

Submitted by: ASSEMBLY CHAIR COFFEY
ASSEMBLY MEMBER TESCHE

Prepared by: Dept. of Law
For reading: July 24, 2007

CLERK'S OFFICE

APPROVED

Date:

7-24-07

ANCHORAGE, ALASKA

AR No. 2007-164 (S)

1 A RESOLUTION OF THE ANCHORAGE MUNICIPAL ASSEMBLY SCHEDULING A
2 PUBLIC HEARING ON KAPP, LLC'S APPLICATION FOR DETERIORATED
3 PROPERTY TAX EXEMPTION FOR REDEVELOPMENT OF THE KNIK ARM POWER
4 PLANT PURSUANT TO ANCHORAGE MUNICIPAL CODE CHAPTER 12.35.
5

6
7 WHEREAS, the Administration and the Chief Fiscal Officer reviewed an application for
8 deteriorated property tax exemption for redevelopment of the Knik Arm Power Plant
9 submitted by KAPP, LLC under Anchorage Municipal Code chapter 12.35; and
10

11 WHEREAS, the Administration and the Chief Fiscal Officer decline to forward a
12 recommendation on the application to the assembly; and
13

14 WHEREAS, the applicant may, and requested, pursuant to section 12.35.010C., it's
15 application, attached as Exhibit A, be presented directly to the Assembly for consideration and
16 scheduled for public hearing; now, therefore,
17

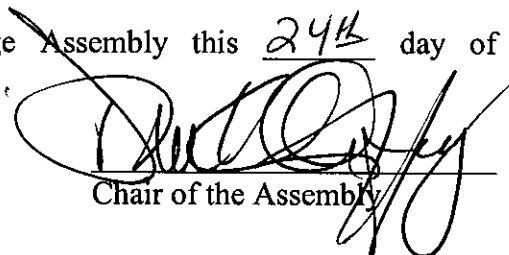
18 THE ANCHORAGE ASSEMBLY RESOLVES:
19

20 **Section 1.** The public hearing on KAPP, Inc.'s application for deteriorated property tax
21 exemption is scheduled for July 24, 2007. However, no Assembly action shall be taken unless
22 and until an Assembly Member proposes, by separate resolution, a specific exemption and/or
23 deferment in response to KAPP's application. Upon submission, a new public hearing shall be
24 set and appropriate action taken on the merits of the proposed exemption and/or deferment.
25

26 **Section 2.** All other provisions in AR 2007-164, including references to appeal timelines,
27 briefing procedures, and *ex parte* restrictions on Assembly contact with the applicant, are
28 hereby found inapplicable to this application process and rescinded in their entirety.
29

30 **Section 3.** This resolution shall be effective immediately upon passage and approval by the
31 Assembly.
32

33 PASSED AND APPROVED by the Anchorage Assembly this 24th day of
34 July, 2007.
35


Chair of the Assembly

36
37
38 ATTEST:

39 

40 Municipal Clerk

41 G:\mat\open matters\Assembly General\AR 2007-164 (S).DOC
42

MOA Tax Incentive Application

(KAPP LLC)

Amount and duration of the exemption/deferral requested:

We are applying for a 99% 10 year tax exemption followed by a five year tax deferral for a total of 15 years. The amount and duration of the exemption we are applying for is for partial MOA real property taxes due for 10 years beginning upon January 1, of the year after project completion. The deferral is 100% for five years with the deferred tax due upon the sale of the property.

Legal Description of Property:

A parcel of land in the Alaska Railroad Anchorage Terminal Reserve in the Anchorage Recording District, Third Judicial district, State of Alaska, in Sections 7 and 18, Township 13 North, Range 3 West, Seward Meridian, more specifically described as Parcel A (Power Plant Site) Parcel B (Limited Use Area) and Parcel C (Whitney Road), see Attachment 1.

Type of Business in which property is to be used:

Our intended use is to build a complete a fully functional environmentally friendly gas fired combined-cycle heat and power plant.

Demonstration that the Property Meets the Requirements of this Chapter:

The Knik Arm Power Plant was deemed a deteriorated property by ordinance No. 99-84(S).

Evidence that an Exemption, Deferral or Renewal is Necessary to:

- 1. The long term viability of the business operation after expiration of the tax incentive(s); or the economic feasibility of initiating an operation, program or project with a reasonable likelihood of long-term economic viability; and**
- 2. The proposed business operation or program or project will create additional employment for the community; and**
- 3. Promote or improve the economic development of the Municipality.**

The long term economic viability of the project will be ensured in the early years through the tax exemption which will facilitate and offset costs of operating the facility while at the same allowing expansion of the heat distribution infrastructure.

In the beginning, the facility will produce more available energy than the distribution infrastructure is able to deliver. There is more potential for additional revenue when the distribution infrastructure is expanded. Once this expansion is in place the energy demand will outgrow the capacity of the energy produced.

