

POSSIBLE MOTION

I MOVE TO approve Ordinance 2016-45 on second and final reading.



City and Borough of Sitka

100 Lincoln Street • Sitka, Alaska 99835

Coast Guard City, USA

MEMORANDUM

To: Mayor Hunter and Assembly Members
Mark Gorman, Municipal Administrator

Date: December 21, 2016

From: Wendy Lawrence, Assessing Director
Wendy Lawrence

Subject: Proposed Changes to Personal Property – ORD 2016-45

Personal property is tangible property not affixed to land, and by its very nature is a non-productive property taxation segment. Personal property is moveable and business proprietary, therefore a municipality should tax this property type only if: 1. it is a strong personal property type, and 2. it is relatively easy to administer.

These two criteria were used when analyzing the three scenarios for personal property taxation: full taxation, complete exemption, and exemption of all personal property except business personal property. Full taxation and full exemption scenarios were found to be non-cost-effective, requiring hiring of additional staff and significant loss of revenue respectively. Therefore, the recommendation to exempt all personal property except business personal and non-light aircraft was presented.

Concerns about the exemption of all boats are valid but please keep in mind taxation of boats may meet the strong tax type criteria, but not the ease of administration criteria and thus was recommended for exemption in full. The taxation of boats under the heavily regulated state statute of Title 29.45 is not cost-effective and therefore is not recommended due to the level of regulation it mandates.

The associated revenue loss of \$137,400 will be offset by gains in both real and personal property, and could be recaptured through the following alternative options, with less overhead administrative costs:

1. Continued dedication to the Harbor Department through a General Fund transfer
2. Collection of fees through the harbor billing in an amount equal to those collected through the Assessing Department
3. Establishment of a \$/day guide excise tax for boats & airplanes used in guiding or tourism business activities, and/or an annual permit fee on lodge operators (Example: [Lake and](#)

[Peninsula Borough Chapter 6.50 Imposition of an Annual Permit Fee on Lodge Operators and Professional Guides](#)

If you'd like further information and analysis on any of these options please let me know. Please keep in mind:

- Seventy-eight percent of all municipalities that levy a property tax have exempted personal property taxation in some manner
- All surrounding southeast Alaska communities that levy a property tax have exempted personal property in full incentivizing registration in those communities even though they might be physically located here
- Eighty-six percent of the total \$92,000 received in the form of the Failure to File Fees (\$100 each) were from boats indicating that after three years taxation of boats still remains problematic

Memorandum

TO: Mayor Hunter and Members of the Assembly
Mark Gorman, Municipal Administrator

FROM: Wendy Lawrence, Assessing Director

DATE: December 7, 2016

SUBJECT: Personal Property Changes for Greater Efficiencies in the Administration of the Property Tax

Personal property is tangible property not affixed to land, and by its very nature is a non-productive property tax segment. Therefore 78% of municipalities that levy a property tax have exempted personal property in some manner. Personal property is movable by nature and at times business proprietary in nature (boats & aircraft for example); therefore a municipality should only tax personal property classes that produce a strong and stable revenue stream. In Sitka, administration of the personal property tax consumes about 60% of the Assessing Department's total resources and produces about 8% of the revenue.

Property Tax - Fiscal Year 2016				
Type	Revenue	% of Revenue	No. of Accounts	% of Accts
Real Property	\$ 5,846,800	92%	4,100	59%
Personal Property	\$ 527,500	8%	2,800	41%
Totals	\$ 6,374,300		6,900	

Personal property is further classified as *business personal*, as well as *regular personal property*, and a complete summary of each type, assessed value, and resulting tax revenue can be found in the attached reference information for your review.

This ordinance is presented to exempt all personal property except for business personal property, and commercial jet aircraft (defined by code as non-light aircraft), as this is a strong property segment and is relatively easy to administer. In addition, this ordinance establishes an apportionment valuation formula that is used across the nation to assess scheduled aircraft that travel intra- and interstate. To further clarify, this ordinance retains the business personal property \$25,000 exemption and failure to file fees on business that fail to file timely, and would exempt all boats and light-aircraft, which are now currently taxed.

Fiscal Note:

This ordinance is estimated to produce a net revenue gain of \$168,600

Recommendation:

Approve Ordinance 2016-45.

