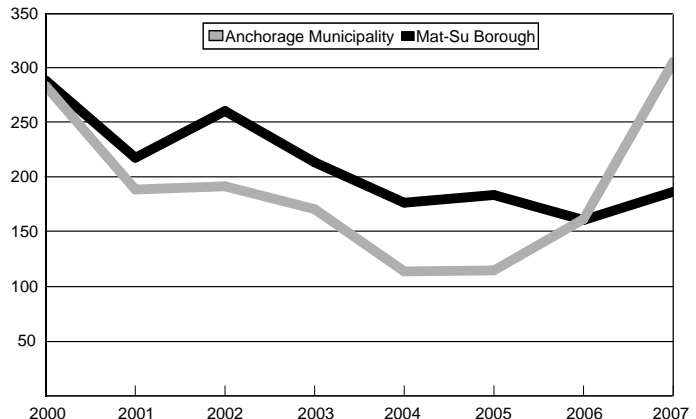
Number of Foreclosures



Sources: Alaska Department of Natural Resources, Recorder's Office; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

## B Alaska Foreclosures by Borough 2000 to 2007

Number of Foreclosures



Sources: Alaska Department of Natural Resources, Recorder's Office; and Alaska Department of Labor and Workforce Development, Research and Analysis Section

## Legislators increase benefits and shift the tax burden

**T**he 25th Alaska Legislature has made two significant changes to Alaska's unemployment insurance system. One increases the maximum weekly benefit by 49 percent from \$248 to \$370 (see Exhibit 1) and raises the ceiling for qualifying wages from \$26,500 to \$41,750. The second shifts more of the tax burden from employers to workers. Workers pay 20 percent of the cost now; their portion will gradually increase to 27 percent by 2010.

Gov. Sarah Palin signed Senate Bill 120 into law May 28, and the changes will take effect Jan. 1, 2009. Many consider the changes, particularly the increased benefit and ceiling for qualifying wages, as an overall improvement to Alaska's unemployment insurance system.

Alaska's benefit schedule hasn't been updated since 1997. The ratio of the state's maximum benefit amount to its average weekly wage – ideally, the benefit should be at least half – had declined markedly. (See Exhibit 2). Secondly, Alaska's average-wage replacement rate was the lowest in the U.S. in 2006.

The changes will add an estimated \$17 million a year to the cost of Alaska's unemployment insurance benefits, which now is about \$105 million a year, based on a current three-year average.

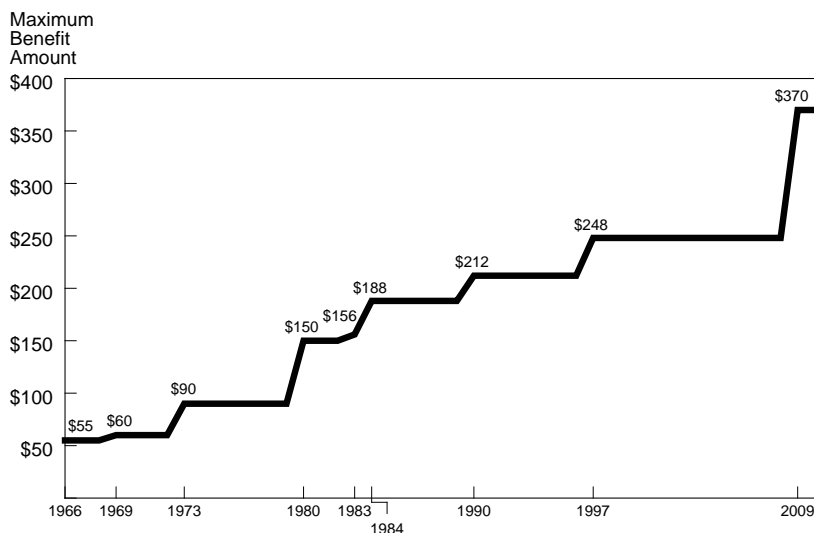
Employers and workers pay for the cost of Alaska's program – unemployment insurance tax rates are calculated to collect revenue equal to the amount of benefits paid out.<sup>1</sup> Based on cost estimates, the average employer will see a \$25 increase in unemployment insurance tax for each worker by 2013, from the current \$470 to \$495, and workers will pay an additional \$37 each by 2013. Each worker's annual share of the tax will go from the present \$157 maximum to about \$194 for those earning at or above the current taxable wage base. (The taxable wage base this year is \$31,300.)<sup>2</sup>

Because costs to the unemployment insurance system are based on three years of data, 2013 will be the first year the full costs will be realized in the system.

<sup>1</sup> The federal government pays for the administration of each state's unemployment insurance program.

<sup>2</sup> The taxable wage base is the maximum amount of each worker's wages that are subject to state unemployment insurance taxes; wages earned in excess of that amount aren't taxed. Alaska's taxable wage base is always 75 percent of the statewide average annual wage. Because the statewide average annual wage changes each year, the taxable wage base does too.

