

HB

272



Alaska State Legislature

HOUSE COMMITTEE ON COMMUNITY AND REGIONAL AFFAIRS

Representative John Harris, Representative Carl Morgan, Co-Chairmen
State Capitol, Room 110, Juneau, Alaska 99801-1182
(907) 465-3882

AGENDA

February 1, 2000

1. Call meeting to order

2. Roll call Rep. Dyson
 Rep. Kookesh
 Rep. Halcro
 Rep. Murkowski
 Rep. Joule
 Rep. Morgan
 Rep. Harris

3. Consideration of bills on agenda

 HB 272 – Rep. Halcro, prime sponsor

 HB 233 – Rep. Halcro, prime sponsor

4. Announcements or other business

 Next meeting: Thursday, Feb. 3 – HB 137 Municipal Dividend

5. Motion to adjourn



Teleconference Participants

TCN: 10251

Participant Lists

View List for

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Participants

Unidentified Testifiers:

Unidentified Observers:

ANCHORAGE (ANC)

1

Name: Mr. Jan Sieberts ✓

Phone:

Address:

Affiliation: Bank of AK

City /St /Zip:

Type: Testifier

Bill: HB 272: MUNICIPAL TAX: LOW INCOME HOUSING

KODIAK (KOD)

1

Name: Mr. Pat Carlson

Phone:

Address:

Affiliation:

City /St /Zip:

Type: Testifier

Bill: HB 272: MUNICIPAL TAX: LOW INCOME HOUSING



Alaska State Legislature

HOUSE COMMITTEE ON COMMUNITY AND REGIONAL AFFAIRS

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 Next meeting: Thursday, Feb. 3 – HB 137 Municipal Dividend

5. Motion to adjourn

PO Box 100600

Alaska Bankers Association
Anchorage, Alaska 99510-0600

(907) 265-2920

January 26, 2000

Representative Andrew Halcro
House of Representatives
State Capital, room 418
Juneau, AK 99801-1182

Dear Representative Halcro:

On behalf of the Alaska Bankers Association, I wish to thank you for your sponsorship of HB272. As you are well aware, the Municipality of Anchorage's insistence, despite repeated reversals by the Board of Equalization, upon assessing the rent restricted housing projects as if these restrictions did not exist, will bring about the demise of these projects.

The financial structure of these projects varies somewhat from situation to situation. In general terms, Alaskan banks (NBA, First National, Key) became the limited partner in partnership with a non-profit (locally, Anchorage Neighborhood Housing). The banks, in return for federal tax credits, invest the equity capital, AHFC provides the mortgage, and ANHS the management of the project. The financial partner's only return on investment is from the tax credits. In fact, in a time certain, set forth in the partnership agreement, the bank gives its interest in the project to ANHS.

It is indeed a tragedy that, by almost any measure, the most successful housing program for low to moderate- income families will flourish everywhere across the nation except Alaska. Alaska was the only state that did not fully utilize its federal tax credit allocation. This can be blamed on nothing but the actions of the Municipality. Many states completely exempt projects such as these from taxation altogether. Your bill, with which we highly concur, requires that the assessment be based upon the economic value of the project, not its construction cost or imagined value. This approach is very similar to the existing State statute that requires assessors take into consideration any diminishment of value based upon a conservation easement. (AS 29.45.062)

Again, our thanks to you for your leadership on this issue, and if there is any additional information that either the Alaska Bankers Association or its members can provide you, please give me a call at (907) 777-3028.

Sincerely,



David A. Lawer
President



Michael J. Burns
District President

Key Bank
P.O. Box 100420
Anchorage, AK 99510

Tel: 907-564-0250
Fax: 907-563-1764

VIA FACSIMILE: 907-465-2418

January 28, 2000

Representative Andrew Halcro
House of Representatives
State Capitol, Room 418
Juneau, Alaska 9801-1182

Re: HB272

Dear Representative Halcro:

Your commitment to understanding the unique partnership of the Federal government, the non-profit developers, Alaska Housing Finance Corporation, and the financial institutions of the state that are (jointly) developing low and moderate-income housing, is to be saluted. This is not a simple structure and the time that you have spent in discerning how the program works is most appreciated.

I have been in the banking business for 27 years and have seen many housing programs come and go, and collapse of their own weight. This tax credit-based private development is, by far, the most successful. It is a tragedy that last year Alaska was the only state to not fully utilize its Federal allocation. These programs cannot work when taxed under the unique theory of the Municipality of Anchorage.

Your legislation will allow all of us to change the quality of the housing stock in Alaska. Thank you for your support and the time you have taken to understand this complex issue.

Sincerely,

Michael J. Burns

January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Anchorage
Neighborhood
Housing
Services, Inc.
3700 Woodland Drive
Suite 500
Anchorage, AK 99517
(907) 243-1558
FAX (907) 243-3214



Dear Representative Halcro,

I am writing to express my support of House Bill 272, legislation that would require local governments to assess housing which qualifies for a low-income housing credit under 26 USC 42 on the actual income derived from the property and not the value that would result from a "market", or unrestricted property.

For the past two years, a number of non-profit agencies providing low-income affordable housing for individuals and families, many of whom are elderly, disabled, or previously homeless have been subjected to radically inflated property taxes by the Municipality of Anchorage Tax Assessor. In some cases, as much as a 180% increase in one year. These organizations have repeatedly filed appeals and spent thousands of dollars on attorney fees.

Clearly the mission of these organizations is to increase the quality of living in our communities for those less fortunate. They have contributed to solving the problem of homelessness in our community; revitalized neighborhoods through the renovation of previously deteriorated properties; and destigmatized "low income" properties by creating quality, affordable housing throughout a diversity of neighborhoods.

Nationally, 60% of all multi-family affordable housing in the United States is created through Federal Low Income Housing Tax Credits. Without consideration given to the actual income derived from these properties when assessing them, no future development will occur. Further, these properties left to meet the higher property taxes, will overtime deteriorate or face foreclosure.

Thank you Representative Halcro, for introducing House Bill 272. Your efforts will help guide the Municipality towards not only a more permanent solution, but one that will contribute to the overall health and development of our citizens and our community.

Sincerely,


Mary Jane Michael
Executive Director

Anchorage
Neighborhood
Housing
Services, Inc.
3700 Woodland Drive
Suite 500
Anchorage, AK 99517
(907) 243-1558
FAX (907) 243-3214



January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Dear Representative Halcro,

Thank you for introducing House Bill 272. This is very important legislation and I applaud your efforts. I would like to offer one recommendation to your bill. As you know, we have been working locally with Assemblyman Alan Tesche and Melissa Taylor to introduce an ordinance addressing the same issue. I have attached a copy.

I would recommend that you include "other financing that requires legally binding rental restrictions through long-term deed restrictions".

Not all of the properties involved in the tax appeal are low income tax credit properties, but do have legally binding rental restrictions through long-term deed restrictions, such as AHFC Tax Exempt Program and HOME Program.

If you would like more information or if I can be of any assistance in your efforts regarding this bill, please do not hesitate to contact myself or Jeff Judd, Executive Director of Alaska Mutual Housing Association at 243-1558.

Sincerely,

Mary Jane Michael
Executive Director



First National Bank
of Anchorage

January 26, 2000

Representative Andrew Halcro
House of Representatives
State Capital, room 418
Juneau, AK 99801-1182

Dear Representative Halcro:

On behalf of The First National Bank of Anchorage, I wish to thank you for your sponsorship of HB272. The Municipality of Anchorage's insistence upon assessing rent restricted housing projects as if such restrictions did not exist, and the uncertainty about whether the same treatment of them might occur elsewhere in the State of Alaska, will prevent further development of such projects.

We have participated in two such projects that are presently in jeopardy by reason of the intransigence of the Municipality of Anchorage, and we will not participate in any other such project unless we can be certain that it will not suffer the same fate.

By all accounts the Low Income Housing Tax Credit program is the most successful housing program in the nation for low to moderate - income families. And until the Municipality of Anchorage brought an end to further such development in Anchorage, it was the most successful program for that purpose in the State of Alaska. Now, Alaska is the only state that does not fully utilize its federal tax credit allocation.

Particularly in the western portion of the US, state legislatures are choosing to completely exempt such projects from ad valorem taxation. Your bill, which we enthusiastically support, would require only that the assessment of each such project for ad valorem tax purposes be based upon the economic value of the project, not its cost or its imagined value free of rent restrictions.

We commend your leadership in this matter, and if I can personally be of assistance by providing additional information that may be necessary or desirable to bring about passage of this legislation, please let me know.

Very truly yours,

David A. Lawer
Senior Vice President & General Counsel



AMHA
*Anchorage Mutual
Housing Association*

Extra's

January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Dear Representative Halcro,

Thank you very much for your sponsorship of House Bill No.272 regarding the tax assessment of quality, affordable housing properties funded in part with federal tax credits through the Low Income Housing Tax Credit (LIHTC) Program. This program and other affordable housing programs available through the Alaska Housing Finance Corporation, provide critical funding that is necessary for the development and rehabilitation of multi-family properties that serve low-income families.

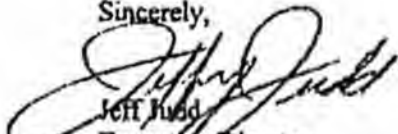
In return for these federal sources of funding, the owner must agree to legally binding long term deed restrictions (15 - 30 years) restricting the use of the property to lower income families at restricted rent levels. Generally, these restricted rent levels are below the "market" rents in the area. This "affordable" rent enables the lower income family to have the same basic opportunities of life, food and clothing for instance, that higher income families perhaps take for granted. In doing so, we create a healthier community for all Alaskans.

Due to the restricted revenue generated by these affordable housing properties, the market value of the restricted property is less than it would be if the project were at "market rate" or unrestricted property. And that is the very crux of why HB 272 is needed. HB 272 would specify more clearly that local governments must consider the deed restrictions that apply to such properties when determining the "full and true" value.

Failure to pass HB 272 jeopardizes future investment in affordable housing in our communities; may likely cause at least some existing owners to default on obligations secured by existing affordable housing properties; and will lead to the deterioration of our neighborhoods. It is due to these concerns that I strongly support your effort to pass HB 272.

Thank you again for your efforts in this regard.

Sincerely,



Jeff Judd
Executive Director

HOUSING FIRST

Affordable Housing for Individuals and Families

e-mail bstreet@alaska.com

(907)364-3573

FAX: (907)364-2674

1801 Douglas Highway, No. 16, Douglas, AK 99824

Rep. Andrew Halcro
Via fax: 465-2418

Jan. 27, 2000

Dear Rep. Halcro,

Thank you for sponsoring House Bill 272. We are very appreciative of any effort to resolve the on-going property tax problem we've encountered with our apartments for low-income tenants.

Housing First, Inc., is one of the non-profit housing organizations that has used tax credits to build affordable rental apartments in Alaska. Using this source of funding, along with funds from a number of other sources, including conventional loans, we have built two buildings, with 21 units total, in Juneau and Douglas.

Each year since construction of each property, we have appealed our property taxes to the City and Borough of Juneau. Each year, we are glad to say, we have received some relief from these taxes. Some years, the appeal has gone to the Board of Equalization; in other years, our appeal has been settled administratively. We have tried to persuade our city assessor to take an income-based approach to assessing the buildings, but have been unsuccessful. Generally, we reach a tax agreement that is between our request, based on an income-based approach, and the full market-based assessment we receive from the city.

It is clear to us that without a legislative solution to this problem, we will have to commit resources, time and energy to each year's appeal, and each year accept something less than what we believe is a fair assessment.

For us, property tax relief has made the difference between owning buildings that are operating in the black or in the red. As a non-profit organization that has one part-time staff person and an active board of volunteers, it is vitally important that our buildings are able to pay for themselves. We have no other source of operating funds, since 100 percent of our units have rent ceilings attached.

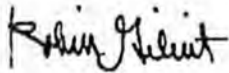
These rent ceilings are in place for 30 years from construction of the building; our oldest building has 24 years remaining on these ceilings. As a non-profit organization, even after the 30 years are up, we are obligated (and feel it our duty) to continue operating these buildings for low-income tenants for the remaining life of the structures.

These rent ceilings are attached via deed restrictions, therefore, any owner of the building would face the same financial crunch we have faced. These lengthy restrictions are another excellent reason to grant property tax relief. The value of our buildings is affected by these ceilings.

We have taken the risk and responsibility of building these apartments for the public good. In return, we would like a fair assessment of the value of our properties.

Again, we thank you for sponsoring this important legislation.

Sincerely,



Robin Gilcrist
President, Housing First, Inc.

ANCHORAGE HOUSING INITIATIVES, INC

Post Office Box 202222 - Anchorage, Alaska 99520-2222

January 31, 2000

Representative Andrew Halcro
Alaska State Capitol
Juneau, AK 99801

Dear Representative Halcro:

Subject: HB 272 - Low Income Housing Tax Assessments

On behalf of Anchorage Housing Initiatives, Inc. I pledge our wholehearted support to the passage of HB 272. This legislation is critical to the continuation of the development of safe, decent, and affordable housing in Anchorage and throughout Alaska. Anchorage Housing Initiative is a designated Community Housing Development Organization in Anchorage that provides community integrated housing to persons who experience disabilities.

