

ALASKA LEGISLATURE COMMITTEE FILES 1999-2000 8672

10042 SENATE • COMMUNITY & REGIONAL AFFAIRS •

Senator Tim Kelly

April 3, 2000

Page 2

Sec. 29.60.770: This is new in the draft and does not appear in the House Bill. It establishes an entitlement for the village public safety officer program.

Sec. 29.60.780: This appears as program sec. 29.60.770 in the House Bill.

Sec. 8. This is identical to sec. 9 of the House Bill. Sec. 8 of the House Bill does not appear in the draft because the revisor is directed to make this technical change.

Sec. 9. In the draft, subsection (a) of AS 37.06.030 is corrected. The House Bill contains this change in sec. 10 except that the spanned reference does not include AS 29.60.780.

Sec. 10. In the draft, subsection (b) of AS 37.06.030 is corrected in a separate bill section. The House Bill also includes a correction to subsection (c), but the draft directs the revisor of statutes to make that change.

Sec. 11. The amount used to calculate the municipal dividend is increased in the draft from \$125 to \$150 and is based on the number of permanent fund dividends paid during the preceding calendar year regardless of the years the dividends are for.

Sec. 12. Identical. The technical correction in sec. 13 of the House Bill is deleted from the draft because the revisor of statutes is directed to make the change.

Sec. 13. Identical, except that the House Bill repealer is found in sec. 14.

Sec. 14. The section reference is different in the draft because of additional material added to the program. In the House Bill this transition appears as sec. 15.

Sec. 15. A revisor's instruction has been added in the draft directing her to correct cross-references in three other statutes.

Lastly, the House bill contains an effective date that is deleted in the draft.

TBC:jdr
00-136.jdr

LEGAL SERVICES

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

(907) 465-3667 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 1, 2000

SUBJECT: Waiver of notice requirements for committee hearing (Uniform Rule 23(a))

TO: Senator Tim Kelly, Chair
Senate Community and Regional Affairs Committee

FROM: Tamara Brandt Cook
Director *TBC*

You have asked how a committee may hear a bill on Wednesday that is introduced on Monday or Tuesday of that same week. Uniform Rule 23(a) contains two entirely distinct requirements: (1) the preceding Thursday requirement ("Written notice of the time, place and subject matter of all meetings of standing, special, and joint committee during a week shall be provided by the person who chairs the committee to the chief clerk or secretary by 4:00 p.m. on the preceding Thursday."); (2) the five-day notice requirement ("The person who chairs the committee to which a bill or resolution is first referred shall provide to the chief clerk or secretary written notice of the time and place of the first public hearing on the bill or resolution at least five days before the hearing.")

While the House has consistently permitted waiver of the five-day notice requirement and not of the preceding Thursday requirement, the Senate has frequently permitted waiver of both these requirements upon motion by the committee chair. The following is typical sample language that has been used in the Senate as a motion to waive both the five-day notice and preceding Thursday requirements for a hearing on a bill:

I move and ask unanimous consent that the publication and five-day notice requirements under Uniform Rule 23(a) be waived so that the Community and Regional Affairs Committee may hear SB _____ at _____ a.m. on Wednesday, April 5.

TBC:glc
00-152.glc



Analysis of CS HB 137 (STA) Alaska Permanent Fund Corporation

*Based on February 2000 APFC Financial Projections
(\$ in millions)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TOTALS
Payout per CS HB 137	1,237	1,267	1,279	1,242	1,221	1,251	1,305	1,362	1,422	1,485	1,550	14,620
Municipal Dividend	72	73	73	74	75	76	77	78	78	79	80	835
Dividend Fund	1,165	1,195	1,206	1,167	1,146	1,175	1,228	1,284	1,343	1,405	1,470	13,785
Payout Status Quo (all Dividend)	1,165	1,195	1,207	1,170	1,150	1,183	1,239	1,298	1,361	1,428	1,497	13,893
Difference in annual payout	72	72	72	72	70	69	66	63	60	57	53	727
Retain for Inflation - CS HB 137	423	650	679	709	741	773	806	841	876	913	950	7,938
Retain for Inflation - Status Quo	423	650	679	709	741	773	806	841	876	913	950	7,938
Fund value in 2010 - CS HB 137											41,661	
Principal											30,185	
Earnings Reserve											11,477	
Fund value in 2010 - Status Quo											42,800	
Principal											30,182	
Earnings Reserve											12,618	
Per Person Dividend Status Quo	\$1,960.00	\$1,980.00	\$1,980.00	\$1,900.00	\$1,840.00	\$1,860.00	\$1,950.00	\$2,020.00	\$2,100.00	\$2,180.00	\$2,260.00	\$22,050.00
Per Person Dividend CS HB 137	\$1,960.00	\$1,980.00	\$1,980.00	\$1,890.00	\$1,840.00	\$1,860.00	\$1,930.00	\$2,000.00	\$2,070.00	\$2,140.00	\$2,220.00	\$21,670.00

projections represent only our best estimate of the median case rate of return; actual annual performance will vary with market volatility.
 Projections shown for the Dividend Fund and the Municipal Dividend are calculated and booked as payables at fiscal year end and actually paid out the following fiscal year.
 Differences due to rounding.

