

Office of the Assessor City and Borough of Sitka

Annual Assessment Revaluation – January 1, 2019

Taxable property located within the borough has been valued and assessment notices were mailed March 15th. The taxbase marginally increased to \$1.10B, an increase of \$4.2M (0.4%) this year which breaks out to a net increase in real property value of \$9.5M (0.1%), offset by a decrease of \$5.3M (-9.2%) in personal property.

This year's valuation numbers indicate a significant slowing in the real property gains due to non-market factors such as limited staffing resources in 2018, a larger than normal increase in senior exemptions, and challenges with CAMA software issues. These factors, when combined with a larger than normal decrease in personal property, made any gains in the overall assessed valuation minimal and not necessarily reflective of observed market increases.

The real estate market overall was observed to have increased by an estimated 5%-10% during 2018, and this observation is supported by the 12% increase in the average single-family residential sale price from \$378,400 in 2017, to \$425,100. Sales volume also increased from 91 sales in 2017 to 125 sales in 2018, a 37% increase. Real property sales during 2018 were strong, particularly in homes priced below \$500,000.

The most significant factor offsetting real property assessed value gains this year was the loss of one-third of the department's staff for one-fourth of the year; staffing turnover affected the total output achievable by a substantial amount. In addition, a significant increase in the number of qualified Senior Exemption applicants decreased the taxbase by about \$2.0M, and significant software issues related to the new MARS CAMA system were also a significant impact on the department's achievable output. Equally offsetting was a larger than normal decrease in personal property values. Decreases in personal property happen from time to time when large construction projects in the economy end, such as after the construction of Blue Lake was completed and equipment was significantly removed from the borough, or when market commerce and general activity drops overall. Last year's larger than normal drop in personal property valuation levels is most likely indicative of some market downturn in business activity.

Real property gains did include an estimated \$8.5 M in overall private sector new construction, which breaks down into a \$2.6 M increase in commercial and a \$4.6 M increase in residential value. Marijuana cultivation new construction was the driving force in 2018, but in 2018 marijuana cultivation tenant improvements were more of the norm. Therefore, there were no large gains in commercial new construction this past year.

The average residential value increase for this revaluation year was \$38,700 per property, which amounts to about 9% of market value on the single-family average sales price of \$425,100. The primary reason for this year's increase in value is due to the fact that most of the properties being revalued have not changed value since 2003 when the last area wide revaluation took place.

Residential New Construction

There were 17 residential new construction starts for the year 2018. The upper end price-point range of \$500,000 or greater sale price saw 3 new single-family homes added, ranging in size from 2,000-2,400 square feet and averaging \$600,100 in value. The mid-range price-point added 8 new single-family homes ranging in size from 1,100-2,700 square feet and averaging \$380,600 in value, and there were 6 lower-end market value home-starts in 2018 ranging in size from 300--900 square feet and average \$72,200 in value.

Commercial New Construction

Commercial construction was fairly light this year with most new construction being of state or city infrastructure.

Mandatory Exemptions

Increases in the number of seniors and disabled veterans eligible for the mandatory \$150,000 exemption resulted in \$84.8 M in exempted value for Tax Year 2019, which represents an increase in lost value of \$(2.0 M) over the

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prior year. There were 22 disabled veteran and 583 senior citizen recipients this year, and exempted taxes amounted to \$509,000 this year, up from \$496,000 the prior year.

Sales Analysis:

Real property transfers continued to be strong in 2018 with 125 market sales, and 50% of the market sales prices were disclosed to the Assessing Department, leaving 50% 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	46	\$ 425,100	\$ 85,000	\$ 950,000
Single-Family (Foreclosure)	3	\$ 235,700	\$ 111,800	\$ 390,000
Residential with Apartment	16	\$ 510,700	\$ 290,000	\$ 1,400,000
Zero Lot Line	6	\$ 316,300	\$ 270,000	\$ 445,000
Townhomes	1	\$ 372,500	\$ 372,500	\$ 372,500
Condos	1	\$ 295,000	\$ 295,000	\$ 295,000
Mobile Home	7	\$ 96,300	\$ 5,000	\$ 285,000
Multi-Family	7	\$ 297,600	\$ 75,000	\$ 589,000
Land	27	\$ 140,100	\$ 15,100	\$ 325,000
Island Vacant Land	5	\$ 95,400	\$ 14,000	\$ 325,000
Island Single-Family	4	\$ 491,300	\$ 49,400	\$ 1,500,000
Commercial	2	\$ 1,850,000	\$ 1,300,000	\$ 2,400,000
Grand Total	125	\$ 427,200	\$ 5,000	\$ 2,400,000

Market Details: For those of you who like to dive into the details the following detailed 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.

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 was steady during 2018 with no new construction starts, with most activity being interior build-outs for new facilities.

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

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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.

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%-10% 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 \$425,100. New construction in 2018 amounted to an estimated \$8.5 M reflecting a steady 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 (\$1.10 B) 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 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, and not leave money "on the table."

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 \$30-\$40M 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, all optional exemptions must be weighed very carefully to ensure that the revenue loss truly can be foregone for these exempted properties. They must truly either be not administratively feasible, 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.

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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 “ad-valorem” (based upon the theory that the ownership of real property is a good indicator of one’s ability to pay). A feature of that cornerstone is a budget-driven mill rate, one that fluctuates given changing budget demands, which is an essential design element of the property tax particularly in times of declining revenues. There are 36 Alaska boroughs that fund government and schools through a local property tax; mill rates range from 5 to 30, and most have a budget-driven mill-rate. Sitka’s 6 mill rate is next to lowest and has been since 1986.

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 increases larger than the average annual increases for the past few years. Prior to 2018, 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 five of this project and are 50% accomplished towards this goal’ the past year’s challenges significantly set the department back on accomplishing this goal and therefore a new plan forward must be charted in order to complete a full re-inventory of the borough as soon as possible.

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 \$38,700 per property, about 9% of market value on the single-family average sales price of \$425,100. The department is finishing up island reinspections this year and those properties will be revalued in Tax Year 2020. 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.

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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 (\$2.0 M) up from (\$1.47M) the previous year). This was due primarily to the net increase of 17 (up from a net increase of 8 last year) senior and veteran \$150,000 household exemptions in 2018, taking the total eligible for this program from 589 to 606. The 606 households receiving this exemption comprise about 19% of the estimate of total eligible households in Sitka, and exempted value totals 7.6% 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 2019:

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.

Assessment Review – March 15th-April 15th:

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 15th. 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 15th, 2019**, to schedule a hearing before the Board of Equalization. You must submit documented evidence to support your appeal by this final deadline.

[Assessing Department](#)

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