One major means of providing such housing is through the development of new, accessible multifamily housing through the Low Income Housing Tax Credit (LIHTC) program. This program has been the source for the development of 66 units of multifamily housing by Anchorage Housing Initiatives that are accessible, affordable and would not have been possible had it not been for the LIHTC program. These units are currently at imminent risk of default due to the excessively high and unwarranted property tax assessments imposed by the Municipality of Anchorage. The property tax assessment policy of the Municipality of Anchorage will not only result in the loss of current affordable housing units such as Hillpoint Park and Access, it has resulted in the suspension of development in Anchorage of any new LIHTC projects.

While our units are located in Anchorage, this is a statewide issue in that LIHTC are available statewide and a consistent, fair and equitable tax assessment policy is required to promote development in areas most at need of affordable housing. The passage of HB 272 will be landmark legislation for Alaska in recognizing the need for safe, decent and affordable housing for all communities. You have our complete support for this legislation.

Sincerely,



Shannon Wilks

President, Board of Directors

COMMUNITY INTEGRATED HOUSING FOR PERSONS WHO EXPERIENCE DISABILITIES



Southcentral Counseling Center

a division of Anchorage Community Mental Health Services, Inc.

4020 Folker Street • Anchorage, Alaska 99508 • (907) 563-1000 • Fax (907) 563-2045 • e-mail: sccdir@alaska.net

January 31, 2000

Representative Andrew Halcro
Alaska State Capitol
Juneau, AK 99801

Dear Representative Halcro:

Subject: HB 272 - Low Income Housing Tax Assessments

On behalf of Anchorage Community Mental health Services, Inc. I lend our wholehearted support to the passage of HB 272. This legislation is critical to the continuation of the development of safe, decent, and affordable housing in Anchorage and throughout Alaska. The individuals and families we serve are primarily low and moderate income and may are people who experience disabilities. Safe, decent and affordable housing is critical to their stability in the community and their quality of life. The development of new, accessible multifamily housing through the Low Income Housing Tax Credit (LIHTC) program is a major means of providing such housing.

This program has been the source for the development of 1,235 units of multifamily housing in Anchorage through rehabilitation of existing housing and new that would not have been possible had it not been for the LIHTC program. These units are currently at imminent risk of default due to the excessively high and unwarranted property tax assessments imposed by the Municipality of Anchorage. The property tax assessment policy of the Municipality of Anchorage will not only result in the loss of current affordable housing units, it has resulted in the suspension of development in Anchorage of any new LIHTC projects.

The need for safe, decent and affordable housing in Anchorage and throughout Alaska is critical and it can only be developed if there is a consistent and equitable means of assessing these properties. The passage of HB 272 will accomplish this and clear the way for additional development that can only have positive effects for those who will benefit from safe and affordable housing for themselves and their families. You have our complete support for this legislation.

Sincerely,

Ken Taylor
Executive Director

Administrative
2025 Folker St
Anchorage, AK 99508

Support Services
1000 Hill St
99501 Anchorage, AK
907.563.1000

Therapeutic Services
1001 33rd Ave
211 0011

Community Services
4020 Folker Street
Anchorage, AK 99508

Adult Services
4020 Folker Street
Anchorage, AK 99508

Developmental Services
2700 W
Anchorage, AK 99508



Alaska Pacific Bank



January 31, 2000

The Honorable Representative Andrew Halcro
Alaska House of Representatives
State Capitol, Room 418
Juneau AK 99801 1182

Via Facsimile to (907) 465-2418

RE: HB 272

Dear Representative Halcro:

I am writing to express my thanks for your sponsorship of HB272 and to lend my endorsement to this important legislation, which will allow financial institutions to continue supporting new low income housing projects in partnership with non-profit housing groups.

Since federal tax credits are the only incentive financial institutions currently receive for their participation in this type of partnership, it is imperative that municipalities base tax assessments solely on the income derived from the property, without consideration of the value of any subsidy. The illogical tax treatment of these subsidies by the Municipality of Anchorage is a major factor in distinguishing Alaska as the only state that has not fully utilized its federal income tax credit allocation. It is a shame that, in a vast state with a desperate need for more low- and moderate-income housing for its residents, a municipality would act to discourage investment by willing partners.

Your efforts to support affordable housing for Alaskans are appreciated by the banking industry, to which I add my personal thanks.

Sincerely,

LISA C. BELL
SVP & Chief Operating Officer
Alaska Pacific Bank

Serving Southeast Alaska Since 1935

Member
FDIC

ADMINISTRATIVE OFFICES • 2094 JORDAN AVENUE • JUNEAU, ALASKA 99801-8046
(907) 789-4844 • FAX: (907) 790-5110 • WEBSITE: www.alaskapacificbank.com



CORDES DEVELOPMENT, INC.
P. O. Box 1197
16421 25th Street
Sunset Beach, California 90742
(562) 592-1518 Fax: (562) 592-2049
teamcordes@earthlink.net
January 31, 2000

Representative Andrew Halcro
State Capitol Building – M/S 3100
Juneau, Alaska 99801-1182

Re: House Bill 272

Dear Representative Halcro:

We have participated in the development of affordable housing in rural Alaska using low income housing tax credits for several years. Affordable housing is a much-needed commodity throughout Alaska, particularly the rural areas where much of the existing housing is substandard, without indoor plumbing and/or overcrowded. Affordable housing not only benefits the families that are fortunate enough to live there, but also provides a secondary economic benefit to the local economy where the housing is located in that the tenants will have more disposable income to spend on goods and services other than housing.

However, the cost of construction and the cost of living is so high in Alaska that it is cost prohibitive to construct housing that is decent, safe and affordable without subsidies from public and private institutions – including reductions or waivers of property taxes. There are two solid grounds that warrant property tax allowances for affordable housing properties. One is economic: the real value of such a property is, truly, less than that of a “market rate” (unrestricted income) property. The other is social: a restricted income (affordable) housing project cannot be financially feasible without subsidies or concessions at several levels, and lowered property taxes is the most reasonable and beneficial means for a subsidy or concession to be given at the local community level – which is the level that is benefiting the most from the housing.

The definition of “affordable housing” is housing in which the rents are restricted to amounts that are affordable to those citizens whose income is below the median income level in the area in which they live (called Area Median Income, or “AMI”). In order to be eligible to participate in the low income housing tax credit program, (1) the housing units must only be rented to families with incomes that are at or below 60% (or, in most cases, lower than 60%) of the median income for the area in which they live, and (2) the rents must be restricted to 30% of the income of the targeted income level.

What this means is that there is a very precise, defined, and enforced (by the government agencies that provide the funding) limit on the amount of income that can be generated by an affordable housing property. However, the general costs of operating and maintaining an affordable housing

Representative Andrew Halcro

January 31, 2000

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project are identical to those of unrestricted, "market" rate housing. Without any subsidies or government concessions, these projects are not financially feasible. With subsidies and/or government concessions – that have the effect of lowering the debt service and the property taxes – such restricted income properties are financially feasible (but only minimally, by design) but they are not profitable. The value of such a property is, therefore, obviously substantially less than its unrestricted-income neighbor. If offered for sale, the restricted income property would never sell for the same price as the unrestricted-income property, all other things being equal. This reality is reflected in appraisals of restricted income properties – which always have a much lower value when using an "income approach" as compared to a "market approach."

As noted above, affordable housing projects are not possible without government assistance or concessions. Income-based property tax assessments for affordable housing properties provide the most logical means for the local level community and government – which are the ones most benefiting from the presence of affordable housing in their community – to participate and do its share to assure the financial feasibility of the project. In order for a restricted income, affordable housing project to be financially feasible it must have means to reduce its costs of operation. The two means that are available are (1) reduced debt service (as compared to market rate housing), and (2) some sort of reduction of property taxes.

There seems to have been some confusion in the discussions of this proposed House Bill concerning what "low income housing tax credits" are and how they enable a housing project to be affordable. The Low Income Housing Tax Credit program is a federal program and it only applies to federal taxes – not state taxes. Tax credits enable a project to reduce its debt service to an amount – hopefully – that the project can afford. If a project is awarded tax credits, the tax credits allow it to be able to generate large sums of equity from investors (generally large corporations) that are used to build the project (the equity investment generally finances anywhere from 30% to 50% of the total development cost), and the project then has less that it has to borrow as a permanent loan and pay debt service on. However, there is a pre-determined limit on how much tax credit a project can be awarded, and therefore a limit on how much of the cost of the project can be financed in this manner.

The tax credit program has been an excellent tool to facilitate private investment funds in affordable housing, thereby reducing the reliance on government – but that program, and those equity funds, alone are not sufficient to make such properties financially feasible. In exchange for the equity money that the investors put into the project to build it (or, in the case of older, existing properties, to rehabilitate it), the investors get to take a pre-determined amount of tax credit on an annual basis against the investors' ordinary income for a period of ten years. It is very important to note that the motivation for the investors to contribute the equity into the project is not for any "project income" they might receive; in most cases there is no income that ever flows to the investors, or if there is any, it is quite small. They make the investment so that they can take a credit against their federal (not state) taxes due on their primary income. For Alaska based taxpayers who purchase these credits, this means more money stays in Alaska, and more tax

Representative Andrew Halcro

January 31, 2000

Page 3

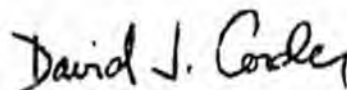
revenues go to Alaska. For out of state investors, they are contributing large upfront sums to receive tax credits over ten years and their investment funds effectively reduce the project's debt service and its interest, which in turn is passed on to tenants as lower rent. Lower rents mean larger amounts of disposable income to spend locally, since those families who are at or below 60% of the Area Median Income rarely spend outside of Alaska. This increase in local expenditures not only generates more local taxes, but also circulates money locally rather than paying banks higher mortgage payments. Thus tax credits do, indeed, generate money locally and these affordable housing complexes deserve to be taxed no higher than what their restricted rents generate in income and definitely not as if they were market units.

Moreover, it is the investor, not the developer that receives the tax credits. These tax credits are against federal income tax (i.e.,

The budget for any affordable housing project is a delicate one. There are limits to the subsidies and the equity it can generate to reduce its debt service. It has a very real limitation on the amount of income it can receive while it is operating under the income restrictions of the funding programs (most of the programs require that the income restrictions remain in place for at least 30 years - some are as long as 50 years). It is hyper-sensitive to ever-increasing costs. It is dependent upon the goodwill of others to be financially feasible.

A property tax assessment based upon an "income approach" valuation is the correct approach economically for a restricted income property. It is also the socially correct approach for a property whose purpose is to promote the welfare of the less advantaged citizens of Alaska.

Sincerely,



David J. Cordes
President



K O O N C E P F E F F E R B E T T I S

Representative Andrew Halcro
716 W. 4th Avenue
Anchorage AK 99501

January 31, 2000

VIA FAX 907-465-2418

Dear Representative Halcro,

Thank you for focusing attention on the issue of taxation for affordable housing.

Since 1995 I have been involved in Anchorage as a participant in providing affordable housing. These properties serve a significant need in our community.

Architecture
Development
Interior Design
Planning

Today's methods of providing for this need calls on private sector, for profit, entities to partner with non-profits and local public sector housing agencies. We do this to achieve higher quality living environments than have been possible in the past under 100% government subsidized housing programs.

This privatization/partnership results in housing which is available only to qualifying low-income tenants. The rents that can be charged to these tenants are restricted by the deeds on the property.

Regardless of these restrictions the Anchorage tax assessor has insisted on taxation without consideration for the amount of rent that can be collected based on the restrictions choosing instead to tax these properties as though they could collect market rate rents.

The effect of this policy has had a devastating impact on these properties, which threatens their immediate survival. We are not asking to forego property taxes as is done for similar properties in other states. We are simply asking for fair taxation based on actual rents received.

Once again, thank you for giving this issue your attention. I am in full support of your House Bill 272.

Sincerely,

Mark Pfeffer, AIA
President

incorporated

425 G Street

Suite 800

Anchorage

Alaska 99501

907.274.7403

907.274.7407

apb@kpb.com



K O O N C E P F E F F E R B E T T I S

Representative Andrew Halcro
716 W. 4th Avenue
Anchorage AK 99501

January 31, 2000
VIA FAX 907-465-2418

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Once again, thank you for giving this issue your attention. I am in full support of your House Bill 272.

Sincerely,

Jeffrey A. Koonce, AIA

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Suite 800
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Alaska 99501
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K O O N C E P F E F F E R B E T T I S

Representative Andrew Halcro
716 W. 4th Avenue
Anchorage AK 99501

January 31, 2000

VIA FAX 907-465-2418

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planning

Today's methods of providing for this need calls on private sector, for profit, entities to partner with non-profits and local public sector housing agencies. We do this to achieve higher quality living environments than have been possible in the past under 100% government subsidized housing programs.

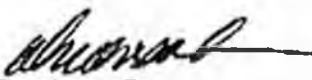
This privatization/partnership results in housing which is available only to qualifying low-income tenants. The rents that can be charged to these tenants are restricted by the deeds on the property.

Regardless of these restrictions the Anchorage tax assessor has insisted on taxation without consideration for the amount of rent that can be collected based on the restrictions choosing instead to tax these properties as though they could collect market rate rents.

