

Citizens' Task Force – Objectives

- Recommend what core services Sitka must maintain
- Determine what funding is required to maintain these core services (including depreciation and capital improvements)
- Recommend the most equitable and sustainable revenue streams in order to maintain the core services into the future
- Educate and engage citizens as to the financial challenges and seek their ideas for solutions

Citizens' Task Force – Objectives

Assessing Department

- Recommend what core services Sitka must maintain
 - Is the Assessing Department a core function?
 - Assessing Department is responsible for valuation of a \$1.01B taxbase
 - Assessed values have been fairly steady for the past 10 years, rising generally by 1% per year
 - Finance Department collected approximately \$6.3M in Property Tax Revenue from this taxbase in 2015
 - Property tax revenue amounts to approximately 23% of total Sitka's General Government Revenues

Sitka Property-Tax Assessed Values



Citizens' Task Force – Objectives

Assessing Department

- Determine what funding is required to maintain these core services (including depreciation and capital improvements)
 - Assessing Department is funded by a current budget amount of approximately \$347,000 from the General Fund



- **CAMA:** Computer-Assisted Mass Appraisal (CAMA)—A valuation system for appraising property that incorporates computer-supported models for equitable valuations, and statistical analyses to measure results
- Assessing Department manages 6,900 real and personal property accounts **WITHOUT** the aid of a CAMA system; properties are valued as single-appraisals and completed one-by-one and three separate databases are managed in this process
- This factor alone is and has been the biggest restriction in the assessment function to date
- CAMA systems are the cornerstone of managing and valuing thousands or properties efficiently and equitably

City and Borough of Sitka - Assessing Department

■ WHAT? Assessment Process

- Assessment Process is also known as mass-appraisal, and it is the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing
- This differs from single-property appraisal, commonly referred to as "fee" or "bank" appraisal, which normally deals with only a particular property as of a given date
- The object of mass-appraisal is to produce equitable valuations at low costs
- Market Value is value your property would bring in the open market
- Assessed Value is the value of your property for taxation purposes
- $AV = MV - \text{Exempted Value}$

■ WHO? Assessing Department

- Assessor, Appraiser Technician , Admin Assistant
- Valuation of a large amount of properties (6,900)
- Base Valuation for the Full Value Determination
- Customer service to public & various departments
 - Historical record of all real property regarding values, plats, deeds etc
 - Co-maintain GIS for readily accessible information

City and Borough of Sitka - Assessing Department

- WHY? Administer Property Taxbase & Provide Value to Others
 - Property tax system needs to be properly administered and maintained
 - Public benefits are a stable and robust taxbase, and the provision of real and personal property data services
 - Total Assessed Valuation is basis for School Funding Minimum Contribution
- Key Terms & Concepts
 - Mass-Appraisal versus Single-Appraisal
 - Computer-Assisted Mass Appraisal (CAMA)—A system of appraising property, usually only certain types of real property, that incorporates computer-supported statistical analyses such as multiple regression analysis and descriptive statistics
 - Assessment Cycle—the legally mandated reappraisal period usually between 1-10 years (Sitka has a 4 year cycle)
 - Assessment Level—the common or overall ratio of assessed values to market values
 - Real property—land and improvements, all possessory rights and privileges appurtenant to the property, and including personal property affixed to the land or improvements
 - Personal property – anything that is not real property, moveable property

Assessing Department

■ Key Terms & Concepts

- Progressive (tax in which those who earn higher incomes pay a higher percentage of their income than those with lower income) versus
- Regressive taxation
- Regulatory environment for each revenue stream is different; property tax is heavily regulated and thus has higher administrative costs
- Full Value Determination (FVD) is the basis valuation for the school funding minimum local contribution
 - Sitka's Total Assessed Valuation (\$1,010,407,802) is "equalized," meaning optional exemptions are added back into the valuation (Community Purpose, Exempted Personal Property)
 - Sitka's 2015 FVD = \$1,195,498,800
 - Minimum Local Contribution = Sitka's FVD X 2.65 mills (\$3.01M)
 - Maximum Local Contribution = Calculated by State DOE (\$7.00M)

■ Assessing Department – Big Picture

- Property taxation has been the mainstay of modern taxation systems
- Considered to be a relatively stable taxbase
- Considered to be an equitable method of distributing the costs for municipal services
- Property taxation has its pros and cons

Assessing Department

- Property Tax (Pros)
 - Tax base historically stable
 - Systematic process to determine ad-valorem assessed valuations
 - Ownership in real property has generally been a good measure of ability to pay
 - Valuation systems (CAMA's) can produce equitable results at a relatively low cost per parcel
- Property Tax (Cons)
 - Administratively challenging due to the nature and scope of work
 - Advanced valuation systems and skilled labor are needed to analyze large amounts of data & handle complex valuation issues
 - Challenging to meet market value mandate when sales are not mandatorily disclosed
 - Must be adequately funded to be adequately maintained
 - Heavily regulated, therefore can be costly to manage relative to other forms of taxation
- Why is it so costly to maintain a property taxation system?

Annual Assessment Process

Mass-Appraisal vs Single-Appraisal

Annual Process Using Systems (Technology and Staff)

Mass-Appraisal
January 1
6,900 Properties



Mass-Appraisal
Annual Valuation

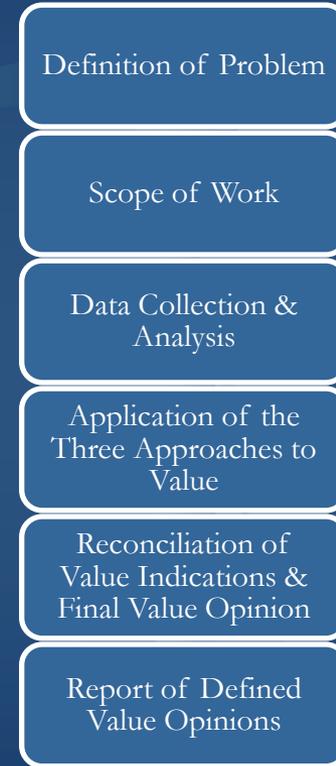


Scope of Work

Time Devoted to Each
Property
Will be Different

End-Results Different

Single Appraisal
Specific Date in Time
1 Specific Property

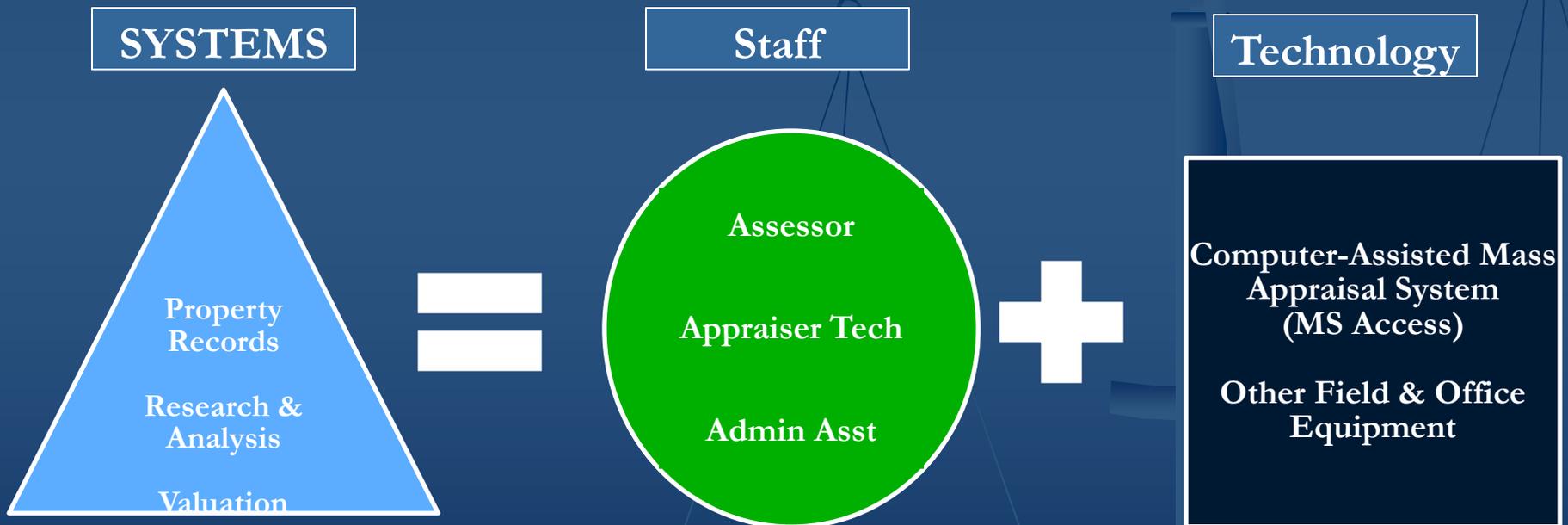


Fee Appraisal
Report

Completed by a Single Individual, One at a Time

Assessing Department Organization Mass Appraisal Valuation Process

How do we Value 6,900 Properties Annually?



Assessing Department Organization

Staffing

Past

Property
Records

(Appraisal
Technician)
(Admin Assistant)

Research
& Analysis
(Assessor)

Valuation
(Assessor)

Now

Property
Records

(Appraisal
Technician)
(Admin Assistant)

Research
& Analysis
(Assessor)

Valuation
(Assessor)

Integration Process

- Streamlining Processes
- Implementing Technology
- Cross-Training All Staff

Future

Property
Records

Research &
Analysis

Valuation

Assessing Department Organization Technology

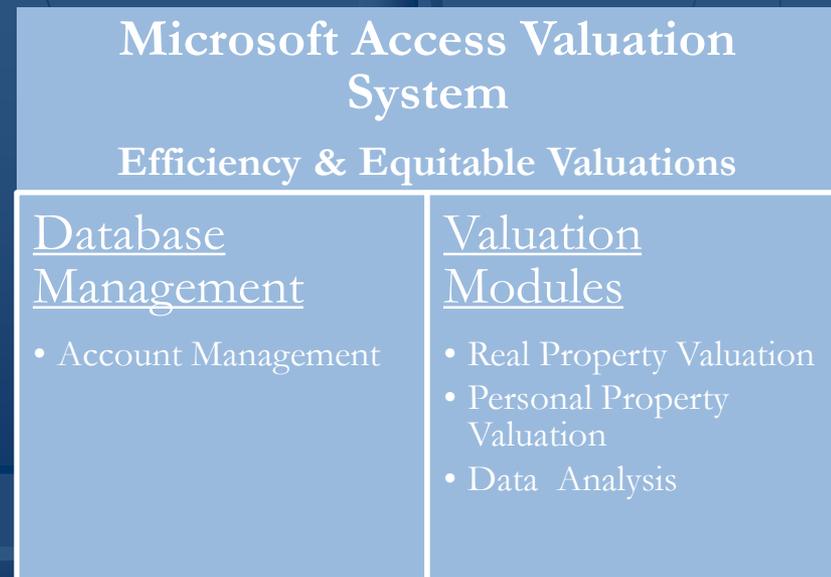
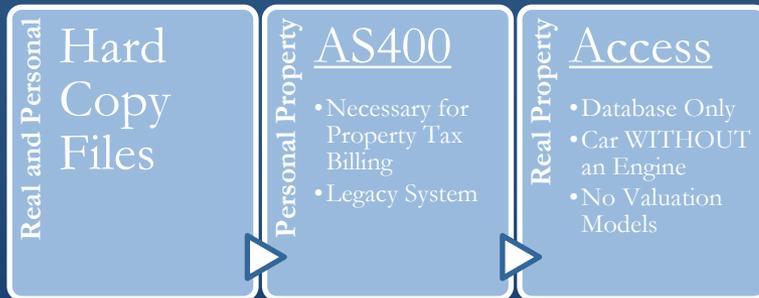
Mass Appraisal
Valuation System