SB 304 - Proposed Public Safety Foundation Program

Municipality	Road Per Capita \$10.00	Road \$2,000 per mile	Ice Road \$500.00 per mile	Fire Dept. pop served \$20	EMS pop served \$20	Police pop served \$20	Health RS FY 00 existing	Total New PS Foundation Formula	FY00 Current Rev Shar.	Increase FY01 New
Akhiok	\$1,090	\$6,200	\$0	\$0	\$0	\$0	\$0	\$ 45,000	\$ 23,385	\$ 21,615
Akiak	\$3,160	\$0	\$0	\$0	\$0	\$6,320	\$1,792	\$ 45,000	\$ 32,840	\$ 12,160
Akutan	\$4,080	\$0	\$0	\$0	\$0	\$0	\$1,727	\$ 45,000	\$ 33,619	\$ 11,381
Alakanuk	\$6,710	\$8,000	\$11,250	\$13,420	\$0	\$13,420	\$1,791	\$ 79,591	\$ 44,495	\$ 35,096
Aleknagik	\$2,590	\$0	\$0	\$5,180	\$0	\$0	\$0	\$ 45,000	\$ 30,645	\$ 14,355
Aleutians E Boro	\$970	\$0	\$0	\$0	\$0	\$0	\$0	\$ 45,000	\$ 32,772	\$ 12,228
Allakaket	\$1,920	\$16,480	\$0	\$0	\$0	\$0	\$3,716	\$ 47,116	\$ 32,966	\$ 14,150
Ambler	\$3,150	\$16,720	\$15,000	\$6,300	\$0	\$6,300	\$1,857	\$ 74,327	\$ 37,349	\$ 36,978
Anaktuvuk Ps.	\$3,080	\$0	\$0	\$0	\$0	\$0	\$0	\$ 45,000	\$ 33,293	\$ 11,707
Anchorage	\$2,587,820	\$1,770,240	\$0	\$4,933,640	\$4,933,640	\$5,152,240	\$396,450	\$ 19,799,030	\$ 11,435,391	\$ 8,363,639
Anderson	\$5,240	\$19,600	\$0	\$10,480	\$10,480	\$0	\$3,716	\$ 74,516	\$ 39,992	\$ 34,524
Angoon	\$5,870	\$9,580	\$0	\$0	\$0	\$11,740	\$0	\$ 52,190	\$ 33,530	\$ 18,660
Aniak	\$5,760	\$35,520	\$22,500	\$11,520	\$11,520	\$0	\$2,452	\$ 114,272	\$ 45,082	\$ 69,190
Anvik	\$1,000	\$15,500	\$0	\$0	\$0	\$0	\$1,875	\$ 45,000	\$ 30,803	\$ 14,197
Atka	\$1,150	\$37,000	\$0	\$2,300	\$0	\$0	\$0	\$ 65,450	\$ 29,884	\$ 35,566
Atkasuk	\$2,590	\$0	\$0	\$0	\$0	\$0	\$0	\$ 45,000	\$ 42,623	\$ 2,377
Barrow	\$43,970	\$0	\$0	\$0	\$87,940	\$0	\$0	\$ 156,910	\$ 123,432	\$ 33,478
Bethel	\$54,630	\$33,500	\$41,150	\$109,260	\$109,260	\$109,260	\$64,487	\$ 546,547	\$ 318,776	\$ 227,771
Bettles	\$250	\$6,100	\$15,000	\$0	\$0	\$0	\$0	\$ 46,350	\$ 30,903	\$ 15,447
Brevig Mis.	\$2,740	\$4,000	\$0	\$5,480	\$0	\$5,480	\$1,858	\$ 45,000	\$ 33,343	\$ 11,657
Bristol Bay Boro	\$12,970	\$52,020	\$0	\$0	\$25,940	\$25,940	\$1,726	\$ 143,596	\$ 61,113	\$ 82,483
Buckland	\$4,080	\$5,000	\$22,250	\$0	\$0	\$8,160	\$1,875	\$ 66,365	\$ 39,272	\$ 27,093
Cheformak	\$4,230	\$0	\$0	\$0	\$0	\$8,460	\$0	\$ 45,000	\$ 34,682	\$ 10,318
Chevak	\$7,410	\$11,400	\$0	\$14,820	\$0	\$14,820	\$1,791	\$ 75,241	\$ 41,394	\$ 33,847
Chignik	\$1,210	\$4,820	\$0	\$2,420	\$0	\$0	\$1,727	\$ 45,000	\$ 28,665	\$ 16,335
Chuathbaluk	\$1,120	\$8,000	\$0	\$0	\$0	\$0	\$1,857	\$ 45,000	\$ 30,699	\$ 14,301
Clark's Point	\$630	\$0	\$0	\$0	\$0	\$0	\$0	\$ 45,000	\$ 26,783	\$ 18,217
Coffman Cove	\$2,550	\$145,480	\$0	\$5,100	\$5,100	\$0	\$0	\$ 183,230	\$ 35,756	\$ 147,474
Cold Bay	\$1,030	\$58,400	\$0	\$0	\$2,060	\$0	\$2,589	\$ 89,079	\$ 33,806	\$ 55,273
Cordova	\$25,710	\$25,800	\$0	\$51,420	\$51,420	\$51,420	\$54,498	\$ 285,268	\$ 203,319	\$ 81,949
Craig	\$21,450	\$36,320	\$0	\$48,060	\$48,060	\$42,900	\$2,669	\$ 224,459	\$ 78,224	\$ 146,235
Deering	\$1,560	\$9,300	\$28,000	\$0	\$0	\$0	\$1,856	\$ 65,716	\$ 31,187	\$ 34,529
Delta Junct	\$8,840	\$58,820	\$0	\$17,680	\$17,680	\$0	\$0	\$ 128,020	\$ 59,617	\$ 68,403
Denali Boro	\$13,400	\$0	\$0	\$26,800	\$26,800	\$0	\$0	\$ 92,000	\$ 60,542	\$ 31,458
Dillingham	\$23,320	\$43,500	\$0	\$46,640	\$46,640	\$46,640	\$9,063	\$ 240,803	\$ 113,556	\$ 127,247
Diomedes	\$1,760	\$0	\$0	\$0	\$0	\$3,520	\$0	\$ 45,000	\$ 30,855	\$ 14,145
Eagle	\$1,680	\$10,200	\$0	\$5,240	\$5,240	\$0	\$0	\$ 47,360	\$ 27,037	\$ 20,323
Eek	\$3,090	\$3,660	\$0	\$0	\$0	\$6,180	\$1,792	\$ 45,000	\$ 33,014	\$ 11,986

Why A Vote on the Municipal Dividend is not good for Alaskans

- ◆ The Municipal Dividend **does not change the amount of the Permanent Fund Dividend one penny** for at least the first three years (according to the PF Corporation), and is insignificant in the long term. The new tax relief Municipal Dividend **provides an additional dividend averaging \$150 of tax relief every year.**
- ◆ The long-term tax relief in the Municipal Dividend is a **strong defense against the Tax Cap. Next year is too late.** If the Tax Cap passes, the State's and Local Government **fiscal gap will increase by \$150 million** and the State will have to find another way to fund schools.
- ◆ **Alaskans may die** during the one-year delay that could be saved by the additional Village Public Safety Officers and better Emergency Medical Services equipment and training funded by increases in the Municipal Dividend.
- ◆ If the public decides it doesn't want to receive an additional dividend, the State has **three full years to repeal the new tax relief dividend before the PFD changes even one penny.**
- ◆ The Municipal Dividend reduces the State General Fund \$55 million that will **allow funding for critical education and other priorities this year.**
- ◆ The public did not demand a vote on the creation of the original PFD, and the Legislature has historically adopted bills to increase the PF, without a vote of the people. **The Municipal Dividend is a new dividend that increases overall direct financial benefit to Alaskans.**

7C-18

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CLERK'S OFFICE

APPROVED

Date: 4-18-00

Submitted by: Assemblymembers Abney,
Clementson, Fairclough, Kendall, Meyer,
Sullivan, Taylor, Tesche, Tremaine,
Von Gemmingen, and Wuerch
Prepared by: Assembly Office
For reading:

ANCHORAGE, ALASKA
AR NO. 2000-108

**A RESOLUTION OF THE ANCHORAGE MUNICIPAL ASSEMBLY SUPPORTING
SENATE BILL NO. 304, "RELATING TO STATE AID FOR MUNICIPALITIES IN THE
FORM OF MUNICIPAL DIVIDENDS FOR PLACEMENT IN A PUBLIC SAFETY
FOUNDATION ACCOUNT"**

WHEREAS, at the request of the Alaska Municipal League, the Senate Community and Regional Affairs Committee introduced SB 304 which would provide for a new dividend payment that would go to communities to help pay for police, fire, emergency medical services, roads, local contribution to schools, and municipal capital matching grants; and

WHEREAS, this dividend payment would be placed into a Public Safety Foundation account and distributed to local communities to help lower property taxes and assist both urban and rural areas in paying for critical education and public safety services; and

WHEREAS, passage of this bill will place municipal dividends within communities to assist in stabilizing, or reducing local taxes, and would be paid out of the excess earnings of the Permanent fund after full inflation proofing; and

WHEREAS, the implementation of a Municipal Dividend Program would replace the existing State revenue sharing programs.

NOW, THEREFORE, the Anchorage Assembly resolves:

Section 1: That this body supports and encourages passage of Senate Bill No. 304 which would provide State aid for municipalities in the form of Municipal Dividends for placement in a public safety foundation account.

Section 2: That immediately upon passage and approval, copies of this resolution be forwarded to the Governor and the Alaska State Legislature.

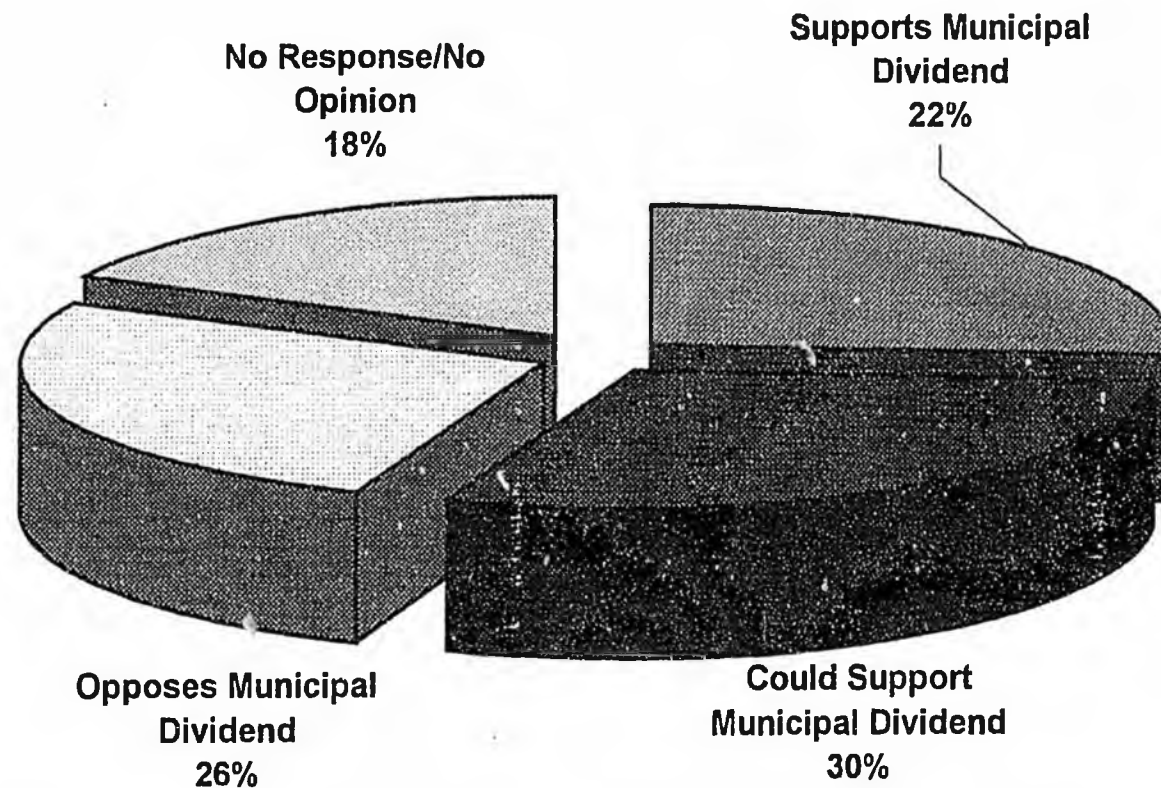
PASSED AND APPROVED by the Anchorage Municipal Assembly this ____ day
of _____, 2000.