The effect of this policy has had a devastating impact on these properties, which threatens their immediate survival. We are not asking to forego property taxes as is done for similar properties in other states. We are simply asking for fair taxation based on actual rents received.

Once again, thank you for giving this issue your attention. I am in full support of your House Bill 272.

Sincerely,


Desiree Ovsak
Director of Operations

Incorporated
425 C Street
Suite 800
Anchorage
Alaska 99501
907.274.7493
907.274.7407
KooncePfefferBettis

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS

LABOR & COMMERCE COMMITTEE, CHAIRMAN
JUDICIARY COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON UTILITY RESTRUCTURING, MEMBER
SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT &
TOURISM, MEMBER

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us




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JUNEAU, AK 99801-1182
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FAX: (907) 465-2040

Representative Norman Rokeberg

MEMORANDUM

TO: House Community & Regional Affairs Members

FROM: Rep. Norman Rokeberg 

DATE: January 31, 2000

RE: HB 272 - Municipal Tax Credit: Low Income Housing

I would encourage your support for this legislation, which arises from a situation we are facing within the Municipality of Anchorage.

As you know, the construction and operation of low-income housing units is important as such units provide residential space for low-income Alaskans. Certain guidelines have to be met in the construction and operation of these facilities.

While federal law (26 U.S.C. 42) provides for a low-income housing credit as described in the legislation, the Municipality of Anchorage been basing real property taxes due on the full and true value of the property without applying the actual income standard which has been customary. This means that these properties must pay more in real property taxes with revenues that are based on lower rentals than similar units and similar property pay. This is not a way to encourage these projects, which Alaska's banking community and developers have been supporting with the understand that the rental income standard would be used. In fact, financial institutions have been encouraged by local governments to become involved in financing these projects and using the Low Income Housing Tax Credit. The tax credit is the incentive to invest not the rental income stream.

In 1998, low-income housing properties' assessed value for taxation went up as much as 100%. These properties were designed to show little profit and the financial future of some of these projects is at stake. Increase in local taxes cannot be a cause for a rental increase under the program guidelines (which limit the amount of rent charged to 30% of the tenant's income).

Discussions with my local government have indicated that unless state law is changed, the Municipality will continue with its current practice (since 1998) of not considering rental income when working with low-income housing units' real property tax assessments. While the Municipality of Anchorage is apparently the only local government current involved in this matter, the potential is there, without this law, for other local governments to use the same full and true value taxing policy.

As a result of the MOA's policy, Alaska is the only state in the Union to not use its allotted tax credits for this program. Therefore, we have irretrievably lost some benefits from this successful private-public program.

Thank you for your consideration of this legislation.

MUNICIPALITY OF ANCHORAGE ASSESSMENT POLICY AFFORDABLE HOUSING ISSUE PAPER

HISTORY: For the past three years, a number of private non-profit providers of low-income affordable housing have successfully challenged the Assessor's assessment methodology before the Board of Equalization under the premise that such properties must be assessed using the restricted net operating income that they earn as a result of the legally binding long term deed restrictions that are recorded against the title to the property. The Assessor has not, however, conformed his assessment practices to those decisions, resulting in costly and needless annual appeals to the Board of Equalization and the prospect of litigation in Superior Court.

REQUEST: An appropriate and consistent property assessment policy for affordable, deed restricted multi-family housing serving lower-income families that is based on the actual net operating income generated by these properties, NOT an inflated value that represents income from a market rate rental property that our affordable, deed restricted properties can not legally charge.

We are NOT asking for a "tax break" - only to be assessed based on the actual income that is generated by these properties.

FACTS SUPPORTING THIS APPROACH:

1. Considering the deed restrictions that apply to affordable housing properties is consistent with other western states practice. In fact, in **California, Montana, Hawaii and Washington the legislature has exempted completely such properties** from paying property tax due to the public purpose and substantial benefits that such properties bring to the community.
2. The Municipality's own task force identified affordable housing as an unmet need. This need was incorporated into the Municipality's Housing and Community Development Plan and housing policy as a critical priority. **The Assembly and City Administration has executed certifications attesting to their support for affordable housing, yet at least one branch of the City Administration is effectively violating these certifications by literally assessing them into default.**
3. The Assessor's policy is not consistent with Assembly and Administration certifications and in fact is 180 degrees from the original intent. **The Assessor's current assessment policy jeopardizes approximately \$3 million dollars in Federal funds** annually directly received by the Municipality under the HOME, CDBG, and Emergency Shelter Grant (ESG) programs.
4. **These properties are legally bound by long term deed restrictions that can not be removed even in the event the property was sold (something that has never taken place in Alaska).** These restrictions place income and rent limits on the property, and are audited annually by state officials.

5. Most of these properties represented initial efforts by affordable housing providers, supported by the City Administration, to revitalize targeted, older neighborhoods. **Efforts to continue revitalizing the City's older neighborhoods will not likely occur without the ability to create viable public/private partnerships and a consistent tax policy.**
6. **The Federal Low Income Housing Tax Credit (LIHTC) program has accounted for approximately 60% of all new multi-family development (construction and rehabilitation) in the United States since 1986. AHFC multi-family loan programs support the LIHTC program, and are generally loans without special "subsidies." These properties serve local persons and families that are most in need of affordable, safe housing.**
7. **The local properties developed under these programs contribute over \$27 million to the local tax base using the methodology purported by affordable housing providers. Over half of the properties being appealed were acquired and substantially renovated by the affordable housing providers, turning older dilapidated properties into some of the best affordable rental housing available in our community. These properties meet code requirements and offer safe, sound, quality housing for local families.**
8. **The Assessor's assessment policy effectively has eliminated any development investment in affordable housing in our community. Not only does it diminish the economic benefits of affordable housing development, it also erodes the quality of the existing property tax base. Banks who have historically participated in these programs have stated that no further investment in such affordable housing will be made until a consistent and appropriate assessment methodology is reached.**
9. The Assessor's statement that these properties are making a great deal of money (otherwise why would the banks invest in them) is simply untrue. In fact, the majority of the properties being appealed have actually lost money – even before depreciation. **These properties simply do not generate the revenue to pay for the higher taxes that are being charged by the Assessor and can not survive without immediate correction to the current Assessor's methodology.**
10. The Assessor's statement that these properties are less risky than market rate properties is simple untrue. The populations served are generally the most transient resulting in higher turnover, vacancy, maintenance and operating costs. In fact, in many cases we serve persons/families that private "market-rate" landlords will not accept.
11. The Assessor's current methodology if not corrected may likely cause at least some owners to default on mortgage obligations to AHFC and risks the substantial investment made by local community minded affordable housing partners. **These properties would then become tax-exempt burdens to the public (state owned housing public housing) and the city would not receive any property taxes from these properties.**

PARTIES AFFECTED (in Anchorage):

Anchorage Housing Initiatives

Access Apartments (42 Units)

Hillpoint Apartments (24 Units)

Anchorage Mutual Housing Association

Boniface Plaza (32 Units)

Merrill Crossing Apartments (83 Units)

The Mallary Apartments (111 Units)

Panoramic View Apartments (268 Units)

Stephens Park Apartments (160 Units)

Turnagain Circle Apartments (16 Units)

Garden Villa Apartments (76 Units)

Adelaide Limited Partnership (Adelaide SRO – 73 Units)

Loussac-Sogn Limited Partnership (Loussac-Sogn SRO – 52 Units)

Brighton Park Limited Partnership (Brighton Park Apartments – 80 Units)

Hampstead Heath Limited Partnership (Hampstead Heath Apartments - 88 Units)

Spruce View Limited Partnership (Spruce View Apartments – 82 Units)

Southside Seniors Limited Partnership (Southside Seniors Apartments – 48 Units)



MUNICIPALITY OF ANCHORAGE
OFFICE OF THE MUNICIPAL ATTORNEY

MEMORANDUM

DATE: January 24, 2000

TO: Kevin Meyer, Chair of the Assembly
Assembly Members

THRU: Mary K. Hughes, Municipal Attorney

FROM: William A. Greene, Deputy Municipal Attorney

SUBJECT: January 25, 2000 Work Session On Proposed AO No. 2000-32;
Assessment of Low-Income Housing Tax Credit and Other Rent
Restricted Properties.

This memorandum is provided to inform the Assembly of twenty-five assessment appeals presently before the Assembly-appointed Board of Equalization ("BOE") in which the subject of the ordinance is *the* issue to be decided. With this information the Assembly may avoid potential conflicts and the appearance of conflicts with the BOE's quasi-judicial proceedings while conducting its legislative business. In addition this memorandum advises the Assembly of a very similar House Bill pending before the State Legislature.

Subject of Work Session. The referenced ordinance addresses how rental properties which are either 1) granted federal low-income housing tax credits ("LIHTC") and/or 2) financed with deed rent restrictions in exchange for low interest loans should be valued (assessed) for real property taxation by the Municipality.

Quasi-judicial Proceedings on the Work Session Subject. All properties with appeals before the BOE have been financed by Alaska Housing Finance Corporation loans with below-market interest rates, some of which have also received LIHTCs. How LIHTCs and other rent restricted properties should be valued for real property taxation is *the* issue presently pending decision before the BOE. Attachment A. The aggregate dollar amount of difference between the Assessor's and the owners' valuation is approximately \$14,484,524 and \$252,000 in taxes. The BOE has held hearings, the parties to the appeal (the property owners and the Assessor) have filed briefs and the BOE has hired private counsel to advise the BOE in its deliberations and decision on the issue.

not
have

Kevin Meyer
Assembly Members
Work Session On-AO No. 2000-32;
Assessment of LIHTC and Other Rent Restricted Properties.
January 24, 2000

Page 2.

Ex parte Contacts. Members of the BOE hearing the appeals on this issue and other members of the BOE are listed on Attachment B. BOE members are required to be impartial *both in fact and in appearance*. *Ex parte* contacts by anyone with BOE members regarding the work session issue, including attendance by BOE members at the Assembly work session, present a clear potential of influencing the BOE in its quasi-judicial decision-making on the pending appeals. *Ex parte* contacts are prohibited by AMC 3.60.065 (Attachment C.) and should be avoided. Given the potential for news and publicity on the proposed ordinance, BOE members should also avoid those communications on the subject as well.

State Law. State law mandates that property tax assessments (valuations) be at full and true (market) value. AS 29.45.110, Attachment D The proposed ordinance is substantially the same as State House Bill 272 (Attachment E.) sponsored by Representatives Halcro, Rokeberg, Croft and Porter now before the House Committee on Community and Regional Affairs. Unlike the House Bill, however, the ordinance also covers rent restricted properties other than properties with LIHTCs. Accordingly, the ordinance raises the issue whether, under mandatory State law, the Assembly has the legislative authority to enact the ordinance, especially given the pending State legislation.

ALASKA STATE LEGISLATURE

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CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM



REPRESENTATIVE ANDREW HALCRO

District 12

INTERIM
716 WEST 4TH, SUITE 620
ANCHORAGE, AK 99501
(907) 269-0244
FAX (907) 269-0248

HB 272

SPONSOR STATEMENT

The federal government (HUD) has established a program offering tax credits to developers to build and maintain low and moderate income housing units. Developers receive tax credits in exchange for limiting rental prices to 30% of a tenant's income. These properties are restricted to individuals who earn less than 60% of median income and are targeted toward a population who previously did not have housing.

In 1998, the Municipality of Anchorage changed the way in which they assess these projects. Prior to 1998, the Municipality of Anchorage assessed low-income housing based on the capped rental rates. They now are assessing these properties at their estimated market value - the amount of rent these properties would receive if the rental rates were not deed-restricted.

This change in assessment has created a severe problem for the non-profit agencies and others who are developing these types of properties. Banks are now refusing to finance these properties because they are not financially viable under the market assessment approach.

Providing affordable housing to those otherwise priced out of the market is an important goal. The federal government is providing tax credits to encourage development of low-income housing to meet the need for basic housing for families. The Municipality of Anchorage has indicated their assessment practice is a function of state law. However, the approach taken by the Municipality of Anchorage has negated the federal incentive to develop low-income housing.

HB 272 would require local governments assess low-income housing at its rental value instead of its estimated market value. It is appropriate that the state law be changed to encourage the development of needed affordable housing for low-income families.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

October 12, 1999

SUBJECT: Adding a limitation or restriction on municipal determination of the full and true value of property for which a low-income housing credit is allowable under 26 U.S.C. 42 (Work Order No. 1-LS1148\A)

TO: Representative Andrew Halcro, Co-Chair
House Community & Regional Affairs Committee
Attn: Jonathon Lack

FROM: Jack Chenoweth
Assistant Revisor of Statutes

The division director, Tam Cook, to whom this amendment of material in Title 29 would usually be assigned, is on leave through the date on which you have set a meeting on this matter. In her absence, I have prepared the accompanying draft.

Though you mentioned the recent example of Washington State, your instruction expressly indicated that I should not prepare a tax *exemption*, as had recently been done by that state's legislature. Accordingly, I have prepared this as a limitation on the manner in which the municipal assessor determines the full and true value of certain property.

This matter affects the valuation of certain low-income housing, sometimes also called "affordable housing." The immediate difficulty, as I understand from the copies of the several pieces of correspondence that accompany the work order request, is that the Municipality of Anchorage is changing from determining a full and true value of the affordable housing property based on "rental" or "income" considerations to one predicated on "market" conditions.

