

# MEMORANDUM



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**Date:** January 7, 2021

**TO:** Lands and Resources Committee

**FROM:** Jill Maclean, AICP, Director, Community Development Department  
Scott Ciambor, Chief Housing Officer 

## **Re: Downtown Tax Abatement**

Dear Lands and Resource Committee:

The Assembly requested that Staff develop a downtown tax abatement Ordinance after reviewing the adopted Housing Action Plan and Juneau Economic Development Plan.

Housing remains at the top of the adopted Assembly Goals for 2021. The proposed tax abatement program would be an active step towards encouraging new housing in Downtown.

This memo provides follow-up information to questions about Downtown Tax Abatement that came from the December 7, 2020 Lands Committee meeting.

The proposed Downtown Tax Abatement Ordinance (Attachment C) would include tax abatement for 12 years on the increased value of property for projects with at least 4 new units in the fee in lieu target area. (Attachment D) As drafted, the tax abatement would only be available for new units being constructed and tax abatement would only begin upon receipt of a certificate of occupancy.

### **Cost Analysis of Downtown Tax Abatement Incentive**

The draft ordinance specifies how the magnitude of exemption would be calculated. Attached is an example to illustrate the cost to the CBJ and how it would be calculated (Attachment A).

### **Assembly Comments**

Since the Assembly began discussing tax abatement for housing development, there have been a number of comments and concerns regarding this type of a program. Below is a summary of the previous comments and concerns with additional notes.

- Comment 1: Opposition to any form of tax reduction no matter the purpose or intended community outcome.
- Comment 2: The cost to CBJ would be too great.
  - Note: Tax abatement would only apply to the increased value of the property.
  - Note: Any reduction in property tax would be off-set by development of housing and future property tax from additional units created once the 12-year period ends.
  - Note: Tax abatement isn't realized until after the property value has increased.

- Comment 3: CBJ does not have a housing problem that warrants this incentive.
  - Note: There have been 3 new units developed in this proposed area in the past 5 years.
  - Note: Multiple adopted City plans have stated that tax abatement is a valid tool to increase housing stock.
  - Note: Housing development in Juneau is expensive and difficult. Tax abatement incentives are common throughout the country in similarly expensive markets. Preliminary research on other programs was provided at the [April 18, 2018 assembly Finance Committee meeting](#). An Anchorage Downtown Tax Abatement Program update was provided at the [December 7, 2020 Lands Committee meeting](#).
- Comment 4: An argument that developers are looking for a handout.
  - Note: Housing development in Juneau is expensive and difficult. CBJ has provided numerous incentives, grants, and loans to facilitate needed housing development in the past. (See attached list of incentives)
  - Note: Adopted plans recognize tax abatement as a tool to be used to facilitate housing development.
  - Note: A tax abatement incentive would be applicable to all property owners/developers in the targeted area with the goal of adding additional housing that otherwise would not exist.
- Comment 5: Why is downtown targeted? Housing is expensive to develop borough-wide.
  - Note: Downtown housing development has been stalled for years and housing units are key to having a healthy vibrant downtown.
  - Note: Other CBJ incentives exist to meet other housing goals Borough-wide. (See attached list of incentives)
- Comment 6: What about rehabilitation of existing properties?
  - Note: Tax abatement is not a catch-all for stimulating housing downtown. Staff are concurrently working on ways to utilize the Juneau Affordable Housing Fund to meet other housing needs, including rehabilitation of existing housing units downtown.
- Comment 7: Concerns over number of participants in the downtown tax abatement program.
  - Note: Downtown tax abatement would apply to a portion of taxes on the increase in value only. Taxes would still be collected on the other square footage of the property and for a small portion of the new increase in value.
  - Note: Housing Action Plan encourages significant and diverse housing development downtown. The Main Street USA initiative (2017) indicated up to 400 new units to revitalize downtown and provide housing for younger and future generations.
  - Note: Given the cost to develop housing, the downtown tax abatement incentive may not be enough to bridge the financing gap in some projects. A longer tax abatement period or another incentive may be necessary for larger projects.
  - Note: If the amount of incentive is a concern, the Assembly could look at other options such as cap the amount of incentive per year, or sunset the program after a certain date.

### **Where Does Downtown Tax Abatement Fit as a City Housing Strategy?**

Downtown tax abatement is one tool to incentivize housing development, focusing on new unit creation in the fee in-lieu parking district. A table of existing CBJ housing incentives is included in the packet to show where it fits among other targeted incentives. (Attachment B)

Renovation projects are less easily supported through a tax abatement program. In order to qualify under the authorizing State Statute, a renovation project would only constitute economic development (and be eligible for tax abatement under a local code) if the units were uninhabitable (condemnable). An old building that had units that were vacant or unoccupied because they were worn and fell short of a rentable standard would not be eligible for tax abatement as these types of units would not constitute economic development.

Determining the tax abatement benefit in existing buildings would not be particularly easy for two reasons. First, the units would have to be found uninhabitable and second, because the increased economic development value would have to be determined by subtracting the pre-renovation value from the post renovation value, introducing an additional layer of subjectivity. Additionally, building owners that have maintained their buildings in good order may complain that this benefit would be conferred to owners who failed to invest in their properties. The Municipality of Anchorage did not include renovation projects in their tax abatement Ordinance. (Attachment E) All things being equal, tax abatement does not appear to be a good tool to encourage renovation of old buildings.

Staff are concurrently working on ideas to utilize or reconfigure the Juneau Affordable Housing Fund to meet other housing needs, including rehabilitation of existing housing units downtown.

**Recommendation**

Staff request a motion of support to the Assembly for adoption of a Downtown Tax Abatement Program. The Committee may or may not wish to suggest changes to the key features which are:

- A. Term - 12 Years
- B. New Construction creating 4 or more units.