

Submitted by: Chair of the Assembly at the
Request of the Mayor
Prepared by: Real Estate & Property Appraisal
Departments
For reading: August 20, 2019

**ANCHORAGE, ALASKA
AO No. 2019-102**

1 **AN ORDINANCE OF THE ANCHORAGE MUNICIPAL ASSEMBLY AMENDING**
2 **ANCHORAGE MUNICIPAL CODE CHAPTER 12.15 TO ADD A SECTION TO**
3 **CREATE A PROPERTY TAX EXEMPTION FOR CERTAIN SUBDIVIDED**
4 **PROPERTY PRIOR TO SALE OR TRANSFER.**
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7 **WHEREAS**, subdividing a large parcel for development can increase a developer's
8 municipal tax obligations, because the total assessed value of the lots created by
9 the subdivision can exceed the assessed value of the original, unsubdivided parcel;

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11 **WHEREAS**, developers often carry the increased tax obligation for some time
12 period, before they can sell off individual lots;

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14 **WHEREAS**, Alaska Statute 29.45.050(w) provides that "[a] municipality may by
15 ordinance partially or wholly exempt from taxation all or a portion of the increase in
16 assessed value directly attributable to the subdivision of a single parcel of property
17 into three or more parcels and any improvements made to the property necessitated
18 by its subdivision";

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20 **WHEREAS**, state law further requires that such an exemption "may not provide for
21 an exemption that exceeds five years in duration";

22
23 **WHEREAS**, the City and Borough of Juneau adopted such an exemption in 2015
24 via CBJ Ordinance 2015-44(am), now codified as CBJ Code 69.10.022;

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26 **WHEREAS**, because the number of properties to which this ordinance would apply
27 is not expected to be numerous, this ordinance will not have significant public sector
28 economic effects;

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30 **WHEREAS**, the private-sector economic effects of this ordinance are difficult to
31 estimate with certainty, and therefore no summary of economic effects is provided;
32 now, therefore,

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34 **THE ANCHORAGE ASSEMBLY ORDAINS:**

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36 **Section 1.** Anchorage Municipal Code section 12.15.015 is hereby amended by
37 adding a new subsection as follows (*the remainder of the section is not affected and*
38 *therefore not set out*):

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40 **12.15.015 Real property exemptions.**
41 *** **

E. *Municipal exemptions.*
* * * * *

6. *Property tax exemption for certain subdivided property.*

The increase in assessed value directly attributable to the subdivision of a single parcel of property into three or more residentially zoned lots and any improvements made to the property necessitated by its subdivision shall be exempt from municipal property taxes, for a maximum of five years. This exemption is subject to the following conditions and restrictions:

a. Except where the assessor determines good cause exists to do otherwise, the assessed value exempted by operation of this subsection shall, for each lot or tract created by the subdivision, be calculated as follows:

current assessed value of the lot or tract multiplied by a term equal to one minus a fraction whose numerator is:
the last assessed value of the original parcel before subdivision
and whose denominator is
the sum of the first assessed values of all tracts and lots created by the subdivision
all as depicted below:

$$\text{Current Assessed Value of Lot or Tract} * \left(1 - \frac{\text{Last assessed value of original parcel before subdivision}}{\sum \text{First assessed value of each lot and tract after subdivision}}\right)$$

b. "Improvements made to the property necessitated by its subdivision" is limited to improvements required by title 21 of this code.

c. The exemption shall only apply to property for which a subdivision plat was recorded after the adoption of this ordinance.

d. A signed application on a form approved by the Municipal Assessor must be submitted prior to March 15 of the year the exemption is requested. The applicant must provide all relevant information and documents requested by the Municipal Assessor's Office.

e. The exemption shall terminate for each lot when:
i. the lot's ownership is transferred;
ii. a residential or commercial structure has been completed on the lot, and a certificate of occupancy or a conditional certificate of occupancy has been issued; or
iii. taxes have been exempted for the maximum five-year period.

Section 2. This ordinance shall be effective immediately upon passage and approval by the Assembly.

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PASSED AND APPROVED by the Anchorage Assembly this _____ day
of _____, 2019.