The ability to select among recognized valuation methods to appraise property is today committed to the discretion of the municipal assessor. Twentieth Century Investment Co. v. City of Juneau, 359 P.2d 783, 788 (Alaska 1961); North Star Alaska Housing Corp. v. Fairbanks North Star Borough Bd. of Equalization, 778 P.2d 1140, 1143-1144 (Alaska 1989).

The approach set out in the accompanying draft would circumscribe the municipal assessor's authority to the relatively limited extent necessary to require that the assessor determine value taking into account the limitations and restrictions that operate to qualify the property for the federal income tax credit allowable under 26 U.S.C. 42 (Internal Revenue Code). The measure, involving an addition of a new subsection to AS 29.45.110, directs the

Representative Andrew Halcro
October 12, 1999
Page 2

assessor, when making the full and true value determination of the affordable housing, to determine value based on its actual rent or actual income without adjustment for the allowable income tax credit. In other words, if, to qualify for the tax credit, requirements attach to the property to limit its use and occupancy that tend to diminish the property's rent or income, the assessor may not ignore or overlook those factors, no matter the assessor's selection of a general valuation method.

From my understanding of AS 29.45.110, setting out the general obligation of the municipal assessor to value property at full and true value, I do not see that this matter is fairly addressed simply by directing the municipal assessor to select one method of property valuation over another. The preferred approach, I believe, would continue to leave choice of discretion to the assessor but require that official to use actual income rather than a projected market value of the units.

Also, based on AS 29.45.062, I believe that the municipal assessor needs to be apprised that property is, or may be, subject to the new limitation on valuation, so the burden would be on the property owner to make timely application for the assessment. The last part of the language of the accompanying draft follows AS 29.45.062(b)'s application approach and cites to the same deadline.

JBC:pl
99-159.plm

Enclosure

ALASKA STATE LEGISLATURE

House of Representatives

COMMITTEE ASSIGNMENTS

LABOR & COMMERCE COMMITTEE CHAIRMAN
 JUDICIARY COMMITTEE MEMBER
 LEGISLATIVE COUNCIL MEMBER
 SPECIAL COMMITTEE ON UTILITY RESTRUCTURING MEMBER
 SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT &
 TOURISM MEMBER

e mail: Representative_Norman_Rokeberg@legis.state.ak.us



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Representative Norman Rokeberg

September 15, 1999

The Honorable Rick Mystrom
 Mayor, Municipality of Anchorage
 PO Box 196650
 Anchorage, AK 99519-6650

FAX: (907) 343-4499

RE: Tax Assessments on Low-Income Housing

Dear Mayor Mystrom:

Members of Anchorage's banking community have brought to my attention a serious situation concerning tax assessments on low-income housing. I would appreciate your review of this matter and your advice as to why a change was made in the way these assessments are handled.

It is my understanding that up until the end of 1997, the Municipality used a taxation method that was based on the actual income stream of these low-income projects. This involved taking into consideration the cap on the rents as required by the federal government. In 1998, apparently the Municipality changed its assessing method thus causing taxes on some of these properties to nearly double. No longer was the cap on rents considered. It is my further understanding that the federal HUD has indicated its concern about this new policy.

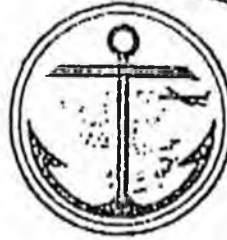
Many of these projects involve "very" low-income individuals and provide housing for people who were formerly "street" people. Apparently the Municipality's "housing plan" encourages these developments but its new taxing policy does not.

Would you please promptly review this matter and let me know why the decision was made to change the method of assessment on these types of projects? Does the State of Alaska need to make a statutory change for the Municipality to return to assessing these projects under the "old" method (following federal guidelines of taking into consideration the cap on rents or income of the property)?

Sincerely,

Norman Rokeberg
 State Representative
 District 11

Municipality of Anchorage



P.O. Box 131
Anchorage, Alaska 99519-0650
Telephone: (907) 343-4431
Fax: (907) 343-4499
<http://www.ci.anchorage.ak.us>

Rick Mystrom, Mayor

OFFICE OF THE MAYOR

October 8, 1999

The Honorable Norman Rokeberg
Alaska State House of Representatives
716 West 4th Avenue, Suite 640
Anchorage, Alaska 99501

RECEIVED
59 OCT 14 AM 9:15

Dear Norm:

The assessment of property located in the Municipality is based on State and local law and the legal precedents available from throughout the nation as they apply to specific property types.

The method of valuation employed by the Municipality is consistent with the method used in most states including major states such as Michigan and New York. The Municipality is not aware of any statements by HUD with regard to the onerous effects of the legal decisions in these major states or by HUD on a national level. We are aware of a letter issued by the Anchorage HUD office which appears to be based on local advice as opposed to national policy. Interviews of HUD and assessment officials in other states do not reveal any concern or position of such.

If the body of legal precedent developed across the country pertaining to Low Income Housing property assessment were to change, the Municipality would review the current methodology and consider changes consistent with State and local law. Absent changes to this legal precedent the current method of assessment for Low Income Housing property will remain unchanged.

I hope this letter has answered your questions regarding the assessment of Low Income Housing within the Municipality of Anchorage.

Sincerely,

Rick Mystrom
Mayor

"City of Lights and Flowers"



REPRESENTATIVE ERIC CROFT

October 8, 1999

Representative Andrew Halcro
Community and Regional Affairs Committee
716 West 4th Avenue, Ste. 620
Anchorage, AK 99501

Dear Representative Halcro:

Recently some disturbing practices have come to my attention through the banking community, with regard to affordable housing and how it is being assessed in property taxes in Anchorage. I'm concerned that both the state and local governments are not doing enough to encourage the development of affordable, low income housing—and in this cases is discouraging it.

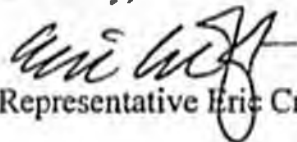
It is my understanding the Municipality of Anchorage has started a practice of assessing low income housing at market rents. I fear this will result in non-profit organizations discontinuing involvement with new affordable housing projects. Other states, especially Washington State, have done a good job to create incentives for the business community to stay involved in affordable housing projects. I believe Alaska should step forward and do the same.

Enclosed is a copy of a letter from Jan Sieberts, Senior Vice President of National Bank of Anchorage. Jan has spent many years creating housing projects throughout Alaska. He details some of the background to understanding this issue. Additionally, I have enclosed a letter from the Department of Housing and Urban Development which sharply criticizes the Municipalities' tax treatment of affordable housing.

I urge your committee, under your leadership, to take steps to correct this. Alaska is a state filled with opportunity for all those who come here, shouldn't part of that opportunity include clean, affordable housing for families? Let's do all we can to ensure this occurs.

Thank you for your consideration and please don't hesitate to contact my office with questions.

Sincerely,


Representative Eric Croft

CC: Jan Sieberts



National Bank of Alaska



September 10, 1999

Corporate Headquarters
P.O. Box 100600
Anchorage, AK 99510-0600
Phone (907) 522-8888

Eric Croft
State Representative
P.O. Box 101617
Anchorage, AK 99510

Re: Affordable Housing

Dear Representative Croft,

National Bank of Alaska has been actively involved in improving the housing stock in Alaska for our 90 years of existence and currently service \$3 billion of the residential home loans in the state of Alaska. In recent times we have been actively involved in partnership with various non-profit entities in the creation of quality multi-family housing properties in Anchorage and other communities in the state. Since the cost of the construction is substantially higher than what would be otherwise economically justifiable using conventional financing, we have utilized the federal low income housing tax credit program which enables investors to obtain their income through a credit on their federal income tax. This program has been so successful that in excess of 60% of the rental properties in the United States are currently utilizing tax credits to build new properties. This is the only effective means of providing housing for low income and very low income individuals and congress anticipates increasing the amount of tax credits available by 40%. This is estimated to generate financing for an additional 27M affordable housing units in the United States.

Under the Community Reinvestment Act banks are encouraged (and graded) by the Office of Comptroller of Currency to make low income housing tax credit investments. In the state of Alaska, NBA, First National Bank of Anchorage, Key Bank and Bank of America have made these investments as has other national investors. The end result is the best quality rental housing built in Anchorage, are tax credit projects.


In all the projects NBA has been involved the general partner and primary beneficiary has been a non-profit organization. Two of the projects we are involved in, the Loussac Sogn SRO and the Adelaide SRO projects are projects for "very" low income (incomes not to exceed 30% of median). In some cases, we are providing housing for people that previously lived on the streets of Anchorage. The Spruce View Apartment project, which is located on Lake Otis Blvd., provides quality affordable housing for families. I am sure you are aware most of the rental housing built in Anchorage was built for use by pipe line workers and other construction workers and does not adequately fit the modern needs of the families that are becoming an increasing part of our community. NBA has a commitment to meeting the needs of the low to moderate members of our community.

Despite the fact that the Municipality of Anchorage "housing plan" encouraged banks and investors to invest in low income housing tax credits to encourage the development of this segment of the market, they subsequently changed their attitude on taxation. Until 1997 the Municipality accepted a methodology of taxation which taxed based on the income of the projects. In 1998 they changed their approach which in some cases increases the taxes on properties by nearly double. They no longer would take into account the cap on the rents as required by the federal government. The result of this is catastrophic losses to the owners due to major increases in property taxes. Recently HUD wrote a strong letter to the Municipality indicating that they believe that the "Municipality's tax policy disregarding the rent restrictions on these properties is the single greatest threat to the preservation of existing stock and development of affordable housing in Anchorage today."

Our concern is if the Municipal assessor prevails on this issue it will effect the development of affordable housing to the residents of the entire state of Alaska. Certainly, the quality of rental housing built will be less than was developed in recent years. Because of this issue Alaska is the only state in the United States that is not fully utilizing their allocation of tax credits. It would be fool hardy for a financial institution to become involved in the development of well planned quality properties that require tax credits.

We believe that like the state of Washington these issues will have to be resolved by state legislation which requires assessors to recognize the federally required rent restrictions when assessing these properties. The non-profits and financial institutions have no problem with reasonable taxation on the properties unlike the state of Washington's legislation which exempted taxation on these properties all together. The state of Oregon's Supreme Court sided with the various housing entities on this issue. Making it impossible for various non-profits and developers to develop affordable housing utilizing tax credits, means that in the long term that AHFC will be pressured to develop public housing which will probably not be managed with as much sensitivity to local issues as would a local private developer and at much greater cost to the state. We would like your support in correcting the current situation which is restricting the development of affordable housing for the citizens of the state of Alaska.

Sincerely yours,


Jan Sieberts
Senior Vice President

JKS:kak

CC: Ed Rasmuson

National Bank of Alaska



September 10, 1999

Corporate Headquarters
P.O. Box 100600
Anchorage, AK 99510-0600
Phone (907) 522-8888

Caren Mathis
Planning Director
Municipality of Anchorage
PO Box 196650
Anchorage, AK 99519

Re: Affordable Housing/1998 HUD Performance Report

Dear Ms. Mathis;

National Bank of Alaska has been actively involved in improving the housing stock in Alaska for our 90 years of existence and currently service \$3 billion of the residential home loans in the state of Alaska. In recent times we have been actively involved in partnership with various non-profit entities in the creation of quality multi-family housing properties in Anchorage and other communities in the state. Since the cost of the construction is substantially higher than what would be otherwise economically justifiable using conventional financing, we have utilized the federal low income housing tax credit program which enables investors to obtain their income through a credit on their federal income tax. This program has been so successful that in excess of 60% of the rental properties in the United States are currently utilizing tax credits to build new properties. This is the only effective means of providing housing for low income and very low income individuals and congress anticipates increasing the amount of tax credits available by 40%. This is estimated to generate financing for an additional 27M affordable housing units in the United States.

Under the Community Reinvestment Act banks are encouraged (and graded) by the Office of Comptroller of Currency to make low income housing tax credit investments. In the state of Alaska, NBA, First National Bank of Anchorage, Key Bank and Bank of America have made these investments as has other national investors. The end result is the best quality rental housing built in Anchorage, are tax credit projects.

In all the projects NBA has been involved the general partner and primary beneficiary has been a non-profit organization. Two of the projects we are involved in, the Loussac Sogn SRO and the Adelaide SRO projects are projects for "very" low income (incomes not to exceed 30% of median). In some cases, we are providing housing for people that previously lived on the streets of Anchorage. The Spruce View Apartment project, which is located on Lake Otis Blvd., provides quality affordable housing for families. I am sure you are aware most of the rental housing built in Anchorage was built for use by pipe line workers and other construction workers and does not adequately fit the modern needs of the families that are becoming an increasing part of our community.

NBA has a commitment to meeting the needs of the low to moderate members of our community.

Despite the fact that the Municipality of Anchorage "housing plan" encouraged banks and investors to invest in low income housing tax credits to encourage the development of this segment of the market, they subsequently changed their attitude on taxation. In 1998 the Municipality changed its approach to tax assessments which in some cases increases the taxes on these affordable properties by nearly double. They no longer would take into account the cap on the rents as required by the federal government. The result of this is catastrophic losses to the owners due to major increases in property taxes. We have invested many millions of dollars into these properties and feel betrayed by the Municipality's actions.

