

Office of the Assessor City and Borough of Sitka

Annual Assessment Revaluation – January 1, 2018:

Taxable property located within the borough has been valued and assessment notices were mailed March 15th. The taxbase increased to \$1.12B this year with a net increase in real property value of \$40.6M (4.1%), and a marginal increase of \$0.9M (1.5%) for personal property. Real property gains included an estimated \$25.2M in new construction, which breaks down into a \$9.8M increase in commercial and a \$15.4M increase in residential value. The average residential value increase for this revaluation year was \$13,700 per property, which amounts to about 3.6% of market value on the single-family average sales price of \$378,400.

Residential New Construction starts totaled 6 new single-family homes ranging in size from 1,800-2,800 square feet and averaging \$552,600 in value. There were 7 lower-end market value home-starts in 2017 ranging in size from 326-912 square feet and average \$121,100 in value. The Sitka Community Land Trust broke ground on their Halibut Point Cottages project, but construction was halted due to permitting delays. Therefore, there were no mid-range new construction residential starts in 2017. These statistics point to an increasingly tight market for your average homebuyer shopping in the mid-range market. Couple this with the rise in the number of short-term rentals and you have the makings of a very challenging housing market. The Assessing Department will compile final numbers on short and long-term rentals this year, check back for updates on this segment.

Commercial New Construction highlights include BIHA's addition of (12) 1- and 2-bedroom units to its Indian River project this year for an estimated cost of \$3.3M in exempted value, and Sealing Cove Properties LLC's conversion of unutilized warehouse space into (6) new 1- and 2-bedroom long-term rentals for a total estimated project value of \$1.2M. Other commercial gains include the addition of (5) new GPIIP leases for the addition of \$1M in assessed value, and the newly installed GPIIP dock which should help to increase leases and market activity in the GPIIP Industrial Park. Marijuana cultivation has added an additional \$3.5M in value for new construction starts and interior build-outs.

Mandatory Exemption Losses of \$82.8M in exempted value represented an increase in lost value of \$(1.47M) over the prior year. This the amount exempted from our tax roll for the year 2018 for those seniors and veterans eligible for the \$150,000 real property resident exemption.

Sales Analysis:

Real property transfers continued to be strong in 2017 with 186 market sales, and 51% of the market sales prices were disclosed to the Assessing Department, leaving 49% of relevant market data unavailable for valuation purposes. A good percentage of Sitka's sales are not professionally marketed, moving by word of mouth or alternate advertising means, and thus cannot be found on a multiple listing service database. In addition, 25% of this year's sales were cash transactions which also may not appear in centralized market database. All of these factors combined, leave holes in the data available to the assessor for valuation analysis and can have an effect on the accuracy of assessed values. Despite these challenges the following facts were gleaned from the sales information that was disclosed and are provided for reference.

Sale Type	Count	Avg Sale Price	Minimum	Maximum
Single-Family	34	\$378,400	\$100,000	\$725,000
Residential With Apartment	11	\$440,800	\$355,000	\$618,000
Zero Lot Line	2	\$357,500	\$315,000	\$400,000
Condos	4	\$174,000	\$145,000	\$190,000
Land	18	\$77,300	\$8,000	\$240,000
Multi-Family	1	\$212,000	\$212,000	\$212,000
Mobile Home	15	\$48,700	\$4,000	\$179,500
Multi-Parcel Sales	1	\$1,658,700	\$1,658,700	\$1,658,700
Commercial	1	\$1,750,000	\$1,750,000	\$1,750,000
Island	4	\$312,000	\$100,000	\$500,000

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Market Details: For those of you who like to dive into the details this section is for you.

Reinventory Spotlight:

Reinventory is the systematic reinspection of real property in an area for the purpose of mass-appraisal, and the end result is a revaluation. Reinventory of over 4,000 real property accounts is accomplished by segmenting the borough into six reinventory areas and property in each is inspected and revalued in this manner at a minimum at least once every 6 years to keep property characteristic information current. This means that in practice, each year about 600 properties get reinventoried, and the rest get trended based upon market analysis. Reinventory can occur every year if resources allow, or an event such as new construction or a sale warrants a reinventory out of the normal cycle. The current area of reinventory continues to be the north end of the city proper and island properties; however, several other areas were reinventoried this past year, a few of which are highlighted as follows.