Chair

ATTEST:

Municipal Clerk
EG./2000RESOLUTIONS/AR19

April 2000 Survey / Municipal Dividend



Representative James' Survey of her Legislative district (North Pole, Salcha, Healy, ect.)

Results: 2 out of 3 respondents with an opinion "Support" or "Could Support" the Municipal Dividend

The Municipal Dividend Question
that appeared in the April, 2000 edition of "Jeanette's Gazette"

April, 2000

Is 'Municipal Dividend' a Plan worth Considering?

I am very interested in a proposal made by Rep. Moses, and I'd like your opinion on it. Rep. Moses calls his proposal a "municipal dividend." Instead of using some of the surplus earnings of Permanent Fund for general fund spending, a portion of these funds would go to local governments — boroughs, cities, villages — based on a dollar amount for each dividend mailed out.

The money does not come out of the dividend - but from the surplus earnings left over after all dividends are paid. What I like about the plan is that it would provide funds for local needs as determined by local voters.

The result would be lower state spending (this dividend would replace municipal assistance and revenue sharing) while giving local government some surplus earnings to use as local voters see fit — paving roads, aiding schools or lowering property taxes, for example. Currently

Please turn to Page 6

Continued from Page 2

there is \$2.82 billion in surplus earnings — after dividends and inflation-proofing. At \$125 for each dividend, there would be approximately \$71 million available for local governments under this plan. This will not affect the current calculation of the dividend. Under this plan Anderson would get 55 percent more than what it got in revenue sharing last year (\$62,102). The Denali Borough would get a 30 percent increase (\$78,600). And North Pole would receive an 87 percent increase (\$136,595) while the Fairbanks North Star Borough would receive \$2.581 million, a 19-percent increase.

Please use the space on the enclosed survey form to share your thoughts on this plan with me.

INTERNET ADDRESS:
acoa@admin.state.ak.us

P.O. BOX 110209
JUNEAU, AK 99811-0209



(907) 465-3250 ph.
(907) 465-4716 fax

Alaska Commission on Aging

Resolution No. 00-05

In support of HB137/SB 304 – Municipal Dividend Program

Whereas HB 137/SB 304 establishes a Municipal Dividend Program that stabilizes and revitalizes state assistance to local governments for essential services such as police, fire protection, emergency medical services, road maintenance and education, and government operations; and

Whereas these essential services are necessary for Alaskans of *all* ages to live safe, healthy, and productive lives, and without these services Alaskans across the generations who are affected by disabilities and who now live independently in their communities are particularly vulnerable to the impacts of losing these essential services, and

Whereas SB 304/HB 137 assists *all* Alaskans by providing a second dividend to their community of residence for life, safety and other essential services based on the number of community residents enrolled in the Permanent Fund dividend,

Now therefore the Alaska Commission on Aging strongly endorses HB 137/SB 304 as an appropriate first step toward constructing a reasoned long term State financial plan that has, as its foundation, a direct commitment to the safety, health and well-being of all Alaskans.

Signed this 18th day of April 2000.

Marjorie Hays, Chair

HB

155

Alaska State Legislature



Committees
State Affairs Committee
Special Committee
on Fisheries
Special Committee
on Oil and Gas

Representative Hal Smalley
District 9

During Session:
Alaska State Capitol
Juneau, Alaska 99801-1182

During Interim:
145 Main St Lp. Ste. 221
Kenai, Alaska 99611

SPONSOR STATEMENT – HB 155

HB 155, "An act relating to municipal assembly forms of representation and apportionment," allows the municipal assemblies to adopt their reapportionment plan and take it to the voters after the state's plan has been approved and put in place. In other words, no later than the 1st general election that occurs after adoption of a final state redistricting plan.

Currently, AS.29.20.060 requires the assembly to determine whether its existing apportionment meets state standards no later than two months after the official report of the federal decennial census. If it is determined that the existing apportionment fails to meet the standards set forth in AS 29.20.060, the assembly must adopt an ordinance providing for reapportionment and present it to the voters within 6 months of its determination under AS 29.20.080. Because of this requirement, it is virtually impossible for the assembly to develop and adopt a plan with districts that follow state precinct lines since the new lines are unknown to them at the time that they must put their plan in place.

This bill will also allow the assembly to go back to the voters whenever a final state redistricting plan is changed as a result of federal or court action.

With the passage of this bill, municipalities will now have the tools necessary to adopt a plan with districts that follow state precinct lines. This will ultimately eliminate the confusion at the polling places and make life easier for the voters and the election workers.



LEGAL SERVICES



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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

March 25, 1999

SUBJECT: Sectional Summary (HB 155)

TO: Representative Harold Smalley
Attn: Katrina Matheny

FROM: Tamara Brandt Cook
Director *TBC*

Please note at the outset that this bill amends sections of law that are home rule limitations, that is, the changes made in this bill would apply to home rule as well as general law boroughs. (AS 29.10.200(11))

Sec. 1. Requires a borough assembly to propose and submit to voters one or more forms of assembly representation not later than the first regular election that occurs after adoption of a final state redistricting plan. Under Art. VI, sec. 10(a) of the state constitution the final state redistricting plan must be adopted no later than 90 days after the board has been appointed and the official reporting of the decennial census of the United States. Existing law requires the assembly to act not later than the first regular election held after the report of a federal decennial census.

Sec. 2. Like the change in sec. 1, this ties the date the assembly must determine whether the existing apportionment of the assembly meets legal standards to the date a final state redistricting plan is adopted rather than the date of the federal decennial census report itself.

Sec. 3. This permits the assembly to provide for a change in an existing apportionment of the assembly whenever a final state redistricting plan is changed as a result of federal or court action.

Sec. 4. This is primarily a technical amendment to accommodate the change made in sec. 3. If an ordinance providing for reapportionment has not been approved by the voters by the time limit, and if the current apportionment does not meet the standards established by law, the commissioner of community and regional affairs reapportions the assembly.

TBC:jdr:glc
99-158.jdr

FISCAL NOTE

Revision Date: _____ Dept. Affected: Community & Regional Affairs
 Title: An Act relating to municipal assembly forms of representation and apportionment. BRU: _____
 Sponsor: REPRESENTATIVES Smalley, Davis,... Component: _____
 Requestor: House CRA Committee COMPONENT SERIAL NO. _____

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0

REVENUE FUND SOURCE:						
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

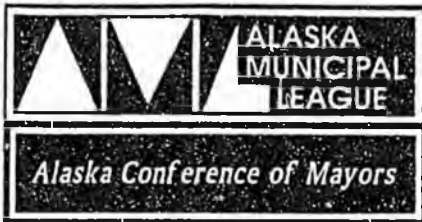
Estimate of current (FY99) impact \$ none

ANALYSIS: (Attach a separate page if necessary)

This legislation would have no fiscal impact on the department

Prepared by: Yvonne Chase, Acting Director Phone: 465-4709
 Division: Division of Administrative Services Date: 4/7/99
 Approved by Commissioner: *Mick...* Date: 4/7/99
 Agency: Community & Regional Affairs

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April 2, 1999

Representative Hal Smalley
State Capitol, Room 428
Juneau, AK 99801

Dear Representative Smalley:

On behalf of the members of the Alaska Municipal League, we are writing in support of HB 155, relating to municipal assembly forms or representation and apportionment. We appreciate your interest in trying to solve a problem for municipal governments. They will benefit greatly if they are able to adopt their reapportionment plan after the state has put theirs in place.

