

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

March 16, 2023

1:41 p.m.

MEMBERS PRESENT

Senator Forrest Dunbar, Chair
Senator Donald Olson, Vice Chair
Senator Elvi Gray-Jackson
Senator Jesse Bjorkman
Senator Cathy Giessel

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 77

"An Act relating to municipal property tax; and providing for an effective date."

- HEARD & HELD

PRESENTATION(S): HOUSING ALASKANS: - A PUBLIC-PRIVATE
PARTNERSHIP

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: SB 77

SHORT TITLE: MUNI PROP TAX EXEMPTION/TAX BLIGHTED PROP

SPONSOR(S): SENATOR(S) DUNBAR

02/22/23	(S)	READ THE FIRST TIME - REFERRALS
02/22/23	(S)	CRA
03/16/23	(S)	CRA AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

ALLIANA SALANGUIT, Staff
Senator Forrest Dunbar
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the sectional analysis for SB 77 on behalf of the sponsor.

MIKE ROBBINS, Executive Director
Anchorage Community Development Authority (ACDA)
Anchorage, Alaska

POSITION STATEMENT: Provided invited testimony on SB 77.

BILL POPP, President
Anchorage Economic Development Corporation (AEDC)
Anchorage, Alaska

POSITION STATEMENT: Provided invited testimony on SB 77.

NILS ANDREASSEN, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Provided invited testimony on SB 77.

CHRIS SCHUTTE, representing self
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 77.

PRESTON SIMMONS, Chair
Housing Alaskans - Public Private Partnership (HAPPP)
Anchorage, Alaska

POSITION STATEMENT: Presented a slideshow on housing Alaskans.

ACTION NARRATIVE

[1:41:26 PM](#)

CHAIR FORREST DUNBAR called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:41 p.m. Present at the call to order were Senators Bjorkman, Giessel, Gray-Jackson, Olson, and Chair Dunbar.

SB 77-MUNI PROP TAX EXEMPTION/TAX BLIGHTED PROP

[1:42:34 PM](#)

CHAIR DUNBAR announced the consideration of SENATE BILL NO. 77 "An Act relating to municipal property tax; and providing for an effective date."

CHAIR DUNBAR said this is the introductory hearing for SB 77. The intention is to introduce the bill, followed by the sectional analysis, invited testimony, committee discussion, and public testimony.

[1:43:39 PM](#)

CHAIR DUNBAR, speaking as the sponsor, introduced SB 77, stating the bill gives local governments two optional tools to incentivize economic development. These apply mainly to residential and commercial housing developments.

CHAIR DUNBAR said that the first tool provides a full property tax abatement. Currently, local governments can only exempt the amount above the local school requirement. He said SB 77 removes this limit, allowing for a full property tax abatement. He emphasized that it is important to note that this does not impact the required contribution for schools. Local governments still need to fund schools and will need to find alternative funding sources. He said this may cause a short-term increase in some property taxes but increases the property tax base over the long term. In Anchorage, for example, a downtown property tax abatement lasts about 12 years.

CHAIR DUNBAR said that the second tool gives local governments the option to adopt an ordinance for implementing a "blight tax." Blighted properties can reduce property tax collection by decreasing the value of surrounding properties. He said they also provide a public safety risk, becoming centers of criminal activity. A "blight tax" increases the property tax on blighted property until it is remediated, incentivizing owners to remediate their properties.

CHAIR DUNBAR reiterated that SB 77 does not impose either of these tools on localities; instead, it changes state law to allow local governments to use these tools if they choose. Local governments would adopt their own local ordinances before using either tool, particularly in the case of blighted property. He said that local governments must set out a framework defining a blighted property.

CHAIR DUNBAR completed the introduction of the bill. He invited Ms. Salanguit to present the sectional analysis for SB 77.

[1:45:34 PM](#)

ALLIANA SALANGUIT, Staff, Senator Forrest Dunbar, Alaska State Legislature, Juneau, Alaska, presented the sectional analysis for SB 77 on behalf of the sponsor.

[Original punctuation provided.]