Database (Car)
Valuation (Engine)

Now

Future

Three Separate Database Systems are Maintained



Assessing Department Organization Microsoft Access Valuation System - FUTURE

Microsoft Access

MSMAIN Appraiser Screen Residential

Estimate No: 745
Parcel Number: 1-0700-000
Location: 206 Princess Way

Prop Type: Singfam
Year Built: 1937
Prop Class: 110
Quality: 0.00
Prop Style1: 1.5 Fin

Finished Areas: 1st Floor: 736, 2nd Floor: 676, Total Area: 1412
Bsmt Areas: Bsmt Total: 0, Part'n Fin: 0, Min Fin: 0, Bsmt Qual: 0
Room Counts: Bedrooms: 0, Bathrooms: 0, Kitchens: 1, TOTAL FINISHED LIVING AREA: 1412

Construction Finishes:
Ext Wall 1: Hardplank 100%
Ext Wall 2: Hardplank 0%
Roof Type: Gable
Roofing: CompShg
Heat/Cool: HWBsb 0%
Floor Cover: Allownc
Appliances: Standard Allowance

Plumbing Fixtures:
Kitchen Sink: 0, Toilets: 0
Water Heater: 0, Jetted Tub: 0
Lavatories: 0, Laun/Serv Sink: 0
Tub/Shwr: 0, Other Fixtures: 0
Showers: 0
TOTAL FIXTURES: 0, W-Dry Hookup: 0

Fireplaces/Heat: sgl firepl 0, dbl firepl 0, oil stove 0, Gas Stv/Fpic 0, woodstv 0, pellet stv 0

Garage/Cpt: garage1 desc: Detached, Gar SF ATT: 0, Gar SF BLT: 0
garage2 desc: Gar SF DET: 280, Gar SF BSM: 0
Garage3 desc: Cpt SF FLT: 0, Cpt SF GBL: 0

Porches: Wood Deck: 127, Sol Wl Porch: 0, Open Sl Porch: 0, Roofed Sl Porch: 0
Roofed Wd Deck: 0, Knee Wall Porch: 0, Open Porch/ST: 0, Scrn Porch: 0

Other Extras:
Extra1: Enclosed Porch, Extra1 SF: 42
Extra2: 0, Extra2 SF: 0
Extra3: 0, Extra3 SF: 0
Extra4: 0, Extra4 SF: 0
Extra5: 0, Extra5 SF: 0
Extra6: 0, Extra6 SF: 0

Department Notes: [Empty Text Box]

Actual Age: [Empty], Effective Age: 20, Appearance: 3 average
phys condition: 3 average, function/utility: [Empty], multiplier: 0.00
Main Imp Value: 169,800

LAND
Neighborhood: [Empty] Block: [Empty] Subd: ARMO Lot#: 2 Lot Desc: 2
sq ft: 9,967 acreage: 0.230 waterfront: 0.00
topography: No Data, water system: PubCSys
shape: Irreg, sewage disp: City
view range: Fair, Parking: Onsite
drainage: Average, paved street: No Data
access: Average, sidewalk: No

LAND DETAIL subform appr screen residential

UNIT	Base Value	View Adj	Loc Adj	Topo Adj	Funct Adj	General Adj	Base Adj	UNIT TOTALS
unit 1 sf	9,967	11.62	1.100	1.250	0.950	1.000	15.179	151,285
unit 2 sf	0					1.000		0
unit 3 sf	0					1.000		0
unit 4 sf	0					1.000		0
waterft	0.00							0
view	0					1.000		0

notes: (2016) C: 996.28; P: -0.512; V:0.1; Barrier: -0-05
site dev: 0
access plng: 0
total value: 151,285

reviewed: wjl

Photos Sub
Photo: 10700000.JPG
Photo 1 of 1

Current Assessment
Apr Land Value: 100,000
Apr Imps: 139,000
Apr Total: 239,000

Bldg Sketch
M&S Residential Standard Report
RCN: 207355

RE-APPRAISAL
REAP Date: 04/24/2015 Reinspect Date: 04/24/2019
appraiser: [Empty]
Insp: Ext

Land Hold: 115,800
Total All Imps: 169,800
REAP TOTAL: 285,600

Print Assessment Report
Print Data Form

Records: 1 of 93 of 4133

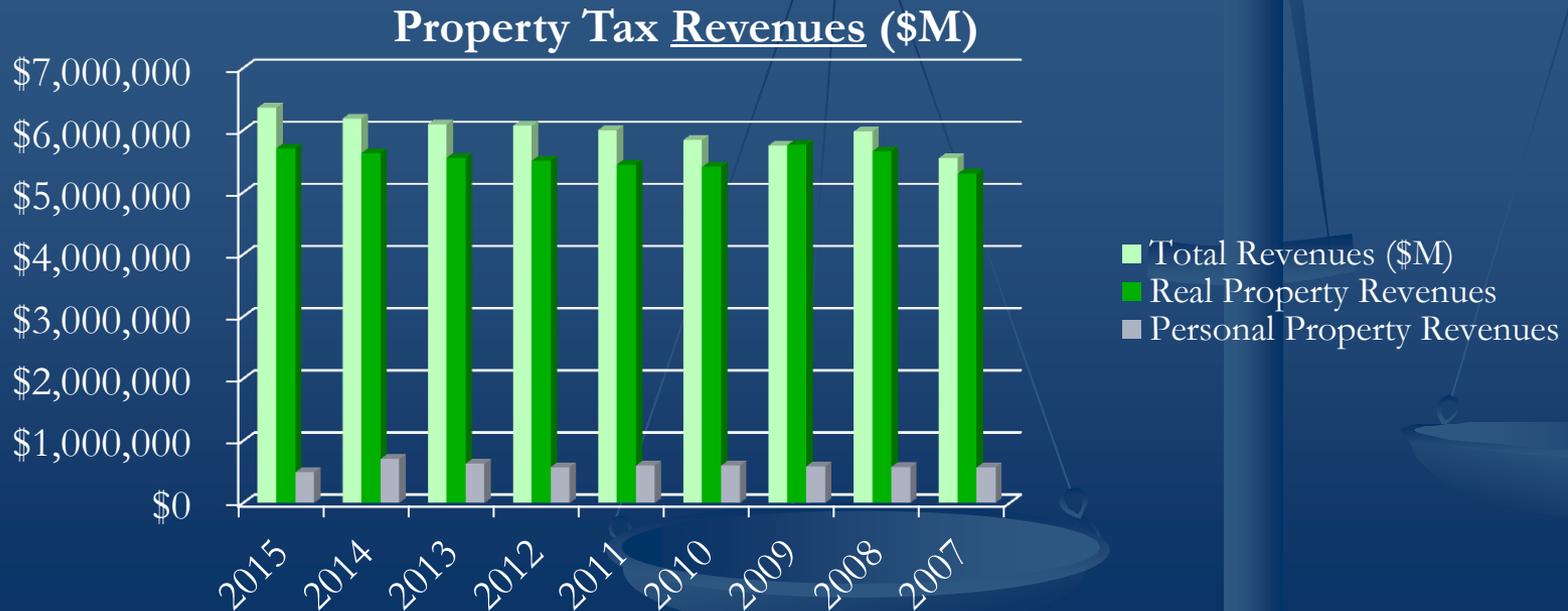
Assessing Department

- Assessing Department is undergoing change
 - Can't afford to do business-as-usual (historical and future)
 - Change our way of thinking (review & refine systems)
 - Systems: Technology as well as People
 - Productivity and Efficiency
 - Technology & methodologies to standardize procedures for a more productive workflow
 - Technology & methodologies to measure productivity
 - Implementing a Valuation System Utilizing Microsoft Access (Large amounts of data)
 - Data management system that can manage & store data effectively
 - KISS method
 - Valuation models
 - Consistently value similar properties
 - Equitably distribute tax burden
 - Recommendation and Draft Long-Term Plan
 - 3 Year Plan: Exempt all Personal Property or first \$250,000 in Business Personal Property in order to focus on Real Property, and inspect and enter all within two years
 - Years 1-2: Inspect All Properties and Enter into Database)
 - Year 3: Build Valuation Modules and Implement Mass-Appraisal Valuation System

Citizens' Task Force – Objectives

Assessing Department

- Recommend the most equitable and sustainable revenue streams in order to maintain the core services into the future
 - Revenue stream resulting from Assessing Department is the Property Tax
 - Property Tax Revenue amounts to approximately 23% of total Sitka's General Government Revenues
 - Property Tax Total Revenues have been increasing by about 1% per year
 - Assessing Department devotes approximately
 - 60% of total time to real property administration, with corresponding revenues of \$5.7M
 - 40% of total time to personal property administration, with corresponding revenues and \$492,200



Assessing Department - Statistics

	Property Tax Base		
	Real Property (RP)	Personal Property (PP)	Totals
Overall Budget			\$ 347,000
Full-Time Equivalent Employees			3
Full-Time Equivalent Employees Per IAAO Recommendation (IAAO 2007 Assessment Admin)			4
Number of Accounts	4,097	2,823	6,920
Percent of Workload	60%	40%	100%
Customer Service Inquiries	15%	85%	100%
Inspections/Year-Required	1000	700	1700
Inspections/Year (Average)	350	0	350
Total Inspected	1,400	-	1,400
Total NOT INSPECTED	2,700	-	2,700
Taxable Value	\$ 951,331,100	\$ 59,076,700	\$ 1,135,703,100
Revenue	\$ 5,708,000	\$ 492,200	\$ 6,200,200
Revenue/Parcel	\$ 1,400	\$ 200	\$ 900
Cost \$/Parcel	\$ 50	\$ 50	
Assessment Ratio (Estimated)	86%	50%	
Challenges	Required to Discover	Self Reported by Owner	
	Need CAMA System	Movable Property	
	Technology (Triple Entry)	Don't Have Resources to Audit	
	Staff (Not Cross-Trained)	Expending Resources Ineffectively	

Citizens' Task Force – Objectives

Assessing Department

- Educate and engage citizens as to the financial challenges and seek their ideas for solutions
 - Federal, state & local fiscal challenges necessitate these discussions
 - State and Federal Funding accounts for about 22% (approximately \$13.1M) of Sitka's 2016 Total Appropriations Budget, and continued future funding is questionable



CITIZENS' TASK FORCE

State Impacts

- Community Revenue Sharing likely to be phased out
- State park closures service reductions
- Jail contract funds reduced
- Alaska Marine Hwy service reductions
- DNR Recorders' office closure
- DOJ Public Defender services reduced
- ADF&G services reduced
- ADOTPF service reductions
- DOE potential education formula funding reductions
- State could eliminate harbor matching funds
- State could suspend or reduce school bond matching