According to the 1999 AML Policy Statement adopted at the annual meeting in Fairbanks:

B. Elections and Reapportionment. The League supports legislation that would allow for reapportionment after state districts have been reapportioned.

Whatever we can do to eliminate the confusion of voters and encourage them to participate in elections will be better for the state.

Thank you for your continued support of Alaska's municipalities.

Sincerely,

Kevin C. Ritchie
Executive Director

cc: AML Education and Local Government Subcommittee



KENAI PENINSULA BOROUGH

144 N. BINKLEY • SOLDOTNA, ALASKA • 99669-7599
BUSINESS (907) 262-8608 FAX (907) 262-8615
EMAIL: assemblyclerk@borough.kenai.ak.us

LINDA MURPHY, CMC
BOROUGH CLERK

March 5, 1999

The Honorable Hal Smalley
Alaska House of Representatives
State Capitol, Room 428
Juneau, AK 99801-1182

Dear Representative Smalley:

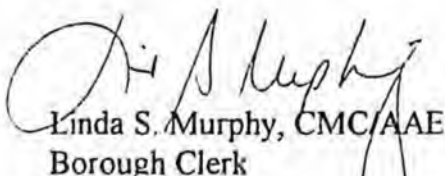
As we discussed in Juneau last month, I am requesting that you sponsor a bill to change the date when the borough assembly is required to present its reapportionment plan to the voters. Currently, AS 29.20.080 requires the assembly to determine whether its existing apportionment meets state standards **not later than two months after the official report of the federal decennial census**. If it is determined that the existing apportionment fails to meet the standards set forth in AS 29.20.060, the assembly must adopt an ordinance providing for reapportionment and **present it to the voters within 6 months of its determination under AS 29.20.080**.

As you know, this is some time prior to the date the state's reapportionment plan is completed and approved by the U. S. Department of Justice. It is, therefore, virtually impossible for the Kenai Peninsula Borough to develop and adopt a plan with districts that will follow state precinct lines since the new lines are unknown to us at the time we, by law, must put our plan in place. It would seem more appropriate to require the assembly to adopt its reapportionment plan and take it to the voters **after** the state's plan has been approved and put in place.

Any assistance you can provide to see that this issue is addressed this year will be very much appreciated. If you have any questions, please give me a call at your convenience.

Sincerely,

Kenai Peninsula Borough


Linda S. Murphy, CMC/AAE
Borough Clerk

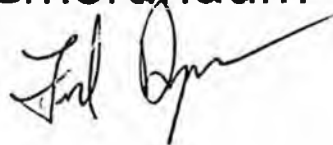
cc: Sandy Stout, Director, Division of Elections
Kevin Richie, Executive Director, Alaska Municipal League

HB

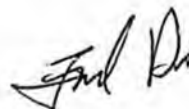
255

Memorandum

From: Representative Dyson



To: Senator Tim Kelly, Chair Senate Community and Regional Affairs



RE: HB 255 (CRA)

Please consider hearing House Bill 255(CRA) in Senate Community and Regional Affairs at the committee's earliest convenience. The bill received wide support on the House floor and is supported by the Division of Municipal and Regional Assistance. There is no known opposition to the bill.

Thanks.



Alaska State Legislature

- Interim (May-Dec) -
10928 Eagle River Rd., Suite 140
Eagle River, Alaska 99577
☎ (907) 694-6683
FAX (907) 694-1615

- Session (Jan-May) -
Alaska State Capitol
Juneau, Alaska 99801-1182
☎ (907) 465-2199
FAX (907) 465-4587

Toll free (800) 342-2199

REPRESENTATIVE FRED DYSON

Sponsor Statement for CS for House Bill 255 (CRA)

The Community and Regional Affairs Committee Substitute for House Bill 255 is intended to allow an existing second class city, or unincorporated area, to form a "home rule community" government structure under state law. The city or area would be allowed, through the charter system, to flexibly define its scope of governing powers and services to meet specific area needs.

For instance, a community charter may be drafted to provide for police or fire protection services while leaving transportation issues in the state purview. Under the provision of their charter, a local government may assume any of a wide range of powers, from alcohol and animal control to airport and public works management.

Currently, all home rule governments are required to meet strict financial auditing requirements, provide land-use, zoning and platting services and constitute their own school district. The proposed substitute for House Bill 255 removes these requirements* allowing smaller communities to share in the strength and flexibility of the charter system while avoiding some the thickest red tape. The goal: greater self-determination and a more locally relevant government structure.

A new charter-base home rule community may be the best option for unincorporated areas that would not be viable under the second class city model. Existing second class cities which are strained by general law requirements may find relief in a more narrowly crafted charter that allowed them to forego services beyond their capability while accepting responsibility for local needs that can be met with local resources.

Please feel free to contact my office with questions or concerns.

*Financial statements are required in lieu of a full audit. Land use, zoning and platting may be done, but are not required. A home rule community would not constitute a school district.

- E-mail -
Representative_Fred_Dyson
@Legis.state.ak.us

- Internet -
<http://www.akrepublicans.org>

Key Distinctions involved in HB 255

Second class cities may not currently adopt a charter. The only powers they have are one's granted specifically in statute.

A charter, will allow a small community (second class city or unincorporated area) to take on any powers not specifically prohibited in statute through a charter approved by a majority of affected voters.

Currently all Home Rule Cities are school districts

Under House Bill 255(CRA) Home Rule Communities could not be a school district. (Section 17)

Currently all Home Rule Cities are required to perform a full financial audit

Under HB 255 Home Rule Communities are only required to submit a financial statement. (Section 15)

Currently Home Rule Cities are required to zone and plat land.

Under HB 255 Home Rule Communities may zone and plat land, but are not required to do so. (Section 18)

Currently an unincorporated area must have 400 people to be eligible to adopt a charter.

Under HB 255 there is no population requirement to be met prior to adopting a charter. (the "(a)(1)" reference on line 27 of Page 2 is the 400 resident requirement)

HB 255

SOUTHEAST CONFERENCE

Working for strong economies, healthy communities, and a quality environment in Southeast Alaska

March 24, 2000

Representative Fred Dyson
Alaska State Legislature
Room 104, Capitol Bldg
Juneau, AK 99801-1182

Re: Support for HB 255

Dear Representative Dyson:

The Southeast Conference Board of Directors recently met and discussed HB 255 (CRA) "An Act relating to cities incorporated under state law that are home rule communities" and would like to offer their support to this important legislation.

Many of the smaller communities of Southeast Alaska would benefit from the ability to participate and offer services within the capability of their local resources. This has been a missing piece and your bill does an excellent job of filling the gap. HB 255 gives the smaller communities the option to pursue strategies that are meaningful to them and to tailor those services offered to local consensus.

The Southeast Conference appreciates the work you have done on this legislation in the House and supports passage in the Senate. A part of the mission statement of the Southeast Conference is to help develop strong economies and healthy communities. We feel that HB 255 will be a welcome addition to the building tools for our region.

Thank You.

Sincerely,



Frank Homan
Executive Director

HYDER COMMUNITY ASSOC. INC.

P. O. BOX 149
HYDER, ALASKA
99823
(907) 838-9148
FAX (907) 838-2714

IN JUNEAU REPLY TO:
John Pearson
HCA Economic Development Office
8216 Cedar Drive
Juneau, Ak 99801
Tel: 907-789-1402
Fax: 907-789-1403

Date: March 22, 2000

To: Members of the Alaska Legislature
From: Paul Larkin, Administrator, Hyder Community Association
Ref: HB 255 "Home Rule Community"



Dear Legislative Members:

With great interest and full support, the Hyder Community Association, representing approximately 130 residents of Hyder, Alaska has become very supportive of HB255 addressing a new "Home Rule Community" designation.

We view this legislation as a great opportunity for smaller communities such as ours, to go the extra step in assuming local responsibility and providing added services within the community.

Under HB 255 we would be able to assume any of a wide range of local powers from environmental controls to public works management. This bill would allow us to contract with state and local governments to provide certain services; contract with private organizations for services, apply for and receive federal funds; engage in funding measures such as bonds, establish a legally recognized forum to address local concerns; and have a platform to petition the state and federal government.

