

**ANCHORAGE, ALASKA  
AR No. 2022-137**

**A RESOLUTION OF THE ANCHORAGE MUNICIPAL ASSEMBLY APPROVING  
DETERIORATED PROPERTY TAX EXEMPTION UNDER ANCHORAGE MUNICIPAL  
CODE CHAPTER 12.35 FOR IMPROVEMENTS RENOVATED ON BLOCK 23A WITHIN  
THE FAIRVIEW/EAST DOWNTOWN REVITALIZATION AREA. (002-104-46-000).**

**WHEREAS**, on September 8, 2021, the Alaska Hotel Group (“AHG”) submitted an amended application for deteriorated property real property tax exemption under AMC Chapter 12.35 for parcel 002-104-46-000; and

**WHEREAS**, the property is zoned B2B and currently has a three-story structure operating as a non-franchise hotel under the name Aviator Hotel Anchorage; and

**WHEREAS**, the property lies entirely within the Fairview/East Downtown Revitalization Area which is designated as a deteriorated area pursuant to AO 2014-071(S) and expanded pursuant to AO 2022-\_\_\_\_; and

**WHEREAS**, AHG plans to significantly renovate the structure; and

**WHEREAS**, deteriorated property is eligible for partial or total exemption of real property taxes for up to ten (10) years if it is commercial property located in a designated deteriorated area; and

**WHEREAS**, the Chief Fiscal Officer analyzed the Company’s application to determine whether the requirements under AMC Chapter 12.35 have been met; and

**WHEREAS**, the Chief Fiscal Officer determined that 100% of the taxable value of the Property is eligible for a ten-year exemption; and now, therefore,

**THE ANCHORAGE ASSEMBLY RESOLVES:**

**Section 1.** The Anchorage Assembly approves a tax exemption on 100% of the taxable value of the property and improvements for ten (10) years commencing January 1 following substantial completion of the improvements or beneficial occupancy of the improvements.

**Section 2.** The resolution shall be effective immediately upon passage and approval by the Anchorage Assembly.

PASSED AND APPROVED by the Anchorage Assembly this 10th day of May, 2022.



ATTEST:

Chair



Municipal Clerk

# MUNICIPALITY OF ANCHORAGE

## ASSEMBLY MEMORANDUM

No. AM 237-2022

Meeting Date: April 26, 2022

1 **FROM: MAYOR**

2  
3 **SUBJECT: A RESOLUTION OF THE ANCHORAGE MUNICIPAL ASSEMBLY**  
4 **APPROVING DETERIORATED PROPERTY TAX EXEMPTION**  
5 **UNDER ANCHORAGE MUNICIPAL CODE CHAPTER 12.35 FOR**  
6 **IMPROVEMENTS RENOVATED ON BLOCK 23A WITHIN THE**  
7 **FAIRVIEW/EAST DOWNTOWN REVITALIZATION AREA. (002-**  
8 **104-46-000).**  
9

10 **Legal Framework.** Alaska Statute 29.45.050(o) and AMC chapter 12.35 provide  
11 that real property determined to be deteriorated may be eligible to receive a partial  
12 or total property tax exemption for up to ten years and tax deferral for up to five  
13 years. These provisions aim to encourage development or redevelopment projects  
14 considered beneficial to the community in locations where tax incentives are  
15 necessary to ensure project feasibility or long-term economic viability.  
16

17 On September 8, 2021, the Alaska Hotel Group (“AHG”) applied for deteriorated  
18 property real property tax exemption for parcel 002-104-46-000. As of January 1,  
19 2022, the property has been classified as commercial property and is zoned B2B.  
20 The property has a three-story hotel structure, the Aviator Hotel, and is located  
21 within the designated Fairview/East Downtown Revitalization Area deteriorated  
22 area. AHG plans to significantly renovate the building.  
23

24 AHG’s application described the property, discussed the eligibility of the property,  
25 and provided supporting documentation of why the property tax exemption is  
26 necessary for the long-term viability of the business operation after the expiration  
27 of the tax incentive.  
28