### 1 Alaska's Maximum Weekly Benefit Unemployment insurance, 1966 to 2009



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

## Alaska's situation

Alaska has a high-cost unemployment insurance system, largely because of the highly seasonal nature of its economy and the high usage of the system by its work force. Alaska also has a relatively high average wage and its unemployment insurance benefits tend to be low.

The state continues to have one of the highest participation rates in the country: it ranked fourth in 2007 in terms of the percentage of unemployed workers who receive unemployment benefits. It ranked third in 2006 and second in 2005. Since the purpose of unemployment insurance programs is to both aid unemployed workers and inject money into the local economy, an above-average participation rate is a good indicator for a state program.

Alaska paid out \$103.4 million in unemployment insurance benefits in 2007 to 47,776 people – 16 percent of the state's work force covered by unemployment insurance. Roughly 98 percent of the state's nonagricultural wage and salary workers are covered by unemployment insurance.<sup>3</sup>

Alaska ranked 18th among all states for its state-wide average weekly wage (\$782) in 2006 and came in 48th place with an average weekly benefit of \$198 that year.

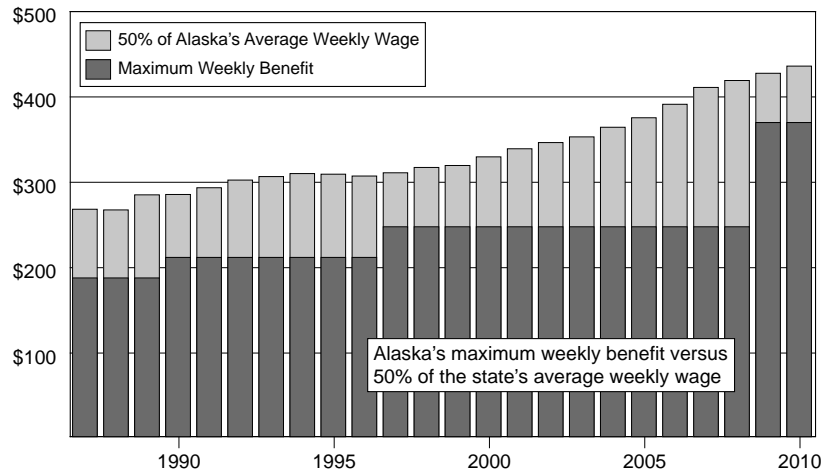
Since the start of unemployment insurance in the United States, one of the underlying principles has been that the benefit amount should equal roughly 50 percent of a worker's wage and it would therefore "replace" those wages.

The state was in last place in the nation in 2006, as mentioned earlier, and in 2005, based on its U.S. Department of Labor average-wage replacement rate.<sup>4</sup> Alaska has historically placed low.

<sup>3</sup> Wage and salary workers who are typically not covered by unemployment insurance include full-commission salespeople, domestic workers, unpaid family workers, and elected and appointed officials. Self-employed workers, including fishermen, are generally not covered by unemployment insurance.

<sup>4</sup> The rate is an artificial measuring tool used to compare states. For more detail, see *Trends'* February 2007 issue.

## The Benefit System is Updated Alaska, 1987 to 2010 **2**



Note: Wages for 2008 to 2010 are projections assuming a growth rate of 2 percent.  
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

## Some history

Since 1939, when Alaska, then as a territory, paid its first benefit payment to unemployed workers, Alaska lawmakers have increased the benefit schedule to keep up with the growing value of wages over time. These changes affected the benefit schedule in different ways – sometimes all benefits were increased, while other changes increased the minimum or maximum benefit amount.

The body of the current benefit schedule was put in effect in 1990 and was designed, roughly, following the 50 percent wage replacement principle.<sup>5</sup>

The 1990 benefit schedule began with a \$44 minimum benefit and \$212 maximum benefit, based on wages between \$1,000 and \$22,000.

The last changes were in 1997, when the Legislature added 20 steps to the top of the schedule, raising the maximum weekly benefit from

<sup>5</sup> That doesn't mean, though, that the entire schedule meets the 50 percent principle. With the 1990 schedule, for instance, the wage replacement was well above 50 percent at the lower end of the schedule. It hit 50 percent when the weekly benefit amount reached \$200. After that, the wage replacement declined below 50 percent as the benefit amounts increased to \$212, the 1990 maximum benefit.