Much of our interest in this bill results from our desire to improve life and bring positive economic development to Hyder, while not being strapped with the costly complications found in the Incorporated First Class City designation process.

As an unorganized community, the Hyder Community Association presently provides fire and emergency services, operates a library, plows snow on the side streets, oversees the state harbor, float facility and local roads. In addition we operate a visitor center, museum, and manage various grants.

Today Hyder is in the process of establishing a new job creating economic base. With a historical five or six, year round jobs in the community, we currently have a major Alaska bottled water plant under construction, creating 41 new jobs in Hyder. This remarkable feat, with no assistance from the State of Alaska in our efforts to eliminate all unemployment and welfare in our community, brings the focus this needed legislation into realistic view.

I want to assure you of our full support for HB255 and trust you will recognize the value this bill to our small Alaska communities.

Please feel free to contact John Pearson in Juneau, on 789-1402 if there are any questions or a need for additional support for this important bill.

HB

272

ALASKA STATE LEGISLATURE

CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM

REPRESENTATIVE ANDREW HALCRO

District 12

STATE CAPITOL, SUITE 418
JUNEAU, AK 99801-1182
(907) 465-4939
FAX (907) 465-2418
1-800-465-4939

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

February 17, 2000

The Honorable Tim Kelly
Chairman
Senate Community and Regional Affairs Committee
State Capitol Building
Juneau, Alaska 99801

Dear Senator Kelly:

Attached is a copy of a resolution adopted by the Anchorage Assembly on February 15th. The resolution, which was approved on a 9 - 2 vote, urges the Alaska State Senate to pass HB 272, my legislation requiring assessors to consider deed restrictions when valuing federally qualified low-income housing.

I would appreciate your including a copy of this resolution in the committee packets for when you schedule HB 272 for consideration in the Senate Community and Regional Affairs Committee.

Sincerely yours,



Andrew Halcro

Enclosure

Submitted by: Assemblymember TESCHE
Prepared by: Assembly Office
For reading: FEBRUARY 15, 2000

ANCHORAGE, ALASKA
AR NO. 2000-41

A RESOLUTION OF THE ANCHORAGE MUNICIPAL ASSEMBLY SUPPORTING HB 272, "AN ACT RELATING TO THE TAX ASSESSMENT BY A HOME RULE OR GENERAL LAW MUNICIPALITY OF HOUSING THAT QUALIFIES FOR THE LOW-INCOME HOUSING CREDIT UNDER THE INTERNAL REVENUE CODE, AND PROVIDING FOR AN EFFECTIVE DATE."

WHEREAS, affordable housing in Anchorage which serves senior citizens, residents with special needs, and low income families is now at substantial risk of fiscal default because the Municipal Assessor no longer recognizes recorded deed covenants which limit rents received from tenants; and

WHEREAS, upon default, these properties will likely become tax-exempt public housing projects, thereby reducing annual property tax revenues by as much as \$486,000; and

WHEREAS, the state's largest investors have stated that investment in affordable housing in Anchorage will not resume without a consistent assessment policy that recognizes limits imposed on rents the properties collect, and a policy that does not treat federal low income housing tax credits used to build affordable housing as "real property"; and

WHEREAS, Federal officials have stated that the Assessor's practice, if not corrected by prompt action, could jeopardize continued receipt of more than \$3 million in Community Block Grants made available to the Municipality of Anchorage.

NOW, THEREFORE, the Anchorage Assembly hereby resolves:

Section 1: That the Assembly supports HB 272 and commends the Alaska State House of Representatives for its passage of HB 272 and urges the Alaska State Senate to enact this legislation without delay.

Section 2: This resolution shall take effect upon passage and approval.

PASSED AND APPROVED by the Anchorage Municipal Assembly this _____ day of _____, 2000.

Chair

ATTEST:

Municipal Clerk

ALASKA STATE LEGISLATURE

STATE CAPITOL, SUITE 418
JUNEAU, AK 99801-1182
(907) 465-4939
FAX (907) 465-2418
1-800-465-4939

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



CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM

REPRESENTATIVE ANDREW HALCRO

District 12

To: Sen. Tim Kelly
Chairman
Senate Community and Regional Affairs Committee

From: Rep. Andrew Halcro *AJ*

Re: HB 272, Low Income Housing

Date: February 8, 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 Senate Community and Regional Affairs Committee at your earliest convenience.

ALASKA STATE LEGISLATURE

CO-CHAIR
COMMUNITY AND REGIONAL AFFAIRS

VICE-CHAIR
LABOR AND COMMERCE
TRANSPORTATION

SPECIAL COMMITTEE
ECONOMIC DEVELOPMENT AND TOURISM



REPRESENTATIVE ANDREW HALCRO

District 12

STATE CAPITOL, SUITE 418
JUNEAU, AK 99801-1182
(907) 465-4939
FAX (907) 465-2418
1-800-465-4939

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.

HOUSE BILL NO. 272

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY REPRESENTATIVES HALCRO AND ROKEBERG, Croft, Porter, Kemplen, Hudson, Murkowski,
Kerttula, Smalley, Mulder

Introduced: 1/10/00

Referred: Community and Regional Affairs

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the tax assessment by a home rule or general law
2 municipality of housing that qualifies for the low-income housing credit under the
3 Internal Revenue Code; and providing for an effective date."

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

5 * Section 1. AS 29.45.110 is amended by adding a new subsection to read:

6 (d) When determining the full and true value of property that qualifies for a
7 low-income housing credit under 26 U.S.C. 42, the assessment of the value of the
8 property must be based on the actual income derived from the property and may not
9 be adjusted based on the amount of any federal income tax credit given for the
10 property. To secure an assessment under this subsection, an owner of property that
11 qualifies for the low-income housing credit shall apply to the assessor before May 15
12 of each year in which the assessment is desired. The property owner shall submit the
13 application on forms prescribed by the assessor and shall include information that may
14 reasonably be required to determine the entitlement of the applicant.

1 * Sec. 2. This Act takes effect January 1, 2001.

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

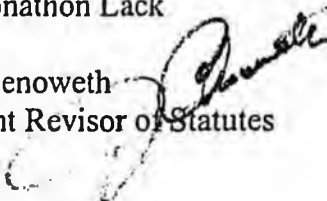
130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

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

INTERIM
716 WEST 4TH AVENUE SUITE 640
ANCHORAGE AK 99501
PHONE (907) 269-0117
FAX (907) 269-0117

SESSION
ALASKA STATE CAPITOL
JUNEAU AK 99801-1182
PHONE (907) 465-4948
FAX (907) 465-2040

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.

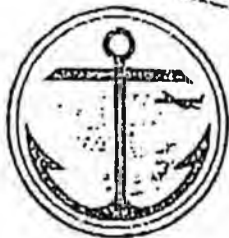
Many of these projects involve "very" low-income individuals and provide housing for people who were formerly "street" people. Apparently the Municipality's "housing plan" encourages these developments but its new taxing policy does not.

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
House District 11

Municipality of Anchorage



P.O. Box 137
Anchorage, Alaska 99519-0137
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
99 OCT 14 AM 9:15

Dear Norm:

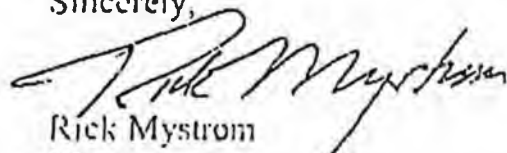
The assessment of property located in the Municipality is based on State and local law and the legal precedents available from throughout the nation as they apply to specific property types.

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.

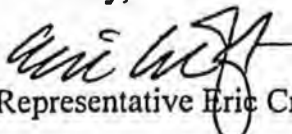
It is my understanding the Municipality of Anchorage has started a practice of assessing low income housing at market rents. I fear this will result in non-profit organizations discontinuing involvement with new affordable housing projects. Other states, especially Washington State, have done a good 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.

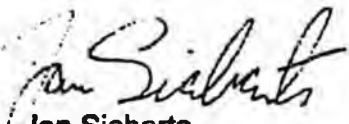
In all the projects NBA has been involved the general partner and primary beneficiary has been a non-profit organization. Two of the projects we are involved in, the Loussac Sogn SRO and the Adelaide SRO projects are projects for "very" low income (incomes not to exceed 30% of median). In some cases, 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.