Indian River

The Indian River area was reinventoried in full in 2017 and 122 properties were revalued. The area had not been reinspected since 2003; therefore, increases above the average resulted. Increases in this area averaged 18%, and ranged from 1%-39%. Completing this area wide revaluation took the AV Ratio from 85% to 99%, meaning the city is now assessing at 99% of market value for this area.

Islands

Island revaluations were begun this year due to the necessity of re-plats and a conglomeration of sales; because the outlying island in general have not been revalued since 2003, increases above the norm were the result. Ring, Little Ring, Long, Whale, Kasiana and Finn island were revalued this year as part of the ongoing area-wide reinventory process.

Gary Paxton Industrial Park (GPIP)

GPIP values were readjusted this year based primarily on the 2014 commercially appraised values, adjusted for time, as well as a few interim sales since that 2014 valuation. Leasing and market activity has increased since the park was removed of rock deposited there after the construction of the Blue Lake Dam. The estimated additional assessed value due to this activity is \$1M.

Rental Market

Short-term rentals continue to grow, and thus the supply of long-term rentals continue to decrease. This is fueled in part by the steady to increasing tourism market with Sitka being a top-rated destination due to natural beauty, temperate climate and unrivaled outdoor opportunities. Quantified analysis on short- and long-term rentals will be completed by year end and an analysis will be published.

Marijuana Cultivation

Marijuana cultivation is an increasing commercial segment in Sitka with 2 new commercial-grow construction-starts, and 8 custom interior space build-outs to accommodate this market. The estimated additional assessed value due to this activity is \$3.5M.

Market Factors:

Economic factors such as housing supply & demand, employment, wages, inflation, and interest rates are implicit factors which can, and do, affect value despite the fact that there may have been no actual physical changes to each individual property. These factors are implicit in nature and difficult to measure, but are an essential piece to the valuation process. Factors such as new construction, demolition, and depreciation also affect overall value levels and can easily be measured. It is the Assessor's duty to measure and weigh all factors when revaluing property. This is the annual assessment process, and full and true value is our valuation standard mandated by state law.

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Full and true value is Sitka's definition of market value, and it is set by the market, not by the Assessor. We measure that value through arms-length sales between willing buyers and sellers. Full and true value is defined as "the estimated price the property would bring in an open market and under the then prevailing market conditions in a sale between a willing seller and a willing buyer both conversant with the property and with prevailing general price levels." Therefore, any sale not meeting this criteria is not used for valuation purposes.

During the prior calendar year, local market conditions produced steady appreciation in real property values, and sales analysis shows this to be about 5% last year. A very tight supply of homes available for sale, matched with steady demand, helped to maintain market levels with at an average residential sales price of \$378,400. New construction in 2017 amounted to an estimated \$25.2M and this reflects a healthy economy and growing demand on existing infrastructure and core city services such as schools, police, fire, public works, planning, and assessing.

Property Values are the Basis for School Funding:

Boroughs are required to provide educational services for their residents, and funding for that required mandate has been challenging. Funding is based upon a complicated state formula which accounts for the level of student enrollment, federal funding if any, state funding, and a required local contribution based upon the municipality's ability to pay as indicated by the level of real and personal property value within the borough.

The basis for the required local contribution is Sitka's property taxbase. School funding is directly related to Sitka's assessed property values and thus school funding is intended to move in conjunction with changes in those values. Therefore, it is essential that property values are as close to market value as possible so that the municipality is collecting revenue to support local government and thus schools in a consistent and sound manner. There have been municipalities within the state that assess at levels below 80% of market value and this makes school funding and general government functioning problematic. The municipality is essentially leaving 20% of the potential revenue "on the table" by not assessing at 100% of market value on all real and personal property. This subtle factor makes proper management of the property taxation function essential.

Sitka's required local contribution is based upon *Sitka's Full Value Determination*, as calculated by the State Assessor's Office. This *Full Value* is derived from our local real and personal property values through an equalization process. First, the state starts with our property taxbase (\$1.12B) and then adds back in all of the city's optional exemptions, such as exempted assessed values for all exempted personal property and some real property exemptions such as the Sitka Fine Arts Campus, the Fortress of the Bear, NSRAA Properties, and various others that are determined to be serving a community purpose. The state then equalizes this amount by dividing the total taxbase by the AV Ratio (95%), thus bringing each municipality to 100% of market value. This is why it is essentially important to maintain the property taxbase at market value; the state expects a municipality to tax at market value in order to collect the appropriate level of revenue to pay its share of the required local contribution.

