Universal Building Exemption

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What is a Universal Building Exemption? (UBE)

Exempt all improvements, push property tax onto land
What is a Universal Building Exemption? (UBE)

UBE is a like a bigger version of the downtown economic development exemption or attempted ADU exemption, everywhere, all at once
What is a Universal Building Exemption? (UBE)

It’s a better exemption that’s:

- Simpler
- More transparent
- Encourages growth in the urban core
- Delivers instant tax relief to the majority of citizens
Anchorage Has Room To Grow

Vacant and underutilized land is stifling the construction of more housing, and contributing to sky-high cost of living
Why a UBE?

Removing the tax on improvements stops you from punishing the activity that Anchorage needs - more housing
Why a UBE?

Pushing the tax on to vacant land instills a sense of urgency in speculators that they need to develop - build or get off the lot!

Good compliment to SB 77, anti-blight bill; other pro-housing reforms adopted by the muni.
UBE Impacts - Short Term

- NONE
UBE Impacts - Short Term

- JUST KIDDING

- But that’s (mostly) the goal!
UBE Impacts - Short Term

- This is flexible
- This is customizable
- Can be done on a sliding scale
UBE Impacts - Short Term Winners and Losers

Who wins?

Homeowners

Businesses

Vast majority of taxpayers save money or break even
UBE Impacts - Short Term Winners and Losers

Who loses?

Parking lots
Speculators
Owners of vacant/underdeveloped land in HIGH VALUE locations
UBE Impacts - Short Term Winners and Losers

Details

Revenue neutral

Simpler to administer

Keeps exemptions on Churches, Parks, Conservation land, etc.
Modeling the changes

Preliminary back-of-envelope modeling:

- 25% tax savings for improved residential
- No tax impact to improved commercial
- Details of implementation matter
UBE Impacts - Long Term

Denser, more walkable, more affordable, more vibrant downtown
UBE Impacts - Long Term

Lower housing costs + more housing downtown

Takes market pressure off other areas of the city, Eagle River, even Mat-Su

Also benefits folks who choose a more suburban/rural lifestyle
Next Steps

If interest, work on details of implementation

We'll do more detailed modeling answering all your questions from today
Questions?
Thank you!

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Appendix
Where has it been tried?

Pittsburgh / Pennsylvania

- increased construction and density
- Yang 2014: 8.3% increase in construction w/ a modest UBE

Detroit currently looking into it

(State of Michigan is being slow to allow it)
Opportunities - Reduce Sticker Shock

Residents know (think they know) what their house is worth, but huge increases in the market have led to taxpayer unrest.

Taxing on this basis puts the focus on the tax bill rather than total assessed property value.
Opportunities - Easier exemption administration

Existing exemptions are complicated and unfair

Building exemption is simple and equitable
Legality of UBE

AS 29.45.050(m), economic development exemption, is almost infinitely flexible now thanks to 2022 changes.

Just need to say that this policy is “… intended to result in an outcome that causes an increase in, or avoids a decrease of, economic activity, gross domestic product, or the tax base.” AS 29.71.800(9)
Implementation Challenges - 30 Mill Limit

- Exempting ~75% of your tax base means roughly quadrupling the mill rate on the remaining 25% - say 70 mills
- State law has a cap of 30 mills in AS 29.45.090
Options - 30 Mill Limit

- Arguable that 30 mill limit in state law CURRENTLY is only in reference to the potential tax base, so it would be 3% of land and improvements, another revenue cap.
  - This might be something to get an opinion on from an attorney
Options - 30 Mill Limit

- Change state law - could turn 30 mill limit into 30 mills of the Full Value Determination from prior year. Essentially turns mill limit into a revenue limit, and since this is revenue-neutral, no new issues.
  - Less controversial - argument is allow cities the flexibility to be aggressive with Economic Development Exemption
- Don’t change state law - tax land at 30 mills, reduce millage on improvements to revenue-neutral level
  - Might see less impact from this, but still would be effective
Implementation Details

- This likely would be a replacement for the Residential Exemption
  - Taking 40% or $75,000 off a lot value would exempt almost the whole thing - astronomical mill rates on remaining value, taxpayer unfairness (many eligible folks don’t currently apply for the exemption)
- Under split mill rate solution, what to do with SC/DV exemption?
  - Take $150,000 off land first, improvement first, or pro-rata
  - Pro-rata seems most fair and less likely to result in a legal challenge
**Implementation Details**

- AS 29.45.050(m) “...an ordinance adopted under this subsection must include specific eligibility requirements and require a written application for each exemption or deferral.”
  - Probably don’t want to require every lot to apply; this would result in unfairness to those who don’t.