Section 1: Amends AS 29.45.050 *Optional exemptions and exclusions* to allow municipalities to completely exempt property taxes for an economic development property. Currently, only the amount above the school district's local required contribution may be exempted.

MS. SALANGUIT said that Section 1 does not remove the municipality's obligation to fund the required local contribution.

Section 2: Adds a new section AS 29.45.057 *Levy of tax on blighted property* that allows municipalities to adopt an ordinance establishing a blight tax. The ordinance must include the following:

- Standards for determining if a property is blighted;
- A procedure for designating a property as blighted, notifying the property owner, and providing the property owner an opportunity to appeal;
- A tax rate for the blighted property;
- Standards for remediating or redeveloping the property so it will no longer be considered blighted;
- A duration of time and reduced tax rate for remediated properties.

To qualify for the reduced tax rate, the property owner must have a plan for remediating or redeveloping the property submitted to and approved by the municipality. They must also fulfill the terms of the plan.

Municipalities may designate the tax revenue to be used for community redevelopment purposes.

Primary residences are exempt from this section.

MS. SALANGUIT said that Sections 1 and 2 use "may" instead of "shall" so the tools to incentivize economic development are optional, not required.

Section 3: Provides for an immediate effective date after enactment per AS 01.10.070(c).

[1:47:37 PM](#)

SENATOR GRAY-JACKSON sought clarification that, currently, the exemption applies only to service areas.

CHAIR DUNBAR asked her to expound on "service areas."

SENATOR GRAY-JACKSON sought verification that SB 77 proposes exemptions for all service areas and school districts.

CHAIR DUNBAR replied yes, if localities decide to do that, they would have the ability. He moved down the agenda to invited testimony. He asked Mr. Robbins to put himself on the record and begin his testimony.

[1:48:51 PM](#)

MIKE ROBBINS, Executive Director, Anchorage Community Development Authority (ACDA), Anchorage, Alaska, provided invited testimony on SB 77, stating this bill would stimulate economic and housing development around the state. Many places across the state suffer from serious housing shortages. Multiple factors contribute to this, and while the state cannot affect some, it can and should influence others. This is why SB 77 is important. He said that one of the biggest challenges facing builders is the gap between construction costs and the expected returns for multi-family housing. SB 77 allows cities to offer a full tax abatement to help bridge that gap. He stated that the law already allows a 100 percent abatement for redevelopment of deteriorated property, noting it seems equitable to offer the same incentive for new construction.

MR. ROBBINS said the "blight tax" is a much-needed tool to protect property values, clean up neighborhoods, and encourage redevelopment. The blighted property section of SB 77 gives cities the opportunity to enact a tax on blighted properties to encourage neighborhood development.

MR. ROBBINS said this bill appears to have no financial consequences to the state budget and should not negatively affect education. As property taxes increase through development, so will revenue for education funding. It is a multiple win for multiple sectors of the economy, including jobs, housing, tax creation, and construction. SB 77 makes housing affordable for young people, which is one way to prevent population decline in Alaska.

[1:51:50 PM](#)

BILL POPP, President and Chief Executive Office, Anchorage Economic Development Corporation (AEDC), Anchorage, Alaska, provided invited testimony on SB 77. He stated this bill would provide the Municipality of Anchorage and other communities with the ability to develop strategic initiatives to attract new investments from outside Alaska through housing development. Data shows that businesses prioritize stability and availability of workforce when deciding to invest in an area. He said Alaska is reaching a demographic tipping point; population trends demonstrate a decline in the available workforce in the coming decades. This will become a critical issue for businesses seeking new investment opportunities nationwide. A key piece in attracting and retaining workers is housing availability. SB 77 could be an important tool for multi-family development in Anchorage, particularly for vertical construction, given the diminishing availability of buildable land that does not require significant redevelopment costs. He said AEDC hopes that the legislature and the governor pass SB 77 into law so communities can get to work developing their variations of this new legislation.

[1:54:15 PM](#)

At ease.

[1:54:32 PM](#)

CHAIR DUNBAR reconvened the meeting and invited Mr. Andreassen to share his perspective on SB 77.