Chair of the Assembly

ATTEST:

Municipal Clerk

MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

AM No. 550-2019

Meeting Date: August 20, 2019

1 **From: MAYOR**

2
3 **Subject: AN ORDINANCE OF THE ANCHORAGE MUNICIPAL ASSEMBLY**
4 **AMENDING ANCHORAGE MUNICIPAL CODE CHAPTER 12.15**
5 **TO ADD A SECTION TO CREATE A PROPERTY TAX**
6 **EXEMPTION FOR CERTAIN SUBDIVIDED PROPERTY PRIOR TO**
7 **SALE OR TRANSFER.**
8

9 The purpose of this Ordinance is to authorize the property tax exemption for the
10 subdivision of a single parcel of property into three or more residentially zoned lots
11 and any improvements made to the property necessitated by its subdivision for a
12 maximum of five years.
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14 When developers subdivide a single parcel or tract into buildable lots through the
15 municipal platting process, the fair market value of the subdivided and improved
16 lots are assessed for municipal property taxes the following year after the plat is
17 recorded. The developer carries the increased tax obligation until the lot is sold to
18 a builder or homeowner, which may take several years if there are a large number
19 of lots in that subdivision. This could be discouraging developers from subdividing
20 entirely or may force platting smaller phases of fewer lots available for building.
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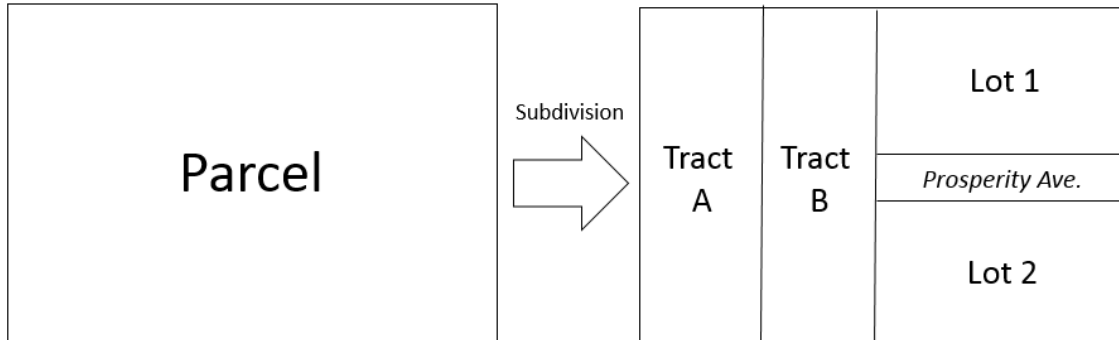
22 The homebuilding industry supported AS 29.45.050(w) which authorized
23 municipalities to partially or wholly exempt all or a portion of the increase in
24 assessed value directly attributable to the subdivision of a single parcel of property
25 into three or more parcels. The City and Borough of Juneau was the first
26 jurisdiction to adopt this exemption in 2015.
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28 This tax exemption is intended to incentivize and encourage residential real estate
29 development in the Municipality of Anchorage by providing a tax incentive that
30 protects a developer from paying all increased property taxes until a return on the
31 investment can be made.
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33 Authorizing state law permits the municipality to exempt from taxation the “increase
34 in assessed value directly attributable to the subdivision.” That amount could be
35 annually computed by requiring the municipal assessor to, each year: (1) assess
36 the actual value of a lot (or tract) created by subdivision; and (2) also compute a
37 hypothetical, counter-factual assessment for the lot, as though the original parcel
38 from which the lot (or tract) was created had never been subdivided. Doing so
39 would create significant administrative and practical burdens, however.
40 Administratively, each lot created by a subdivision receiving an exception under
41 the ordinance would have to be specially tracked reassessed each year; the
42 municipality’s computer system that records assessments could not easily

1 accommodate that approach. And, practically, the validity of an annually computed
 2 “hypothetical, counter-factual” assessment would necessarily involve some
 3 judgment calls that could draw objections or challenge.

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 5 To address those concerns, the proposed ordinance would determine the
 6 “increase in assessed value [of a lot or tract] directly attributable to the subdivision”
 7 as follows.
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 10 **Figure 1.0. Example Subdivision**

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 12 First, additional value created by subdivision. The total additional value
 13 created by virtue of the subdivision is considered to be the total value of the lots
 14 and tracts created by the subdivision minus the assessed value of the parcel prior
 15 to subdivision:

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$$\text{Additional Value Created by Subdivision} =$$

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$$\sum \text{First assessed value of each lot and tract after subdivision} - \text{Last assessed value of original parcel before subdivision}$$

 20 *(Formula 1)*

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 22 Example: Imagine the Parcel depicted above was assessed at \$40 million prior to
 23 subdivision. After subdivision, the individual tracts and lots are assessed (as of
 24 January 1 of the year following subdivision) as follows:

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	<u>First Assessed Value</u>
27 Tract A	= \$2 million
28 Tract B	= \$10 million
29 Lot 1	= \$15 million
30 Lot 2	= \$15 million
31 <u>Public dedication (“Prosperity Ave.”)</u>	<u>= N/a</u>
32 <i>Total</i>	\$42 million

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34 The “additional value created by the subdivision” is the sum of the above-listed
 35 values, or \$42 million, minus the assessed value of the parcel just prior to
 36 subdivision, or \$40 million, or \$2 million.