Federal Impacts

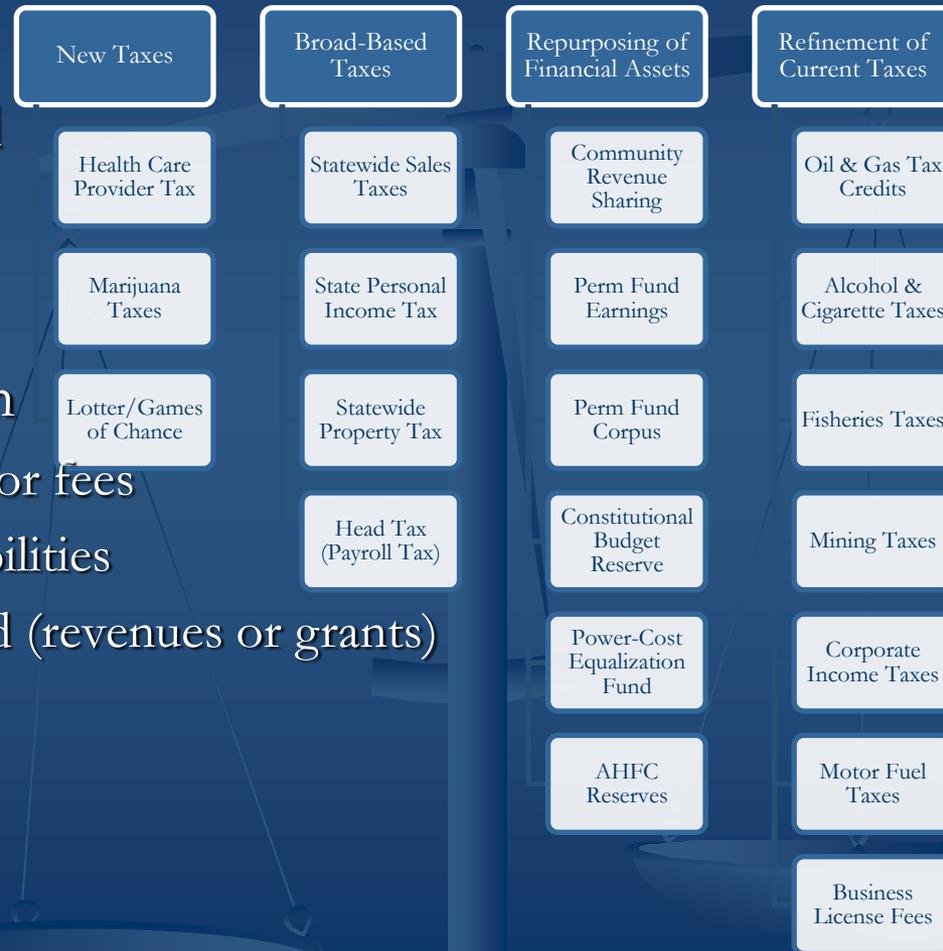
- Secure Rural Schools funding of approximately \$750,000 for roads/schools most likely will be phased out over time
- Future Payments in Lieu of Taxes (PILT's) funding is questionable
- USFS staffing level reductions
- USCG staffing levels have been steady

Economic factors have caused Alaska's days of easy \$\$\$\$\$ to virtually disappear

CITIZENS' TASK FORCE

State Revenue Alternatives

- We will have to change our way of thinking at both the state and local levels
- We need to be proactive because changes could impact us through
 - New or additional state-level taxes or fees
 - Direct loss or transfer of responsibilities
 - Decrease or elimination of state aid (revenues or grants)

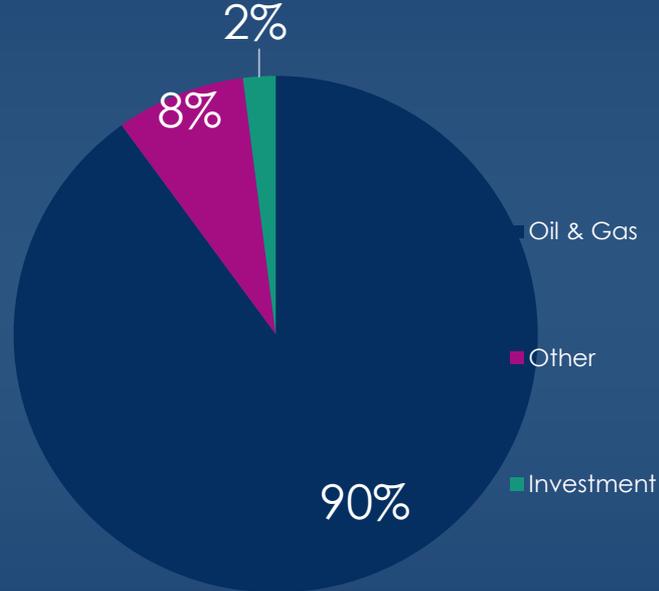


CITIZENS' TASK FORCE

Macro Environment

Alaska General Fund

Revenues



Alaska has no real broad-based taxation policy currently in place, such as a statewide sales tax, income tax, or property tax (except for the 20mil tax on oil & gas properties)

State Revenues (GF): 90% oil related/10% other

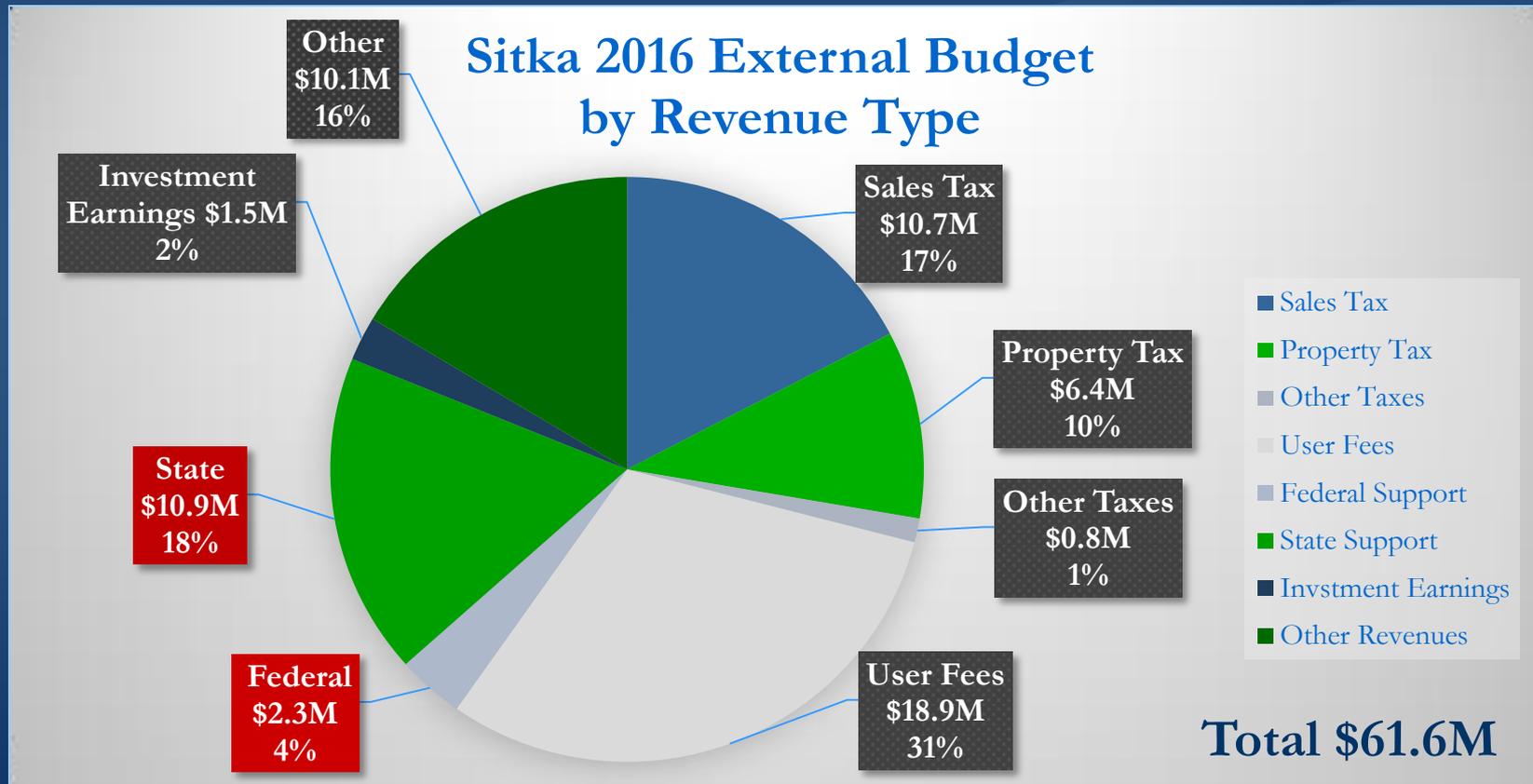
State fiscal challenges: no amount of expenditure cuts or revenue initiatives will fix this situation, restructuring is needed

How could this affect us locally?

CITIZENS' TASK FORCE

State and Federal Support

State and Federal support accounts for approximately \$13.2 M (22%) of Sitka's 2016 Budget



Citizens' Task Force

Borough as Regional Government

- Alaska is unique in that it was formed with minimal state-level, and maximum local level authority in mind
- Alaska's unique qualities presented themselves as challenges
 - Size
 - Geography
 - Natural Resources
 - Population
 - Land ownership (only 2.7% of total acreage is privately held)
 - This is why Sitka receives state and federal revenues, and why there is a state & federal presence in Sitka, we are a regional borough in several ways
- These unique factors were some of the central guiding forces during the formation of the State constitution and resulting governmental organizational structure between state and local governments (cities and boroughs), all of which make our state very unique
- Why does this matter?

Citizens' Task Force

Borough as Regional Government

- As a unified home rule borough Sitka has powers granted by charter and those not expressly prohibited by state statute
- Sitka is one of 19 organized boroughs within the state, and this home rule authority mandates educational, taxation and planning powers to the borough
- Sitka is unique in that it operates as a multi-level government providing some services that are typically delivered at the state level, as well as some regional and community level services
- This makes governance complex
- In other states, property taxation, sales taxation and education are commonly administered at the state level

Citizens' Task Force

Sitka-Unified Home Rule Borough

CBS was incorporated as a unified home rule borough in 1971 and has evolved to provide the following Community Services:

Public Safety

Police

Fire

Ambulance

Search & Rescue

Public Works

Administration

Engineering

Streets

Recreation

Building Officials

Public Services

Library

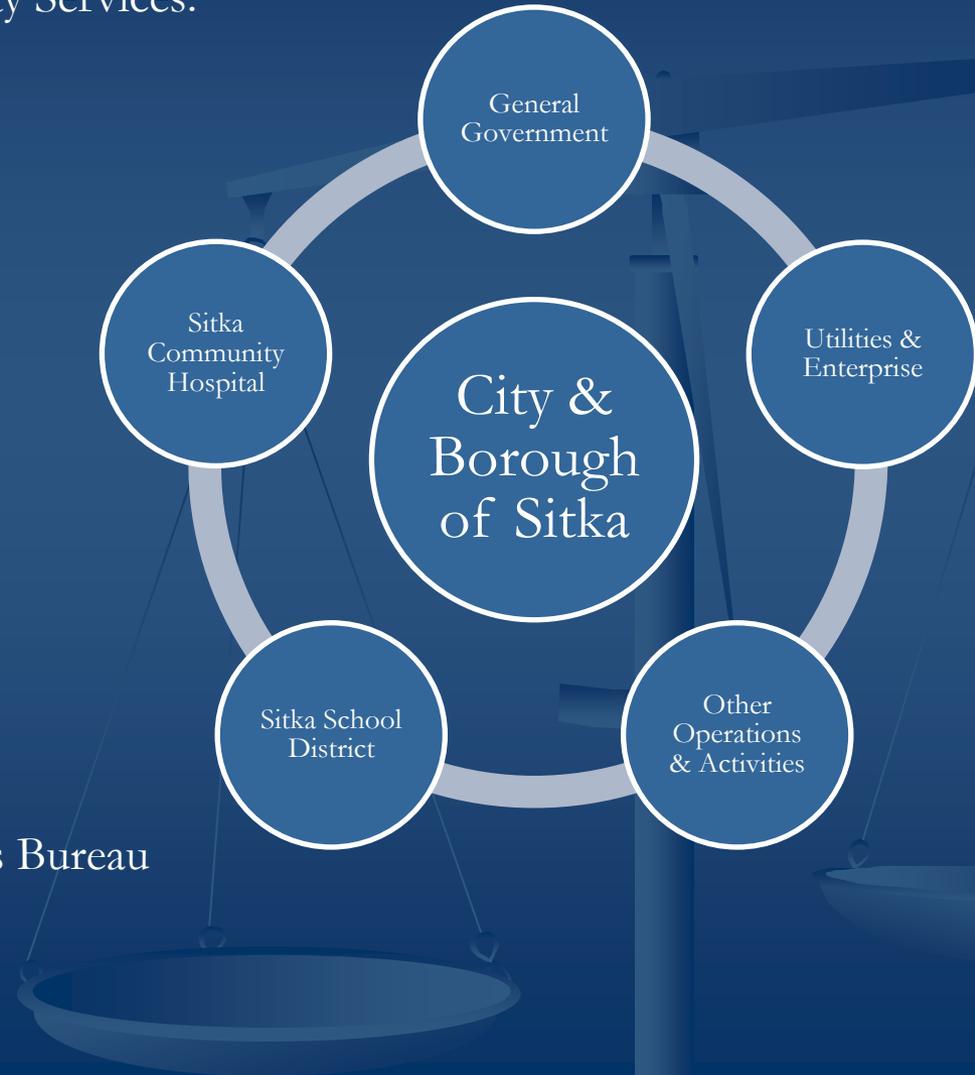
Centennial Building

Convention & Visitors Bureau

Senior Citizens Center

Public Schools

Community Hospital

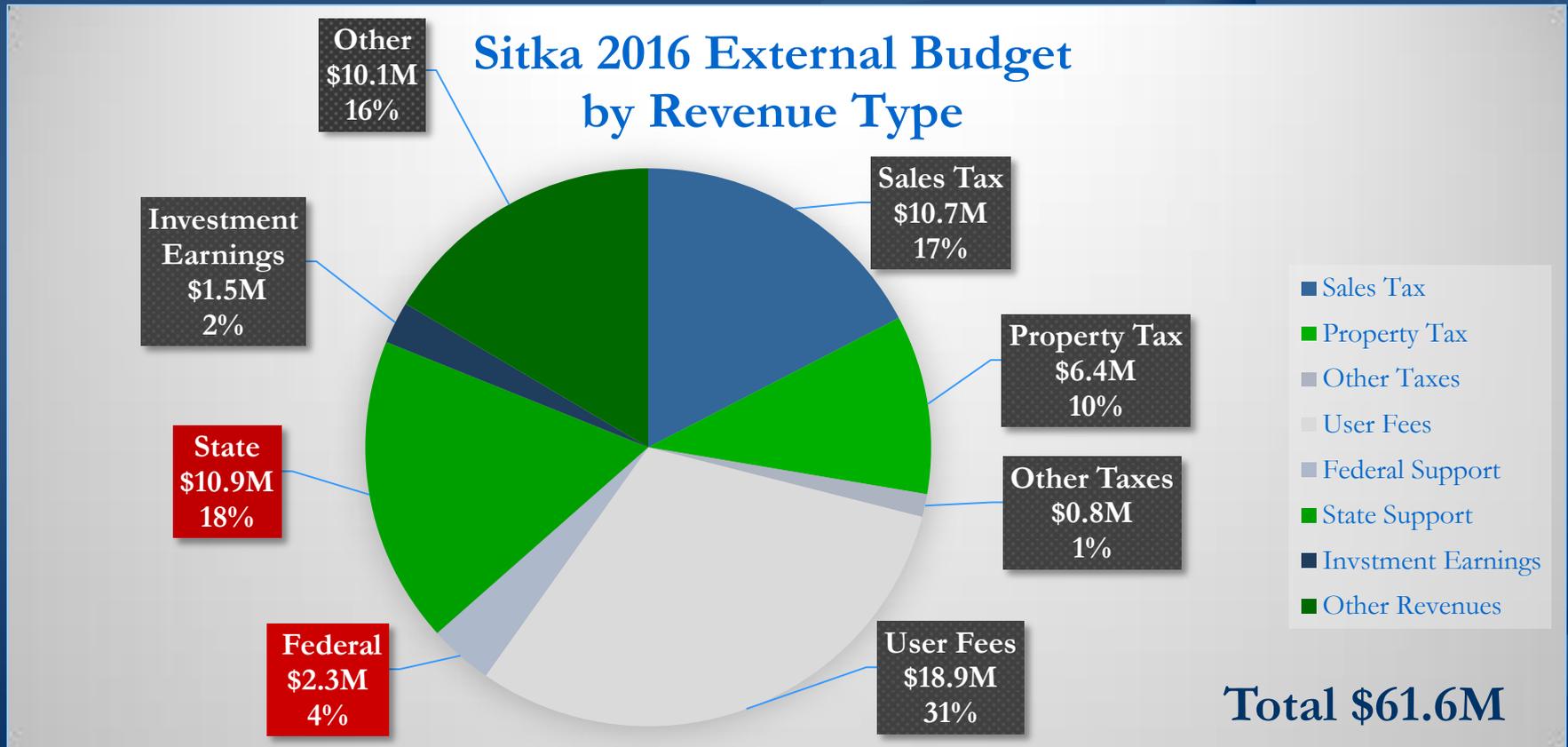


FISCAL POLICY

Total External Budget Appropriations

Sitka supports those services with a \$61.6M External Budget

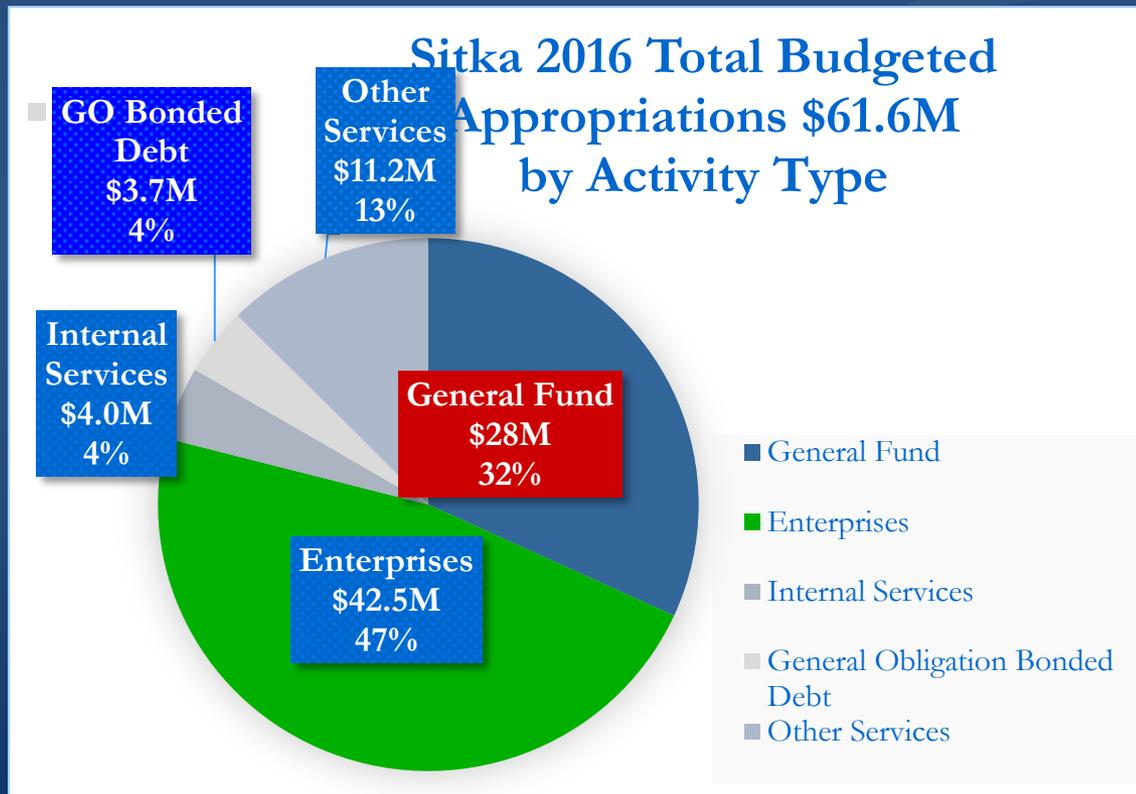
State & Federal Revenues account for approximately 22% (\$13.2M) of the Total Revenues



FISCAL POLICY

Fiscal Revenue Structure

- Of that \$61.6M total External Budget, we will focus on General Fund which is 32% (\$28M) of total budgeted appropriations



- General Fund Revenues:
 - Property Tax
 - Sales Taxes
 - Fines & Fees
 - Investment Income
 - Asset Return (Lease Income and Land Sales)

TAXATION POLICY

- Taxation Policy Should be Tailored to each Municipality's Strengths
- Sitka's Taxation Policy Consists of these Major Revenue Streams:
 - Property Taxes
 - Sales, Excise & Severance Taxes
 - Fines & Fees (Administered at the Local Level with very broad discretionary authority)
 - Investment Income
 - Asset Return (Lease Income and Land Sales)
- All Mill Rates are Not Created Equal
- Bonded Debt
- Revenue Alternatives & Taxation Trends

EFFECTIVE TAXATION POLICY

- The goal of effective taxation is a diverse taxbase
- There is no one correct taxation policy nor one correct mix of revenue streams
- Each municipality should craft a taxation policy that is tailored to its strengths
 - Unalaska is the largest fishing port by volume in Alaska with a property tax mill of 10.5; they tax both real and personal property, and assess sales and bed taxes, and raw fish taxes to maximize on their economic strengths (a very strong real and personal property taxbase and fishing industry)
 - Valdez' Property Tax mill rate is 20 mills due to their large oil and gas taxbase resulting in \$5.1M in property tax and \$53.5M in oil and gas property tax revenues; however, they do not assess a general sales tax, only a bed tax with revenues shown below

2014 Municipal Property Taxes, Sales Taxes, Special Taxes and Revenues

Municipality	PROPERTY TAX		SALES TAX		BED TAX		ALCOHOL TAX		MARIJUANA TAX		CAR RENTAL TAX		RAW FISH TAX		TOBACCO TAX		
	Mills	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Whsle Rate*	Retail Rate*	Tax Revenues
Unalaska	10.5	\$ 5,197,874	3.0%	\$12,272,264	5.0%	\$157,474	0.0%	\$0	0.0%	\$0	0.0%	\$0	2.0%	\$4,450,050	0.0%	0.0%	\$0
Valdez	20.0	\$ 58,603,079	0.0%	\$0	6.0%	\$387,153	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%	\$0

*Local municipality rates may be in addition to borough rates, or exclusive of, please check with the local municipality for these details

107 Municipalities levy a general sales tax and 11 of these municipalities did not report (NR= Not Reported)

- Sitka's taxation policy is broad reaching with taxation in every segment

2014 Municipal Property Taxes, Sales Taxes, Special Taxes and Revenues

Municipality	PROPERTY TAX		SALES TAX		BED TAX		ALCOHOL TAX		MARIJUANA TAX		CAR RENTAL TAX		RAW FISH TAX			TOBACCO TAX			SEVERANCE TAXES								
	Mills	Revenue	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Rate*	Revenues	Whsle Rate*	Retail Rate*	Tax Revenues	Rate	Rev	Rate	Rev	Rate	Rev	Rate	Rev		
Juneau	10.76	\$45,361,000	5.0%	\$44,045,000	7.0%	\$1,275,000	3.0%	\$925,000	0.0%	\$0	0.0%	\$0	0.0%	\$0	45.0%	\$1/pack	\$1,340,000	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Ketchikan	5.70	\$8,113,634	2.5%	\$8,585,916	6.0%	\$55,132	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Petersburg	11.14	\$3,302,522	6.0%	\$3,098,729	4.0%	\$49,082	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Sitka	6.00	\$ 6,178,906	5%/6% ⁽¹⁾	\$9,585,476	6.0%	\$366,600	0.0%	\$0	0.0%	\$0	0.0%	\$0	\$10/fish box	\$112,060	45.0%	\$0.00	\$489,087	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Skagway	7.00	\$1,730,854	3%/5% ⁽¹⁾	\$6,874,994	8.0%	\$154,321	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Wrangell	12.75	\$1,572,761	7.0%	\$2,599,202	6.0%	\$40,697	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0	0.0%	\$0
Yakutat	8.00	\$439,776	5.0%	\$897,189	8.0%	\$119,528	0.0%	\$0	0.0%	\$0	8.0%	\$13,413	1.0%	\$42,832	0.0%	0.0%	\$0	4.0%	\$0	\$0.15/ton	\$0	0.0%	\$0	0.0%	\$0	\$5/MBF	

*Local municipality rates may be in addition to borough rates, or exclusive of, please check with the local municipality for these details

107 Municipalities levy a general sales tax and 11 of these municipalities did not report (NR= Not Reported)

(1) Seasonal Sales Tax rate varies according to the time of year, rates expressed for periods Oct-Mar and Apr-Sep respectively.