Through time we will be able to expand the heat distribution infrastructure so that by the time the tax exemption expires the expanded distribution system and growth of the market will allow increased revenues which will provide a means to pay the taxes after the exemption is expired and continue to have a growing margin and profit on the increased sales.

The question of economic viability initially is insured by a fixed gas price with escalators, and contracts for the electric energy wholesales to Chugach Electric, and electric and thermal energy sales to the Alaska Rail Road, as well as retail sales to affiliated facilities.

Please refer to the attached pro-forma which shows a debt service ratio of 1.14 in the early years which is marginally viable. With a contract for the energy sales initially and with the prospects of expanding thermal sales through expanding the thermal distribution system through time the restoration goals of the power plant will be a profitable venture from the beginning.

The purpose of this tax exemption request is to "jump-start" redevelopment of this deteriorated zone. The property as described by ordinance AO 99-84(s) as a deteriorated zone has in recent years produced \$9,070 per year in property taxes to the Municipality of Anchorage. Without this tax exemption and deferral package we could expect that this trend will continue, without proactive steps by the Municipality to facilitate redevelopment. If the tax exemption and deferral is extended to this project, we are planning to revitalize the power plant and provide district heat to downtown Anchorage buildings which will save them an average of 15% on their heating costs, and utilize the waste heat to heat downtown sidewalks.

Utilizing the Mill rate of 15.3, which has been applied for this area of downtown, with an average assessed value for a fully functional power plant of \$25,000,000 we can conclude the first year taxes that are collected will be roughly \$498,000.

	Revenue without MOA incentives	Revenue with MOA incentives
2007 to 2016 (10 year exemption).....	\$ 90,700.	\$ 0
2017 to 2121 (5 year deferral).....	\$ 45,350.	\$ 2,490,000. (Deferred)
2022.....	\$ 9,070.	\$ 498,000.
2023.....	\$ 9,070.	\$ 498,000.
2024.....	\$ 9,070.	\$ 498,000.
2025.....	\$ 9,070.	\$ 498,000.
2026.....	\$ 9,070.	\$ 498,000.
Totals.....	\$ 181,400.	\$ 4,980,000.

As you can see above property taxes that are collected after the exemption and deferral period will produce more revenue in the first year than the revenue that would have been collected in the entire 15 year period if the exemption is never established. Over a 20 year cycle the future value of this exemption and deferral is \$4,798,600.

Renovating the Knik Arm Power Plant is not an economically feasible project without deferrals and exemptions as you can see below the difference of the loan amount and the costs to renovate are 5.6 Million. Pertinent to this calculation we are offering the following assumptions:

Cost to renovate	\$27,000,000.
Estimate of value, "As Renovated"	\$32,600,000
Approximate Bond Proceeds for renovation.....	\$27,000,000
Equity requirement for Loan	\$5,400,000
Present Tax Rate.....	\$15.03 per 1,000 of Assessed Value
Estimated Annual Tax after Renovation.....	\$498,000 Annually
Maximum Tax Obligation Years 1-10.....	\$0.00
Net Annual Tax Abatement.....	\$498,000 Annually
Annual Tax Deferral Years 10-15	\$498,000

The present value of the net tax abatement discounted at a safe rate of 5% is \$3,845,423. Since we are considering the present worth of this income stream, also at a safe rate of 5%, this amount received from years 10 to 15 must be discounted to present worth at the 5% rate. This results in the relatively small value estimate of \$2,156,079 for the tax deferral. This amount is highly speculative since if the property were sold at year ten this amount of projected savings would not exist.

Thus the total present worth of the maximum tax savings is: 6,001,502.

The Knik Arm Power Plant has been out of operation for many years, during which time it has been a severe blight on the downtown/Ship Creek area. This towering edifice is a blight in the center of the Ship Creek business district and renovating it is a critical step in furthering the revitalization of the Ship Creek area. A step that will lead to increased foot traffic, commerce, future development and revitalization of the area.

Furthermore, the cost of bringing the plant back into operation is onerous. A tax exemption is necessary to make the required renovation of this facility feasible. Clearly, the revitalization of a blighted facility and investment in the development of a crucial downtown property outweighs any tax exemption provided.

The addition of commercial and retail space will significantly increase commerce and traffic in the Ship Creek area, decrease crime and vagrancy, clearly resulting in measurable public benefit to the larger community.

In conclusion, clearly this project will provide public benefit that far outweighs the cost of the exemption/deferral requested.