# 3 The Number of Steps Increase by About a Third in 2009

## Unemployment insurance weekly benefit schedule, Alaska

Base Period Wages		Weekly Benefit Amount Starting Jan. 1, 2009	Base Period Wages		Weekly Benefit Amount Starting Jan. 1, 2009	Base Period Wages		Weekly Benefit Amount Starting Jan. 1, 2009
At Least	But Less Than		At Least	But Less Than		At Least	But Less Than	
0	\$2,500	0	\$15,250	\$15,500	\$158	\$28,250	\$28,500	\$262
\$2,500	\$2,750	\$56	\$15,500	\$15,750	\$160	\$28,500	\$28,750	\$264
\$2,750	\$3,000	\$58	\$15,750	\$16,000	\$162	\$28,750	\$29,000	\$266
\$3,000	\$3,250	\$60	\$16,000	\$16,250	\$164	\$29,000	\$29,250	\$268
\$3,250	\$3,500	\$62	\$16,250	\$16,500	\$166	\$29,250	\$29,500	\$270
\$3,500	\$3,750	\$64	\$16,500	\$16,750	\$168	\$29,500	\$29,750	\$272
\$3,750	\$4,000	\$66	\$16,750	\$17,000	\$170	\$29,750	\$30,000	\$274
\$4,000	\$4,250	\$68	\$17,000	\$17,250	\$172	\$30,000	\$30,250	\$276
\$4,250	\$4,500	\$70	\$17,250	\$17,500	\$174	\$30,250	\$30,500	\$278
\$4,500	\$4,750	\$72	\$17,500	\$17,750	\$176	\$30,500	\$30,750	\$280
\$4,750	\$5,000	\$74	\$17,750	\$18,000	\$178	\$30,750	\$31,000	\$282
\$5,000	\$5,250	\$76	\$18,000	\$18,250	\$180	\$31,000	\$31,250	\$284
\$5,250	\$5,500	\$78	\$18,250	\$18,500	\$182	\$31,250	\$31,500	\$286
\$5,500	\$5,750	\$80	\$18,500	\$18,750	\$184	\$31,500	\$31,750	\$288
\$5,750	\$6,000	\$82	\$18,750	\$19,000	\$186	\$31,750	\$32,000	\$290
\$6,000	\$6,250	\$84	\$19,000	\$19,250	\$188	\$32,000	\$32,250	\$292
\$6,250	\$6,500	\$86	\$19,250	\$19,500	\$190	\$32,250	\$32,500	\$294
\$6,500	\$6,750	\$88	\$19,500	\$19,750	\$192	\$32,500	\$32,750	\$296
\$6,750	\$7,000	\$90	\$19,750	\$20,000	\$194	\$32,750	\$33,000	\$298
\$7,000	\$7,250	\$92	\$20,000	\$20,250	\$196	\$33,000	\$33,250	\$300
\$7,250	\$7,500	\$94	\$20,250	\$20,500	\$198	\$33,250	\$33,500	\$302
\$7,500	\$7,750	\$96	\$20,500	\$20,750	\$200	\$33,500	\$33,750	\$304
\$7,750	\$8,000	\$98	\$20,750	\$21,000	\$202	\$33,750	\$34,000	\$306
\$8,000	\$8,250	\$100	\$21,000	\$21,250	\$204	\$34,000	\$34,250	\$308
\$8,250	\$8,500	\$102	\$21,250	\$21,500	\$206	\$34,250	\$34,500	\$310
\$8,500	\$8,750	\$104	\$21,500	\$21,750	\$208	\$34,500	\$34,750	\$312
\$8,750	\$9,000	\$106	\$21,750	\$22,000	\$210	\$34,750	\$35,000	\$314
\$9,000	\$9,250	\$108	\$22,000	\$22,250	\$212	\$35,000	\$35,250	\$316
\$9,250	\$9,500	\$110	\$22,250	\$22,500	\$214	\$35,250	\$35,500	\$318
\$9,500	\$9,750	\$112	\$22,500	\$22,750	\$216	\$35,500	\$35,750	\$320
\$9,750	\$10,000	\$114	\$22,750	\$23,000	\$218	\$35,750	\$36,000	\$322
\$10,000	\$10,250	\$116	\$23,000	\$23,250	\$220	\$36,000	\$36,250	\$324
\$10,250	\$10,500	\$118	\$23,250	\$23,500	\$222	\$36,250	\$36,500	\$326
\$10,500	\$10,750	\$120	\$23,500	\$23,750	\$224	\$36,500	\$36,750	\$328
\$10,750	\$11,000	\$122	\$23,750	\$24,000	\$226	\$36,750	\$37,000	\$330
\$11,000	\$11,250	\$124	\$24,000	\$24,250	\$228	\$37,000	\$37,250	\$332
\$11,250	\$11,500	\$126	\$24,250	\$24,500	\$230	\$37,250	\$37,500	\$334
\$11,500	\$11,750	\$128	\$24,500	\$24,750	\$232	\$37,500	\$37,750	\$336
\$11,750	\$12,000	\$130	\$24,750	\$25,000	\$234	\$37,750	\$38,000	\$338
\$12,000	\$12,250	\$132	\$25,000	\$25,250	\$236	\$38,000	\$38,250	\$340
\$12,250	\$12,500	\$134	\$25,250	\$25,500	\$238	\$38,250	\$38,500	\$342
\$12,500	\$12,750	\$136	\$25,500	\$25,750	\$240	\$38,500	\$38,750	\$344
\$12,750	\$13,000	\$138	\$25,750	\$26,000	\$242	\$38,750	\$39,000	\$346
\$13,000	\$13,250	\$140	\$26,000	\$26,250	\$244	\$39,000	\$39,250	\$348
\$13,250	\$13,500	\$142	\$26,250	\$26,500	\$246	\$39,250	\$39,500	\$350
\$13,500	\$13,750	\$144	\$26,500	\$26,750	\$248	\$39,500	\$39,750	\$352
\$13,750	\$14,000	\$146	\$26,750	\$27,000	\$250	\$39,750	\$40,000	\$354
\$14,000	\$14,250	\$148	\$27,000	\$27,250	\$252	\$40,000	\$40,250	\$356
\$14,250	\$14,500	\$150	\$27,250	\$27,500	\$254	\$40,250	\$40,500	\$358
\$14,500	\$14,750	\$152	\$27,500	\$27,750	\$256	\$40,500	\$40,750	\$360
\$14,750	\$15,000	\$154	\$27,750	\$28,000	\$258	\$40,750	\$41,000	\$362
\$15,000	\$15,250	\$156	\$28,000	\$28,250	\$260	\$41,000	\$41,250	\$364
						\$41,250	\$41,500	\$366
						\$41,500	\$41,750	\$368
						\$41,750	\$42,000	\$370
						\$42,000		\$370