(7) Resources subject to severance tax: minerals in place, timber or forest products; gravel, sand, rock and coal; raw fish, shellfish.

TAXATION POLICY

Sitka's Taxation Policy Consists of these Major Revenue Streams:

- 
- **Property Taxes (Real and Personal Property) – AS 29.45 & SGC 4.12**
 - **Sales Taxes (General Sales, Bed, Alcohol, Car Rental) – AS 29.45.650-.710**
 - **Excise Taxes (Tobacco)**
 - **Severance Taxes (Raw Fish, Gravel)**
 - Fines & Fees (Administered at the Local Level with very broad discretionary authority)
 - Investment Income
 - Asset Return (Lease Income and Land Sales)

Level of regulation is directly correlated to the administrative expense of each revenue type

PROPERTY TAXATION

- Sitka as a Home Rule Borough has all legislative powers not prohibited by law or charter and thus the right to levy property and sales and use taxes (AS 29.10.200)
- All real and personal property is taxable unless it is exempted from property taxation via a mandatory or an optional exemption
- Mandatory exemptions (AS 29.45.030)
 - Municipal, State and Federal property
 - Property used exclusively for non-profit religious, charitable, cemetery, hospital, or educational purposes
 - ANCSA owned property that is not leased or developed
- Statutory property tax cap is 30 mills (AS 29.45.090)
 - Of the 162 incorporated Alaska municipalities, only 36 levy a property tax
 - Highest is 20 mills (Valdez real property only), and
 - Lowest is 4 mills (Kupreanof within Petersburg Borough)
 - Average is 11.5 mills (statewide of 36 levying municipalities)
- Tax policy should be crafted to each municipalities strengths, there is no right or wrong policy

PROPERTY TAXATION

■ Sitka's Mandatory Exemptions

- Federal, State & City properties are mandatorily exempt
- Senior Citizens'/Disabled Veterans \$150,000 real property exemption (554 exempted properties, \$75.0M Assessed Value Exempted, \$450,995 Taxes Exempted)
 - Exhibit exempted AV's, taxes and projections
 - Show state overall projections from Excel spreadsheet
- Non-Profit Religious, Charitable, Cemetery, Hospital, Educational

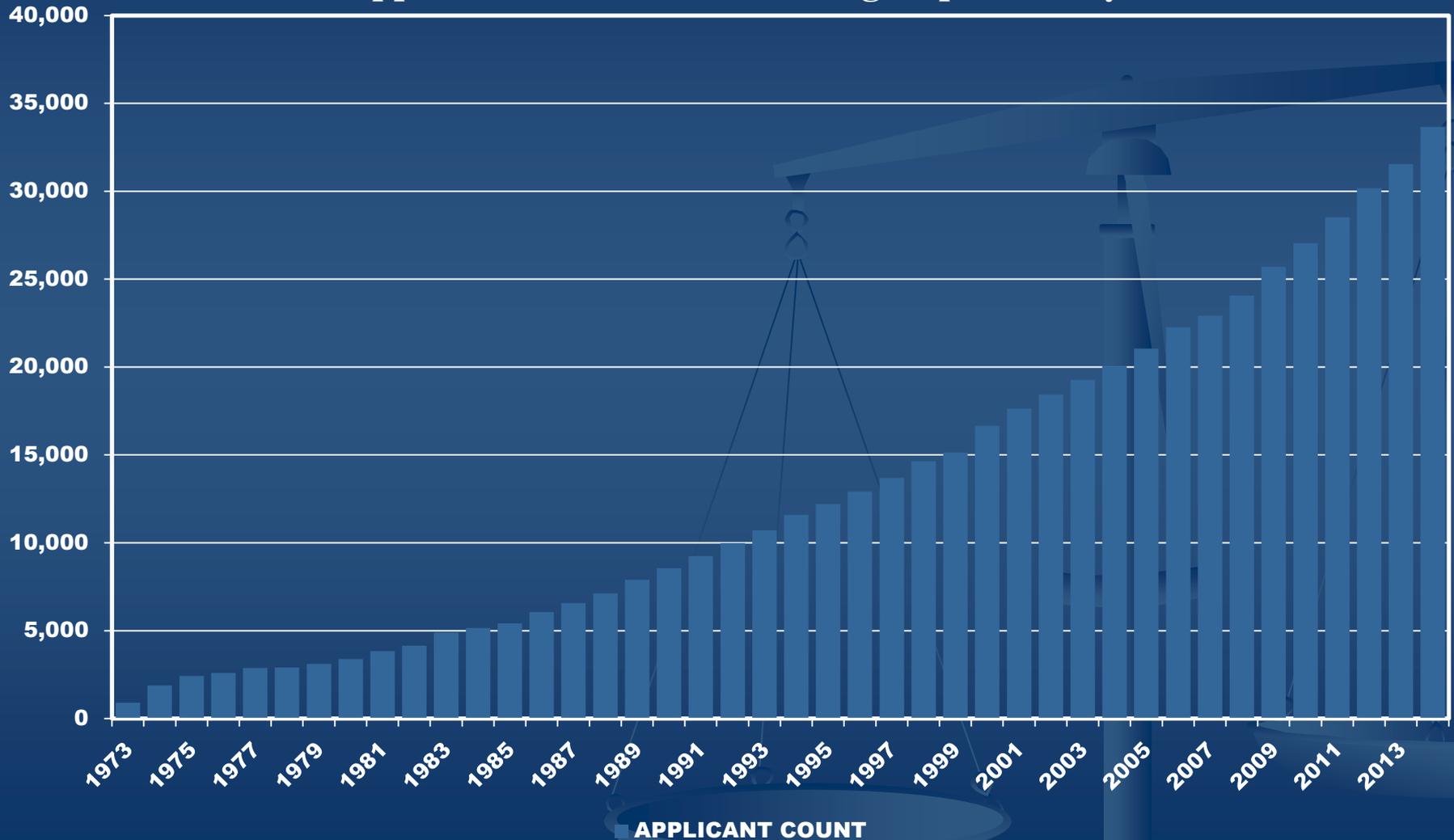
■ Sitka's Optional Exemptions

- Community Purpose Exemptions (25 exempted entities, \$19.6M Assessed Value Exempted, \$117,500 Taxes Exempted)
- Personal Property Exemptions
 - Business Personal Property Exempted \leq \$25,000
 - Motor Vehicles (DMV collects flat fee)
 - Boats Flat Fee
 - Business Inventories completely exempted
- Alaska Statutes provide for 30+ optional real and personal property tax exemptions to target tax relief to various population segments, but....
 - Sitka cannot entertain any of them as they would be a direct revenue loss if enacted, due to the current rate-driven mill rate (6 mill tax cap)

PROPERTY TAXATION

STATEWIDE MANDATORY SENIOR CITIZEN/DISABLED VET EXEMPTION

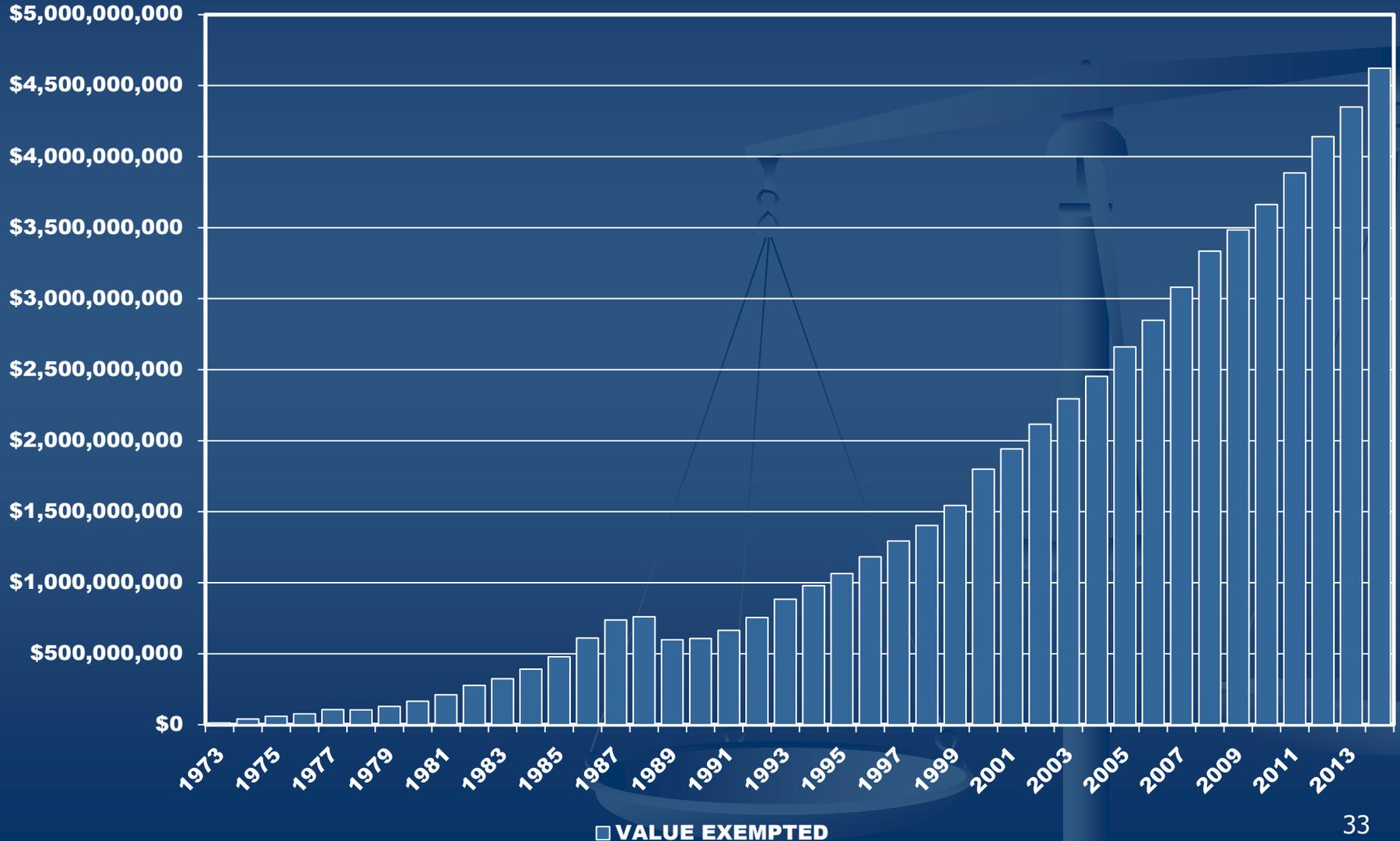
Applicant Counts are Increasing Exponentially