Our concern is if the Municipal assessor prevails on this issue it will effect the development of affordable housing to the residents of the entire state of Alaska. Certainly, the quality of rental housing built will be less than was developed in recent years. Because of this issue Alaska is the only state in the United States that is not fully utilizing its allocation of tax credits. It would be fool hardy for a financial institution to become involved in the development of well planned quality properties that require tax credits with this taxation issue hanging over its heads.

We believe that like the state of Washington these issues will have to be resolved by assembly action or state legislation unless the Municipality comes to its senses. The non-profits and financial institutions have no problem with reasonable taxation on the properties, but the Washington legislature exempted similar properties from all property taxes. Unreasonable taxation will make it uneconomic to develop affordable housing even with the utilization of tax credits. This means in the long term the quality of affordable housing in the Municipality will deteriorate and managed by those less interested in the well being of the lower income individuals in the community.

I'm sure our non profit partners have more to offer on this subject.

Sincerely yours,



Jan Sieberts
Senior Vice President

JKS:kak

CC: Ed Rasmuson



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

FYI - Jerry Doherty

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RECEIVED

July 26, 1999

TO: Very Low-Income Housing Facilities
FROM: Marl Baca, Auditor/Appraiser
Property Tax Division
SUBJECT: SUBSTITUTE HOUSE BILL 1345

New legislation regarding very low-income housing was passed by the 1999 Washington State Legislature and signed into law by Governor Gary Locke. This is a new property tax exemption, permitting qualified nonprofit organizations or public corporations that provide housing for very low-income households to be exempt from property taxes. This bill goes into effect July 25, 1999, for exemption of taxes payable in calendar year 2000.

Applications for exemption of property under this legislation may be filed with the Department of Revenue anytime after July 24, 1999. The enclosed flyer was developed to provide information to applicants concerning the application process and the renewal requirements for very low-income housing facilities.

The Department expects to receive a large number of applications for property tax exemption in response to passage of this new law. It is our intention to process these applications as efficiently and expeditiously as possible. Therefore, in anticipation of the volume of applications expected, the Department will be employing one additional full-time auditor dedicated to processing very low-income housing applications. To avoid untimely delays, we are requesting your assistance in this endeavor; when making application, please submit all the necessary information and documentation with your application to the Department. Once the auditor has inspected the property and has completed the examination of the contents of the application, a letter of determination will be issued to the nonprofit organization and the county assessor indicating the status of the property.

Enclosed are an application for exemption for your facility and a flyer explaining the requirements to qualify for this exemption.

If have any questions about this process, please call our Tumwater office at (360) 664-9425. Thank you.

MB:pjb
Enclosures

Property Tax Division
P O Box 47471 • Olympia, Washington 98504-7471 • (360) 753-1382 • Fax (360) 586-7602

EQUIVEST

REALTY ADVISORS, INC.

903 W. NORTHERN LIGHTS BLVD., SUITE 200
ANCHORAGE, ALASKA 99503

PHONE (907) 279-8551 FAX (907) 274-7630

THE ASSESSOR'S ACTION OPPOSES PUBLIC POLICY

Alaska's statutes incorporate many restrictions on Assessors in order to promote public policy such as conservation, maintenance of farmlands, installation of fire protection systems and maintenance of private airports. The public policy of the United States government, the State of Alaska, and the Municipality of Anchorage is to support rent restricted low-income housing so that there will be safe and affordable housing for persons of modest income.

The United States government supports this policy through the award of Low Income Housing Tax Credits under Section 42 of the Internal Revenue Code and through allowance of the issuance of tax exempt bonds to finance housing that is restricted to persons at or below 50% to 60% of the median area income.

The State of Alaska supports such programs through the Alaska Housing Finance Corporation, which in addition to administering the federal Low Income Housing Tax Credit programs makes grants and loans at below market interest for affordable housing subject to the same restrictions.

A stated goal of the Municipality of Anchorage as outlined in the Housing and Community Development Strategic Plan¹ is to:

“increase the inventory of safe, affordable rental housing for regular households earning 80% of median income or less, with emphasis on the low and extremely low income and continue to provide rental assistance to reduce rental cost burden”

In the final draft of the 1999 action plan the same goal is restated²

¹ See page iv of the Municipality of Anchorage Consolidated Plan 1995 to 2000.

² See item IC on page 1 of the final draft Housing and Community Development 1999 Action Plan.

In spite of the fact that the United States government, the State of Alaska and the Municipality of Anchorage are in support in low income rent restricted housing projects such as the subjects, the Assessor without statutory direction and in violation of recognized appraisal principals applicable to mass appraisals, has chosen to ignore valid legal restrictions on title in his assessment of the subject properties. The result of his action is to assess these properties at more than their full and true value, thereby creating an unnecessary financial burden on low income rent restricted housing that is counter to established public policy.

The serious ramifications of the Assessor's decision is discussed in a letter dated July 20, 1999, from the U. S. Department of Housing and Urban Development to the Municipality. (See page 2 of the letter following this section.)

Also, following is a chart showing the impact of the Assessor's change of policy from 1997 and the failure to use methodology approved by the Board of Equalization in 1995 and 1996.

ASSESSMENT COMPARISONS FOR RENT RESTRICTED AFFORDABLE APARTMENTS

APPEAL #	PROPERTY	1996 B.O.E. VALUE	1997 ASSESSMENT	INITIAL 1998 ASSESSMENT	1997 TO 1998 INCREASE	REVISED 1998 ASSESSMENT	FINAL INCREASE	INCREASE OVER BOE
152	Southside Seniors	N/A	N/A	\$2,066,600	N/A	\$1,730,000	N/A	N/A
1469	Spruce View Apts.	3,122,000	3,600,000	7,975,600	121.54%	6,800,000	88.89%	117.81%
1470	Adelaide SRO	N/A	1,182,700	1,286,200	8.75%	1,215,000	2.73%	N/A
1473	Hampstead Heath Apts.	3,522,000	3,322,600	6,357,800	91.35%	4,760,000	43.26%	35.15%
1474	Merrill Crossing	1,281,000	1,319,200	2,919,400	121.30%	1,634,000	23.86%	27.56%
1475	Panoramic View Apts.	3,240,000	2,683,200	5,727,200	113.45%	4,894,000	82.39%	51.05%
1478	Stephens Park Apts.	N/A	5,945,200	6,511,500	9.53%	6,490,000	9.16%	N/A
1480	Garden Villa Apts.	N/A	2,102,500	2,386,100	13.49%	1,732,000	-17.62%	N/A
1800	Access Apts.	1,427,000	1,748,700	3,210,500	83.59%	2,310,000	32.10%	61.88%
1801	Hillpoint Apts.	N/A	745,200	2,117,700	184.18%	843,000	13.12%	N/A
2205	Brighton Park Apts.	N/A	N/A	5,983,000	N/A	4,900,000	N/A	N/A
	TOTALS			\$46,541,600		\$37,308,000		
	AVERAGE INCREASE				83.02%		30.88%	58.69%



U.S. Department of Housing and Urban Development
Alaska State Office
University Plaza Building
Office of Community Planning & Development
949 East 36th Avenue, Suite 401
Anchorage, AK 99508-4399
www.hud.gov/alaska.html

July 20, 1999

Lynn Taylor, Manager
Housing and Community Development Block Grant Division
Department of Community Planning and Development
Municipality of Anchorage
P. O. Box 196650
Anchorage, AK 99519-6650

Subject: 1999 Action Plan Review Comments

We have completed our review of your annual action plan and find it legally approvable. The grant agreements for the three formula programs funded through the plan, Community Development Block Grant (CDBG), HOME Investment Partnership Program (HOME), and Emergency Shelter Grant (ESG), are being sent under separate cover to Mayor Mystrom.

Although we find that the document continues to improve each year, our review did reveal a number of issues that must be addressed prior to our final approval of the Action Plan. These deficiencies, discussed below, will not delay our transmittal of the grant agreements, nor will it restrict the Municipality's access to the grant funds. (We have approved your request to incur pre-agreement costs in both the CDBG and HOME programs). A satisfactory response, however, is required prior to our final approval of the Action Plan and should be submitted as soon as possible.

Fostering Affordable Housing - HOME

In accepting HOME program grants, participating jurisdictions commit to the mission of preserving and increasing the stock of affordable housing in their communities. This is incorporated into the Consolidated Plan as a goal and a strategy. Specifically, in Anchorage's five year Consolidated Plan, the Municipality pledges to...

"(1) Increase the inventory of safe, affordable rental housing for renter households earning 80 percent of median income or less, with an emphasis on the low- and extremely low-income and continue to provide rental assistance to reduce rent cost burden." (Municipality of Anchorage Consolidated Plan 1995-2000, Section IV, Housing and Community Development Strategic Plan, Five Year Strategy, page 120.)

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OCD

SMITH NASHALOOK

Further, the federal regulations governing the Consolidated Plan require annual action plans to contain a discussion of activities the HOME participating jurisdiction has taken to "... foster and maintain affordable housing, [and to] remove barriers to affordable housing. ..." (24 CFR 91.220(f)(1)).

Although these subjects are discussed on pages 32 and 49 of the Municipality's 1999 Action Plan, the discussion is incomplete in that there is no mention, except in a brief response to a public comment on page B-8, of the Municipality's property tax policy regarding affordable housing projects.

In affordable multifamily housing projects, the rent of some or all of the units are capped, by the terms of their financing, generally at a level that does not exceed 30 per cent of a low-income family's adjusted income. While there is a relationship between area median income, which is the basis for determining an affordable housing tenant's eligibility, and market rents, it is not at all a direct relationship. Many factors can cause a great disparity between area income and market rents: availability of units (i.e., vacancy rates), proximity of units to employment, schools, public transportation, size and distribution of available units, etc. If operating costs increase, such as a significant increase in property tax, and revenues cannot be raised to cover the additional cost, default occurs.

We find that the Municipal Assessor's treatment of annual assessments of the value of affordable housing projects in Anchorage is inconsistent with the Municipality's pledge to increase the stock of affordable housing within the jurisdiction. Annually increasing the assessed value of these properties based on the mistaken assumption that they are capable of generating revenue at the level of market rents has the impact of driving affordable housing projects into default of the terms of their financing. Additionally, private financial institutions and tax credit investors will not participate in new affordable housing projects in Anchorage as long as the Municipality's property tax policy makes no distinction between affordable housing projects and market rate rental properties. Such a position undermines any confidence in the long-term financial feasibility of an affordable housing project.

In our view, the Municipality's tax policy disregarding the rent restrictions on these properties is the single greatest threat to the preservation of existing stock, and future development of affordable housing in Anchorage today. The Municipality cannot, on the one hand, pledge to foster affordable housing, and on the other, penalize and discourage its development. A permanent solution to this problem is necessary to create the economic climate required to "grow" affordable housing in Anchorage. The Municipality's Action Plan must acknowledge and address this bipolar position and outline measures it will undertake to eliminate it.

Use of Program Income from the Rental Rehab Program - HOME

We note that you intend to augment the funding of your 1999 HOME program projects with program income generated from the repayment of loans originally funded with Rental Rehabilitation Grant Program grants. You also indicate (page 20 of the Action Plan) that you intend to claim this source of funding as a portion of your required match of 1999 HOME funds.

Program income from these grants may only be used for HOME program match when the Rental Rehab grants that generate the income are closed out (§511.76(h)(2)). Our records indicate that

not all of the old Rental Rehab Grants are closed. Because these grants were administered by our Seattle Office, please contact Ms. Kaycic Collins at (206) 220-5150 ext. 3613 for the status of the open grants and instructions on actions necessary to close them out.

Overall Benefit Calculation - CDBG

Again this year the Action Plan does not indicate which option the Municipality prefers to calculate its compliance with the overall benefit requirement of the CDBG program. An entitlement community receiving CDBG funds must specify, in accordance with §91.225 (b) (4) (ii), whether it intends to calculate the overall benefit requirement of the CDBG program over a period of one, two or three "...specific, consecutive program years,...". You must identify the specific year or years you wish the calculation to be based upon. We are available to discuss the ramifications of specific choices if you feel it would be beneficial.

Amendments

As in previous years, funding any project not described in the current plan will require formal amendment of the plan in accordance with the procedures outlined at §91.105(c) and the amendment policy in your Consolidated Plan. You must notify HUD when you amend your Consolidated or annual Action Plan, either at the time you do so or in your Consolidated Annual Performance and Evaluation Report (CAPER) at the end of your program year.

The issues discussed in this letter and your response, following our approval, should be incorporated into the 1999 Action Plan. If you have any questions regarding any of the issues discussed in this letter or require technical assistance with your response, please contact Gus Smith, CPD Representative at (907) 271-4632.

Sincerely,

Kim W. Davis
Acting Director, Community Planning
and Development Division

cc:

Caren L. Mathis, Director
Department of Community Planning and Development

**National
Bank of Alaska**

Corporate Headquarters
P.O. Box 100600
Anchorage, AK 99510-0600
Phone (907) 522-8888

January 8, 2000

Senator Loren Leman
Alaska State Senate
PO Box 190773
Anchorage, Alaska 99519-0773

Subject: Taxation Policy and Low Income Housing Tax Credits

I missed your reception yesterday as I have been very busy underwriting new loans for the upcoming building season and issues related to the sale of the bank. We continue to be committed to community issues and anticipate that we will continue our community commitment in the foreseeable future. An issue that we feel may require legislative assistance has been brought about by the regressive method in which low income housing which have been created by the federal tax credit program have been assessed property taxes by the Municipality of Anchorage.