Note: Beginning Jan. 1, 2009, when the amendment is effective, benefits will be deleted for wages of at least \$1,000 but less than \$2,500 and benefits will be added (the shaded area) for wages of at least \$26,750 but less than or equal to \$41,750.

Source: Alaska Statute 23.20.350(d), amendment effective Jan. 1, 2009.



\$212 to \$248 and increasing the qualifying wages from \$22,000 to \$26,500.

## The First Six Steps Are Deleted 4 The start of the benefit schedule

### The new ceiling

The Legislature's change for 2009 adds 61 steps to the existing benefit schedule's 105 steps to accommodate the new \$370 maximum weekly benefit and \$41,750 ceiling for base period qualifying wages. (See Exhibit 3.) The base period refers to the first four of the five most recently completed quarters.

Just as it is with the current \$26,500 ceiling, if claimants make more than \$41,750 in a year, they'll be limited to the \$370 maximum weekly benefit. Someone earning \$41,750 a year will receive the same \$370 maximum weekly benefit as someone earning \$60,000 a year.

With the \$26,500 ceiling, typically a third of all workers receiving unemployment benefits qualified for the maximum benefit amount. With the new \$41,750 ceiling, it's estimated that roughly 15 percent of all workers receiving benefits will receive the maximum benefit amount.

### Changes at the bottom of the benefit schedule

Alaska's unemployed workers have qualified for a minimum weekly benefit amount, based on \$1,000 in annual wages since October 1980 – 28 years ago. Many legislators say the \$1,000 starting point is out-of-date, and it raises questions about a worker's attachment to the labor force.

The new legislation addresses that concern by eliminating the first six steps from the benefit schedule. (See Exhibit 4.) The starting point, beginning on Jan. 1, 2009, will be a minimum benefit of \$56, based on earnings of \$2,500.

At today's \$7.15 an hour minimum wage, with the \$1,000 minimum, it takes 18 days of full-time work to qualify for a benefit. After the \$2,500 minimum takes effect Jan. 1, 2009, 44 days of full-time work will be required to qualify for a benefit.

2008			2009		
Base Period Wages		Weekly Benefit Amount	Base Period Wages		Weekly Benefit Amount
At Least	But Less Than		At Least	But Less Than	
0	\$1,000	0			
\$1,000	\$1,250	\$44			
\$1,250	\$1,500	\$46			
\$1,500	\$1,750	\$48			
\$1,750	\$2,000	\$50			
\$2,000	\$2,250	\$52			
\$2,250	\$2,500	\$54	0	\$2,500	0
\$2,500	\$2,750	\$56	\$2,500	\$2,750	\$56
\$2,750	\$3,000	\$58	\$2,750	\$3,000	\$58
\$3,000	\$3,250	\$60	\$3,000	\$3,250	\$60

Note: Beginning Jan. 1, 2009, when the amendment is effective, benefits will be deleted for wages of at least \$1,000 but less than \$2,500 and benefits will be added for wages of at least \$26,750 but less than or equal to \$41,750.

Source: Alaska Statute 23.20.350(d), amendment effective Jan. 1, 2009.

### Dependent's benefits

Dependent's benefits didn't change. Alaska is one of 13 states that provides additional unemployment insurance benefits to claimants with dependents. Claimants can receive \$24 per dependent for up to three dependents in addition to their weekly benefit amount. Typically, 40 percent of Alaska's claimants claim dependents and 10 percent of the benefits that Alaska pays each year go to dependent allowances.

### Standard for setting the maximum benefit

The prevailing practice among the states is to set the maximum weekly benefit amount as a percentage of each state's average annual weekly wage, with 50 percent being the minimum. The majority of states do it automatically with an economic adjustment feature that recalculates each year.

The Alaska Legislature chose to keep the state's fixed benefit schedule. Changes to the schedule, as in the past, must be approved by the Legislature.