PROPERTY TAXATION

STATEWIDE MANDATORY SENIOR CITIZEN/DISABLED VET EXEMPTION

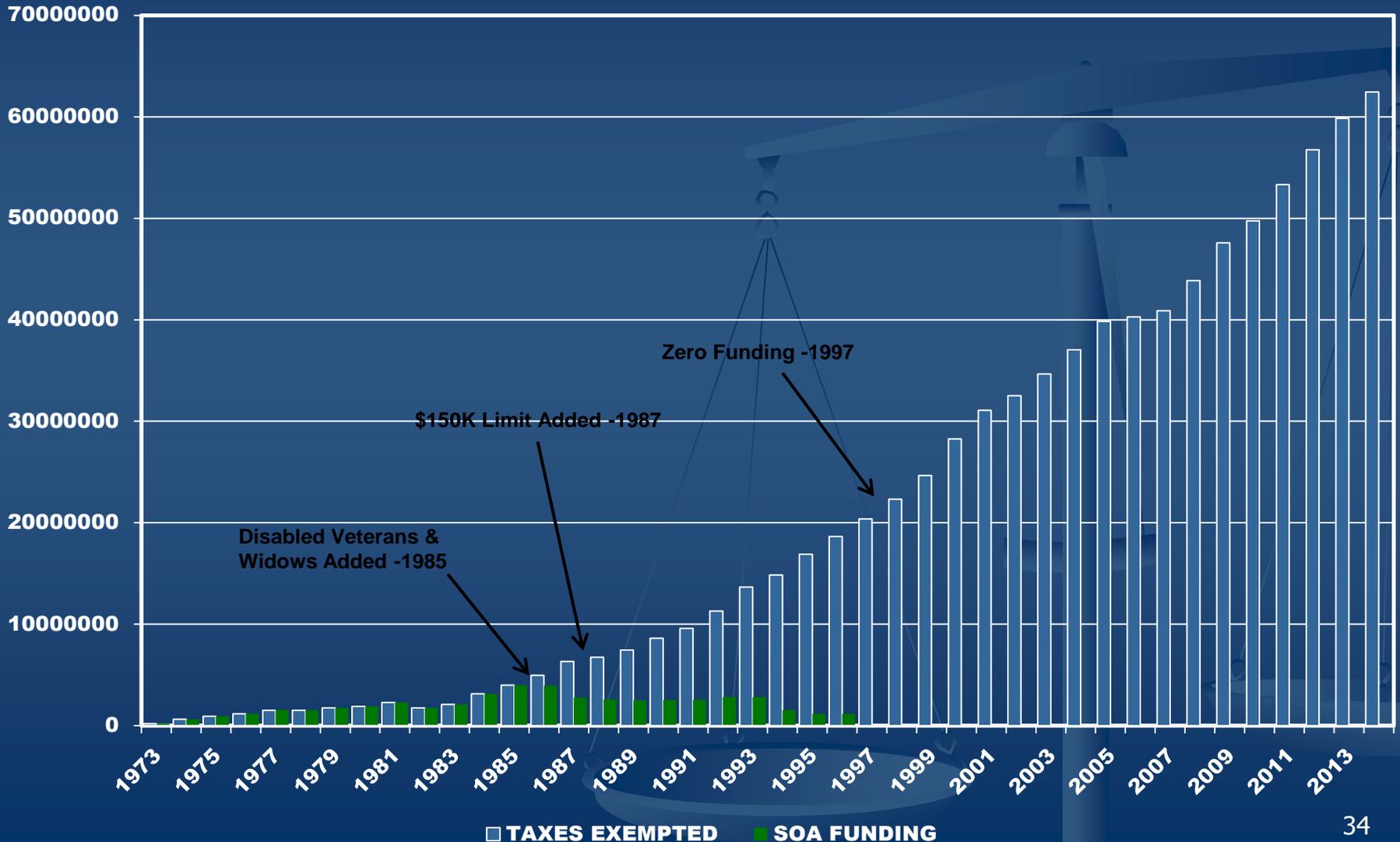
Exempted Values are Increasing Exponentially



PROPERTY TAXATION

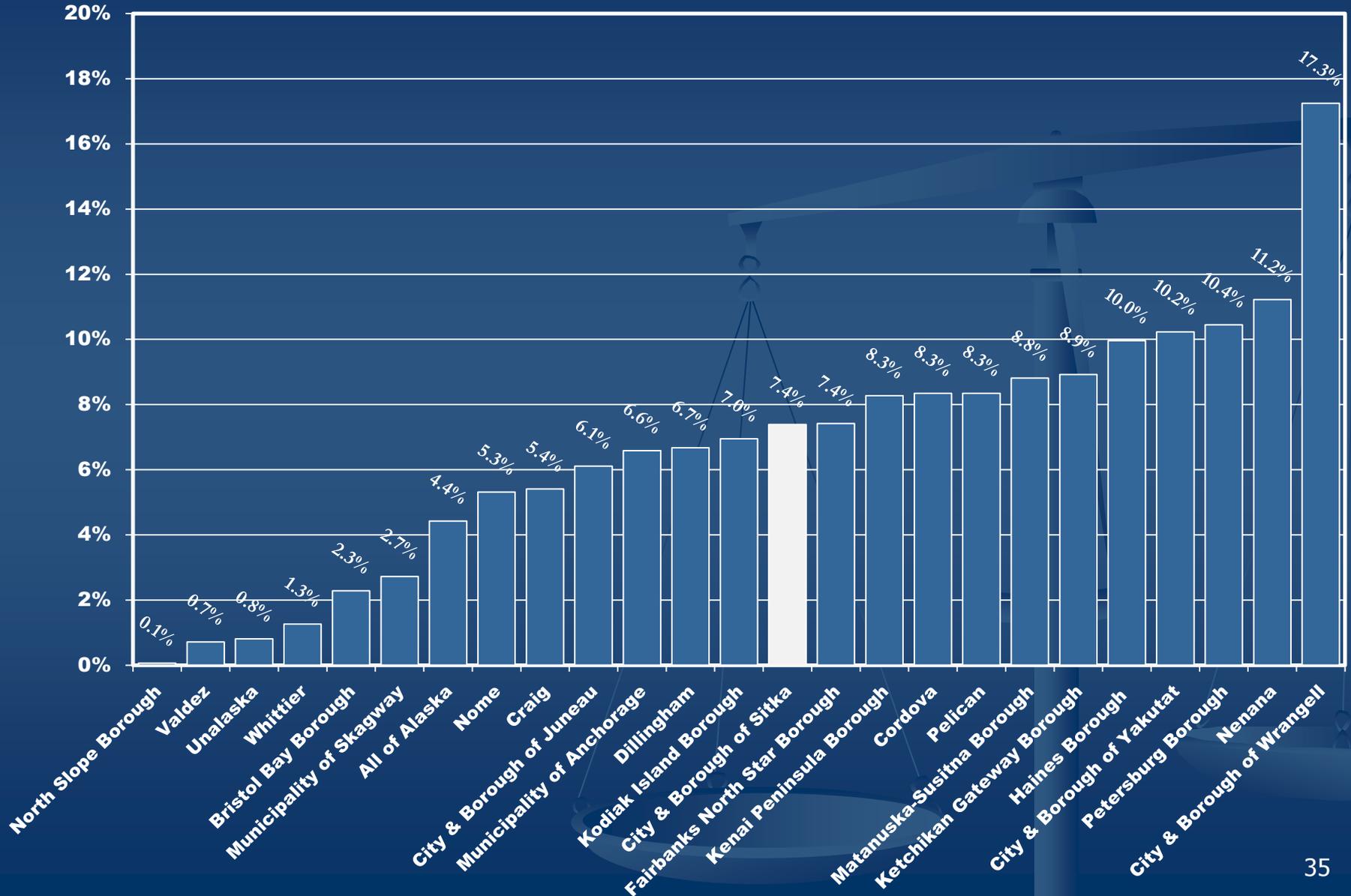
STATEWIDE MANDATORY SENIOR CITIZEN/DISABLED VET EXEMPTION

Total Exempted Taxes Are Increasing Exponentially



PROPERTY TAXATION

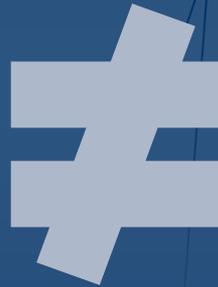
SENIOR & VET EXEMPTION AS % OF LOCAL REAL TAX ROLL



PROPERTY TAXATION

All Mill Rates are Not Equal

Mill Rate is Capped
with no regard to
Needs of the Budget



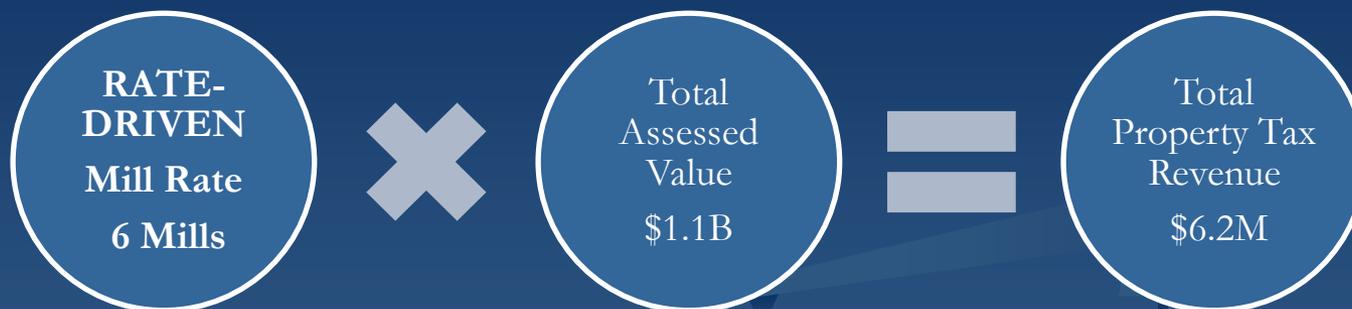
Mill Rate is Calculated
Based Upon the
Needs of the Budget



PROS AND CONS TO BOTH TYPES

PROPERTY TAXATION

Rate-Driven Mill Rate



- Mill Rate is the only constant in the formula
- Introduces risk into the budgetary process through potential windfalls/shortfalls
- Revenues INCREASE as Total Assessed Value INCREASES because your mill rate stays constant (known as reassessment windfalls, or market-driven windfalls)
- Revenues DECREASE as Total Assessed Value DECREASES because your mill rate stays constant (market-driven losses)
- Optional exemptions cannot be enacted without an associated loss in revenue (does not shift taxation burden)
- Mandatory Seniors/Disabled Veteran Exemption erodes taxbase
- Does not allow for correlating expansion in budgetary revenue due to increased demands on municipal services due to new construction; thus shifts the need to other revenue streams
- Not congruent with sound financial budgeting
- Budget is subject to more market uncertainty because it is heavily reliant upon more elastic forms of taxation

PROPERTY TAXATION

Budget-Driven Mill Rate (No Tax Cap)

- Most municipalities budget this way because budgetary needs are spread over a large taxbase
- Mill rate adjusts to changes in revenues and assessed values, but usually floats minimally with taxbases (denominator) in the billion dollar range
- Allows for stable budgeting with forecasted revenues
- Provides for adequate revenues for identified budgetary needs
- An INCREASE in sales tax or other revenues will DECREASE the mill rate
- A DECREASE in sales tax or other revenues will INCREASE the mill rate
- As total assessed values increase (denominator) the mill rate decreases, assuming your revenues remain fairly stable (numerator)
- As total assessed values decrease (denominator) the mill rate increases, assuming your revenues remain fairly stable (numerator)
- Optional exemptions can be enacted without an associated loss in revenue (shifts taxation burden to other stronger segments)
- Mandatory Seniors/Disabled Veteran Exemption will continue to erode the taxbase
- Does allow for correlating expansion in budgetary revenue due to increased demands on municipal services due to new construction