Ordinance 2016-45 Background & Reference Materials:

Implementing these changes would relieve property tax disincentives to storing boats and vessels here by bringing Sitka’s personal property assessing policies into virtual alignment with Juneau’s and by making it more competitive with other southeast communities. All other southeast communities that levy a property tax (Haines, Petersburg, Skagway, Wrangell and Yakutat) have exempted all personal property in full.

These changes will potentially bring about the following results:

- Shifting of resources from an inefficient to an efficient tax segment (personal to real), by reducing the number of personal property accounts from 2,800 to 600, a more manageable amount given current resources.
- Would eliminate the inequity in taxation between boats and airplanes (flat fee versus full value).
- Incentivize boats and airplanes to be located within the borough in order to stimulate small business activities associated with such property.

These changes would also bring some relief to the challenges inherent in taxing personal property:

- All personal property is moveable, therefore state and local law require the owner to self-report, the honest man’s tax
 - Due to the self-reporting nature, additional policies such as a failure to file fee must be in place in order to ensure timely annual filing
 - The \$100 Failure to File Fee initiated three years ago has been unsuccessful in incentivizing boat and airplane owners to timely report their annual filings; the failure to file rate for boat owners was 35%, and 33% for airplanes
 - This FFF, relevant to the boat flat tax in particular, could potentially be seen as disproportionate by a court challenge
 - Although completely appropriate and necessary for business filings, the failure to file rate for businesses was 25% last year
 - Failure to File Fees totaled \$92,000 last year and 86% of these fees were from boats and airplanes
- Exempting personal property in this manner would not only be a benefit for the public and small businesses at large, but would relieve the burden of administering a non-cost-effective revenue stream.

Fiscal Impact Analysis:

PROPERTY		CURRENT				PROPOSED			
Personal Property Type	No. Accts	Taxation Type	No. Accts	Revenue	Fees	Taxation Type	No. Accts	Revenue	Fees
Business Machinery & Equipment	534	Full Market Value with first \$25,000 of value exempt	534	\$ 355,900	\$ 13,100	Full Market Value with first \$25,000 of value exempt	542	\$ 444,900	\$ 12,000
Motor Vehicles	9820	State Collected Flat Tax	0	\$ 95,000	\$ -	State Collected Flat Tax	0	\$ 96,400	\$ -
Boats & Vessels	2207	Flat Fee	2207	\$ 137,400	\$ 78,100	Exempt	0	\$ -	\$ -
Business Inventory	0	Exempt	0	\$ -	\$ -	Exempt	0	\$ -	\$ -
Private Recreational Equip	86	Exempt	0	\$ -	\$ -	Exempt	0	\$ -	\$ -
Float Houses	16	Full Market Value	16	\$ 3,600	\$ 300	Will be Moved to Real Property	0	\$ 3,700	\$ -
Aircraft									
Light Aircraft	15	Full Market Value	15	\$ 4,700	\$ 500	Exempt	0	\$ -	\$ -
Non-Light Aircraft	4	Full Market Value	4	\$ 13,000	\$ -	Full Market Value	4	\$ 13,200	\$ -
TOTALS	12,682		2,776	\$ 609,600	\$ 92,000		546	\$ 558,200	\$ 12,000
Net Changes					\$ 701,600	\$ 570,200			
Fiscal Impact Estimation									
Exemption of all Personal Property Except Business Personal and Non-Light Aircraft (Ordinance 2016-45)									
Revenue Loss (\$570,200 - \$701,600)								\$	(131,400)
Revenue Gain on Real Property Side over Last Year (Assessor's Estimate)								\$	300,000
Net Gain/Loss								\$	168,600