In January 2007, at the start of the first session of the 25th Legislature, the most current aver-

# 5 Mechanics of Tax Rate Calculations Alaska's unemployment insurance system

Economic Inputs
<ol style="list-style-type: none"> <li>1. Statewide benefit costs for the last three fiscal years<sup>1</sup></li> <li>2. Total wages of taxable employers statewide for the first three of the last four fiscal years</li> <li>3. Taxable wages statewide in the last fiscal year</li> <li>4. Total wages statewide in the last fiscal year</li> </ol>
Basic Calculations
<p>A = Benefit cost as a percent of wages [(1) divided by (2)]            B = Percent of wages that are taxable [(3) divided by (4)]            A divided by B = Average Benefit Cost Rate (ABCR)</p>
Employer and Employee Shares (For 2008)
<p>80 percent of the ABCR = Average Employer Tax Rate            20 percent of the ABCR = Employee Tax Rate</p>
Employer Calculations
<ol style="list-style-type: none"> <li>1. A solvency tax, solvency credit or none are applied to employer tax rate. (A solvency credit is in effect for 2008).</li> <li>2. Employers are assigned to 20 rate classes:            Classes 1 to 9 have less-than-average tax rates            Classes 10 to 11 have the average tax rate            Classes 12 to 20 have higher-than-average tax rates</li> <li>3. New employers are assigned an industry average rate.</li> </ol>
<p><sup>1</sup> References to the fiscal year are to the state fiscal year. For instance, fiscal year 2009 runs from July 1, 2008, to June 30, 2009.  <i>Source: Alaska Statutes 23.20.285 to 23.20.290; and Alaska Department of Labor and Workforce Development, Research and Analysis Section</i></p>

age weekly wage was \$751.<sup>6</sup> The \$370 maximum benefit amount is nearly 50 percent of that amount – 49.3 percent. The state's average weekly wage was \$783 in 2006 and \$822 in 2007; \$370 represents 47.3 percent and 45.0 percent, respectively, of those amounts.

Without a change to the system, the replacement rate in 2007 would have been re-

<sup>6</sup> The \$751 is based on 2005 wage data, the most current available in January 2007.

duced to 30.2 percent of the average weekly wage.

## The split

The total amount of revenue needed to pay for annual benefit costs is expressed as a percentage of total wages in Alaska's economy subject to taxation, called the "average benefit cost ratio," or ABCR.<sup>7</sup> (See Exhibit 5.) The split has been 80/20 since 1997: 80 percent of the ABCR is the average employer tax rate, and 20 percent of the ABCR is the tax rate for all workers. (See Exhibit 6.)

On Jan. 1, 2009, that split will change to 76 percent of the ABCR for the average employer tax rate and 24 percent for the tax rate for all workers.

Then on Jan. 1, 2010, the split will shift to 73 percent of the ABCR for the average employer tax rate and 27 percent for the tax rate for all workers.

Alaska is one of three states where workers are required to help finance the unemployment insurance system. Pennsylvania only collects taxes from workers when there are solvency problems with its trust fund. New Jersey collects worker taxes each year. Workers there pay a tax rate of 0.3825 percent on a taxable wage base of up to \$27,700 for a maximum tax of \$106.

Alaska's statute dictates that tax rates must fall within defined minimums and maximums. For employers, the minimum tax rate is 1.0 percent of an employer's taxable payroll; the maximum rate is 6.5 percent. For workers, the minimum tax rate is 0.5 percent of a worker's taxable gross wages; the maximum is 1.0 percent.

For 2008, average employers are paying 1.5 percent on wages up to \$31,300 for a maximum tax of \$470 and workers are paying 0.5 percent on wages up to \$31,300 for a maximum tax of \$157. Because that taxable wage base – the \$31,300 amount in 2008 – changes each year, the tax rates and maximum taxes will also change.

<sup>7</sup> The ABCR is expressed as a decimal. For 2008, it's 0.019979.

After the new changes become effective Jan. 1, 2009, the tax rates for Alaska employers should begin a slow decline immediately; the exact amount isn't known.

Since Alaska workers have been paying the minimum legal unemployment insurance tax rate (0.5 percent) for several years, that rate will likely continue for 2009, despite the changes in tax share in 2009.

*The Department of Labor and Workforce Development's Research and Analysis Section is responsible for identifying how changes to Alaska's unemployment insurance system will impact employers, workers, the unemployed and the overall health of the unemployment insurance trust fund, where the tax revenue is held.*

## The Tax Burden Shifts Workers pay a bigger share **6**

Employer and Employee Percentage Share of the Average Benefit Cost Rate		
Year	Average Employer	All Employees
1981	82 %	18 %
1997	80 %	20 %
2009	76 %	24 %
2010	73 %	27 %

*Source: Alaska Statute 23.20.290(c); and Alaska Department of Labor and Workforce Development, Research and Analysis Section*

## Unemployment rate at 6.8 percent in June

**A**laska's seasonally adjusted unemployment rate fell one-tenth of a percentage point in June to 6.8 percent. May's rate was revised to 6.9 percent from the preliminary rate of 7.0 percent. (See Exhibits 1 and 3.)