**BUDGET-DRIVEN
Mill Rate**

**REVENUE
NEEDED
FROM
PROPERTY
TAX**



**TOTAL
ASSESSED
VALUE**

\$1.1B

Budgets & Taxes

How They Work

Budget-Driven Mill Rate

Step 1

$$\begin{array}{l} \$6.3\text{M} \\ \text{Budgeted} \\ \text{Revenue to} \\ \text{be Raised by} \\ \text{Property Tax} \end{array} = \begin{array}{l} \text{Debt} \\ \text{Service} \end{array} + \begin{array}{l} \text{Education} \\ \text{Operating} \\ \text{Expenses} \end{array} + \begin{array}{l} \text{Local} \\ \text{Government} \\ \text{Operating} \\ \text{Expenses} \end{array} - \begin{array}{l} \text{Revenue from} \\ \text{Sources other} \\ \text{than Property} \\ \text{Tax} \end{array}$$

Step 2

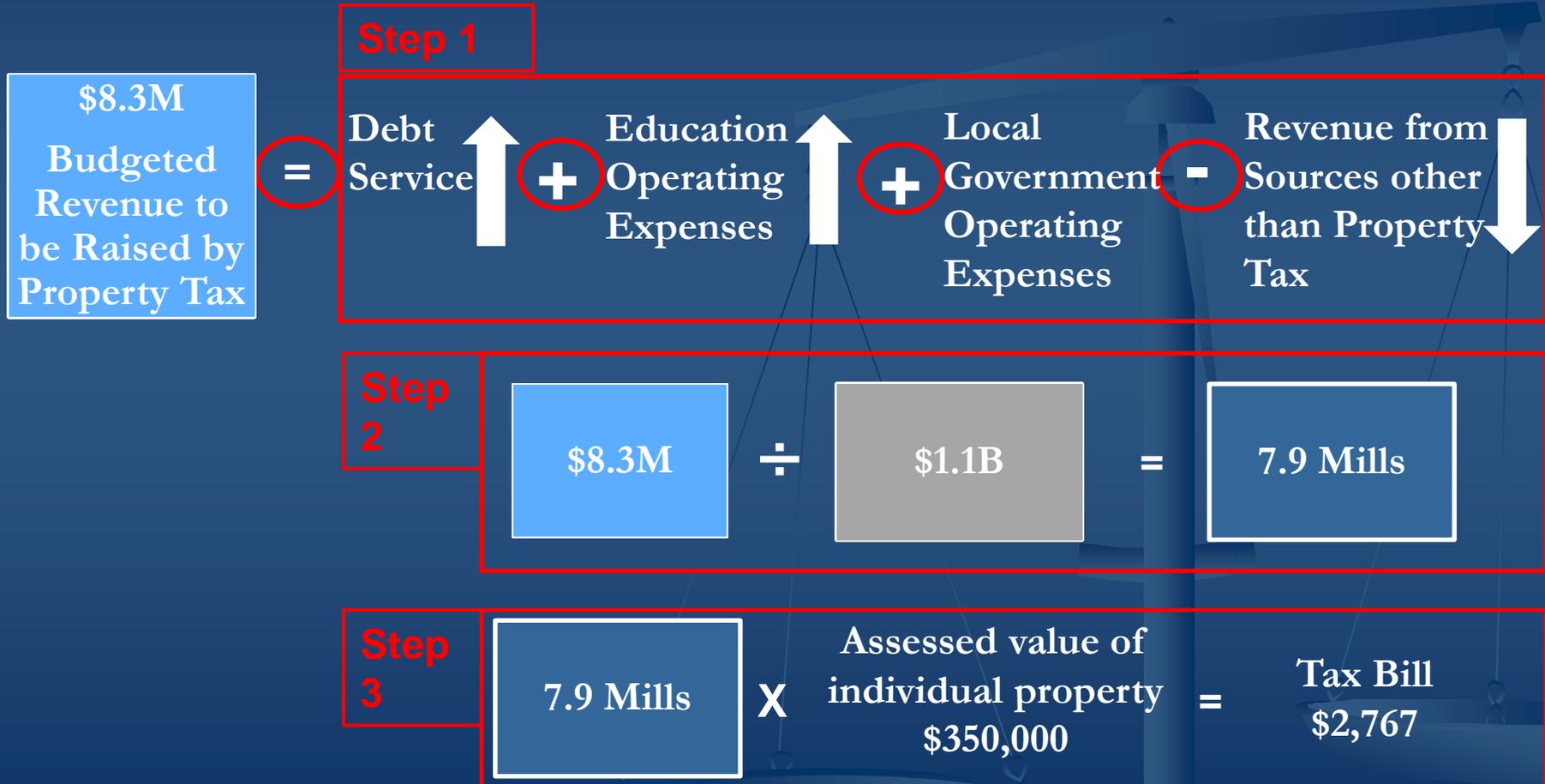
$$\begin{array}{c} \$6.3\text{M} \\ \div \\ \$1.1\text{B} \\ = \\ 6 \text{ Mills} \end{array}$$

Step 3

$$\begin{array}{c} 6 \text{ Mills} \\ \times \\ \text{Assessed value of} \\ \text{individual property} \\ \$350,000 \\ = \\ \text{Tax Bill} \\ \$2,100 \end{array}$$

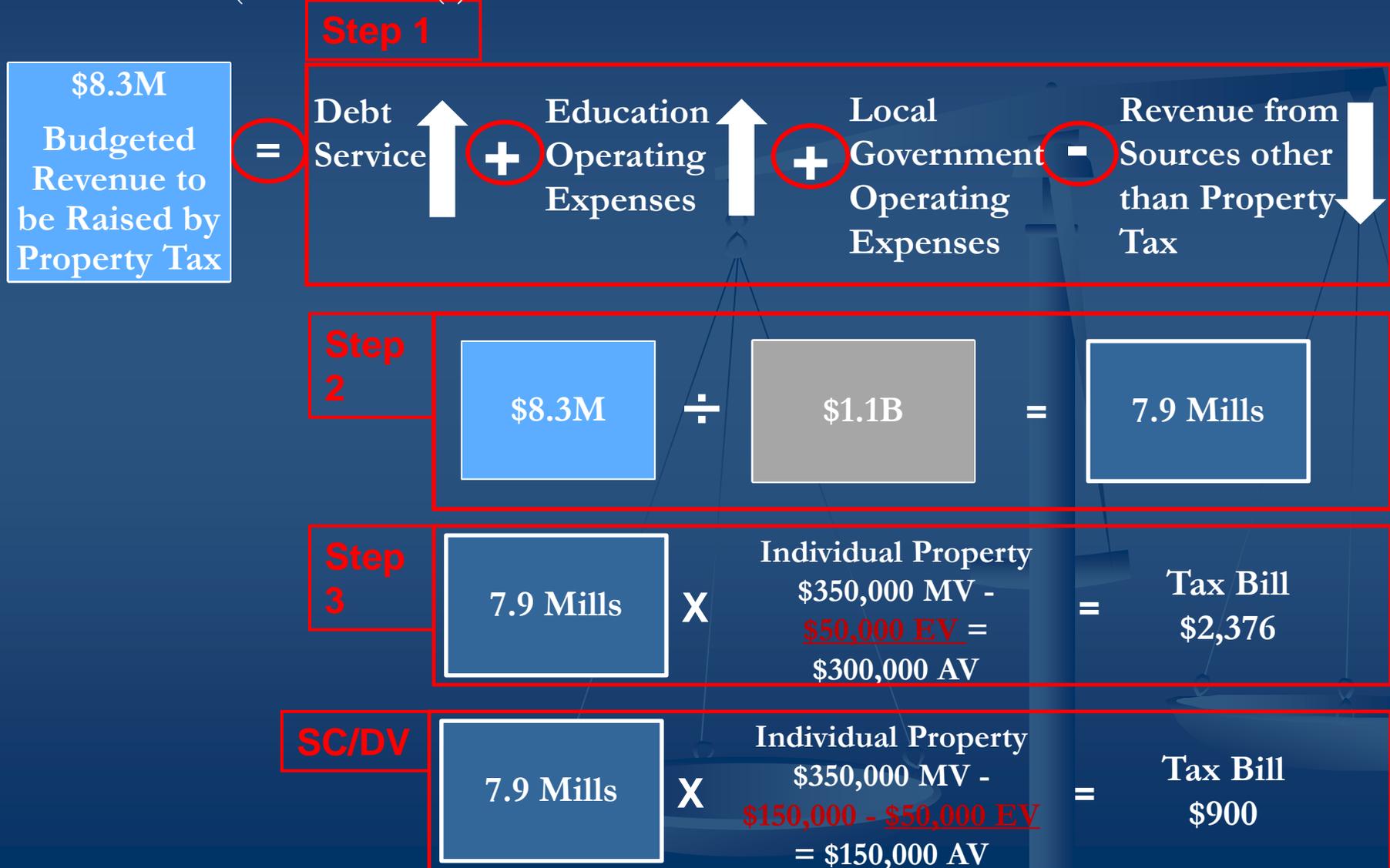
Budget-Driven Mill Rate Example

Budgeted Revenue to be raised by Property Tax Increases from \$6.3M to \$8.3M Because Of a Hypothetical \$2.0M Increase in Education Operating Expenses and Debt Service, and a corresponding decrease in Sales Tax Revenues for the year.



Budget-Driven Mill Rate Example

If we have this same increased Budgeted Revenue Need and we implement an Optional \$50,000 residential homeowner exemption, this will provide some tax relief for resident homeowners (AS 29.45.050(a):



TAXATION POLICY

We've talked about utilizing Sitka's Property Tax in various ways and in conjunction with an optional exemptions to create a taxation policy that strengthens the policy while providing taxation relief to a targeted segment, whatever they may be

- **Cannot Have Differing Property Tax Rates**
- **Can Offer Incentives to Resident Owners via Optional Property Tax Exemptions, or other targeted exemptions**
- **Can't Offer Optional Exemptions with a Tax Cap in Place**
- **Tools for Property Tax**
 - **Budget-Driven Mill Rate - Property Taxes (Real and Personal Property) – AS 29.45**
 - **Residential Homeowner's Exemption \leq \$50,000 – AS 29.45.050(a)**
 - **Optional Exemption for Personal Property – AS 29.45.050(b)(2)**

TAXATION POLICY

After community values are identified and community services are prioritized, we can craft a taxation policy that meets those goals by reviewing and refining Sitka's other taxation revenue streams

- **Sales Taxes (General Sales, Bed, Alcohol, Car Rental) – AS 29.45.650-.710**
- **Can Have Differing Sales Tax Rates (Case Law)**
- **Excise Taxes (Tobacco) – Voter Ratification Not Required**
- **Severance Taxes (Raw Fish, Gravel) – Very Liberal in Enactment at Borough Level**
- Fines & Fees (Administered at the Local Level with very broad discretionary authority)
- Investment Income
- Asset Return (Lease Income and Land Sales)

Level of regulation is directly correlated to the administrative expense of each revenue type

TAXATION POLICY

- In Summary, we can review, refine or restructure Sitka's Taxation Policy to meet identified goals

- Enforce current regulations, audit regularly, review overall taxation policy periodically

Increasing Regulation

- We can use any combination of taxation strategies as we've discussed

- Property Taxes (Real and Personal Property) – AS 29.45 & SGC 4.12

- Sales Taxes: taxes levied on retail sales, rents and services (General Sales, Bed, Alcohol, Car Rental) – AS 29.45.650-.710 – must be voter ratified

- Excise Taxes: tax on the performance of an act, engagement in an occupation, or the enjoyment of a privilege (Raw Fish, Tobacco, potentially Marijuana) – needs not be voter ratified