29 The Chief Fiscal Officer, in consultation with Property Appraisal, Legal, and the  
30 Office of Economic & Community Development, conducted a review and analysis  
31 of the application to determine whether the requirements of AMC Chapter 12.35  
32 were met. The company’s 10-year economic proforma was reviewed and analyzed  
33 based on a ten-year exemption on 100% of the property and improvements. Under  
34 AO 2014-071(S), only a portion of the Aviator Hotel building was included in the  
35 Fairview/East Downtown Revitalization Area. AO 2022-\_\_\_\_ expands the  
36 Fairview/East Downtown Revitalization Area to encompass the entire Aviator Hotel  
37 building in the Fairview/East Downtown Revitalization Area designated  
38 deteriorated area.  
39

40 The Chief Fiscal Officer verified that the application is complete, determined that  
41 the Property met the definition of deteriorated property under AMC 12.35.005, and

1 concluded that the Property met the criteria for a property tax exemption under  
2 AMC Chapter 12.35. See Memorandum, attached. The applicant's financial  
3 statement will remain confidential.

4  
5 In summary, the Chief Fiscal Officer recommends property tax exemption on 100%  
6 of the property and improvements for ten (10) years commencing after substantial  
7 completion of construction or beneficial occupancy of the improvements.

8  
9 **THE ADMINISTRATION RECOMMENDS APPROVAL.**

10  
11 Prepared by: Property Appraisal  
12 Approved: Travis Frisk, CFO  
13 Concurrence: Adam Trombley, Director, OECD  
14 Concurrence: Patrick Bergt, Municipal Attorney  
15 Concurrence: Amy Demboski, Municipal Manager  
16 Respectfully submitted: Dave Bronson, Mayor

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19 Attachments: Memorandum from Chief Fiscal Officer



MUNICIPALITY OF ANCHORAGE  
Office of the Chief Fiscal Officer  
Memorandum

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**DATE:** April 26, 2022  
**TO:** Mayor, Anchorage Assembly  
**FROM:** Chief Fiscal Officer (CFO)  
**SUBJECT:** Review and recommendation of the eligibility on the Application for Deteriorated Property Tax Abatement from Alaska Hotel Group.

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**Summary and Recommendation**

Alaska Hotel Group (“AHG”) submitted an application to the Municipality of Anchorage (“MOA”) for the deteriorated property on September 8, 2021, for parcel 002-104-46-000. The AHG then supplemented its initial application on October 26, 2021. These submissions start a review process under 12.35.010C. whereby the CFO shall verify the eligibility of the application.

The deteriorated property program is for a maximum of ten (10) years of tax exemption and a maximum of five (5) years of tax deferral under provisions of AMC 12.35.050. The application described the property, discussed the eligibility, and provided several attachments: ALTA survey, economic analysis, Anchorage 2040 land use plan, current conditions, project renderings, and financial statements, including a pro forma with and without the exemption (confidential),

This administration believes that the application meets the requirements of AMC 12.35. The memorandum will discuss the municipal code, the contents of the application, and the eligibility of the property.

### **12.35 Deteriorated Property**

Under AMC 12.35, there are two types of property that may qualify for a tax exemption, deferral, or renewal of tax abatements: deteriorated property or economic development property. Because the application was for the deteriorated property, this memorandum will not discuss economic development. The purpose to exempt, defer, or renew deteriorated property under 12.35 is to incentivize a safer, cleaner, or more desirable environment for commercial property that would otherwise not be financially feasible to improve. To qualify for these tax incentives, certain criteria must be met, which are outlined in the code.