Legal Description Attachment 1

LEGAL DESCRIPTION

A parcel of land in the Alaska Railroad Anchorage Terminal Reserve in the Anchorage Recording District, Third Judicial District, State of Alaska, in Sections 7 and 18, Township 13 North, Range 3 West, Seward Meridian, and more specifically described as follows:

From the $\frac{1}{4}$ corner common to Sections 7 & 18, T 13 N, R 3 W, Seward Meridian, Alaska; thence N 56° 42' 30" E, 410.53 feet to Corner No. 1 and the True Point of Beginning; thence N 77° 23' 30" E, 752.07 feet to Corner No. 2; thence N 83° 57' 44" E, 349.48 feet to Corner No. 3; thence S 7° 08' 30" E, 180.16 feet to Corner No. 4; thence N 82° 51' 30" E, 21.75 feet to Corner No. 5; thence S 6° 03' E, 231 feet to a point; thence N 83° 00' 30" E, 58.25 feet to a point; thence S 6° 27' 08" E, 296.86 feet to Corner No. 6; thence S 83° 59' 30" W, 963.26 feet to Corner No. 7; thence N 86° 44' W, 600.86 feet to Corner No. 8; thence N 12° 33' W, 238.11 feet to Corner No. 9; thence N 75° 23' E, 220.45 feet to Corner No. 10; thence N 81° 03' 30" E, 210.80 feet to Corner No. 11; thence N 12° 36' 30" W, 244.36 feet to Corner No. 1 and the True Point of Beginning. Containing 879,899 square feet or 20.20 acres, more or less.

Parcel A (power plant site)

From the $\frac{1}{4}$ corner common to Section 7 & 18, T 13 N, R 3 W, Seward Meridian, Alaska; thence N 56° 42' 30" E, 410.53 feet to Corner No. 1 and the True Point of Beginning; thence N 77° 23' 30" E, 752.07 feet to Corner No. 2; thence N 83° 57' 44" E, 349.48 feet to Corner No. 3; thence S 7° 08' 30" E, 174.32 feet to Corner No. 4 and the north right-of-way of Whitney Road; thence S 83° 00' W, 308.47 feet along the north right-of-way of Whitney Road to a point; thence S 77° 23' 30" W, 776.06 feet to a point on the north right-of-way of Whitney Road; thence N 12° 36' 30" W, 184.36 feet to the True Point of Beginning. Containing 199,462 square feet or 4.579 acres, more or less.

Parcel B (limited use area)

From the $\frac{1}{4}$ corner common to Sections 7 & 18, T 13 N, R 3 W, Seward Meridian, Alaska; thence N $56^{\circ} 42' 30''$ E, 410.53 feet to Corner No. 1; thence S $12^{\circ} 36' 30''$ W, 244.36 feet to Corner No. 11 and the True Point of Beginning; thence N $77^{\circ} 23' 30''$ E, 773.12 feet to a point on the south right-of-way of Whitney Road; thence N $83^{\circ} 00'$ E, 326.39 feet along the south right-of-way to a point; thence S $06^{\circ} 03'$ E, 176.78 feet; thence N $83^{\circ} 00' 30''$ E, 58.25 feet to a point; thence S $06^{\circ} 27' 08''$ E, 296.86 feet to Corner No. 6; thence S $83^{\circ} 59' 30''$ W, 963.26 feet to Corner No. 7; thence N $86^{\circ} 44'$ W, 600.86 feet to Corner no. 8; thence N $12^{\circ} 33'$ W, 238.11 feet to Corner No. 9; thence N $75^{\circ} 23'$ E, 220.45 feet to Corner No. 10; thence N $81^{\circ} 03'$ E, 210.00 feet to Corner No. 11 and the True Point of Beginning; excluding therefrom an un-surveyed portion of the south right-of-way of Whitney Road in the northwest corner of the foregoing described property containing approximately 2,547 square feet, which is added to the right-of-way described as Parcel C below. Containing 611,854 square feet or 14.04 acres, more or less.

Parcel C (Whitney Road)

From the $\frac{1}{4}$ corner common to Sections 7 & 18, T 13 N, R 3 W, Seward Meridian, Alaska; thence N $56^{\circ} 42' 30''$ E, 410.53 feet to Corner No. 1; thence S $12^{\circ} 36'$ E, 244.36 feet to Corner No. 11 and the True Point of Beginning; thence N $77^{\circ} 23' 30''$ E, 773.12 feet along the south right-of-way of Whitney Road; thence N $83^{\circ} 00'$ E, 326.39 feet to a point; thence N $06^{\circ} 03'$ W, 54.22 feet to Corner No. 5; thence S $82^{\circ} 51' 30''$ W, 21.75 feet to Corner No. 4; thence N $07^{\circ} 08' 30''$ W, 5.84 feet to a point on the north right-of-way of Whitney Road; thence S $83^{\circ} 00'$ W, 308.47 feet to a point along the north right-of-way of Whitney Road; thence S $77^{\circ} 23' 30''$ W, 776.06 feet to a point; thence S $12^{\circ} 36' 30''$ E, 60.00 feet to the Corner No. 11 and the True Point of Beginning. Parcel C is bordered on the north by Parcel A and on the south by Parcel B and is 60.00 feet in width. Parcel C also includes an un-surveyed portion of the south right-of-way of Whitney Road in the northwest corner of Parcel B containing 2,547 square feet. Containing 68,583 square feet or 1.57 acres, more or less.