The mayor's office claims that the problem is brought about by State law, but it is an issue of unfair valuation whereby the Municipality refuses to consider the effects of federally restricted rents. As any real estate investor knows rental property valuation is determined by cash flow characteristics of the property. The Municipality's actions are bankrupting many of the properties developed for low income housing and restricting future development. If these properties fail they will ultimately become the property of Alaska Housing Finance and will pay will or no property tax to the Municipality.

An important objective of National Bank of Alaska over the past 50 years has been to meet the housing needs of those in communities in which we serve. With the help of others we have done a pretty good job in developing programs for home owners in most communities. The toughest goal to achieve is to provide quality housing to those low income individuals who do not qualify for home ownership. The various financial institutions serving the community finally thought we had the tools to improve the quality of affordable rental housing with the creation of the Low Income Housing Tax Credit program as approved by Congress. However, despite the needs in our community the Anchorage Tax Assessor has brought the process of developing affordable housing to a grinding halt much to the detriment of the low income citizens of our community.

In 1995 the Municipality encouraged financial institutions to invest in affordable housing using LIHTC's, but in 1998 increased the tax assessed value of most of these properties by 100%. All but one of these properties are owned by non-profits. As the

properties were designed to show little profit the tax increases have been devastating and may ultimately lead to financial failure of the properties altogether.

To qualify for LIHTC's the owners must limit the rents charged to 30% of the tenant's income. An increase in taxation can not be offset by an increase in rents. The Adelaide property is designed to house individuals who make 30% of median income or not more than around \$12,000 per year. This property has often taken in individuals who previously lived on the streets. Three properties were built for families with incomes of not more than 60% of median income and some restricted to families with incomes of 50% of median or less. Admittedly, these three properties are likely the best quality rental housing for low income individuals in the community with green belts, club houses, play grounds, and modern fire safety systems.

So what is the Municipality's problem? The development of these properties has already substantially increased the tax collections of the Municipality. New construction of affordable housing will further increase the tax collections of the Muni. The assessor believes that the properties should be taxed as if there was no restriction on the rents received by the owners. Historically, commercial and multi-family property has been taxed based on the "income approach" as appraisers would call it or the cash flows reasonably obtained on operation of the property to determine a value. The Muni taxed these properties accordingly until 1997, however, then decided to tax them based on an unachievable rent level. Additionally, the tax assessor believes that the LIHTC's obtained by the investors for injecting capital into the properties should be taxed too. This would be similar to charging taxes on grants from federal or state governments. For small business owners it would be like the Muni charging taxes on someone's depreciation write offs.

LIHTC's are indirect subsidies designed to encourage equity investment of private funds and facilitate feasibility. The primary form that these indirect subsidies take is tax credits, which may be used to offset federal income tax liabilities directly by the owner which may be individuals or corporations. So an individual may buy tax credits for a dollar invested in the property, and Uncle Sam will allow him to get his repayment over a 10 year period. The investor must remain committed to stay in the affordable housing partnership for 15 years, and there are more than normal investment risks. The property must remain affordable for the fifteen year period and in Alaska the State often requires that they remain affordable for 30 years.

Other risks are foreclosure, delivery of the tax credits, compliance of tenant eligibility, comprehensive and often untested IRS regulations, and in Anchorage a change in philosophy on property tax evaluation by the Muni is a risk nobody contemplated. The penalties to the investor by the IRS are substantial if the project does not meet every aspect of the tax code and if the property goes into default. It is estimated that over 60% of the rental housing built in the United States today are built with the use of tax credits. The reason for this is that the cost of building housing has increased far more rapidly than income of low to moderate income individuals and their ability to pay rent.

So why is the construction of affordable housing important to Anchorage? In the last couple of years we have seen numerous fires in old apartment houses with the loss of life and personal property. Additionally we read about crime and juvenile problems often concentrated in neighborhoods with older substandard properties. In Mt. View for instance it is not uncommon to find 12 plexes located on 6000 square foot lots with inadequate parking, no common area space for children to play, and poor maintenance. These conditions can not lead to a healthy life style for the children or residents of these neighborhoods. The majority of our apartment stock was built over 25 years ago, do not meet modern building or fire codes, and were designed to house construction workers.

It is evident to national lenders that our multi-family housing stock is substandard. Freddie Mac and Fannie Mae are the two largest multi-family lenders in the country and they do not lend money on multi-family housing in Alaska. Only sporadically does HUD insure a multi-family mortgage and they moved their loan origination office to Seattle. Pension funds and thrifts are not lending in Anchorage. Alaska Housing Finance and the few local banks are the only financial institutions willing to take the risk, but it is the overall quality of the rental housing stock that keeps lenders away.

The residents are changing with more families, fewer singles, and a deterioration in real wages. Frankly, many of the older properties are obsolete and will not survive the test of time. What is evident to the financial community and creative housing developers that work with low income individuals is that today we have the means to improve the housing stock in Anchorage to modern standards by the use of LIHTC's. Government programs change so if we want to take advantage of this opportunity we should do it now. Alaska is the only state that is not using all of it's allowed tax credits and that is due solely to the Municipal Tax Assessor.

No investor is going to put his funds at risk while the current situation exists. California for instance is the major user of tax credits, and it charges no taxes on affordable housing owned by non profits and charges taxes based on the restricted rents on properties owned by others. Hawaii and Montana generally do not charge taxes to non profits owning affordable housing properties, and the Washington State Legislature just past a law restricting taxation on affordable housing properties owned by non profits. It seems various tax assessors in Washington were playing the same game, and the Washington legislature voted 97-3 for the property tax exemption. The Oregon Supreme Court decided that tax assessors must consider restricted rents when valuing properties.

A reasonable taxation policy by the Municipality will bring about the creation of better housing conditions for the lower income citizens of our community and they are growing as a class. While we talk of the expanding tourist industry, new hotels, possible convention center, and new retail sector we should consider the wages to be paid in these industries. And how is modern affordable housing going to fit into the

Municipality's new land use plan? The creation of new, safer housing will also create construction jobs and help local business. We have the ability to improve our affordable housing stock and the well being of our citizens, and we should bring the tax assessor along with us.

We have talked to a number of assembly members on the issue and they have been very supportive, but are not sure an ordinance would not be vetoed by the Mayor. The Mayor has not been supportive. This is not just an NBA issue. You can talk to Mike Burns at Key Bank, David Lawer at First National Bank, and the various non profits who developed the properties. Feel free to contact me any time at 265-2991.

Sincerely yours,


Jan Sieberts
Senior Vice President

NATIONAL BANK OF ALASKA

INTEROFFICE MEMO

To: Jonathon Lack

Date: 1--19-2000

From: Jan Sieberts

Subject: HIB 272/Tax credits

1. In regard to your question about profits coming from a combinations of the tax credits and the rental income; the plain fact is that these properties are not designed to make a profit. The majority of tax credit properties are put together by non profits to improve the quality of housing for low income individuals, and in doing so the target is to generally have a positive cash flow. Seldom do the properties show a profit, and I have never seen one that did show a profit.

I have not seen a developer make a profit on the tax credits. Tax credits are issued on a competitive basis. AHFC issues the tax credits in Alaska and does so on what they believe is the most worthwhile and cost effective project. Tax credits are issued based on the hard dollar capital costs, some of the soft cost, and not on the land. The proceeds of the tax credits are used to build the project. I have seen some cases where a development fee is charged, but in most cases it is deferred and subordinated to any loan. Frankly, in our analysis we question whether they will ever be collected in the fifteen year period we are committed to the property.

As to profits from the rents, the experience is that more are not even showing a positive cash flow and we have had to make additional cash advances to make the projects work. I'm sure that Anchorage Neighborhood Housing and Shannon Wilks of Anchorage Housing Initiatives which provides housing to impaired individuals would verify this fact. The major reason for this is that rents are restricted to 30% of incomes and residents can not make more than 60% of median income and in the case of two properties we are involved in as a limited partner the maximum income is 30% of median income or a maximum of \$12000 per year per individual. Most make less.

To raise the cash necessary to build the apartments (60% of all apartments built in the United States today use tax credits) the developer sell the tax credits to a financial institution whether it is Fannie Mae, The Enterprise Foundation, Sun Life, NBA, First National Bank of Anchorage and Ketchikan, Key Bank, Bank of America, and others.

2. Why then only tax the units on their income value? Doesn't this create an untaxed windfall for the developer?

The state law says that properties will be taxed on market values. Historically, commercial and rental properties are taxed on market values and market value more often than not is determined by what is the cash flow of the property. The

federal government requires that these properties have rent restrictions for a minimum of 15 years and actually AHFC more often required restricted rents for 30 years. Since it is obvious that there is not any windfall as more often than not these properties are being fed in any event. The development of safe, modern housing as created by the use of tax credits has substantially increased the tax base of the municipality. What is happening is that it is adding punitive taxation that is forcing the properties into financial despair.

It is the public policy of the United States government to improve the quality of the housing for low income people, and the LIHTC program was designed to do that and even the GAO says it is the most effective way to achieve this goal than has ever been designed by the government. The general partners who are often the developers are generally non profits and do not pay taxes in any event and they are meeting their housing missions. I don't see any windfall for anyone. The poor are getting better housing, the muni is getting higher taxes, the neighborhoods are improving, the properties are coming under better management, and the investor who is putting up very risk prone capital is getting a reasonable deduction on their federal income taxes. So it is the federal government who is bearing the economic cost of developing this housing.

3. If the city can tax at market value, that subsumes the profit from the resulting tax credit?

The federal government is issuing tax credits to develop housing. To us this is another form of a financial transaction such as lease financing, mortgages, bonds, commercial loans, tax exempt loans, government guaranteed loans, etc. Without this program the costs of building quality, livable housing in this country for low income people would not be economically justifiable.

Is the Muni superseding federal housing policy? They are not taxing any other investment or tax credit the bank makes. The muni is not taxing other tax credits available from the government for historical rehabilitation(which they used to rehabilitate the old city hall) or job creation tax credits. They do not tax apartment house owners on their depreciation write off. And, they don't tax the bank for the interest we are charging on home loans. The fact is to us an investment in LIHTCs is strictly a financial transaction with a loan to the US treasury which it pays us back over 10 years. The plain fact is apartments built with restricted rents are worth less if sold than a project with no restricted rents. The government is not subsidizing rents to market rents.

AS 29.45.110 states "The full and true value is the estimated price that the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer, both conversant with the property and with prevailing general price levels". So who is going to buy a property at twice its economic value? Not the Muni, and not any intelligent business man. The plain fact is that cost and value are not the same.

4. What are the federal incentives to developers to develop low income housing?

Your question is rather broad in that the federal government provides subsidies both direct and indirect on every home financed in the US. For someone to say that they are not receiving a subsidy is naive.

The Adelaide project which is a 72 unit single room occupancy property on 9th Ave., designed to house individuals making 30% of median or about \$12000 per year and actually has taken individuals off the streets. Roughly the project required \$2,240,730 in tax credit funds, about \$313,000 in HOME funds, \$200,000 in funds from the Federal Home Loan Bank of Seattle, \$200,000 in funds from National Reinvestment Corp., and the use of \$500,000 in arbitrage funds. All of the LIHTC projects have been very complex, taken a long time to put together by dedicated people, and required multiple funding sources. Tax exempt loans are not available on standard LIHTC projects, but may be available on certain income restricted set aside properties.

As previously stated LIHTCs are a major part of the federal housing program that deals with improving housing stock. Alaska has some of the worst rental housing stock in America. The muni property taxation policy has brought this housing development to a halt making Alaska the only state in America to not use all its tax credits. This window of opportunity to develop affordable housing may be lost if the government changes its policy. What is tragic is whereby we have the tools to improve the quality of housing in our communities and for those less fortunate, short sightedness is forcing our neighborhoods into continued physical decline. The burden on the cost of this development comes from the federal treasury in the form of the tax credits and inures to the benefit of the communities. Anchorage would benefit from better neighborhoods, higher taxes, construction jobs, merchant sales, etc.

The alternatives to fair taxation are not good. We are faced by punitive property taxation when California, Washington, Montana, Hawaii, and other states often exempt these properties from property taxation altogether. The Oregon supreme court stated that taxation must consider the restricted rents. AS29.45.062 already states that governments must consider conservaiton easements when assessing value. A similar situation as restricted rents.

Subject: Low Income Housing -Reply

Date: Thu, 20 Jan 2000 10:02:29 -0900

From: Jan Sieberts <jan.sieberts@nbak.com>

To: Jonathon_Lack@legis.state.ak.us

Jonathon--Hopefully you received my memo. I am a little wordy, but hopefully I am reasonably clear. One point I should have made is that low income housing tax credits are a form of federal subsidy to the housing industry. Grants, HOME funds, and other subsidies provided by the federal government are not taxable and the feds even limit administration allocations taken from those funds by municipalities. The federal funds from HUD to fund ASHA projects are not taxable by state or local government. It seems logical that the feds did not expect these funds to be taxed.

