

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

March 31, 2015

3:30 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Bert Stedman, Vice Chair
Senator Lyman Hoffman
Senator Dennis Egan

MEMBERS ABSENT

Senator Anna MacKinnon

COMMITTEE CALENDAR

SENATE BILL NO. 87

"An Act relating to the optional exemption from and deferral of payment of municipal taxes on deteriorated property."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 87

SHORT TITLE: MUNI TAXES ON DETERIORATED PROPERTY

SPONSOR(S): SENATOR(S) MEYER

03/20/15	(S)	READ THE FIRST TIME - REFERRALS
03/20/15	(S)	CRA, FIN
03/31/15	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

EDRA MORLEDGE, Staff
Senator Kevin Meyer
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced SB 87 on behalf of the sponsor.

BRYANT ROBBINS, Assessor
Municipality of Anchorage
Anchorage, Alaska

POSITION STATEMENT: Answered questions related to SB 87.

SENATOR KEVIN MEYER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 87.

GABE LAYMAN, Executive Vice President & General Counsel
Cook Inlet Housing Authority
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 87.

PAUL FUHS, lobbyist
Fairview Business Association
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 87.

ACTION NARRATIVE

[3:30:29 PM](#)

CHAIR CLICK BISHOP called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Stedman, Hoffman, Egan, and Chair Bishop.

SB 87-MUNI TAXES ON DETERIORATED PROPERTY

[3:31:06 PM](#)

CHAIR BISHOP announced the consideration of SB 87.

[3:31:52 PM](#)

EDRA MORLEDGE, Staff, Senator Kevin Meyer, Alaska State Legislature, Juneau, Alaska, said SB 87 is a community and economic development bill. She stated that SB 87 will allow municipalities to further incentivize the rehabilitation, demolition, and redevelopment of blighted properties in deteriorated communities. She revealed that a current Alaska statute allows municipalities to offer optional property tax incentives that are intended to encourage redevelopment of deteriorated properties. The municipality must pass an ordinance and adhere to specific application procedures as outlined in the statute. Under the current law, a municipality may offer the optional tax for redevelopment if one of the two following conditions are met:

1. The property is a commercial property not used for residential purposes.
2. The property is a multi-unit residential property with at least eight residential units.

MS. MORLEDGE specified that SB 87 provides three amendments to the current statute:

1. Technical change that fixes the omission of the word "not" in the commercial property section.
2. Amends the residential property rehabilitation section by clarifying that the eight unit requirement can either be at the time of the application for tax exemption or deferral, or at the completion of the project.
3. Amends the statutes to clarify that when a single entity owns multiple residential properties within one designated deteriorated area, those properties can be considered collectively to satisfy the statute's eight unit minimum.

She reiterated that the municipality still has to pass an ordinance to offer any of the optional incentives and the developer would still have to go through the proper application process that ultimately must be approved by the municipality. She detailed that the change adds clarity and greater flexibility for municipalities to craft incentives for larger redevelopment projects that meet their specific goals.

[3:34:52 PM](#)

She explained the statutory changes from SB 87 as follows:

Page 2, lines 11 and 12, clarifies that the deferral can be at the same time of application or at the completion of the project. Right now the current statute does not clearly state at which point the eight residential unit requirement can be met and so there is some ambiguity in the current statute.

Page 2, lines 13-17, clarifies that a single entity that owns multiple properties within in one designated deteriorated area can be considered collectively to satisfy the eight unit requirement.

Page 2, line 26, a technical amendment to insert the word "not" after "has;" the reason for this, the way that it currently reads is you would be eligible for the tax exemption on deferral if a commercial property has a structure on it that is over 15 years of age

that has undergone some substantial rehabilitation, renovation, demolition, removal, or replacement which doesn't necessarily make sense for a developer who wants to go in and redevelop an area.

[3:36:32 PM](#)

CHAIR BISHOP asked her to clarify that the word "not" provides direction.

MS. MORLEDGE answered correct.

CHAIR BISHOP asked what the significance is for eight properties.

MS. MORLEDGE replied that the intent is to incentivize larger redevelopment projects so that a single homeowner could not apply for the exemption.

CHAIR BISHOP asked how a designated deteriorated area is defined.