The unemployment rate had been slowly but steadily rising since early 2007 despite the fact that Alaska has seen fairly consistent job growth over that period. It's too early to tell whether that trend has changed or whether the rate will continue to rise in coming months.

The state's rising unemployment rates are likely due more to the national slowdown in job growth than to any significant change in the rate of job creation in Alaska.

When the national economy is weaker relative to Alaska, job seekers in Alaska are less likely to look outside the state for employment and job seekers from outside Alaska are more likely to migrate north in search of work. The result is a higher number of unemployed people in Alaska and higher unemployment rates.

### The state is still adding jobs

Unlike the state's unemployment rate, which tends to follow national trends, Alaska's ability to generate job growth has been relatively unaffected so far by a national economy that has shed jobs for the sixth consecutive month in June.

The state's count of payroll jobs increased by 1,500 over the year behind continued strong growth in the oil and gas industry. Construction and seafood processing

were both down 500, the only two major industries with significant losses.

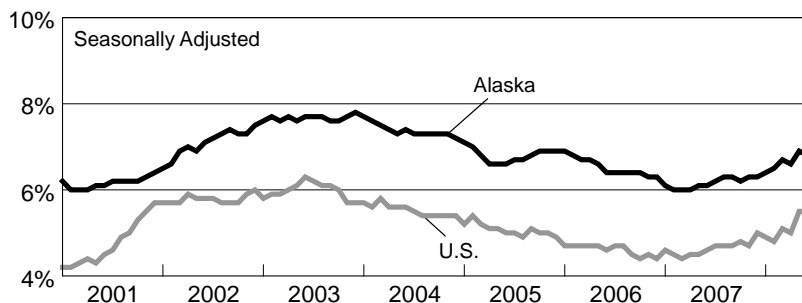
Construction jobs have been below year-ago levels for nearly three years now, but seafood processing's lower June employment levels are due to a late start in some of the state's fisheries and the losses will most likely disappear in the coming months.

### Northern region leads the way

With the exception of the Northern region, and the booming oil and gas industry, job growth has slowed slightly throughout the state. The Southwest, Southeast and Gulf Coast regions all had fewer jobs in June of this year than they did in June 2007, due mostly to a slow start to the salmon season.

Growth was also below 1 percent in the Anchorage/Mat-Su and Interior regions. It's still too early to tell what kind of a summer tourism season it will be in 2008. Visitor numbers are down slightly at Denali National Park, but cruise ship visitors are expected to be up slightly from last year.

## Unemployment Rates, Alaska and U.S. 1 January 2001 to June 2008



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Department of Labor, Bureau of Labor Statistics

## 2 Nonfarm Wage and Salary Employment

	Preliminary	Revised	Revised	Changes from:	
	6/08	5/08	6/07	5/08	6/07
<b>Alaska</b>					
<b>Total Nonfarm Wage and Salary<sup>1</sup></b>	338,200	323,800	336,700	14,400	1,500
Goods-Producing <sup>2</sup>	49,900	42,500	50,000	7,400	-100
Service-Providing <sup>3</sup>	288,300	281,300	286,700	7,000	1,600
<b>Natural Resources and Mining</b>	15,100	14,900	14,100	200	1,000
Logging	300	300	400	0	-100
Mining	14,800	14,600	13,700	200	1,100
Oil and Gas	12,600	12,400	11,500	200	1,100
<b>Construction</b>	19,700	17,300	20,200	2,400	-500
<b>Manufacturing</b>	15,100	10,300	15,700	4,800	-600
Wood Product Manufacturing	400	400	400	0	0
Seafood Processing	10,900	6,300	11,400	4,600	-500
<b>Trade, Transportation, Utilities</b>	68,800	66,000	68,600	2,800	200
Wholesale Trade	6,900	6,600	6,800	300	100
Retail Trade	38,200	36,900	37,800	1,300	400
Food and Beverage Stores	6,700	6,500	6,800	200	-100
General Merchandise Stores	9,400	9,300	9,200	100	200
Transportation, Warehousing, Utilities	23,700	22,500	24,000	1,200	-300
Air Transportation	6,800	6,400	6,800	400	0
Truck Transportation	3,400	3,300	3,400	100	0
<b>Information</b>	6,900	6,800	7,000	100	-100
Telecommunications	4,300	4,200	4,300	100	0
<b>Financial Activities</b>	15,400	15,100	15,500	300	-100
<b>Professional and Business Services</b>	27,100	26,000	26,700	1,100	400
<b>Educational<sup>4</sup> and Health Services</b>	37,100	37,200	37,100	-100	0
Health Care	27,000	27,000	26,800	0	200
<b>Leisure and Hospitality</b>	39,000	33,800	38,900	5,200	100
Accommodations	11,300	8,800	11,300	2,500	0
Food Services and Drinking Places	22,300	20,400	22,100	1,900	200
<b>Other Services</b>	11,700	11,800	11,700	-100	0
<b>Government</b>	82,300	84,600	81,200	-2,300	1,100
Federal Government <sup>5</sup>	17,500	17,000	17,500	500	0
State Government	24,100	25,600	23,700	-1,500	400
State Government Education <sup>6</sup>	5,800	7,700	5,600	-1,900	200
Local Government	40,700	42,000	40,000	-1,300	700
Local Government Education <sup>7</sup>	21,900	24,100	21,600	-2,200	300
Tribal Government	3,700	3,600	3,600	100	100