### **Application for Tax Incentive**

#### AMC 12.35.010A.

AMC 12.35.010A. requires the application to be made in writing to the CFO or his designee. There are seven items that the application must contain:

Application for an exemption, deferral, or renewal under this chapter shall be made in writing to the chief fiscal officer or his designee. The application shall contain:

1. A description of the property for which the application is made and the business in which it is to be used;
2. A description of the employment created or sustained by the property;
  - a. The requirement of this subsection does not apply to deteriorated property applications.
3. Demonstration that the property meets the requirements of this chapter;
4. Evidence that an exemption, deferral, or renewal is necessary to:
  - a. The long-term viability of the business operation after expiration of the tax incentive(s); or
  - b. The economic feasibility of initiating an operation, program, or project with a reasonable likelihood of long-term economic viability; and
  - c. Except for an application for the deteriorated property, the proposed business operation or program or project will create additional employment for the community; and
  - d. Promote or improve the economic development of the Municipality.
5. Evidence that an exemption, deferral, or renewal will provide measurable public benefits commensurate with the level of incentive granted;
6. Financial statement of the applicant; and
7. Other information may be required by the finance department.

### 1: Description of the property

The description of the property was adequate. The parcel under application, 002-104-46, is located at 239 W. 4<sup>th</sup> Avenue, Block 23A. The property is zoned B2B and currently has a 251-room hotel built in 1970. The AHG plans to significantly renovate the hotel, summing to approximately \$29.4 million in renovation costs.

### 2: Description of Employment created or sustained

AMC 12.35.010A.2. requires the applicant to discuss the employment created or sustained if the application under review is for economic development property. This application is for the deteriorated property; hence, this criteria is not applicable.

### 3: Chapter Requirements

The third criteria state that the application must demonstrate that that property meets the requirements of this chapter. In order for the application to meet the requirements under this chapter, the property must meet the definition of deteriorated property defined in AMC 12.35.005. Recently, Assembly Ordinance (AO) 2021-062 amended AMC 12.35.005, expanding the definition of deteriorated property to include commercial & some residential property. The updated definition of ‘deteriorated area’ and ‘deteriorated property’ is shown below.

Deteriorated area means an area within boundaries designated by ordinance which meets one or more of the following criteria: unsafe, unsanitary, or overcrowded buildings; environmentally contaminated; vacant, overgrown, and unsightly lots of ground; a disproportionate number of tax delinquent properties; excessive land coverage; economically or socially undesirable land uses. Property adjacent to areas meeting these criteria, but which would not otherwise qualify, may be included within the deteriorated area designated in the ordinance if the assembly determines that new construction on such property would encourage, enhance or accelerate the improvement of the adjacent deteriorated properties.

Deteriorated property means real property that, either at the time of application for exemption or deferral or at the time of completion of the project for which an exemption or deferral is requested, is:

1. Residential property located in a deteriorating or deteriorated area with boundaries that have been determined by the municipality, if the property is owned by an entity that owns at least two residential properties and eight or more residential units among those properties in that deteriorating or deteriorated area; or
2. Commercial property not used for residential purposes or that is a multi-unit residential property with at least eight residential units, and that meets one of the following:

- a. Within the last five years, has been the subject of an order by a government agency requiring environmental remediation of the property or requiring the property to be vacated, condemned, or demolished by reason of non-compliance with laws, ordinances, or regulations; or
- b. Has a structure on it not less than 15 years of age that has not undergone substantial rehabilitation, renovation, demolition, removal, or replacement; or
- c. Is located in a deteriorating or deteriorated area with boundaries that have been determined by the municipality after a public hearing.

For AHG, the property is a commercial property; therefore, one of the three requirements of subsection 2 must be met. As of January 1, 2021, the property was classified as a commercial hotel/motel. We also reviewed all three requirements. The application spoke to the second and third requirements, but our analysis will focus on the latter: the eastern portion of the Aviator Hotel is located within the Fairview/East Downtown Revitalization Area designated deteriorated area as defined under AO 2014-071(S) and the western portion of the Aviator Hotel building is located within the Fairview/East Downtown Revitalization Area designated deteriorated area as expanded under AO 2022-\_\_\_\_\_. We find that this property meets the criteria under subsection 2. c of the deteriorated property definition; thus, meeting the criteria of deteriorated property.