[3:39:52 PM](#)

BRYANT ROBBINS, Assessor, Municipality of Anchorage, Anchorage, Alaska, explained that the assembly defines the designated deteriorated area. He detailed that the Anchorage municipal code has a set of criteria that the assembly looks at in determining whether an area qualifies.

CHAIR BISHOP asked if a developer would have to make their case before the assembly based on the set designated deteriorated area parameters.

MR ROBBINS explained that the application process is submitted to the Chief Fiscal Officer (CFO) of the municipality. He detailed that the application moves on to the mayor and then the assembly if approved.

[3:41:49 PM](#)

SENATOR KEVIN MEYER, Alaska State Legislature, Juneau, Alaska, SB 87 sponsor, stated that the bill is very important to Anchorage. He asserted that the Anchorage property tax base benefits when groups like Cook Inlet Housing targets and develops deteriorated areas. He added that neighborhood values go up and additional housing is provided to low income folks.

CHAIR BISHOP agreed with Senator Meyer's assessment and noted that the Cook Inlet Housing Authority has done good work in bringing up Anchorage's real estate value.

[3:43:01 PM](#)

GABE LAYMAN, Executive Vice President & General Counsel, Cook Inlet Housing Authority (CIHA), Anchorage, Alaska, explained that CIHA is one of 14 regional housing authorities that deliver safe and affordable housing to low-income Alaskan seniors, families, and individuals. He said CIHA's area covers the entire Cook Inlet Region and promotes homeownership through lending programs as well as managing 1,200 rental units from Seldovia to the Mat-Su Valley.

MR. LAYMAN explained the changes made by SB 87 as follows:

SB 87 is legislation that could have some very positive statewide impacts. But to make clear what SB 87 does and does not do, I'm going to use Anchorage as an example. So as you all know, there are communities within Anchorage that experience blight, disinvestment, and deterioration. Historic neighborhoods like Fairview and Spenard have tremendous potential for redevelopment, but some portions of those communities are "private sector Kryptonite" with contaminated former gas stations, drug houses seized by law enforcement, and properties with large, blighted structures that are costly to demolish because they were built with hazardous materials. Market conditions and federal, state, and local regulation make it very expensive to acquire and redevelop properties like these. For that reason, we have seen very little private sector redevelopment of blighted properties anywhere in Alaska. So while the worst of the worst properties in these communities remain untouched, the sickly shadows that they cast are going to continue to discourage any investment in properties located nearby.

[3:44:57 PM](#)

He continued his overview on the impact from SB 87 as follows:

Presently, there are very few tools that are available to encourage private investors to take on the risk that is associated with the redevelopment of deteriorated properties. One tool that does exist, at least in theory, is a state statute that gives

municipalities the option of offering property tax incentives for the rehabilitation or redevelopment of deteriorated properties. The applicable statute, AS 29.45.050(o), creates an optional tool that allows municipalities to encourage redevelopment in their most blighted areas. The vision was for municipalities to employ this tool to encourage private investment, promote economic development, and ultimately to increase their municipal tax bases.

Unfortunately this vision has not been realized. I am aware of only two communities that have opted-in by adopting an ordinance that authorizes optional property tax incentives for the redevelopment of deteriorated properties: Anchorage and the Fairbanks North Star Borough. I'm not aware of any projects in Fairbanks that have benefited from this provision and to my knowledge only three or four in Anchorage have. The question is really why isn't this tool being used? Developers would like to use it and in Anchorage at least, the municipality has been willing to make it available. Unfortunately the authorizing statute is confusing and in some ways overly restrictive. SB 87 would clarify the statute and make improvements that would enhanced its usefulness.

[3:46:22 PM](#)

MR. LAYMAN reviewed what SB 87 and the current law does not do as follows:

Neither the existing statute nor SB 87 requires municipalities to provide tax incentives of any kind. Municipalities must, by ordinance, opt-in if they want to offer this tool to developers. Further, once a municipality opts-in, it retains the ability to evaluate project applications on a case-by-case basis.

He explained that SB 87 makes three significant improvements to current legislation as follows:

The first is that the statute presently provides that a residential property has to be eligible for property tax abatement from a municipality if it is a "multi-unit residential property with at least eight residential units." It is not clear at what point in time the property must have eight residential units to qualify; this language is ambiguous and has confused

both municipality officials and developers. SB 87 clarifies that this requirement could be satisfied either at the time of application for exemption or deferral, or at the time of project completion. Why does that matter? The answer is it really makes it clear that the purposes of the statute, which are to authorize locally determined efforts to eliminate blight and redevelop deteriorated properties, could be satisfied in multiple ways. A developer could seek property tax incentives for a project that would turn two blighted units into eight new, quality homes, or a developer could seek property tax incentives for a project that would remove eight blighted units in an overly dense neighborhood and replace them with two or four new, high quality homes.