Notes for all exhibits on this page:

<sup>1</sup> Excludes the self-employed, fishermen and other agricultural workers, and private household workers; for estimates of fish harvesting employment, and other fisheries data, go to [labor.alaska.gov/research/seafood/seafood.htm](http://labor.alaska.gov/research/seafood/seafood.htm)

<sup>2</sup> Goods-producing sectors include natural resources and mining, construction and manufacturing.

<sup>3</sup> Service-providing sectors include all others not listed as goods-producing sectors.

<sup>4</sup> Private education only

<sup>5</sup> Excludes uniformed military

<sup>6</sup> Includes the University of Alaska

<sup>7</sup> Includes public school systems

<sup>8</sup> Fairbanks North Star Borough

Sources for Exhibits 2 and 3: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor, Bureau of Labor Statistics  
Sources for Exhibit 4: Alaska Department of Labor and Workforce Development, Research and Analysis Section; also the U.S. Department of Labor, Bureau of Labor Statistics, for Anchorage/Mat-Su and Fairbanks

## 4 Nonfarm Wage and Salary Employment By region

	Preliminary	Revised	Revised	Changes from:		Percent Change:	
	6/08	5/08	6/07	5/08	6/07	5/08	6/07
Anch/Mat-Su	175,200	171,300	174,300	3,900	900	2.3%	0.5%
Anchorage	155,300	152,100	154,400	3,200	900	2.1%	0.6%
Gulf Coast	32,650	29,800	32,900	2,850	-250	9.6%	-0.8%
Interior	49,200	47,600	49,000	1,600	200	3.4%	0.4%
Fairbanks <sup>8</sup>	39,800	39,300	39,700	500	100	1.3%	0.3%
Northern	19,600	19,700	18,600	-100	1,000	-0.5%	5.4%
Southeast	40,500	37,950	40,800	2,550	-300	6.7%	-0.7%
Southwest	20,900	17,550	21,150	3,350	-250	19.1%	-1.2%

## 3 Unemployment Rates By borough and census area

	Prelim.	Revised	Revised
	6/08	5/08	6/07
<b>SEASONALLY ADJUSTED</b>			
<b>United States</b>	5.5	5.5	4.6
<b>Alaska Statewide</b>	6.8	6.9	6.1
<b>NOT SEASONALLY ADJUSTED</b>			
<b>United States</b>	5.7	5.2	4.7
<b>Alaska Statewide</b>	6.9	6.6	6.2
<b>Anchorage/Mat-Su Region</b>	6.3	5.9	5.6
Municipality of Anchorage	5.8	5.5	5.2
Mat-Su Borough	8.0	7.4	7.1
<b>Gulf Coast Region</b>	7.7	8.0	6.6
Kenai Peninsula Borough	7.4	7.6	6.8
Kodiak Island Borough	9.6	9.7	6.0
Valdez-Cordova Census Area	6.7	7.9	6.1
<b>Interior Region</b>	6.5	6.1	5.9
Denali Borough	2.4	3.3	2.4
Fairbanks North Star Borough	6.2	5.6	5.5
Southeast Fairbanks Census Area	8.3	8.4	7.8
Yukon-Koyukuk Census Area	14.8	13.5	13.8
<b>Northern Region</b>	10.0	8.9	9.8
Nome Census Area	13.8	11.1	13.1
North Slope Borough	5.2	4.6	6.1
Northwest Arctic Borough	13.0	13.2	11.6
<b>Southeast Region</b>	6.2	6.1	5.4
Haines Borough	7.5	8.7	5.2
Juneau Borough	5.0	4.5	4.4
Ketchikan Gateway Borough	5.5	5.4	4.8
Prince of Wales-Outer Ketchikan CA	12.0	13.7	11.5
Sitka Borough	5.8	5.7	4.8
Skagway-Hoonah-Angoon CA	7.1	8.2	6.9
Wrangell-Petersburg Census Area	10.2	10.7	8.1
Yakutat Borough	6.2	6.3	5.4
<b>Southwest Region</b>	12.7	14.1	11.3
Aleutians East Borough	9.4	12.8	8.1
Aleutians West Census Area	6.8	14.3	6.3
Bethel Census Area	15.6	14.4	13.8
Bristol Bay Borough	2.9	4.7	3.3
Dillingham Census Area	10.7	10.6	9.9
Lake and Peninsula Borough	5.9	7.2	4.5
Wade Hampton Census Area	23.8	22.7	21.7

For more current state and regional employment and unemployment data, visit our Web site.