Therefore, the increases in Sitka's *Full Value Determination* of approximately \$70M each year are not representative of what Sitka collects taxes on. This increase is representative of an *equalized value* with all optional exemptions added back in, and adjusted back to 100% of market. Sitka historically has *unequalized* increases of \$39-\$41M each year, and this is the amount that the city receives revenue on. The takeaway is this: for local government and thus school funding to be a priority, any future exemption and all current optional exemptions must be weighed very carefully to ensure that the revenue loss truly can be foregone for these exempted properties. The exemption must be due to a relatively high administrative cost, as in the case of assessing personal property which is moveable and proprietary in nature and would require an additional staff of two full time equivalents to accomplish, or be serving the community in some way in order to justify this loss of revenue. To this end, a complete review of Sitka's 20+ Optional Community Purpose Exemptions totaling an estimated \$40M will be conducted and will be up for Assembly review within the next year. In addition, the state has formulated a school funding task force to reexamine the methodology of school funding, as most municipalities, those without significant oil and gas personal property, have exempted personal property from taxation due to the inherent challenges in assessing it. Because of the current school funding formula, Sitka gets an additional \$30M added

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back into the taxbase due to exempted personal and community purpose property. This review process will take about a year to complete and revised legislation may or may not arise out of this process next year.

Property Taxation as the Cornerstone of Local Budgets:

Property tax is the cornerstone of municipal government funding across the nation, and it is for various reasons: it is a stable taxbase that moves with overall market values and can weather financial turbulence that other forms of taxation cannot such as sales and excise taxes, and it is an “ad-valorem” tax (based upon the theory that the ownership of real property is a good indicator of one’s ability to pay).

There are 36 Alaska boroughs that fund general government services and schools through a local property tax with mill rates that range from 5 to 30. Sitka’s 6 mill rate has been steadily generating about \$6M+/- for the support of general government services and schools for some time now. Sitka’s property taxbase is relatively strong in both commercial and residential value, with a mix of about 25% commercial and 75% residential in value.

Sitka’s residential taxbase is one of comparatively greater value than surrounding comparable boroughs with a higher percentage of mid- to high-value homes. Sitka’s residential property values are probably in the top three highest in the state, with 252 residences above \$500,000 in value, and the top 15 residential homes valued in excess of \$1,000,000. Of note is a relatively lower number of lower-value homes compared to our two most similar boroughs, Ketchikan and Juneau. These residential counts include all types of residential units such as: mobile homes, condos, single-family and single-family with an apartment or additional dwelling unit. The data shows that Sitka’s most comparative community, Ketchikan, has a larger percentage of lower- to mid-range value homes for a population of similar size. Juneau, with a population of 33,000+ has a larger percentage of higher-end homes, as would be expected due to its unique economic factors being the state capitol.

Sitka - 6 Mills			Ketchikan - 5 Mills			Juneau - 10.76 Mills		
Count	%	Residential Value Range	Count	%	Residential Value Range	Count	%	Residential Value Range
894	38%	\$1 to \$249,999	2310	53%	\$1 to \$249,999	2334	24%	\$1 to \$249,999
1205	51%	\$250,000 to \$499,999	1810	42%	\$250,000 to \$499,999	6033	61%	\$250,000 to \$499,999
237	10%	\$500,000 to \$999,999	210	5%	\$500,000 to \$999,999	1503	15%	\$500,000 to \$999,999
15	0.6%	\$1,000,000+	9	0.2%	\$1,000,000+	42	0.4%	\$1,000,000+

Other strong economic drivers supporting the local taxbase are Sitka’s two hospitals, a substantial Coast Guard presence, marine commerce, strong and steady tourism, and a fishing port ranked in the top five according to value landed. Sitka has many strong economic sectors, as well as some challenges due to its remoteness, but has a property taxbase that has been historically strong, even through the economic recession of 2007-2009.

Assessment Systems:

Mass appraisal is the valuation of thousands of properties on an annual basis utilizing assessment systems (technology and staff). Mass-appraisal differs from what we call the “fee-appraisal” process in the scope of work and the sales data available for valuation purposes. The mass-appraisal process utilizes the same three approaches to value and the use of a sales data set of hundreds of sales (instead of 3-5 sales) to support value conclusions. Because of these differing scopes of work, the products produced are slightly different.