Cook Inlet Housing just spent \$6.5 million to provide a dormitory for native students in Anchorage. Cook Inlet Housing generally does not pay property taxes and they are a major landlord in this community as is Alaska Housing Finance. They do pay in lieu of taxes but substantially less than normal property taxes.

Last year the State of Washington passed legislation exempting all non profits from paying property taxes on affordable housing. It was almost unanimous. All the providers of affordable housing are asking for is to be taxed based on fair market value as they have done in the past.

Actually, the affordable housing providers have had to go back to the board of appeals every year since tax credits came into use in Anchorage. What is interesting, the mayor has said these properties are unfair competition, but we are talking of about 250 family housing units out of approximately 44,000 rental units in the community. Their are waiting lists to get into the affordable properties.

To learn more about affordable housing in Juneau you might talk to Betsy Lougenbaugh at Housing First 364 3573 and Tamara Roecroft at Alaska Housing Development Corp.780 6666

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JOSEPH GUGGENHEIM
Housing Development Consultant
6600 Rannoch Court
Bethesda, MD 20817
301 320-5771; fax 301 320-9519

THE VALUE OF THE TAX CREDITS SHOULD NOT BE ADDED TO THE
VALUE OF THE PROPERTY FOR ASSESSMENT PURPOSES

The basic concept of the tax credit program is to generate equity to pay for a substantial percentage of the costs of developing affordable housing, so that it is possible for the developer to offer lower rents that are affordable to low and moderate income households.

The value of the tax credits can be directly measured by the amount of equity that investors put up in exchange for the right to claim the tax credits to reduce the income taxes paid by the investors to the U.S. government.

However, in most cases, particularly high cost areas with non-profit developers, the tax credit equity is used almost entirely to pay for a substantial portion of development costs. This allows the project to have a lower amount of mortgage debt on the property and thus a lower monthly mortgage payment, so that the property can achieve Tax credit rents that are substantially lower than market rents.

Tax credit equity might be used to earn high developer fees (profits), but this is not the case for projects with non-profit developers or in high cost urban areas. The amount of developer fee (profit) that is allowed is closely monitored and restricted under the tax credit statute by the credit agencies administering the program (Alaska Housing Finance Corporation).

The tax credit approach is a substitute for direct government financial aid, such as an up-front development grant that pays for the costs of constructing the housing, as is done in the low rent public housing program.

The other form of direct government aid is section 8 assistance, where a monthly check from the government to the project pays a portion of the rent which is at high market rate rent levels, allowing low income households to pay only that portion of the regular rent that they can afford based on their low incomes. Under this approach, tenants generally pay 30 percent of their own monthly income for rent, and the monthly government Section 8 check to the owner makes up the difference between the regular rent and the amount the tenant household can afford.

The tax credit equity approach is an effort to general private investment (in exchange for the use of the tax credits) in order to help create affordable housing, instead of the old approach of directly subsidizing either up the front costs of development or the monthly costs of market rate housing.

Thus if a project costs \$6 million to be built and developed, the tax credit equity put up by investors in exchange for the right to claim the tax credits might equal \$3 million, allowing a mortgage on the property of \$3 million instead of \$6 million, since the rents paid by and affordable to lower income families can only cover a \$3 million mortgage plus the costs of operating the housing.

In many situations, the tax credit equity - the value of the tax credits - may not be enough of an indirect subsidy to produce truly low income rent levels, and additional government assistance in the form of up front subsidies or monthly rental assistance payments are still needed to make the project financially feasible at the low income rents that are charged.

In most situations, the actual rent charged the low income families is significantly less than the maximum rents possible under the tax credit program, because either: 1) the non-profit developer is committed to charging less than the maximum permitted rent to reach very low income families earning substantially less than the maximum permitted incomes; 2) the developer made an extra commitment to provide low rents in order to successfully compete for the limited amount of tax credits available; or 3) the prevailing rents in a lower income neighborhood are lower than the maximum permitted tax credit rents, and low income families would choose instead to live in existing non-tax credit housing (of a lesser quality) where the rents are less than tax credit maximum rents.

In a project that cost \$6 million to develop, where \$3 million of equity paid by investors in exchange for the right to claim tax credits pays for 50 percent of development costs, and rents from low income tenants can only afford to cover the resulting \$3 million mortgage, the assessed value of the property should reflect the \$3 million mortgage amount that can be covered by the available rental income under the restricted rents. The assessed value should not reflect a \$6 million mortgage amount that only upper income tenants paying market rate rents could cover.

In low income projects with tax credits where the value of the tax credits is used to reduce the mortgage to amounts affordable by low income tenants, it would be ludicrous to add back into value for assessment purposes the equity

contributions (the amount of value produced by the tax credits) that made the low rents possible in the first place.



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907)586-1325, Fax (907)-463-5480

January 25, 2000

Representative Andrew Halcro
Alaska State Capitol
Juneau, AK 99811

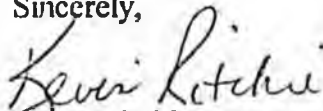
Dear Representative Halcro:

Thank for the opportunity to comment on HB 233, Municipal Bankruptcy. Our understanding is that passage of HB 233 allows municipalities the option to use Chapter 9 of the Federal Tax Code for municipal bankruptcy relief. Chapter 9 was formerly available to municipalities prior to a change in federal law, but now requires acceptance by state statute. HB 233 would once again allow municipalities the option of using Chapter 9.

While the option to use the Federal Tax Code as a tool in regard to municipal insolvency, it would not lessen the ultimate responsibility of the State to assume liability for municipal dissolutions. As you are aware, unfortunately, many communities are being driven into dissolution due to reductions in municipal revenue sharing programs by the Legislature.

Therefore, the Alaska Municipal League supports the adoption of HB 233.

Sincerely,

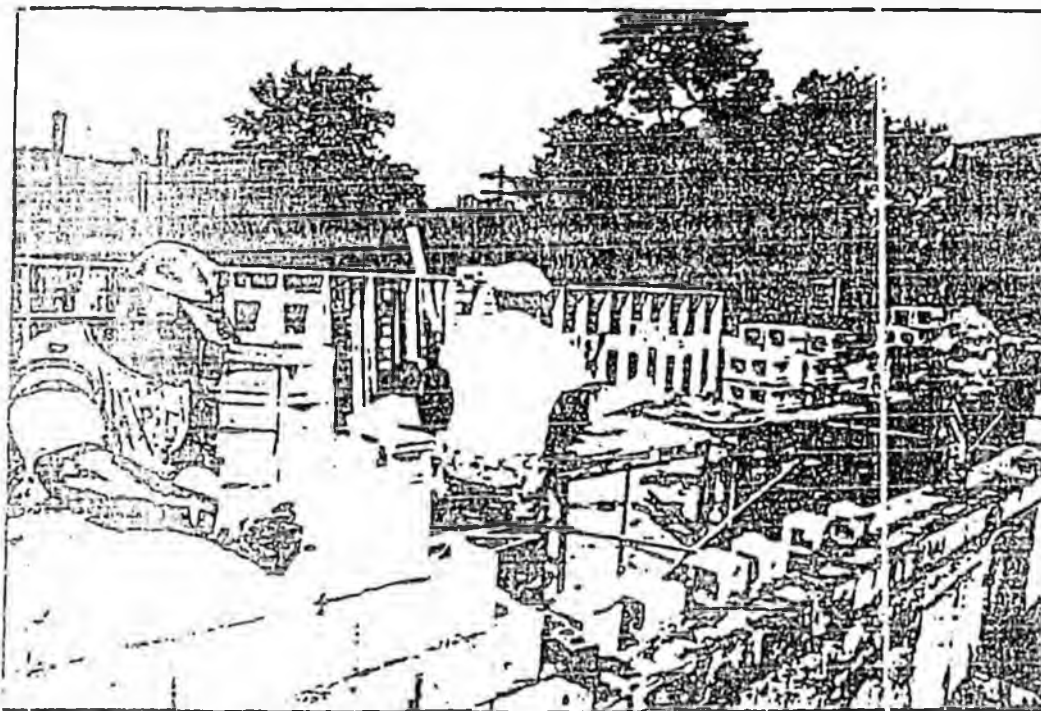

Kevin Ritchie
Executive Director

CC: AML Legislative Subcommittee – Revenue & Finance

The Low Income Housing Tax Credit:

How It Can Be Used By Non-Profit Developers

The interests of the non-profit as developer of affordable housing and the investor's interest in return on investment are married through the creation of limited partnerships.



Tax credit financing will make these new Chicago townhouses, developed by the Neighborhood Institute, affordable to low income tenants.

BY JANE BLUMENFELD

The 1986 Tax Reform Act created a tax credit that provides about \$3 billion in annual subsidy for low income rental housing development. The credit is a dollar-for-dollar reduction in federal taxes for investment in low-income rental housing, providing a

catalyst for private sector investment. The credit can be used for up to 50 percent (sometimes more) of the cost of building affordable housing. Despite their tax exempt status, non-profit developers can use this valuable program to raise capital from private investors through syndication for the construction and rehabilitation of low income rental housing.

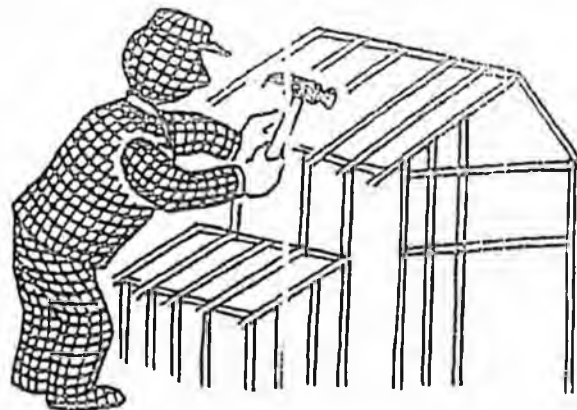
Each site receives an allocation of \$1.25 per resident, which is allocated to development projects through the State Housing Finance Agency or another designated state office. The legislation provides for a 10 percent set-aside for projects sponsored by non-profit developers. This article will deal with how a non-profit developer can take advantage of the low income housing tax

6 □ NOVEMBER/DECEMBER 1991

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PARTNERSHIP OF INVESTORS AND NON-PROFIT ORGANIZATION.



NON-PROFIT ORGANIZATION IS ABLE TO BUILD HOUSING.



INVESTORS TAKE TAX CREDITS EACH YEAR FOR TEN YEARS.



AFTER 15 YEARS, THE PARTNERSHIP ENDS.

GOFF

credit and how a typical tax credit deal is structured.

1. The Partnership

Non-profit housing developers are exempt from federal income taxes, and therefore they have no direct interest in receiving an annual tax credit. To private investors, however, a tax credit (i.e. a reduction in their tax liability) provides an annual cash return on their investment. The

interests of the non-profit as developer of affordable housing and the investor's interest in return on investment are married through the creation of limited partnerships.

What is a Limited Partnership?

A limited partnership is a partnership with limited and general partners. One or more general partner(s) run the business of the partnership and the limited partner(s) put in equity in exchange for part of the

returns generated by the partnership. Limited partnerships allow "passive" investors to participate in real estate investment with risk limited to the amount of their investment. Limited partnerships allow developers to raise equity for development projects.

Why are Limited Partnerships used?

Limited partnerships are created for a single purpose or project and are designed

to dissolve after that purpose is fulfilled. They limit investor liability. They allow the "pass through" of tax benefits, unlike corporations. They allow centralization of management, through the general partner. They allow sponsors/developers to maintain control of their projects while raising new equity.

Who makes decisions in a Limited Partnership?

The terms of the partnership agreement, governing the on-going relationship, are set jointly by the general and limited partner(s). Once the partnership is established, the general partner makes all day to day operating decisions. Limited partner(s) may only take drastic action if the general partner defaults on the terms of the partnership agreement or is grossly negligent, events that can lead to removal of the general partner.

Who owns what?

Ownership interests of the Limited Partnership are split between the limited and general partners according to a negotiated formula. Limited partner(s) can buy up to 99 percent ownership of profits/losses and

cash flow (excluding fees to the general partner). The general partner retains the 1 percent or more remaining ownership of profits, losses, and cash flow (plus any agreed upon fees). The limited and general partners split any profits from sale or refinance of partnership assets. The split generally provides an incentive to the general partners who may receive up to 50 percent of profits. To guarantee long-term affordability, many limited partners are bought out after 15 years by the non-profit. The non-profit retains ownership of the project and can maintain low income tenancy.

The General Partner's Rights:

The specific rights of each party are negotiated in the Partnership Agreement. In general, the general partner has the right to make all the day-to-day and development decisions, to determine how much cash to distribute (to the limited partner(s)) versus how much to hold in reserve, and to assess possible sales proposals.

The General Partner's Obligations:

The general partner must complete the project as proposed, must manage the part-

nership and the business as agreed upon in the partnership agreement, and must, generally, guarantee any additional funding needed to complete the project (repayable with interest). In addition, the general partner oversees construction, leasing, property management, and maintains the books and records of the partnership. It must submit periodic reports to the limited partner(s) on the project's financial condition and status, including analyses of the property's sale potential. The general partner may not withdraw without the approval of the limited partner.

The Limited Partner's Rights:

The limited partner's rights are few: to be informed of operating conditions; to approve a sale or refinancing; and to remove the general partner for gross negligence or breach of contract.