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CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education & Early Development
State of Alaska

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

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




INTERIM:
716 WEST 4TH AVENUE, SUITE 640
ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
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.

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



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
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

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,

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



Extra's

*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.

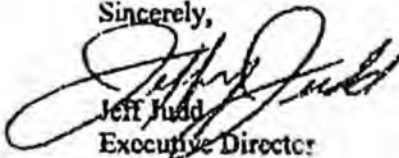
In return for these federal sources of funding, the owner must agree to legally binding long term deed restrictions (15 - 30 years) restricting the use of the property to lower income families at restricted rent levels. Generally, these restricted rent levels are below the "market" rents in the area. 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

P.O. 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 29.45.082)

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

KeyBank
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,

A handwritten signature in black ink, appearing to read "Michael J. Burns".

Michael J. Burns

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.

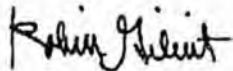
These rent ceilings are in place for 30 years from construction of the building; our oldest building has 24 years remaining on these ceilings. As a non-profit organization, even after the 30 years are up, we are obligated (and feel it our duty) to continue operating these buildings for low-income tenants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

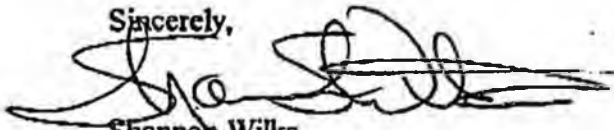
Subject: HB 272 - Low Income Housing Tax Assessments

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 be 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

Continued Care
2755 Tudor Rd.
907-7900

Senior Services
Day Breath
9210 Jupiter Dr.
346-7234

Housing Services
601 E. 34th Ave.
274-0352

Family Services
4015 Lake Otis Pkwy
561-6904

Adult Services
4020 Folker Street
563-1660

Emergency Services
23 hrs.
263-3200





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

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(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

Page 2

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

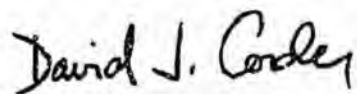
revenues go to Alaska. For out of state investors, they are contributing large upfront sums to receive tax credits over ten years and their investment funds effectively reduce the project's debt service and its interest, which in turn is passed on to tenants as lower rent. Lower rents mean larger amounts 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
T: 907.274.7443
F: 907.274.7407
E: kpb@kpbllp.com



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Sincerely,

Jeffrey A. Koonce, AIA

incorporated

425 C Street

Suite 800

Anchorage

Alaska 99501

907.274.7443

907.274.7407

kp@talassia.net



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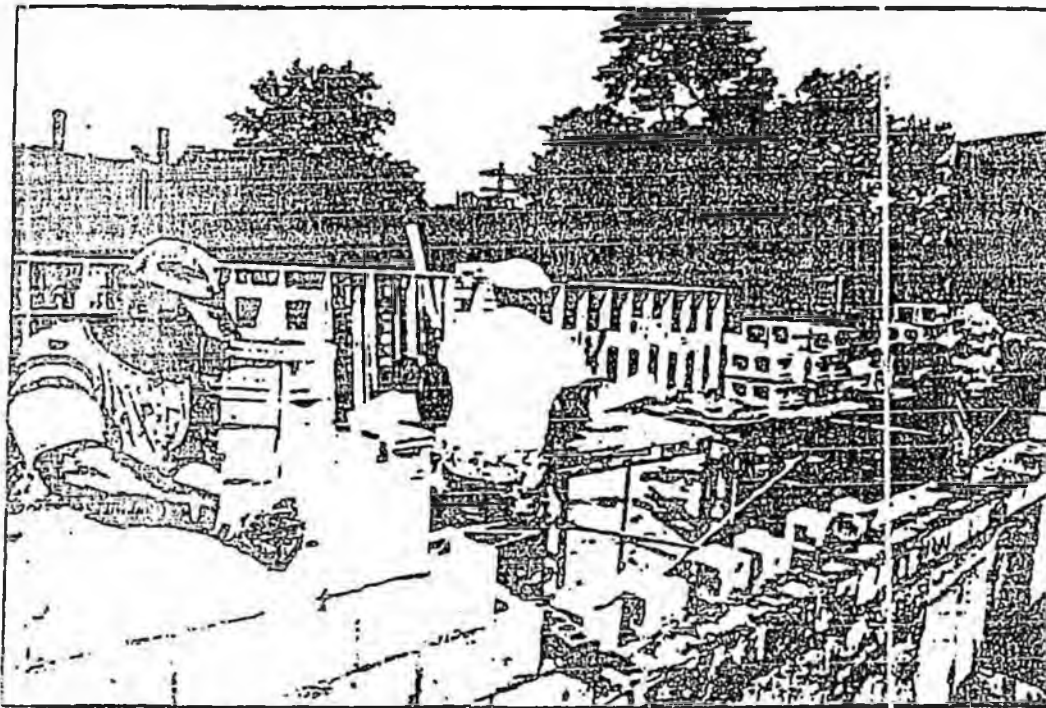

Desiree Ovsak
Director of Operations

incorporated
425 G Street
Suite 800
Anchorage
Alaska 99501
907.274.7403
907.274.7407
aput@alaska.net

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.

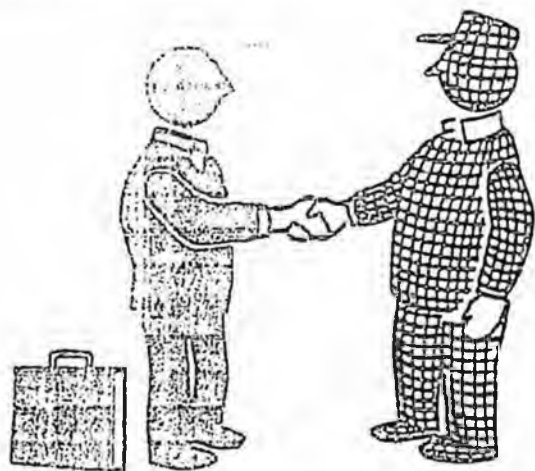
BY JANE BLUMENFELD

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

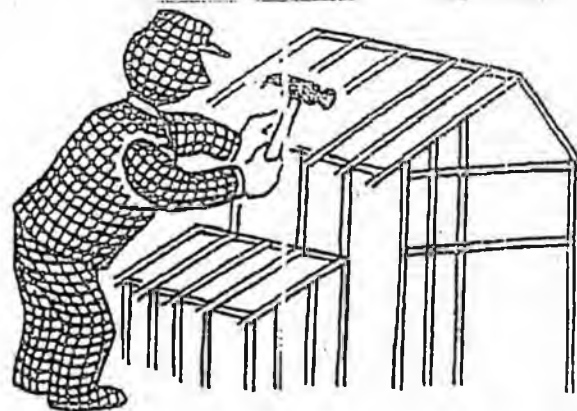
catalyst for private sector investment. The credit can be used for up to 50 percent (sometimes more) of the cost of building affordable housing. Despite their tax exempt status, non-profit developers can use this valuable program to raise capital from private investors through syndication for the construction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

Each state 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



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.

I. 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"

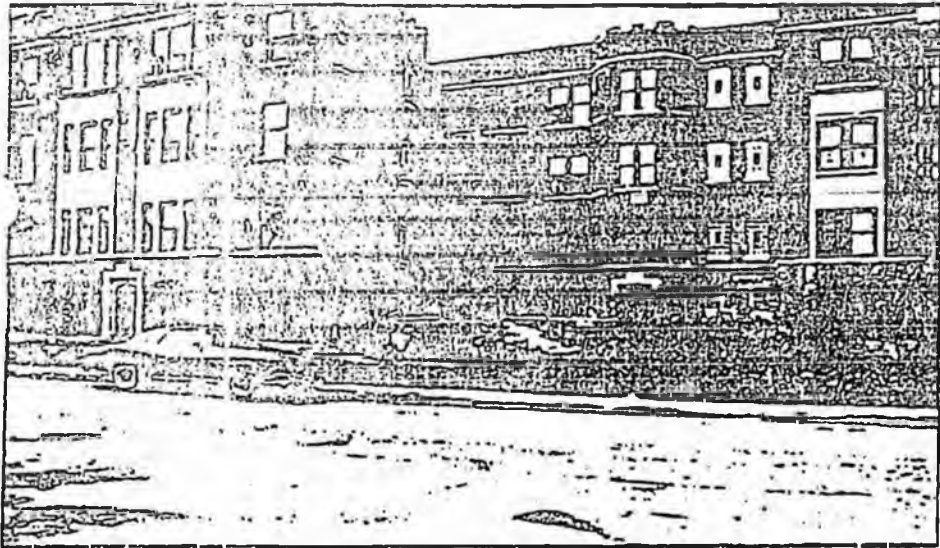
by Joseph Guggenheim,
Sixth Edition, May 1991

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NATIONAL EQUITY FUND

Substantial rehabilitation of this Chicago apartment building for low income rentals was financed by tax credit proceeds through the National Equity Fund.