Mass-appraisal models will produce values that are equitable between like-properties, but not as granular in detail as a private fee appraisal. Your assessed value in other words may not exactly match your most recent fee appraisal due to the differing scopes of work, the type of valuation and the level of detail involved, and the data at hand necessary to produce that valuation. Mass-appraisal effectiveness is measured by the assessed value to sales price ratio (AV Ratio), and have historically ranged between 94-98%. Last year’s AV Ratio was 95%, which simply means that on average, we are assessing at 95% of market value.

CAMA systems are essential to effectively and systematically value thousands of properties each year. Sitka’s assessment systems have historically had some limitations and were the primary contributing factor to assessment

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increases larger than the average annual increases for the past few years. Prior to 2017, Sitka's assessment systems consisted of a very limited Computer-Assisted Mass-Appraisal (CAMA) system, and three full-time staff to manage over 4,700 properties and serve 9,000+ residents. The lack of an adequate valuation system did nothing to further the department's charge to adequately maintain the property tax base and produce equitable market valuations. In order to adequately maintain the property taxbase and thus maintain valuation equities between like-properties, regular reinspections and revaluations need to take place each year so that assessments stay at market value. A systematic effort was begun in 2015 to reinspect all properties within a five-year time-frame and bring the entire taxbase up to market value. We are in year three of this project and this year is marked by the implementation of a new CAMA system with the capability to value in mass. Within the next two years all properties should have been reinspected and revalued with the use of this new system, with the end-goal of equitable valuations across the borough.

Equity and Full and True Value (Market Value):

In summary, these limitations have resulted in falling behind in our state law mandate to revalue each property every year, and revisit each property at least every six years. When properties are not revalued within these parameters, all properties will not be at full and true value and inequities most-likely will exist. Thus assessment systems limitations are the primary driving factor in real property value increases this year again. It is estimated that about 99% of the properties in the current area of re-inspection, the north end of the borough and island properties, have not been re-inspected and revalued since 2003-2004. This creates value changes in excess of the average value increase of \$13,700 per property, about 3.6% of market value on the single-family average sales price of \$378,400.

The Assessing Department strives to ensure the equitable valuation of all properties, so please weigh all of these factors when reviewing your assessment notice and report any errors, omissions, inaccuracies that need to be addressed. State law also affords for informal and formal review periods where your concerns about your assessment value can be addressed.

Exempted Property Values Totals are Increasing Each Year:

While assessed values have steadily increased over the years, exemption totals for property subject to mandatory, and optional, exemptions have increased as well. This year's increase in exempted assessed value was (\$1.47M). This was due primarily to the net increase of 8 senior and veteran \$150,000 household exemptions in 2017, taking the total eligible for this program from 582 to 590. The 590 household receiving this exemption comprise about 19% of the estimate of total eligible households in Sitka, and exempted value totals 7.4% of the total assessed real property within the borough. These totals increase exponentially each year due to our aging population, and our attractiveness as a retirement community.

Changes in Personal Property Taxation for 2018:

Personal property consists of moveable property such as boats, airplanes, machinery & equipment and is handled a little differently. All personal property, except for business personal property and non-light aircraft, has been exempted. In addition, because personal property is movable and can be proprietary in nature, state and local law places responsibility on the property owner to report its ownership annually. Therefore, it is important for you to inventory and report any changes in your taxable business personal property holdings every year by February 15th; failure to do so will result in a \$100 failure to file fee. This fee has been in place since 2013 and will not be waived by the Assessing Department. Your personal property assessment is appealable through both the formal and informal review process, but the failure to file fee is not.

All businesses operating within the city must annually submit a Business Personal Property Declaration regardless of total valuation of assets in order for the Assessing Department to determine whether the \$25,000 exemption applies. All aircraft owners must submit a Business Personal Property Declaration for their aircraft in order to determine if the light-aircraft exemption applies.

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Assessment Review – March 15th-April 16th:

The Assessing Department will continue to offer property owners the ability to review assessments, discuss property details, or secure information about the valuation methodology during the informal review period of March 15th to April 16th. It is your duty as a property owner to examine your assessment record, and to provide any and all market data to support a value conclusion that is different from the one on your notice.

We encourage you to visit our office during this time and review your property valuation with us during this informal review period. If you are seeking a value adjustment, mandatory information required for this request will be a recent appraisal, a HUD closing statement, or recent comparable sales to support your opinion of value, and a comprehensive property inspection.

If you feel your concerns about your assessed value have not been adequately addressed you have the right to file a formal appeal by doing so in writing before **4:00PM April 16th, 2018**, to schedule a hearing before the Board of Equalization.

[Assessing Department](#)

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