Part 3 - Property Taxation

Table 4 TYPES OF PROPERTY TAX EXEMPTIONS AUTHORIZED

Boroughs/Unified Municipalities	Residential Up to \$50K	FF/EMS Up to \$10K	S/C-DAV Over \$150K	Business Machinery Equipment	Motor Vehicles	Boats & Vessels	Business Inventory	Aircraft
Anchorage, Municipality of	OP-EX-20K ^{10%}			FV ⁸	ST COL	FV/EX ⁶	FV ⁸	FV/EX ¹
Bristol Bay Borough	OP-EX-50K ^{100%}			FV	ST COL	FV	FV	FV/FF
Fairbanks North Star Borough	OP-EX-20K ^{20%}	FF/EMS		EX	EX	EX	EX	EX
Haines Borough	FV			EX	EX	EX	EX	EX
Juneau, City & Borough of	FV			FV ⁴	ST COL ⁹	EX	EX	FV ⁵
Kenai Peninsula Borough	OP-EX-50K ^{100%}	FF/EMS	\$150K	FV ⁴	ST COL	FV/FF ⁶	EX	FV/FF ^{4,12}
Ketchikan Gateway Borough	FV			FV ¹¹	ST COL	FF	EX	FV ¹¹
Kodiak Island Borough	FV			FV ¹³	ST COL	FF ¹⁰	EX	FF
Matanuska-Susitna Borough	FV		\$68K	EX	ST COL	EX	EX ³	EX ¹
North Slope Borough	OP-EX-50K ^{100%}		\$150K	FV	FV	FV	FV	FV
Petersburg Borough	FV	FF/EMS		EX	ST COL	EX	EX	EX
Skagway, Municipality of	FV		\$100K	EX	EX	EX	EX	EX
Sitka, City & Borough of	FV			FV ¹⁴	ST COL	FF	EX	FV
Wrangell, City & Borough of	FV			EX	EX	EX	EX	EX
Yakutat, City & Borough of	FV			EX	EX	EX	EX	EX
Cities								
Cordova	FV			EX	ST COL	EX	EX	EX
Craig	FV			FV	FV	FV	FV	FV
Dillingham	FV			FV ¹⁵	ST COL	FV ^{2,15}	FV ¹⁵	FV ¹⁵
Eagle	FV			EX	EX	EX	EX	EX
Nenana	FV			FV	ST COL	FV ²	FV	FV
Nome	FV			FV	ST COL	FV	FV ⁷	EX
Pelican	FV			FV	EX	FF	FV	EX
Unalaska	FV	FF/EMS		FV	ST COL	EX	FV	FV ²
Valdez	OP-EX-20K ^{30%}			EX	EX	EX	EX	EX
Whittier	FV			FV	ST COL	FV	EX	FV
	EX	Exempt Property.						
	FV	Full and True Value Assessment.						
	FF	Optional flat fee collected in lieu of property tax (AS 29.45.050(b)(1)).						
	FV/FF	Commercial FV / Private FF.						
	OP-EX-20K (%)	(%) indicates partial exemption percentage used, if any, up to the limit of \$20,000. For example: 10% of value up to the maximum of \$20,000. This optional residential exemption limit changed in 2012 from \$20,000 to \$50,000 per AS 29.45.050(a). The North Slope Borough and the Kenai Peninsula Borough are the only two municipalities to raise this limit to the maximum \$50,000.						
	OP-EX-50K (%)	(%) indicates partial exemption percentage used, if any, up to the limit of \$50,000. For example: 10% of value up to the maximum of \$50,000. This optional residential exemption limit changed in 2012 from \$20,000 to \$50,000 per AS 29.45.050(a). The North Slope Borough and the Kenai Peninsula Borough are the only two municipalities to raise this limit to the maximum \$50,000.						
	FF/EMS	Optional real property primary residential exemption up to \$10,000 for volunteer firefighter & volunteer emergency services personnel (AS 29.45.050(r)).						
	S/C-DAV	Senior Citizen/Disabled Veteran optional residential exemption over the \$150,000 mandatory exemption (AS 29.45.050(i)). Amount indicated is the additional exempted value over the mandatory \$150,000. For example Kenai Peninsula Borough has a total exemption of \$300,000.						
	ST COL	State collected, annual motor vehicle tax (AS 28.10.431).						
		¹ Aircraft are exempt from taxes (except for scheduled carriers). Exempted aircraft pay a flat tax of \$75-\$125.						
		² Commercial at full value, private exempt.						
		³ The first \$1,000,000 of inventory is exempt.						
		⁴ The first \$100,000 of personal property is exempt.						
		⁵ Commercial jet passenger service full value, other commercial flights flat rate, personal exempt.						
		⁶ Scheduled Commercial Vessels pay a flat fee; all vessels >20' long pay flat fee; additional flat fees or ad-valorem taxes may be applied.						
		⁷ Inventory held for resale is exempt.						
		⁸ Optional Exemption (Up to \$20,000) on personal property.						
		⁹ Commercial Full Value, Private MVRT.						
		¹⁰ Over 5 net tons, \$1 per foot, \$30 minimum; all others exempt.						
		¹¹ Fully exempt in borough, but exempt up to \$25,000 within the City of Ketchikan.						
		¹² Commercial aircraft at full value; private aircraft a flat fee.						
		¹³ The first \$20,000 of business personal property owned by each taxpayer is exempt & distributed pro-rata among all accounts.						
		¹⁴ The first \$25,000 of business personal property owned by each taxpayer is exempt & distributed pro-rata among all accounts.						
		¹⁵ The first \$10,000 of personal property is exempt.						