Development Financing Proceeds (Loans, Subsidies, Investments):

1. Development costs except for General Partner fees
2. Budgeted reserves
3. Loan from the General Partner
4. Fees due to the General Partners

Operating Income:

1. Operating expenses and debt service except for General Partner fees and loans
2. Operating and replacement reserves
3. General Partner fees except incentive management fee
4. General Partner loans
5. General Partner incentive management fee
6. 1 percent to General Partner, 99 percent to Limited Partners

Proceeds of Capital Transactions:

1. Sale expenses and pay off of third party loans
2. General Partner loans
3. General Partner fees
4. Partners' tax liabilities
5. Return of partner's capital
6. 50 percent to General Partner, 50 percent to Limited Partner (or negotiated split)

Transfer of Interests:

Neither party may admit any new party without the other's prior written approval. Neither the limited partner's interest nor any beneficial interest therein may be transferred or pledged without the general partner's consent, which can be withheld arbitrarily.

II. How to Calculate a Potential Limited Partner Investment

Calculating the value of the limited partnership investment will determine how much cash the non-profit can generate from the sale of limited partnership interests. The value of the investment depends on the investor's own tax situation and the value

that the tax credits will provide them. The tax credit legislation is most favorable to corporations as investors, because it permits them to deduct depreciation and interest as business expenses, whereas individuals are not eligible for those deductions. In Table I is the calculation of the tax credit, which provides a guideline for determining whether the price is in the ballpark. Each investor will value the investment differently based on their own tax situation.

The amount of annual tax credit to be awarded is calculated as a percentage of the acquisition cost, and a different percentage of the construction costs added together times the percentage of units available for low income use. See Tax Credit Formulas for special restrictions.

The final figure equals the annual amount of tax credit that investors will receive for ten years.

Tax Credit Formulas

The *acquisition credit* is calculated as approximately 4%¹ of the eligible basis² attributable to building acquisition costs, with a minimum rehabilitation cost of \$3,000 per unit or 10% of the adjusted basis of the acquired building, whichever is greater. The 10% test does not apply to projects acquired from government entities, those properties use a 4% acquisition and a 4% rehab credit. Land costs are ineligible.

PLUS

The *construction credit* is the greater of:

- i. Approximately 9% (see footnote 1) of the portion of "eligible basis" attributable to construction or rehab costs which is not financed with federal funds (except CDBG).

OR

- ii. Approximately 4% of the total "eligible basis" attributable to construction or rehab costs if the project is financed with over 5/9ths federal funds. (except CDBG).

TIMES

The "*applicable fraction*" of total residential rental units or floor space which are rented to qualified low income tenants at affordable rents.

¹ The 4% and 9% are approximations of the actual percentages which are determined by the IRS on a monthly basis as a percentage of a federal index.

² Eligible basis is defined the same as depreciable basis which includes costs attributable to the existing building and improvements. For example, costs associated with construction financing are included in basis. Costs associated with the permanent financing are not included.

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 rolled 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.

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

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.

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

Not-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. ☐

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

June 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.

NATIONAL BANK OF ALASKA

INTEROFFICE MEMO

To: Jonathon Lack

Date: 1--19-2000

From: Jan Sieberts

Subject: HB 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 were 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 conservation easements when assessing value. A similar situation as restricted rents.

JOSEPH GUGGENHEIM
Housing Development Consultant
6600 Rarnoch 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.



First National Bank
of Anchorage

February 25, 2000

Senator Tim Kelly
By Fax -- 907-465-3750

Re: HB 272

Dear Senator:

On behalf of the Alaska Banker's Association, as President, and on behalf of The First National Bank of Anchorage, I am voicing our support for HB 272, and respectfully request your support of that proposed legislation as well.

We think that after careful consideration you will find that enactment of HB 272 is the only means to assure further development in Alaska of quality housing projects specifically designed and limited to use by low income individuals.

The low income housing projects in issue are the product of a federal government program that enables low income housing developers to sell "tax credits" to investors and use the proceeds together with money borrowed from Alaska Housing Finance Corporation to pay the cost of constructing the projects. In Alaska, the developer is most often a non-profit group seeking to provide specially designed low income housing to individuals who cannot find suitable substitute housing that meets their needs. As part of the arrangement with the government and AHFC, the developer agrees to limit the amount of rent that will be charged to tenants and confirm that tenants are the low income individuals the project is intended to serve. Rental paid by tenants is used to repay AHFC's loan with interest, the operating costs of the project, and real property taxes assessed by local government. The purchaser of the tax credits does not receive any portion of the rental. Instead, the purchaser receives the right to reduce the amount of federal income tax it would otherwise be required to pay by the amount of dollars of tax credit it purchased from the developer.

So far, low income housing developers in Anchorage who have taken advantage of the program have been able to keep the projects more or less filled; pay when due the installments they owe to AHFC; pay operating expenses; and pay property taxes based on

a valuation of the project according to the limited rental that may be charged; not the cost or replacement value of the project. But there isn't enough income from the projects to enable developers to pay any more, whether it be for mortgage loan interest, operating expenses, or additional real property taxes.

The virtue of these projects is that they can be developed with special facilities for the handicapped or others with special needs, with more amenities, and to a higher standard than would be possible if the Federal government did not offer up the tax credits for sale. The money used to build in the additional amenities and make the projects desirable additions to the neighborhoods where they are constructed wouldn't be available if developers had to borrow it. The maximum amount of rental that may be charged by agreement with AHFC isn't enough to enable the developer to pay additional mortgage debt, no less additional taxes.

Historically, the projects in Alaska have been assessed for real property tax purposes at a value commensurate with the amount of rental they can generate, not the cost of constructing them or their replacement cost. Recently, the Anchorage assessor has chosen to assess the projects at higher value than is warranted by the limited amount of rental they can generate. Moreover, the current administration has expressed the view that a return to the historical treatment of them would be contrary to State law. Therefore developers sought resolution of the matter through the legislature.

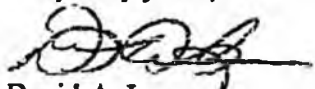
For the most part, local banks have purchased the tax credits offered for sale to help finance existing low income housing projects. On their behalf I observe that unless there is certainty by way of legislation like HB 272 that there will be no change from historical tax treatment of these projects, there will be no further investment by local banks in such projects. Making additional investments at below market rates of return is an investment local banks have been willing to make to do their part to bring about successful low income housing. Making such an investment without the prospect of any return is not one any will bear.

Exemption of such projects from taxation is the action that has been taken most recently by the legislatures of Washington, Hawaii, Montana and California. That's far more in assistance than developers have sought by way of HB 272.

HB 272, besides making it possible for existing projects to continue and new ones to be developed, has an additional benefit. By making the tax treatment of such projects the same throughout Alaska, developers statewide can compete for the limited amount of money and tax credits available for such projects on the basis of the merit and need for the project they propose, not the personal views of the current administration of the local government where the project may be located.

I'd be pleased to address the matter more fully in person in any forum you might choose. Moreover, I'd be pleased to arrange for you and anyone else you might choose to view existing projects and see what a valuable opportunity for Alaska communities will be lost if the historical tax treatment of these projects is not preserved by HB 272.