The Limited Partner's Obligations:

The limited partner(s) have the obligation to contribute equity in the form of either land and improvements and/or dollars.

General Partner Fees:

The general partner should receive the following fees:

- Developer Fee—for developing the project
- Property Management Fee—for managing the on-going operations of the property
- Partnership Management Fee—for overseeing the operations of the partnership
- Incentive Management Fee—structured is up to one third of net cash flow

Distribution of Cash Among the Partners:

There are three ways in which the partnership receives cash which is to be distributed, which are (1) development financing proceeds, (2) general operations and cash flow, (3) and through sale or refinance of assets. Below is a preferred method of use of partnership cash and a description of how it will benefit a non-profit general partner. However, these points are all negotiable.

*Don't even think of using tax credits
without owning...*

"Tax Credits for Low Income Housing"

by Joseph Guggenheim,
Sixth Edition, May 1991

An understandable and comprehensive guide and sourcebook written for the non-lawyer. Over 10,000 copies sold to date!

Expert practitioner comments: "an indispensable guide;" "my personal bible on the tax credits."

\$53.95 softcover; \$145.00 loose leaf binder with three quarterly supplements; shipping extra. *Discount for community non-profits.*

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Phone 301-320-5771

TABLE 1

Calculating the Annual Tax Credit

Project Development Cost ¹	X	Applicable Percentage to Calculated Credit	=	Annual Tax Credit
Acquisition:				
Land	10,000	ineligible		-0-
Building	90,000	4%		3600
Hard Construction Costs	765,000	9%		68,650
Soft Costs ²	135,000	9%		12,150
Total	\$1,000,000			\$ 84,600³

¹ Only low income units are eligible for the tax credit—in this example 100 percent are low income.

² All soft costs may not be eligible. For this calculation they are not separated out but as the calculation is refined each line item must be reviewed.

³ If the project is in a qualified census tract or "difficult to develop area" as defined by HUD, the project will be eligible for a "basis boost" of 130 percent. The annual tax credit will be 30 percent higher. In this case it would be \$109,980.

To exemplify this calculation, assume a project has a total development cost of \$1,000,000, broken down as follows:

In today's market, an investor would multiply the credit by 10 years and by \$.45, which is today's average market price for tax credits (see Table 2). Again, the dollar value assigned to the tax credit will vary from investor to investor. The \$.45 is an average market price. Some investors will be willing to pay more for the credit while others will pay less. The price takes into account the present value of the 10 year flow of income and rate of return expected by the investors.

credits. Those sophisticated in real estate often make direct investments. Banks can earn tax credits and can use the investments to meet CRA requirements. Insurance companies have also been major investors in tax credits. Most corporations, however, choose to invest through pools or syndications where they play a limited role and have experts who can negotiate the deals for them. These investment pools are managed by several investment banks as well as The Local Initiative Support Corporation (The National Equity Fund), The Enterprise Foundation, and several smaller, regional investment pools.

III. Who Is Investing?

The 1986 legislation was drafted with an obvious bias toward corporate investors. There are specified limits to the amount of passive income that individuals can claim on their tax returns. Although some individuals are willing to invest, the returns are not yet significant enough to generate an active retail market for tax credits and make individual investors a strong force in the market place.

Corporations are the most active users of low income housing tax

TABLE 2

Calculating the Value of the Tax Credit

Annual Tax Credit	\$ 84,600
Credits Continue For 10 Years	X 10
Total Amount of Tax Credits	\$ 846,000
Current Market Price: 45¢ / \$1	X .45
Total Proceeds to the Project	\$ 380,700

When looking for investors, most developers begin looking first to local companies who might have an interest in the project. If there are no local candidates, then the larger investment pools are contacted directly. The investment pools will want to know basic information about the deal, including location, number of units designed for low income residents, development costs, rent structure, operating expenses, sources of financing, and marketing plans.

IV. Long Term Ownership and Affordability

Non-profit developers are concerned with maintaining long term affordability of the housing. According to the tax laws, if the units are converted to market rate units within the first 15 years of the project, the tax credits can be "recaptured." In addition the allocating agency now must sign a deed covenant which remains with the property and requires continued use as low income housing for an additional 15 years after the "recapture" period has expired. In general, most investors will look to have their equity returned through tax benefits rather than through property value appreciation (sale). Therefore, investors should be willing to negotiate a purchase option for the non-profit developer to purchase the property at the end of the "recapture" period at a formula price, an arrangement which is now allowed by law. This would return ownership of the property to the non-profit developer who would then be able to maintain the project for low income tenancy in perpetuity.

Jane Blumenfeld is a managing associate with Shorebank Advisory Services, Inc. (SAS), a wholly owned subsidiary of Shorebank Corporation, the holding company for South Shore Bank in Chicago. Prior to joining SAS, Ms. Blumenfeld served as the National Fund Manager of the LISC/National Equity Fund, a wholly owned subsidiary of the Local Initiative Support Corporation, which is one of the country's leading investors in low-income housing tax credits.



*Anchorage Mutual
Housing Association*

January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Dear Representative Halcro,

Thank you very much for your sponsorship of House Bill No.272 regarding the tax assessment of quality, affordable housing properties funded in part with federal tax credits through the Low Income Housing Tax Credit (LIHTC) Program. This program and other affordable housing programs available through the Alaska Housing Finance Corporation, provide critical funding that is necessary for the development and rehabilitation of multi-family properties that serve low-income families.

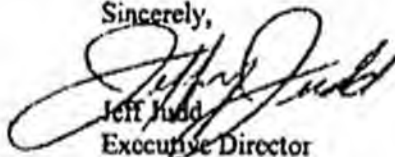
In return for these federal sources of funding, the owner must agree to legally binding long term deed restrictions (15 - 30 years) restricting the use of the property to lower income families at restricted rent levels. Generally, these restricted rent levels are below the "market" rents in the area. This "affordable" rent enables the lower income family to have the same basic opportunities of life, food and clothing for instance, that higher income families perhaps take for granted. In doing so, we create a healthier community for all Alaskans.

Due to the restricted revenue generated by these affordable housing properties, the market value of the restricted property is less than it would be if the project were at "market rate" or unrestricted property. And that is the very crux of why HB 272 is needed. HB 272 would specify more clearly that local governments must consider the deed restrictions that apply to such properties when determining the "full and true" value.

Failure to pass HB 272 jeopardizes future investment in affordable housing in our communities; may likely cause at least some existing owners to default on obligations secured by existing affordable housing properties; and will lead to the deterioration of our neighborhoods. It is due to these concerns that I strongly support your effort to pass HB 272.

Thank you again for your efforts in this regard.

Sincerely,



Jeff Judd
Executive Director



First National Bank
of Anchorage

January 26, 2000

Representative Andrew Halcro
House of Representatives
State Capital, room 418
Juneau, AK 99801-1182

Dear Representative Halcro:

On behalf of The First National Bank of Anchorage, I wish to thank you for your sponsorship of HB272. The Municipality of Anchorage's insistence upon assessing rent restricted housing projects as if such restrictions did not exist, and the uncertainty about whether the same treatment of them might occur elsewhere in the State of Alaska, will prevent further development of such projects.

We have participated in two such projects that are presently in jeopardy by reason of the intransigence of the Municipality of Anchorage, and we will not participate in any other such project unless we can be certain that it will not suffer the same fate.

By all accounts the Low Income Housing Tax Credit program is the most successful housing program in the nation for low to moderate - income families. And until the Municipality of Anchorage brought an end to further such development in Anchorage, it was the most successful program for that purpose in the State of Alaska. Now, Alaska is the only state that does not fully utilize its federal tax credit allocation.

Particularly in the western portion of the US, state legislatures are choosing to completely exempt such projects from ad valorem taxation. Your bill, which we enthusiastically support, would require only that the assessment of each such project for ad valorem tax purposes be based upon the economic value of the project, not its cost or its imagined value free of rent restrictions.

We commend your leadership in this matter, and if I can personally be of assistance by providing additional information that may be necessary or desirable to bring about passage of this legislation, please let me know.

Very truly yours,

David A. Lawer
Senior Vice President & General Counsel

Anchorage
Neighborhood
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Services, Inc.
3700 Woodland Drive
Suite 500
Anchorage, AK 99517
(907) 243-1558
FAX (907) 243-3214



January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Dear Representative Halcro,

Thank you for introducing House Bill 272. This is very important legislation and I applaud your efforts. I would like to offer one recommendation to your bill. As you know, we have been working locally with Assemblyman Alan Tesche and Melissa Taylor to introduce an ordinance addressing the same issue. I have attached a copy.

I would recommend that you include "other financing that requires legally binding rental restrictions through long-term deed restrictions".

Not all of the properties involved in the tax appeal are low income tax credit properties, but do have legally binding rental restrictions through long-term deed restrictions, such as AHFC Tax Exempt Program and HOME Program.

If you would like more information or if I can be of any assistance in your efforts regarding this bill, please do not hesitate to contact myself or Jeff Judd, Executive Director of Alaska Mutual Housing Association at 243-1558.

Sincerely,

Mary Jane Michael
Executive Director

January 27, 2000

Representative Andrew Halcro
Alaska State Legislature
State Capitol, Suite 418
Juneau, Alaska 99801-1182

Anchorage
Neighborhood
Housing
Services, Inc.
3700 Woodland Drive
Suite 500
Anchorage, AK 99517
(907) 243-1558
FAX (907) 243-3214



Dear Representative Halcro,

I am writing to express my support of House Bill 272, legislation that would require local governments to assess housing which qualifies for a low-income housing credit under 26 USC 42 on the actual income derived from the property and not the value that would result from a "market", or unrestricted property.

For the past two years, a number of non-profit agencies providing low-income affordable housing for individuals and families, many of whom are elderly, disabled, or previously homeless have been subjected to radically inflated property taxes by the Municipality of Anchorage Tax Assessor. In some cases, as much as a 180% increase in one year. These organizations have repeatedly filed appeals and spent thousands of dollars on attorney fees.

Clearly the mission of these organizations is to increase the quality of living in our communities for those less fortunate. They have contributed to solving the problem of homelessness in our community; revitalized neighborhoods through the renovation of previously deteriorated properties; and destigmatized "low income" properties by creating quality, affordable housing throughout a diversity of neighborhoods.

Nationally, 60% of all multi-family affordable housing in the United States is created through Federal Low Income Housing Tax Credits. Without consideration given to the actual income derived from these properties when assessing them, no future development will occur. Further, these properties left to meet the higher property taxes, will overtime deteriorate or face foreclosure.

Thank you Representative Halcro, for introducing House Bill 272. Your efforts will help guide the Municipality towards not only a more permanent solution, but one that will contribute to the overall health and development of our citizens and our community.

Sincerely,


Mary Jane Michael
Executive Director

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 272

Revision Date: Feb. 01, 2000
Title: Municipal Taxation on Low Income Housing Properties
Sponsor: Hakro
Requester: _____

Dept. Affected NONE
BRU _____
Component _____
Component Serial No. _____

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1091 Designated Program Receipts						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

No impact on state agencies

Prepared by

John Mack for HSE. CRA

Phone

465-4859

Phone

Date

02-01-2000

ALASKA STATE LEGISLATURE

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JUNEAU, AK 99801-1182
(907) 465-4939
FAX (907) 465-2418
1-800-465-4939

CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM

REPRESENTATIVE ANDREW HALCRO

District 12

INTERIM
716 WEST 4TH, SUITE 620
ANCHORAGE, AK 99501
(907) 269-0244
FAX (907) 269-0248

To: Rep. John Harris
Rep. Carl Morgan
Co-Chairmen
House Community and Regional Affairs Committee

From: Rep. Andrew Halcro *AH*

Re: HB 272, Low Income Housing

Date: January 24, 2000

Attached are copies of HB 272, my sponsor statement for the bill, and supporting information. I would appreciate your scheduling this bill for consideration by the House Community and Regional Affairs Committee at your earliest convenience.

ALASKA STATE LEGISLATURE

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TRANSPORTATION

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REPRESENTATIVE ANDREW HALCRO

District 12

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HB 272

SPONSOR STATEMENT

The federal government (HUD) has established a program offering tax credits to developers to build and maintain low and moderate income housing units. Developers receive tax credits in exchange for limiting rental prices to 30% of a tenant's income. These properties are restricted to individuals who earn less than 60% of median income and are targeted toward a population who previously did not have housing.

In 1998, the Municipality of Anchorage changed the way in which they assess these projects. Prior to 1998, the Municipality of Anchorage assessed low-income housing based on the capped rental rates. They now are assessing these properties at their estimated market value - the amount of rent these properties would receive if the rental rates were not deed-restricted.

This change in assessment has created a severe problem for the non-profit agencies and others who are developing these types of properties. Banks are now refusing to finance these properties because they are not financially viable under the market assessment approach.

Providing affordable housing to those otherwise priced out of the market is an important goal. The federal government is providing tax credits to encourage development of low-income housing to meet the need for basic housing for families. The Municipality of Anchorage has indicated their assessment practice is a function of state law. However, the approach taken by the Municipality of Anchorage has negated the federal incentive to develop low-income housing.

HB 272 would require local governments assess low-income housing at its rental value instead of its estimated market value. It is appropriate that the state law be changed to encourage the development of needed affordable housing for low-income families.