- Severance Taxes: a type of excise tax on natural resources (Minerals, Mining of gravel, rock, sand or coal, Production of coal or limestone, Timber & Raw Fish)

- Fines & Fees (Administered at the Local Level with very broad discretionary authority)

- Investment Income

- Asset Return (Lease Income and Land Sales)

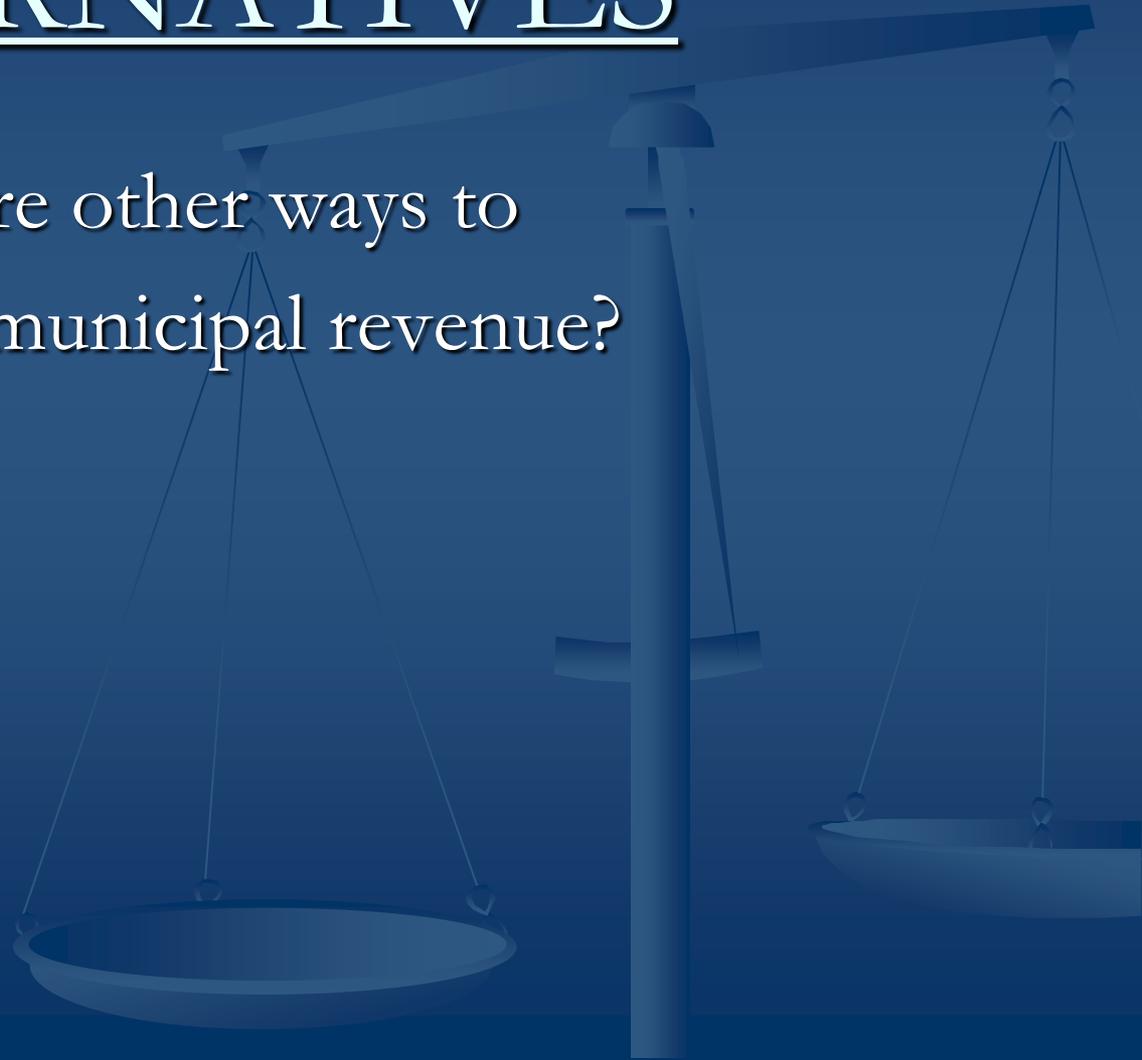
- Mill Rates are not equal! (Capped or Uncapped)

- Revenue Alternatives (attached for extra reading)

- Citizens' Taskforce to identify community values and core services so that we can begin this process

REVENUE ALTERNATIVES

Are there other ways to
subsidize municipal revenue?



Municipal Revenues-- Limited

- Municipalities are somewhat limited in how they may raise revenues
- A municipality is not a “business” that can expand its ability or start a new “venture” to raise revenues
- Revenue generation is generally limited to taxes or fees for services rendered; although they are a few exceptions (i.e. gaming)
- Usually, the public will view any new revenue scheme with skepticism and label it just “another tax” enacted by the government!
- Good communication with the public will help in letting the them know what is going on and why

Reason for Revenues

- What is the reason of the need for more revenue?
- Does the revenue scheme fit the mold for taxes or fees?
- Is there a need for new infrastructure?
- Was the need caused by some new subdivision activity that should help defray the costs ?
- Is the need simply caused by the decline of other taxes/fees?

Taxes versus Fees

Is there a difference?

Yes, there is!

TAXES

- Taxes are used to raise revenues
- Most taxes require approval from voters
 - Home rule v. General law
- Are distinguished from fees by the objectives for which they are imposed.
- If imposition is for the purpose of raising revenues, it is a tax, but;
- If the purpose is for regulation of some activity under police power of the municipal authority, it is a fee.
- Real Estate Transfer Tax or Fee ??

FEES

- Generally fees are revenue amounts that are reasonably calculated to recover the cost of providing a service or administering a program.
 - Mapping fees
 - Solid Waste fees
 - Utility Fees
 - BOE Fees (appeal)
 - Recreation Fees
- Fees that greatly exceed such limits are often viewed by the courts as taxes.

Revenue Sources

- **G.O. Bonds**
- **Revenue Bonds**
- **L.I.D.** (*Local Improvement Districts*)
- **Grants**-*State/Federal; Private foundations*
- **Gifts** from individuals
- **Port Authorities**
- **Fines/Penalties**
- **Departmental Fees:** *P & Z fees, building inspections, emergency services*
- **Gaming** – *pull tabs-bingo*
- **Alcohol permits**
- **Land sales and leases**
- **School use fees**
- **State Revenue Sharing**
- **Federal PILT**
- **PILT's** (*NSB sales & use tax*
NWAB Property Tax PILT)
- **Impact Fees**
- **Taxes**

Types of Taxes

- Property Tax
- Head Tax
- MVRT
- Employment Tax
- Bed or Room Tax
- Fuel Transfer Tax
- Co-op Taxes (*Tele.-Elec.*)
- Business License Tax
- Sales and Use Taxes
- Value Added Tax
- Severance Tax
- Property Transfer Tax
- Income Tax
- Gross Receipts Tax

Municipal Services & Assets

- **Improved Collections** of all taxes, fees & penalties – collection agencies, commercial attorneys
- Property Sales & Rentals
- Utility and Service Revenues
- Games of Skill and Chance

Property Sales & Rentals

- Sell or Lease
- Lease rates--percentage vs. fixed
- Rates adjusted to market at reasonable intervals or too long of intervals
- Property inspection periods to see if property is being maintained properly.

Utility Service Revenues

- Are some of the services offered free of charge?
- Water rates- charged at a sliding scale? How about changing the brackets on the scales?
- Are reduced rates offered to special groups? Long term customers? Senior Citizens?
- **Collections**- How large is the delinquent account ledger? Collections should be as close to 100% as possible--Not always popular, especially by those who do not pay.

Games of Skill and Chance

- Municipalities may obtain permits and operate bingo games, pull tabs, raffles, lotteries and other games of skill and chance
- For smaller municipalities, this can provide a large revenue source.

Property Tax Collection

- Some Muni's are very lax in collection of delinquent property taxes.
- Some are very lax on collection of late filing fees
- No tax foreclosures in years
- Creates poor public perception of government's responsibilities
- Denies the Municipality revenues and creates inequities
- May affect bonding capability
- Need to revisit existing exemptions

Sales Tax

- Most common source of revenue for smaller Alaska Municipalities
- Easiest tax to administer for municipality
- In most municipalities must be approved by voters.
- Broad authority to adopt exemptions.
- Are usually based upon retail sales
- Can also be applied to wholesale sales
- Varying rates throughout the year may be used
- Watch out for legal issues--alcohol--nonresidents

Use Tax

- Companion to sales tax
- Levied at the same rate as a sales tax
- Taxes items brought into the municipality that escaped the local sales tax
- Difficult to administer, especially smaller items
- Typically is applied at the retail level, not wholesale
- Larger items, boats, vehicles, etc, easier to locate
- Items like alcohol need a delivery side agreement to help with the tax.

Property Tax

- A tax on the market value of real and personal property
- May exempt all or different categories of personal property
- Needs either an assessors office or a contract assessor
- Either way, requires someone in the municipal office to change names, addresses, offer information
- Expensive to set up--moderate expense to maintain

MVRT

- Motor Vehicle Registration Tax
- Does not require municipality to have a property tax
- If you do have a property tax, you must totally exempt vehicles from ad valorem tax
- Little involvement for municipality
- Tax is collected by the state at time of vehicle registration and returned to municipality
- Assembly/Council sets rates

Employment Tax

- Generally a flat rate levied each year from the first paycheck of a person employed within the municipality
- Does not apply as a percentage of income
- Applies only to those holding employment

Bed or Room Tax

- Considered a sales tax for legal purposes
- Based upon the rental of a room (percentage or flat rate)
- Could be based upon number of rooms and be more like a business tax
- Could also be based on a number of ways, including gross revenues of business

Business License Tax

- Focuses on categories of business
- Could be flat rate or percentage of gross sales
- Could vary by business
- Applied using various methods;
- Average number employees, number sq.ft. etc.

Fuel Transfer Tax

- Tax levy on the transfer of fuel
- Can be based upon percent of value, or
- Can be based upon rate per gallon
- Tax can only be sales of fuel or actual use of fuel, not simply a transfer of fuel
- Can be levied on combination of fuels or only on aviation gas, diesel, jet fuel, etc.

Value Added Tax

- A tax on the manufacturers based upon the value added to a product by the manufacturer
- Focuses on the difference between the value of the materials when received by the manufacturer and the value of the product when it leaves the hands of the manufacturer
- Does NOT focus on the profit but the value added by the process

Severance Tax

- A tax on the privilege of severing natural resources from the earth.
- Could apply to fish, timber, minerals and other materials
- As with many other taxes, could be levied by a number of methods such as weight, volume, number, value or type.

Property Transfer Tax

- Usually based upon the value of the real property which is transferred from one owner to another
- Easily administered when tax is levied by the state
- Enforcement of the tax is very difficult without state cooperation, which is not automatically guaranteed

Income Tax

- In Alaska municipalities may not levy a tax on individuals but arguably may on corporations
- Administration is difficult due to income being earned in more than one location
- Allocations will have to be made

Gross Receipts Tax

- Imposes a tax on Gross Receipts of businesses income
- Usually a percentage of the gross income
- Is NOT an income tax
- May adjust exemptions to local economics
- For example first \$50K of income is exempt
- Thus no effect on small businesses
- Businesses, typically, do not like this tax
- Can cause more work for businesses
- Taxes will be rolled into sales prices as all other income and other like taxes

Summary

- Lots of revenue ideas out there
- None will be any good if proper collection procedures are not enforced
- Any new revenue scheme will probably be challenged and may end up in court
- Check with your attorney prior to any serious consideration of a new revenue source-check statutes prior to implementing any