#### 4: Evidence of necessity:

The fourth requirement is the applicant must demonstrate that the exemption, deferral, or renewal is necessary with a reasonable likelihood of long-term economic viability. One other change from AO 2021-062 was the magnitude of the exemption. The Municipality may now only exempt up to but not more than the portion of the amount of taxes that exceed the amount levied on other property for the school district's required local contribution under AS 14.17.410(b)(2). The Municipality also may not apply an exemption to taxes levied for special services in a service area that is supervised by a board under Chapter 27.20. What this means for AHG is that, if the exemption is granted, they must continue to pay the Anchorage School, District Levy.

The AHG is asking for ten years of tax exemption on the land and improvements. There are two methods to satisfy this requirement: meet the requirement for 12.35.010A.4.a. or satisfy the requirements for 12.35.010A.4.b; in either event, the applicant must also meet the requirements of AMC 12.35.010A.4.c. and d. The application discussed necessity under both 12.35.010A.4.a. and 4. b. We focused on 12.35.010A.4.b.

AHG discussed why the exemption is necessary to initiate the operation, program, or project with a reasonable likelihood of long-term economic viability. In order for the AHG to pay for the cost of the project, AHG will have to attract outside investors summing to approximately \$4.5 million. Without the exemption, the internal rate of return to the investors is 5.6%. With the exemption, the internal rate of return jumps to 8.8%. Typically, the annual return on equity is between 9% to 12%. An internal rate of return of 8.8% is extremely close to that window, and

the exemption would make this a relatively attractive investment to an outside investor. With the equity from outside investors, initiation of the project becomes feasible. This office believes that AHG does satisfy 12.35.010A.4.b., that the exemption is necessary in order to initiate the renovation project.

12.35.010A.4.c. requires the application to show that the proposed business operation or program or project will create additional employment for the community unless the application is for the deteriorated property. Since this application is for deteriorated property, this section is not necessary.

The final requirement is 12.35.010A.4.d., which requires the AHG to demonstrate that the improvement will improve the economic development of the Municipality. The AHG's main theme is that their project will help revitalize the downtown core. This administration believes the application meets the requirements under 12.35.010A.4.d.

#### 5: Measurable Public Benefits

AMC 12.35.010A.5. states that the application must provide evidence that the exemption will provide measurable public benefits commensurate with the level of incentive granted. An analysis was conducted by The Anchorage Economic Development Corporation (AEDC). Their analysis included the impact of the construction of the renovation and post-renovation. The benefits from the construction of the projection are indirect benefits from the improvement and should not be considered as part of the benefits. Once the project is complete, the hotel would directly sustain 200 jobs. The report estimates an annual impact of over \$24 million on the economy. This administration believes that the application met this requirement.

#### 6: Financial Statement

AMC 12.35.010A.6 asks for the applicant's financial statement. The applicant provided their profit and loss statement for the years 2018 through 2020 and part of 2021. The financial information provided under AMC 12.35.010A.6. is confidential pursuant to AMC 3.90.040G. and does not become part of the public record.

#### 7: Other Information

No other information was requested by the finance department.

### **Summary**

This administration believes that the application meets the requirements of AMC 12.35. In sections one and three, the AHG accurately described the property and demonstrated that the property fits the description of the deteriorated property. In section four, the AHG has shown that the exemption is necessary as the exemption would push the internal rate of return for investors to an attractable number. Attracting investors would allow AHG to get the funding necessary to initiate the project. In section five, the AHG discussed many benefits that are commensurate with the 10-year exemption. The AHG met section six's requirement by providing its profit and loss statements. The final requirement, section seven, requires the AHG to submit supplemental information that the finance department requests. While the finance department did not ask for any supplemental information, the finance department did ask clarifying questions, especially related to their proforma. AHG was responsive to those questions.



The CFO recommends that the AHG's application for tax abatement be approved as follows:

1. Taxes on the land and building for parcel 002-104-46-000 be exempt for ten years. The exemption will commence upon substantial completion of all renovations on the improvements.