[3:48:17 PM](#)

MR. LAYMAN reviewed the second improvement as follows:

SB 87 would amend the authorizing statute to clarify that an entity could apply for property tax incentives when it owns multiple residential properties, collectively having eight or more units, all within a single deteriorated area. This amendment is intended to encourage developers to revitalize deteriorated areas by acquiring multiple properties and redeveloping them in a coordinated manner. For example, if a developer owns a number of small properties in a deteriorated area, such as 8,000 square foot single family residential lots in Fairview, those parcels themselves are not currently eligible for municipal property tax incentives because they cannot each independently support eight or more units and this remains true even if the development as a whole would impact a substantial number of properties and produce dozens of housing units; we need to find a way to fix that and that's exactly what SB 87 would do.

[3:49:23 PM](#)

He explained the third improvement as follows:

SB 87 makes a technical amendment to the current statute to fix the omission of this single, but very important word, "not." The statute currently states that commercial property is eligible if it "has a structure on it not less than 15 years of age that has

undergone substantial rehabilitation, renovation, demolition, removal, or replacement." Inserting the word "not" after the word "has" ensures that the statute is not inadvertently encouraging commercial properties that have been improved within the past 15 years and while it seems like a small thing, in actuality this minor technical issue alone is currently an impediment to the redevelopment of Anchorage's historic Fourth Avenue Theater by an extremely interested and very capable private developer.

MR. LAYMAN summarized that SB 87 will promote economic development and further empower municipalities to address blight and deterioration in a locally controlled manner and will not cost the state a dime.

CHAIR BISHOP commended Mr. Layman for his presentation.

[3:51:17 PM](#)

PAUL FUHS, lobbyist, Fairview Business Association, Anchorage, Alaska, explained that an unclear state statute does not allow developers to qualify for replacing old, deteriorated properties in Fairview with multi-family housing. He stated that SB 87 clarifies the state statute in a common sense way and allows Anchorage to address its low-income housing issue.

MR. FUHS detailed that designating an area as deteriorated allows for redevelopment without having to go through a bunch of hoops with the CFO. He noted that deteriorated properties are defined by a list of criteria that includes declining property values and abandoned properties.

He pointed out that the SB 87 allows developers to put in and pay for municipal infrastructure that can be written off against their property taxes. He added that redevelopment property owners pay the assessed value of the property as it was and asserted that the project is not a tax holiday. He specified that the redevelopment property is an abatement where the new assessed value is paid when the investment or infrastructure is paid off.

He revealed that Tacoma used the same property rehabilitation parameters that resulted in 2,500 new units, \$48 million in new construction, and \$6 million in new assessed value for the city.

MR. FUHS summarized that SB 87 has a lot of good logic behind it and clears up a gray area on housing. He added that communities other than Anchorage can also take advantage of SB 87.

[3:54:42 PM](#)

CHAIR BISHOP pointed out that Tacoma's \$6 million in direct dollars to its tax base did not count the \$43 million in construction wages that were spread throughout the city during construction time.

SENATOR EGAN asked him to verify that when the improvements are written off, the municipality owns the utilities.

MR. FUHS answered correct. He specified that the improvements are an upgrade to the whole infrastructure and are not individual hookups.

SENATOR EGAN asked if the improvements are done to municipal code.

MR. FUHS answered yes. He detailed that the municipal planning department tells the developer what they have to do.

[3:55:46 PM](#)

CHAIR BISHOP closed public testimony. He commented that he thinks SB 87 is a good bill. He noted that he is familiar with the Fourth Avenue Theater issue in Anchorage and is hopeful that the bill will help make the theater project become a reality as well as other properties in Anchorage.

[3:56:11 PM](#)

CHAIR BISHOP announced that SB 87 will be held in committee.

[3:56:45 PM](#)

There being no further business to come before the committee, Chair Bishop adjourned the Senate Community and Regional Affairs Standing Committee meeting at 3:56 p.m.