[1:54:47 PM](#)

NILS ANDREASSEN, Executive Director, Alaska Municipal League (AML), Juneau, Alaska, provided invited testimony, stating that fundamentally SB 77 is a "tools in the toolbox" bill. It gives local governments the ability to do good things in their communities related to community and economic development. AML is supportive of both aspects of the bill:

- the abatement exemption, which AML recognizes increases property values over time with increased early investment; and
- the blighted properties incentive program.

MR. ANDREASSEN commented on the blighted properties portion of SB 77. He said blighted properties produce property tax collections by devaluing neighboring properties. "Blight tax" is shorthand for a tax incentive program that encourages community redevelopment. It is not currently an option for municipalities as no provisions in Alaska Statutes allow it. This legislation

aims to allow municipalities to levy an additional property tax on blighted properties. He said that the bill helps communities by encouraging property owners to redevelop their properties or sell them to new owners who will. SB 77 enables vacant or underutilized properties to be used for more productive purposes and, ultimately, increases the value of the property and surrounding properties with positive effects that reverberate throughout the community. He said AML looks forward to contributing its perspective throughout the legislative process and supports SB 77 as currently drafted.

[1:56:51 PM](#)

SENATOR OLSON asked how much SB 77 will affect communities other than Anchorage.

MR. ANDREASSEN answered that this bill focuses on communities with a property tax. It is self-limiting to some extent because most local governments have a sales tax instead of a property tax. More populated communities use property tax as the revenue base, so SB 77 could benefit the majority of Alaskans in some way. However, in terms of the total number of communities, the bill affects a smaller footprint.

SENATOR OLSON sought verification that the bill applies mainly to first-class cities.

MR. ANDREASSEN answered that it is not necessarily attributable to class, but yes, home rule, first-class, and unified are the main local governments with property taxes. He commented that he could not think of any second-class cities with property taxes.

CHAIR DUNBAR thanked Mr. Andreassen for his testimony and permitted him to clarify a statement.

MR. ANDREASSEN clarified that second-class boroughs have a property tax, but second-class cities do not have a property tax.

[1:59:00 PM](#)

CHAIR DUNBAR opened public testimony on SB 77.

[1:59:34 PM](#)

CHRIS SCHUTTE, representing self, Anchorage, Alaska, stated that he is a private economic and development consultant based in Anchorage, testifying in support of SB 77. The bill makes critical statutory changes that empower local jurisdictions to encourage new jobs, new local taxes, and long-term economic

benefits for their communities. He supports the property tax abatement tools that create incentives and the property tax that deals with blighted properties.

MR. SCHUTTE discussed the proposed tax abatement changes to AS 29.45.050(m). He explained that before 2017, property tax abatement tools encouraging economic or community development were limited and rarely used. Changes to the law improved incrementally but did not fully achieve their aim. He said SB 77 is the right statutory fix. He thanked the sponsor for the bill.

[2:02:38 PM](#)

CHAIR DUNBAR closed public testimony and held SB 77 in committee.

[2:02:50 PM](#)

At ease.

PRESENTATION(S): HOUSING ALASKANS - A PUBLIC PRIVATE PARTNERSHIP

[2:03:27 PM](#)

CHAIR DUNBAR reconvened the meeting and invited Mr. Simmons to put himself on the record and begin his presentation.

[2:04:00 PM](#)

PRESTON SIMMONS, Chair, Housing Alaskans - A Public Private Partnership (HAPPP), Anchorage, Alaska, presented a slideshow on housing Alaskans.