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2016-45

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA AMENDING SITKA GENERAL CODE CHAPTER 4.12. ENTITLED "PROPERTY TAX" TO EXEMPT ALL PERSONAL PROPERTY EXCEPT BUSINESS PERSONAL PROPERTY, AND NON-LIGHT AIRCRAFT FROM PERSONAL PROPERTY TAXATION

1. **CLASSIFICATION.** This ordinance is of a permanent nature and is intended to become a part of the Sitka General Code ("SGC").

2. **SEVERABILITY.** If any provision of this ordinance or any application to any person or circumstance is held invalid, the remainder of this ordinance and application to any person or circumstances shall not be affected.

3. **PURPOSE.** This ordinance amends the property tax code to exempt all personal property except for business personal property, and non-light aircraft, in order to bring greater efficiency to the administration of the property tax.

4. **ENACTMENT.** NOW, THEREFORE, BE IT ENACTED by the Sitka Assembly that the Sitka General Code Chapter 4.12 entitled "Property Tax" is amended to read as follows (new language underlined; deleted language stricken):

SITKA GENERAL CODE
CHAPTER 4.12
PROPERTY TAX

4.12.010 Definitions.

The following terms and phrases whenever used in this chapter shall have the meanings ascribed to them in this section.

- A. "Real property" includes:
1. Land itself, whether laid out in lots or otherwise,
2. All buildings, structures, improvements, fixtures of whatsoever kind permanently fixed thereon,
3. Mobile homes, modular homes, trailers, house trailers, trailer coaches and similar property used or intended to be used for residential, office, or commercial purposes and attached to the land or connected to water, gas, electric, or sewage facilities,
4. All possessory rights and privileges belonging or in any way appertaining thereto, including possessory rights to tidelands;

43 B. "Tangible property" means property which may be seen, weighed and measured by
44 the physical senses and capable of being possessed. Stocks and bonds shall not be
45 considered tangible property;

46 C. "Tract" includes all lands, pieces or parcels of land, which may be separately
47 assessed together with the fixtures and improvements thereon;

48 D. "Business property" includes all personal property and real property as hereinabove
49 defined which is used for business purposes;

50 E. "Boat or vessel" means an item designed and constructed for the principal purpose of
51 transporting goods or persons by water. Registration, licensing or documentation shall not
52 be conclusive, but shall be considered along with the use and hull design, including
53 whether or not the item is actually and reasonably used in transporting persons or articles
54 in navigation.

55 1. Materials that have been attached or installed as of January 1st of any year as
56 part of the manufacture of a boat or vessel shall be taxed as a boat or vessel for
57 purposes of this chapter if as of January 1st of any year the product of the
58 manufacture is recognizable as a boat or vessel by a reasonable person.

59 F. "Non-light aircraft" means any aircraft with a maximum gross takeoff weight of
60 greater than 12,500 pounds.

61 G. "Light aircraft" means any aircraft with max gross takeoff weight of 12,500 pounds
62 or less.

63 **4.12.020 Property Subject to Tax.**

64 A. All property within the corporate limits of the city and borough, both real and personal,
65 of every nature, not exempt under the laws of the United States or the state of Alaska is
66 subject to taxation for school and municipal purposes, and taxes upon such property must
67 be assessed, levied and collected as provided herein, except the following property shall
68 not be subject to taxation:

69 1. Personal property consisting of boats and vessels, light aircraft, household
70 goods, jewelry, intangibles and personal effects, including motorcycles and
71 snowmobiles not used in business and all motor vehicles subject to the motor vehicle
72 registration tax.