Very truly yours,



David A. Lawer
Senior Vice President & General Counsel

President, Alaska Bankers' Association



AHFC website
Download

LIHTC

AHFC Guidelines for Performing Cost Certifications For the
GOAL Program

1. AHFC will only accept cost certifications for carryover allocations or IRS Form #8609 issuances prepared by Certified Public Accountants or Tax Attorneys.
2. AHFC will only use those cost figures contained in the formal cost certification for estimates of basis for a carryover allocation, issuance of an IRS Form 8609 (LIHTC) or for the purpose of Grant Closeout processes (SCHDF, HOME). Development costs incurred but not included in a CPA or Tax Attorney cost certification will not be considered by AHFC. AHFC reserves the right to adjust the calculation of eligible basis for the LIHTC to reflect sources of financing that may not have been included in the cost certification or to achieve consistency with cost limitations included in the state allocation plan.
3. All sources of "soft" debt financing in the form of deferred developer fees, general partner loans or other non-HUD, non-USDA or non-AHFC financing must be reviewed by the party performing the cost certification to determine whether or not it constitutes a valid expense (meets IRS definition) to the owner submitting the cost certification. This is sometimes referred to as a "true debt" test. The cost certification narrative must contain a representation by the party performing the cost certification that these forms of financing are valid expenses and are not grants.
4. It is the sole responsibility of the sponsor/owner to insure that the information provided to AHFC by the party performing the certification is accurate and has been prepared in accordance with 26 U.S.C.S. 42 of the IRS Code, HUD or State of Alaska Regulations. AHFC will make allocations of low income housing credit and the completion of grant closeout processes based on the assurances of the certifying entity and the project owner
5. AHFC reserves the right to reject a cost certification, or the firm preparing it, if it does not meet the requirements for cost certifications established by AHFC, or if the preparing agency is known to have little or no experience with the low income housing tax credit program, real estate accounting or tax law.



1. AHFC will only allocate the amount of low income housing tax credit, HOME or SCHDF funds that are necessary to make a project financially feasible and viable, when considering all other sources of funding for the project. This means that the legal maximum amount of low income housing tax credit, HOME or SCHDF program funds, may not be the amount that is allocated to the project based on AHFC's analysis of the final cost certification.

7. For LIHTC projects there is little detail on what constitutes eligible basis. Here is a partial list of items that are generally excluded from calculating eligible basis: land and costs associated to the improvement of land, costs associated with obtaining permanent financing, costs related to the syndication or sale of the tax credits or organization of the partnership, federal grants, below market federal funding and historic tax credits.

There are state-imposed limits on eligible basis affecting fees paid to related parties. Any fee paid to a related party must be reduced from the total development cost before the maximum allowable fee is calculated and included in eligible basis. See the allocation plan for the GOAL Program for more detail on fee limitations.

Cost Certification Format:

Section One:

1. Name of project owner, owner address and owner EIN#.
2. The project name, project address and BINs of each building(s).
3. Limitations of the procedures used by the CPA or Tax Attorney to review invoices, expenses incurred, etc.
4. Summary of the procedures performed, documentation reviewed and findings made.

Section Two:

1. Detailed project cost summary using the attached "Project Development Cost Summary" form. The total development cost summary **MUST** disclose:
 - a. All project development costs, by category.
 - b. Contractor Profit and Overhead - if you bid a fixed price construction contract you must obtain a certification from the contractor as to the profit and overhead. There is a maximum limit of 10% of the Construction or Rehabilitation cost.
 - c. General Requirements/Conditions - There is a maximum limit of 10% of the Construction or Rehabilitation cost.
 - d. Developer Profit and Overhead - Profit and Overhead may not exceed 15% of the Total Development Cost for new construction projects. A lesser percentage is applicable for acquisition/rehabilitation.
 - e. Consultant costs - if you employ consultants for any activity associated with the development project the payments must be listed separately and the consultants must be identified. All identity of interests must be disclosed.
 - f. Any development expenses paid to any member of the development team or a related party ("identity of interest"). These fees must be subtracted from the total development cost before estimating the 15% maximum for developer fee and overhead.

Additional Requirements For Low Income Housing Tax Credit Projects:

- g. The estimate of eligible basis on a building by building basis. If the project is an acquisition and rehabilitation, the cost certification must list the eligible basis for the acquisition portion separately from the rehabilitation portion, for every building. If a carryover allocation is being requested, an estimate of "reasonably expected basis," as defined in 26 U.S.C. Section 42, on a building by building basis is also required.
- h. Identification of any "tainted" loan or grant funds that must be removed from eligible basis, i.e. federal grants or below market federal loans.
- i. The applicable fraction for the entire project, defined as the lesser of the percentage of residential rental units that are set-aside for families at or below 60% of the area median income, adjusted for family size or the ratio of the gross square footage of the set-aside units to the gross residential rental unit square footage in the property.

Additional Requirements For HOME or SCHDF Projects:

- j. The disposition of all HOME and SCHDF funds provided, including the budget items and dollar amounts spent on those budget items. You must use the Project Development Cost Summary for this purpose.
- k. A statement of all interest earned on grant funds advanced under this Agreement.

Section Three:

- 1. A schedule which identifies:
 - a. A listing of all of the sources of funding planned or obtained for the project, including cash, donated materials or labor, deferred loans, permanent or secondary financing, etc. For issuance of an IRS Form #8609 a representation by the CPA or Tax Attorney that all forms of debt meet the IRS definition of a "true debt instrument" (are not grants) is also required.
 - b. The amount of equity estimated to be received or obtained from the limited partner as a result of the sale of low-income housing tax credits (if any).
- 2. Preparer's signature, address, contact name, fax and phone number and E-Mail address.

PROJECT DEVELOPMENT COST SUMMARY FORM

PROJECT DEVELOPMENT COST DATA

ALL PROJECTS COSTS (INCLUDING UTILITY AND ROAD ACCESS COSTS) MUST BE STATED.

Item	Total Project Cost	Eligible LIHTC Basis (Acquisition)	Eligible LIHTC Basis (Rehab/New Constr)	Funded with HOME Funds	Funded with SCHDF Funds
Acquisition of Land & Buildings:					
Land	\$	\$	\$	\$	\$
Existing Building(-)	\$	\$	\$	\$	\$
Other:	\$	\$	\$	\$	\$
Subtotal-Acquisition of Land & Buildings	\$	\$	\$	\$	\$
Construction/Rehabilitation Costs:					
Demolition Costs	\$	\$	\$	\$	\$
New Building Costs	\$	\$	\$	\$	\$
Rehabilitation Costs	\$	\$	\$	\$	\$
Site Work	\$	\$	\$	\$	\$
Off-Site Improvements	\$	\$	\$	\$	\$
Utility Connections	\$	\$	\$	\$	\$
General Requirements (See Program Guide For Limits)	\$	\$	\$	\$	\$
Other:	\$	\$	\$	\$	\$
Contractor Overhead (See Program Guide For Limits)	\$	\$	\$	\$	\$
Contractor Fee (See Program Guide For Limits)	\$	\$	\$	\$	\$
Construction Contingency	\$	\$	\$	Not Eligible	Not Eligible
Subtotal-Construction/Rehabilitation Costs	\$	\$	\$	\$	\$
Construction Financing Costs:					
Construction Insurance	\$	\$	\$	\$	\$

Item	Total Project Cost	Eligible Basis (Acquisition)	Eligible Basis (Rehab/New Constr)	Funded with HOME Funds	Funded with SCHDF Funds
Construction Loan Interest (____% Avg Loan Amt \$____, Term ____ Mo's.)	\$	\$	\$	\$	\$
Construction Loan Origination Fee	\$	\$	\$	\$	\$
Property Taxes During Construction	\$	\$	\$	\$	\$
Other:	\$	\$	\$	\$	\$
Subtotal-Construction Financing Costs	\$	\$	\$	\$	\$
Permanent Loan Financing Costs:					
Credit Report	\$	\$	\$	\$	\$
Permanent Loan Origination Fee	\$	\$	\$	\$	\$
Title and Recording Fees	\$	\$	\$	\$	\$
Legal Fees	\$	\$	\$	\$	\$
Documentation Prep. Fees	\$	\$	\$	\$	\$
Escrow Closing Fee	\$	\$	\$	\$	\$
Escrow Prepaid Items (Insurance, taxes, Interest)	\$	\$	\$	Not Eligible	Not Eligible
Other:	\$	\$	\$	\$	\$
Subtotal-Permanent Loan Financing Costs	\$	\$	\$	\$	\$
Related Soft Costs – General:					
Architectural Design Fees	\$	\$	\$	\$	\$
Architectural Supervision (if applicable)	\$	\$	\$	\$	\$
Engineering Fees	\$	\$	\$	\$	\$
Engineering Supervision (if applicable)	\$	\$	\$	\$	\$
Survey	\$	\$	\$	\$	\$
Appraisal Fee(s)	\$	\$	\$	\$	\$
Environmental Report	\$	\$	\$	\$	\$