MR. SIMMONS reviewed slide 2:

Housing Alaskans: A Public Private Partnership (HAPPP)

- Formed in 2022 with funding from the State of Alaska and a small grant from the Rasmuson Foundation
- Functions as a Housing Trust
- Does not compete with Alaska Housing Finance Corporation or other housing enterprises
 - Works in collaboration with those other funding sources

- Leverages and combines various funding streams in order to make it easier for housing projects to develop adequate capital more quickly and efficiently
- Governed by a Board of Directors from throughout Alaska, half rural and Alaska Native representation
- Advisory committee of subject matter experts from across Alaska advise Board of Directors of projects to consider for funding from applications received

MR. SIMMONS reviewed slide 3, What is a Housing Trust:

- Used in 48 states and many municipalities to create housing
- Considered a best practice
- Complements existing housing entities
 - Leverages federal, state, and municipal resources with philanthropic contributions
 - Incentivize housing developers and providers with operational and capital funding to help projects cross the finish line

[2:07:30 PM](#)

MR. SIMMONS skipped to slide 5, Alaska Has Some Major Housing Problems:

Alaska has a housing affordability problem. Every day Alaskans working full-time are struggling to afford to live in our State.

Alaska has a housing development problem. Construction isn't keeping up with demand across large and small communities, especially for multifamily housing for working families.

Alaska has an aging housing stock problem. Over half of the estimated need for housing over the next 10 years is for renovation of existing units, and our existing stock is a barrier to attracting workers to our State.

MR. SIMMONS said that new development does not pencil out at market affordable rates. Alaska has an aging housing stock. A lot of housing in the state was built in the 70s and 80s and is reaching 40 and 50 years of age. Over half the estimated need for housing over the next ten years centers on the rehabilitation of existing housing. The problem is expected to worsen.

[2:08:28 PM](#)

MR. SIMMONS skipped to slide 8, stating Alaska's minimum wage is \$10.85. The salary needed to afford a one-bedroom unit is \$18.66 per hour for one person working 40 hours per week.

MR. SIMMONS advanced to a bar graph on slide 9, Hourly Wage to Afford Rent in Alaska. He said this slide is a breakdown of the wages needed to afford a one-bedroom or a two-bedroom unit correlated with job category and earnings. He noted that the data is Alaska-based. The bar graph illustrates the type of housing unit that individuals from each job category can afford. It shows that many frontline workers cannot afford housing even at a two-worker level.

[2:09:16 PM](#)

MR. SIMMONS advanced to the chart on slide 10 to explain why analyzing housing needs by income is necessary. It informs communities about what types of housing to construct and whether housing is likely to pencil out in the current market. It informs decisions about whether a policy change or investment is needed to spur development.

MR. SIMMONS explained that the chart is divided into three categories and based on a percentage of area median income (AMI):

- Lower Income Households - Less than 80 percent AMI
\$0-64,000 household income
- Middle Income Households - 80 to 120 percent AMI
\$64,000-96,000 household income
- Higher Income Households - Greater than 120 percent AMI
\$96,000+ household income

MR. SIMMONS said lower AMI households have more resources available through grants and federal grants. SB 77 tax incentives would help higher-income earners buy higher-end housing. He said the state does not have a lot of programmatic help for middle income households; there are no federal or state

subsidies. Middle income households are an area that may need more emphasis to improve recruitment and retention of families.

[2:10:22 PM](#)

MR. SIMMONS reviewed the chart on slide 11 to describe affordable home payments for various job categories:

Who We're Talking About
When We Talk About Affordability

Lower Income Households - 30 percent AMI

- Minimum wage \$10.85/hr
- Single parent working as a waiter or hairdresser
- **Affordable payment:** up to \$580/mo.

Middle Income Households - 80 to 120 percent AMI

80 PERCENT AMI:

- Single income household: commercial driver
- Double income household: personal care assistant & a mail clerk
- **Affordable payment:** up to \$1,600/mo.

120 PERCENT AMI:

- Single income household: marketing manager
- Double income household: medical assistant and a construction worker
- **Affordable payment:** up to \$2,400/mo.

Higher Income Households - 120 to 180 percent AMI

180 PERCENT AMI:

- Single income: Chemical engineer
- Double income: Police officer and wildlife biologist
- **Affordable payment:** up to \$3,850/mo.

MR. SIMMONS said that he was surprised by the earnings of middle-income households in the state, stating he expected middle incomes to be a lot larger. Another interesting fact is that a multi-unit apartment building project takes about \$2,300 per month in rent to pencil out. This rent amount falls between the middle- and higher-income households, which means any project built without a subsidy is not affordable for most Alaskan workers.