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 38 Second, percentage of value exempt. To facilitate calculations in the
 39 following years, a percentage of value exempted from taxation by the ordinance is
 40 then computed, as follows:

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$$\text{Percentage of Value Exempt} = \frac{\text{Additional Value Created by Subdivision}}{\sum \text{First assessed value of each lot and tract after subdivision}} \quad (\text{Formula 2})$$

Example: If the tracts and lots depicted in the subdivision above are, together, assessed to have value that is \$2 million more than the original parcel value of \$40 million, the “percentage of value exempt” by operation of the attached ordinance will be \$2 million / \$42 million = 4.76%.

Third, assessed value exempted. In the following years, while exemptions for the lots and tracts remain effective, the assessed value of each lot or tract created by the subdivision that is exempted from taxation by this ordinance would be computed for each lot and tract by multiplying the then-current assessment for the lot or parcel times the percentage of value exempt:

$$\text{Assessed Value of Lot or Tract Exempted from Taxation} = \text{Current Assessed Value of Lot or Tract} * \text{Percentage of Value Exempt} \quad (\text{Formula 3})$$

Example: Imagine three years have passed since the subdivision. No lot or tract has sold, and no structures have been completed on any lot. The assessor’s office determines that the tracts and lots have each appreciated and now have the following values:

	<u>Current Assessed Value</u>
Tract A	= \$3 million
Tract B	= \$11 million
Lot 1	= \$16 million
Lot 2	= \$16 million
<u>Total</u>	<u>\$46 million</u>

The assessed value of each tract and lot exempted from taxation would be as follows:

	<u>Assessed Value Exempted</u>
Tract A (\$3 million * 4.76%)	= \$142,857
Tract B (\$11 million * 4.76%)	= \$523,810
Lot 1 (\$16 million * 4.76%)	= \$761,904
Lot 2 (\$16 million * 4.76%)	= \$761,904
<u>Total</u>	<u>\$2.19 million</u>

Last, codified formula. The formula presented in the ordinance is derived as follows.

$$\text{Assessed Value of Lot or Tract Exempted from Taxation} = \text{Current Assessed Value of Lot or Tract} * \text{Percentage of Value Exempt} \quad (\text{Formula 3})$$

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$$\text{Percentage of Value Exempt} = \frac{\text{Additional Value Created by Subdivision}}{\sum \text{First assessed value of each lot and tract after subdivision}}$$

 2 (Formula 2)

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 4 Substituting (Formula 2) into (Formula 3):

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$$\text{Assessed Value of Lot or Tract Exempted From Taxation} = \text{Current Assessed Value of the Lot or Tract} * \frac{\text{Additional Value Created by Subdivision}}{\sum \text{First assessed value of each lot and tract after subdivision}}$$

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 9 (Formula 4)

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 11 Recall (Formula 1):

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$$\text{Additional Value Created by Subdivision} = \sum \text{First assessed value of each lot and tract after subdivision} - \text{Last assessed value of original parcel before subdivision}$$

 14
 15 (Formula 1)

16
 17 Substituting (Formula 1) into (Formula 4):

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$$\text{Assessed Value of Lot or Tract Exempted From Taxation} = \text{Current Assessed Value of the Lot or Tract} * \frac{(\sum \text{First assessed value of each lot and tract after subdivision} - \text{Last assessed value of original parcel before subdivision})}{\sum \text{First assessed value of each lot and tract after subdivision}}$$

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 22 (Formula 5)

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 25 Simplifying:

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$$\text{Assessed Value of Lot or Tract Exempted From Taxation} = \text{Current Assessed Value of Lot or Tract} * \left(1 - \frac{\text{Last assessed value of original parcel before subdivision}}{\sum \text{First assessed value of each lot and tract after subdivision}}\right)$$

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 30 (AMC 12.15.015E.6.a.)

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 32 **THE ADMINISTRATION RECOMMENDS APPROVAL.**

33
 34 Prepared by: Real Estate and Property Appraisal Departments
 35 Concur: Robin E. Ward, Real Estate Director
 36 Concur: Christopher M. Schutte, OECD Director
 37 Concur: Jack Gadamus, Municipal Assessor
 38 Concur: Lance Wilber, OMB Director
 39 Concur: Rebecca A. Windt Pearson, Municipal Attorney
 40 Concur: William D. Falsey, Municipal Manager
 41 Respectfully submitted: Ethan A. Berkowitz, Mayor