

MUNICIPALITY OF ANCHORAGE

ASSEMBLY MEMORANDUM

No. AM 55-2022

Meeting Date: January 25,
2022

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 EXEMPTION**
6 **FOR CERTAIN ACCESSORY DWELLING UNITS (ADUs).**
7

8 The proposed ordinance authorizes a property tax exemption for the construction
9 of an Accessory Dwelling Unit (ADU) for a maximum of ten (10) years.
10

11 When a property owner constructs an ADU, the total assessed value generally
12 increases. This increased assessed value may result in a higher municipal tax
13 obligation for the property owner. The higher tax obligations may discourage
14 owners from constructing ADUs.
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16 The homebuilding industry supported AS 29.45.050(m), which authorized
17 municipalities to exempt some types of economic development property from
18 taxation for a designated period. This exemption would fall under AS 29.45.050(m),
19 as a new ADU would expand the tax base of the Municipality and will generate
20 property tax revenue after the exemption expires. Because this ordinance is
21 proposed after January 1, 2017, the Municipality may only exempt a portion of taxes
22 not including the school district's required local contribution under AS 14.17.410 (b)
23 (2) and taxes levied for special services in a service area that is supervised by a
24 board under AS 29.35.460.
25

26 This tax exemption intends to incentivize owners to construct ADU(s) by providing
27 a tax incentive on the ADU portion of the assessed value for a maximum of ten (10)
28 years, assuming the ADU complies with all regulations and requirements under
29 Title 21 and 23.
30

31 An ordinance adopted under this subsection must include specific eligibility
32 requirements and require a written application for each exemption. The proposed
33 ordinance would partially exempt the improvements using the following formula: the
34 square footage of the new living area from the ADU shall be divided by the square
35 footage of all living area on the property, then multiplied by the assessed value on
36 the property and by the mill rate excluding school levy or special service areas.
37
38

1 And expressed as a formula:

$$2 \quad = \frac{SF \text{ of new living area from the ADU}}{\text{Sum of total living area}} * \text{Assessed Value} * \frac{\text{mill rate}^*}{1,000}$$

3
4
5 ** excludes school levy or special service areas*

6
7 For example: On January 1 of the year prior to the construction of a new ADU, a
8 parcel had 1,500 feet of living area. During that year, a qualified ADU is constructed
9 on the parcel and receives a certificate of occupancy for an additional 500 square
10 feet of livable space. The property with the newly built ADU is now worth \$400,000
11 and has a school levy of 8 mills with a total mill rate of 18 mills. The magnitude of
12 the exemption is as follows:

$$13 \quad \$1,000 = \frac{500SF}{2,000SF} * \$400,000 * \frac{10}{1,000}$$

14
15
16 The McDowell Group and ECONorthwest completed the *Anchorage Housing*
17 *Market Analysis (2012)*, which showed that Anchorage was facing a shortfall of
18 20,000 housing units and set a community target of building 900 units per year.

19
20 The Municipality of Anchorage's Planning Department, as well as additional
21 stakeholders including NeighborWorks Alaska, a nonprofit dedicated to improving
22 the quality of life for families and individuals by preserving homes, creating new
23 housing opportunities, and strengthening neighborhoods, as well as the Anchorage
24 Homebuilder's Association, AARP, and other housing advocates, are collaborating
25 on a community survey to inform what additional tools are needed to further
26 encourage ADU development. This effort will build on the tax exemption ordinance.

27
28 Anchorage 2040 Land Use Plan (LUP 2040) Goals and Action Items:

29 Goal 4: Anchorage's neighborhoods provide a range of places to live, meeting the
30 housing needs of residents at all income levels, household sizes, interests, ages,
31 abilities, races, and ethnicities. While no specific action item for this goal speaks
32 directly to a tax exemption for ADUs, Action Items 4-1, 4-7, 4-9 all speak to easing
33 restrictions and streamlining permit review to encourage ADU development. A tax
34 exemption would be a meaningful tool for encouraging ADU development.

35
36 The proposed ordinance furthers the housing policy #15 of the *Anchorage 2020:*
37 *Anchorage Bowl Comprehensive Plan*, adopted by the municipal Assembly on
38 February 20, 2001, and amended on September 10, 2002, is a blueprint for
39 development in the Anchorage Bowl, and which provides that ADUs shall be
40 allowed in certain residential zones. Among the many positive outcomes, ADUs
41 allow for more efficient and flexible use of existing housing stock and infrastructure
42 and protect neighborhood stability.

43
44 The administration intends to increase available housing units through this
45 incentive, accommodate infill development in an environmentally and socially
46 sustainable manner, and potentially stimulate economic activity in our community

1 through the construction of ADUs.

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3 **THE ADMINISTRATION RECOMMENDS APPROVAL.**

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5 Prepared by: Property Appraisal Division
6 Approved by: Jack Gadamus, Municipal Assessor
7 Concur: Adam Trombley, OECD Director
8 Concur: Cheryl Frasca, OMB Director
9 Concur: Travis C. Frisk, CFO
10 Concur: Patrick Bergt, Municipal Attorney
11 Concur: Amy Demboski, Municipal Manager
12 Respectfully submitted: David Bronson, Mayor