[2:11:36 PM](#)

MR. SIMMONS read slide 12, emphasizing that working Alaskans struggle to afford housing in this state. He said this is a significant problem.

[2:11:47 PM](#)

MR. SIMMONS skipped to slide 14, stating that Alaska needs an estimated 27,500 housing units across the income spectrum over the next ten years. He broke these housing units into two categories:

13,500

of these are existing units that need replacement or renovation due to housing condition.

14,000

new units are needed, due to population growth* and severe overcrowding.

*This model uses the mid-point of State projections. Population projections vary greatly across the State, from a forecasted decrease in Southeast to higher expected growth in the Mat-Su.

[2:12:25 PM](#)

MR. SIMMONS advanced to a map on slide 15, which showed the breakdown of housing needs by community:

27,500 units are needed (new and rehab) across the State over the next 10 years. The need varies by community:

Kotzebue: 150 units

Bethel: 500 units

Kenai Peninsula Borough: 1,500 units

Sitka: 300 units

Mat-Su: 7,000 units

Anchorage: 7,000 units

While the total forecasted need is the same in Anchorage and the Mat-Su, the housing need looks different:

Mat-Su: 6,000 new units; 1,000 rehab

Anchorage: 2,300 new units; 4,700 rehab

MR. SIMMONS said that the lack of housing is a statewide problem; workers are unable to relocate due to the unavailability of housing.

[2:12:57 PM](#)

MR. SIMMONS advanced to slide 16, Breakdown of Total Units (New and Rehab) Needed by Income. This slide indicates:

- 48 percent of units are needed in the lower-income range;
- 21 percent of units are needed in the middle-income range; and
- 31 percent of units are needed in the higher-income range.

MR. SIMMONS explained why the state should invest in upper-income housing. Middle- and higher-income wage earners whose income increases over time should move into more expensive housing to free up middle- and lower-income housing units. As it is, higher-income earners stay put because of a lack of upper-end units. He said the legislature needs to consider this and understand how housing flow works within the state.

[2:14:07 PM](#)

SENATOR GRAY-JACKSON asked if the operational and capital funding referenced in slide 3 comes from grants or loans.

MR. SIMMONS answered that it could be both. Housing trusts nationwide use various tools, from direct grants to lower-interest loans to working on policies and procedures. There are a variety of methods. The advisory council experts will choose which tools are best. He expressed his belief that it will not be any one tool.

SENATOR GRAY-JACKSON asked how many members are on the board.

MR. SIMMONS replied that the board has 12 members. He said the board represents a broad spectrum of Alaskans, such as members of Alaska Native corporations and developers.

[2:15:59 PM](#)

MR. SIMMONS skipped to a chart on slide 19, which indicates Alaska's housing stock is aging as development has slowed. He said development is not keeping pace with demand. It is not a good place to invest, and there has been a precipitous statewide drop in housing permits in the last few years. For these reasons, the tax advantages proposed in SB 77 and the establishment of revenue sources are important.

MR. SIMMONS advanced to the pie chart on slide 20 to discuss factors that drive housing development costs:

Hard costs, 74 percent
Materials, systems, labor

Financing and operating reserves, 6 percent
Land and acquisition, 12 percent
Soft costs, 8 percent
Design, permitting, entitlement, appraisal, etc.

MR. SIMMONS said that HAPPP has communicated with the Anchorage Economic Council, the governor, and 15 legislators over the last few weeks to discuss ideas on lowering costs. HAPPP can help facilitate these ideas.