73 ~~B. All boats and vessels located within the boundaries of the city and borough on~~
74 ~~January 1st of any given year shall be subject to taxation under the same procedures and~~
75 ~~with the same assessment dates and due dates as personal property, except that~~
76 ~~valuation and taxation shall be on the basis of registered and certified length according to~~
77 ~~the schedule set forth below:~~

78 ~~Class and Vessel Size _____ Annual Property Tax~~
79 ~~Class 1 Less than 15 feet in length _____ \$20.00~~

80	Class 2 15 to less than 20 feet in length	\$30.00
81	Class 3 20 to less than 30 feet in length	\$50.00
82	Class 4 30 to less than 50 feet in length	\$100.00
83	Class 5 50 or more feet in length	\$200.00

84 B. For the purpose of assessing, levying, and collecting taxes, any non-light aircraft
85 located within borough limits at any time in a tax year shall be considered taxable personal
86 property and the owner shall file a property tax return indicating the fair market value of the
87 property as of January 1st of each tax year. Property is assumed to be present within the
88 borough year round unless demonstrated otherwise. An aircraft that is in transit and does
89 not receive any benefit or services in the borough during the year is not subject to taxation
90 under this section. If the owner can demonstrate the property was absent one or more
91 days during the tax year, the owner shall file a personal property return indicating (1) the
92 fair market value of the property, and (2) the number of days the property was within the
93 borough. The assessed value of such property shall be determined by the following
94 formula:

95 Assessed value = (fair market value/365 days) x number of days [including partial days] in
96 borough

97 Any non-light aircraft operated by a scheduled carrier which is based outside of the
98 borough shall be assessed in proportion to the number of landings in the borough. For
99 purposes of determining the assessed value of the property, the assessor shall use the fair
100 market value as of January 1st of the current tax year, and shall use the total number of
101 landings in the borough by the property in the previous tax year. It shall be the
102 responsibility of the carrier to provide the borough with a personal property return
103 documenting the total landings for each aircraft. In the event the carrier fails to provide
104 such documentation, the assessor shall assess the property based on its non-apportioned
105 full value as of January 1st of the tax year. For the purpose of this section:

106 1. "Scheduled carrier" shall mean any certified air carrier which maintains a regular
107 schedule of flights within the borough.

108 2. An aircraft is "based outside of the borough" if the airport at which the aircraft is
109 usually based, as indicated by that aircraft's registration, lies outside the borough
110 limits, unless the borough has reason to believe that the aircraft is in fact based
111 within the borough limits. This value shall be determined by the following formula:

112

113 Assessed value = (fair market value/17,520) x total landings
114

115

116

117 **4.12.025 Exemptions.**

118 * * *

119 K. A taxpayer who files a timely business property return with the assessor shall be
120 exempted the first twenty-five thousand dollars of assessed value of business property
121 owned by each taxpayer from taxation as an optional exemption as set forth in
122 AS 29.45.050(c). For taxpayers with multiple business property accounts, the optional
123 exemption will be distributed among all of the accounts pro rata, based on the proportion of
124 the assessed value in each account to the total assessed value of taxpayer's business
125 property. This exemption shall not apply to personal property affixed to land or
126 improvements to land, ~~boats, aircraft,~~ float houses, nor to motor vehicles subject to a
127 registration tax under AS 28.10.431 and as such statute may be hereafter amended,
128 revised, or replaced.

129 * * *

130 **4.12.040 Assessment of property at full and true value.**

131 Property shall be assessed at its full and true value in money, as of January 1st of the
132 assessment year. Assessments on personal property shall not be prorated for the
133 assessment year except as follows: non-light aircraft operated in intrastate, interstate or
134 foreign commerce shall be assessed on an apportionment basis according to 4.12.020.B.
135 In determining the full and true value of property in money, the person making the return or
136 the assessor, as the case may be, shall not adopt a lower or different standard of value
137 because the same is to serve as a basis of taxation, nor shall he adopt as a criterion of
138 value the price for which the property would sell at auction, or at a forced sale, either
139 separately or in the aggregate with all of the property in the taxing district, but he shall
140 value the property at such sum as he believes the same to be fairly worth in money at the
141 time of assessment.

142 * * *

143
144 **5. EFFECTIVE DATE.** This Ordinance shall become effective on the day after the date of its
145 passage.

146
147 **PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough of Sitka, Alaska
148 this 27th day of December, 2016.

149
150
151
152 _____
153 Matthew Hunter, Mayor

154 ATTEST:
155
156 _____
157 Melissa Henshaw, CMC
158 Acting Municipal Clerk

159 1st reading 12/13/16
160 2nd reading 12/27/16