[almis.labor.state.ak.us](http://almis.labor.state.ak.us)

# A Safety Minute

## Kids and Teens and Commercial Fishing

Minors under the age of 16 aren't allowed to work on commercial fishing boats, unless a minor is employed by a parent who also owns and operates the boat, according to state and federal law.

"We want to get young people out working, but their safety on the job comes first," said Click Bishop, commissioner of the Alaska Department of Labor and Workforce Development.

Grey Mitchell, director of the department's Labor Standards and Safety Division, said, "The last Alaska workplace fatality involving a worker under 16 years old involved commercial fishing. This tragedy could have been avoided by simply following the law."

All workers under the age of 18 are covered by specific laws regarding their employment conditions.

Sixteen- and 17-year-olds are allowed to work on fishing boats, but they aren't allowed to operate power-driven hoisting equipment. They also aren't allowed to operate a motor vehicle, be a helper on a motor vehicle, or operate meat processing machines, circular saws and band saws.

The laws are strictest for employing 14- and 15-year-olds. For instance, 14- and 15-year-olds can't use knives, work in fish processing, a warehouse or operate power-driven machinery.

Occasionally state and federal laws differ, such as on the amount of hours 14- and 15-year-olds are allowed to work. When both state and federal laws apply, it's up to the employer to follow the stricter of the two.

That's why it's critical that employers check with the Department of Labor's Wage and Hour Administration (within the Labor Standards and Safety Division) if they're unfamiliar with the laws regarding a particular type of work or have any questions.

Alaska law requires youth ages 14 through 16 to have a work permit signed by their parent or guardian and approved by the Wage and Hour Administration before working.

Aside from work permits, Wage and Hour investigators do on-site inspections of employer work sites throughout the state to ensure that young workers aren't employed in unsafe jobs or under unlawful conditions.

For more information, contact the nearest Wage and Hour office: Anchorage (907) 269-4900; Juneau (907) 465-4842; and Fairbanks (907) 451-2886.

People can also go to Wage and Hour's Web site for more information. Go to the Department of Labor's Web site at [labor.alaska.gov](http://labor.alaska.gov). Under "Division Links" on the left, click on "Labor Standards and Safety." Then click on "Child Labor" on the right to get the Summary of Alaska's Child Labor Law.

For a comparison of state and federal laws for net fishing, after getting to the Summary of Alaska's Child Labor Law (above), on the right click on "Comparison of Federal and State Youth Work Rules in Net Fishing."

# Employer Resources

## Interns Get a Taste of the Work World

Under a program called the Alaska Youth First Initiative, teens and young adults ages 16 to 24 can get work experience while employers get workers – for free.

The Alaska Department of Labor and Workforce Development's Division of Business Partnerships oversees the program, which focuses on getting Alaska's young people "job ready."

Here's how the internship part of the program works: The Division of Business Partnerships provides grants to nonprofit organizations and agencies, school districts and the University of Alaska. They're called "grantees." In fiscal year 2008-2009, Business Partnerships will provide roughly \$500,000 in grants to four main grantees to oversee the internships and teach job-readiness skills to the interns.

The four are Nine Star Education & Employment Services for Anchorage, Cook Inlet Tribal Council for Anchorage and villages served by CITC, Tanana Chiefs Conference for Fairbanks and Interior villages, and Southeast Regional Resource Center for Southeast.

The grantee organizations, in turn, recruit employers who are eager to give 16- to 24-year-olds work experience in their businesses or agencies. The grantee organizations pay the interns' wages and employment taxes; the employers just provide the work experience.

For employers, that eliminates some of the risk of hiring employees who often have very little work experience, said Margie Germain, a Business Partnerships program coordinator.

She said the benefits for the teens and young adults are two-pronged.

First, the teens and young adults are put in a real-life work situation – but with support from the grantee organization – to work out the kinks of working life as they learn the skills for being "employable": figuring out daily transportation and getting to work on-time, having good communication and customer service skills, getting along with the boss and co-workers, among other things.

The grantee organization prepares the teen or young adult for the job, then checks in with him or her and the employer weekly to work through any obstacles that may come up.

Second, the teens and young adults get to try out a specific job or industry to see if it's for them. That way they don't waste a lot of time and money getting the training or education for a job or field they find out later they don't like, Germain said.

Sometimes the employer ends up hiring the intern after the internship is over, she said, but that's not expected.

Aside from the internships, the Alaska Youth First Initiative program also puts Department of Labor career guides into schools, gives pre-vocational training and provides teacher "externships," where teachers work in an industry for a week or two and convey what they learned to their students.

For more information, call Germain at (907) 465-5944 or call the grantee organization directly: for Nine Star, Roger Hamacher, (907) 743-6074; for CITC, Debi Kruse, (907) 793-3266; for Tanana Chiefs, Robin Frank, (907) 452-8251, ext. 3418; and for SERRC, Elizabeth Dahl, (907) 586-5718.