[2:17:27 PM](#)

MR. SIMMONS advanced to slide 21. A chart on the slide compared the cost of construction in Anchorage to the Lower 48. The cost to build in Alaska is generally 25 to over 50 percent higher than the Lower 48. He summarized the data on slide 21:

Hard Costs Account for 70 Percent Plus of Cost, Are
Often Fixed and Are High in Alaska

Hard costs in Anchorage can be \$210+ per sq ft, with total development cost at \$280+ per sq ft for a 35-unit stick-built rental project with an elevator that is surface parked. (pre-COVID)

Our Bethel example shows \$303 per sq ft for hard costs, and \$360 per sq ft total for a 4 plex that is wood construction with shared onsite water and sewer. (pre-COVID; recent numbers show \$850/sq ft)

This is compared with \$120 per sq ft in hard costs in the lower 48 for stick built multifamily rental (pre-COVID)

[2:17:54 PM](#)

MR. SIMMONS summarized slide 22, which illustrates the gap between development costs and rents the housing market can bear. The slide shows that new housing often does not pencil out. Development costs run about \$2,000 to \$3,000 per unit for a rental project to pencil out, which is substantially higher than the median \$1,500 rent in Bethel, \$1,339 in Anchorage, and \$1,279 statewide.

MR. SIMMONS concluded that affordable housing across the income spectrum is key to a healthy and vibrant Alaska. HAPPP plans to work alongside others to make a difference in this area. He thanked committee members for their support.

[2:18:44 PM](#)

SENATOR GIESSEL commented that this is a great idea and good organization. She agreed that the cost of materials is a deterrent to new housing construction but pointed out that the state's economic and political instability are also factors. She explained that in 1986, Alaska was having a boom, and people were building everywhere. The market changed when the oil market crashed. People threw their keys in their homes and walked away from their mortgages. Alaska had a lot of buildings. This is the type of economy Alaska has, and it contributes to the state's housing challenges. She applauded the efforts of HAPPP and looks forward to seeing the group's impact on Alaska.

MR. SIMMONS thanked her and said that it is by working together that Alaska will get this solved.

[2:19:49 PM](#)

CHAIR DUNBAR asked Mr. Simmons to expound on funding for the housing trust, how much funding exists, and how much might be needed to make it sustainable.

MR. SIMMONS replied that HAPPP received a \$1 million legislative appropriation in 2022 and a small grant. HAPPP requested \$50 million from the governor and will do a like ask from the federal government. The idea is to spend those dollars on projects as quickly as possible.

MR. SIMMONS said a sustainable funding source is needed. He suggested a revenue supplement derived from short-term rentals. He explained that a lot of affordable housing inventory has been turned over to short-term rentals in tourist communities. He said the state can impose a fee or tax on those short-term rentals, which would be paid outside of Alaska. He said it is important to have a sustainable funding source that is not subject to appropriation changes from year to year. A short-term rental tax is just one idea of many.

MR. SIMMONS said that Alaska needs housing for workers considering the infrastructure bill, the Willow Project, other economic development projects, and the rise in tourism. These will be multi-year projects, as will the rural housing rehab projects.

[2:21:37 PM](#)

SENATOR GRAY-JACKSON commented that Anchorage is a little more than 1900 square miles, and most of it is trees. She advised

that HAPPP keep in mind that some organizations love trees and to plan accordingly.

MR. SIMMONS thanked Senator Gray-Jackson for that comment, stating that a previous presenter suggested building vertical for higher-density construction. He replied that he was aware of this issue.

[2:22:44 PM](#)

SENATOR BJORKMAN wondered if HAPPP has developed a strategic plan that identifies choke points and how to alleviate them for housing opportunities.

MR. SIMMONS replied that HAPPP is relatively new and the board was just set up. The board is in the process of deciding where it will focus its projects. The board and advisory council members represent a broad cross-section of Alaska. He said that the organization would address those choke points.

SENATOR BJORKMAN asked for some examples of choke points that HAPPP has identified.

MR. SIMMONS answered that HAPPP is in the process of figuring that out.

SENATOR BJORKMAN asked if HAPPP is interested in incentivizing developers by providing access to land or if the focus is primarily on building actual housing units.

MR. SIMMONS replied that HAPPP would look at any opportunities. He said HAPPP would consider facilitating that process through grants or in partnership with other housing authorities.

[2:25:42 PM](#)

SENATOR BJORKMAN commented that connecting utility structures and roads to isolated land could eliminate a lot of choke points and open up land opportunities for construction.

[2:27:00 PM](#)

There being no further business to come before the committee, Chair Dunbar adjourned the Senate Community and Regional Affairs Standing Committee meeting at 2:27 p.m.