

Memorandum

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

From: Wendy Lawrence, Assessing Director
Jay Sweeney, Chief Financial and Administrative Officer

Date: December 7, 2016

Subj: Budget Re-Appropriation for a Computer Assisted Mass-Appraisal System

Summary:

The Assessing Department seeks approval to contract \$150,000 over a four year period to establish a computer-assisted mass-appraisal (CAMA) system for the automated valuation of the Sitka property tax-base. This appropriation is sought primarily to increase efficiencies without substantially increasing costs, and secondarily to achieve regulatory compliance stemming from repeated audit findings indicating the City and Borough of Sitka's assessment valuation system is deficient in demonstrating fair and equitable taxation. The requested capital outlay is proposed to produce the following primary benefits:

- Increase property tax administration efficiencies without substantially increasing costs
- Achievement of regulatory compliance with state law and prevent detrimental regulatory action
- Mitigation of risks to the property taxbase inherent in non-automated systems
 - Revenue escapement
 - Assessment inequities

Implementation of the Municipal Assessment Records System (MARS) by Alaska CAMA Company will automate valuations and utilize technology for increased efficiencies in data collection. This system will reduce the per-parcel valuation time from two hours per parcel to forty-five minutes per parcel, thus increasing efficiencies without substantially increasing costs, and will bring property tax administration into regulatory compliance.

Fiscal Note:

The full contracted software amount is \$150,000, which is to be paid out over a four-year period. If approved, the cost will be provided for by re-appropriating \$45,000 in existing FY17 appropriations in the Assessing Department, and re-appropriating an additional \$105,000 from the General Fund unassigned fund balance. Note that the binding nature of the contract requires that the full amount be appropriated, even though payments will be made over four years. The net fiscal impact is estimated to be approximately \$150,000. This approval will result in an award of a professional services contract which is exempt by charter.

Recommendation:

Approve the re-appropriation of FY17 funds in the amount of 1. \$45,000 from the Assessing Department Temporary Wages and Contract Services accounts, and 2. \$105,000 from the General Fund unassigned fund balance for the establishment of a

Computer Assisted Mass Appraisal System for administration of the property tax assessment function.

Ordinance 2016-44 Background & Reference Information:

The Assessing Department's primary mission is to support general fund government by maintaining the borough's real and personal property taxbase at full and true value (SGC 4.12.040 & AS 29.45.110 (a)).

The assessor shall assess property at its full and true value as of January 1 of the assessment year... The full and true value is the estimated price that 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.

The department's work-product results in 23% of the general fund revenue, and is the most stable revenue stream for the City and Borough of Sitka. The Assessing Department is charged with generating valuations for over 4,100 real property accounts, 2,300 personal property accounts, and 540 business personal property accounts each year. The department also administers various property tax exemptions for seniors, disabled veterans, and various exempted non-profit organizations. This mission is accomplished by utilizing systems, which consist of technology and skilled appraisal personnel, to administer and revalue 6,900 accounts annually.

Two key challenges to this mission are the lack of automated systems (CAMA) to revalue each account at full and true value every year, and the necessary sales data to determine full and true value. The former can be mitigated through the passage of this ordinance, and the latter will require the state legislature to mandate disclosure of sales prices at the time of each property transfer. These challenges are nothing new, but what is new is the need to stabilize the property tax revenue stream and increase efficiencies in times of declining alternate revenues.

State Assessor audits in 2010 and 2014 both recommended procurement of an automated valuation system, and the most recent 2016 State Assessor's Audit Finding states:

If a program for substantial and material improvement of the assessment systems is not implemented and supported by the 2017 budget, I as the State Assessor, intend to issue a Letter of Major Error in 2017. Marty McGee, State Assessor, November 16, 2016

Detrimental regulatory action in the form of a Letter of Major Error constitutes regulatory action that will require:

- Expenditure of funds to secure a CAMA system, and
- Could potentially cause Sitka to call back the tax roll, or
- Stop the process of tax collection until corrective action is taken within one year.

The 2016 State Assessor's Audit Criteria regarding key components of an assessment system are based upon the International Association of Assessing Officers Professional Standard on Mass Appraisal for the assurance of the property administration of the property tax. An assessment system must:

1. Have the ability to calibrate and update assessment models on an annual basis

2. Utilize a sales ratio study, and a hold-out sample to test the authenticity of the sales ratio study, on an annual basis
3. Demonstrate the uniform application of valuation (including depreciation) to all taxable property using recognized mass appraisal techniques and supported by statistical tests
4. Keep assessment records in such a manner that information may be extracted via electronic means and statistical analysis and tests may be applied in a timely and efficient manner
5. Make this same information available to the State Assessor and to the general public to review and defend assessed values under appeal before a local board of equalization
6. Implement a plan that property be inspected and records maintained and update demonstrating a minimum six year cycle
7. Have capability for review of sales files and all property inspected each year as well as changes to ownership and changes to taxability status
8. Have the ability to conduct this type of audit should not be time consuming or labor intensive for either the State Assessor or the local government
9. Have documented records, and the system that holds the records, and must be adequate to demonstrate compliance with this expectation under audit or review by the State Assessor.

The State Assessor's Office, as regulatory authority over property taxation statewide, has found that the City and Borough of Sitka's assessment system met criteria Number 4 in full but failed on all other accounts in whole or in part. The City and Borough of Sitka's current assessment system meets the database management criteria, but not the uniform valuation criteria and was thus found deficient for the 2016 audit.

Property Tax Management Systems Consist of Staff and Technology:

The Assessing Department's current systems include a staff of three full time employees and three separate databases which simply store property data and are not yet capable of automated revaluation. These databases do not have automated valuation components, and thus are the primary limiting factor in the assessment function. Staff consists of one field appraiser whose primary responsibility is the collection of property data, one administrative assistant who manages the 6,900 accounts, an assessor who values each property manually.

The objective of mass-appraisal is to produce equitable tax assessment valuations at relatively low costs through automated valuation systems. The lack of one centralized automated valuation system is the main factor preventing all properties from being valued at full and true value each year and thus the focus of this re-appropriation request.

This staff of three utilizes an annual systematic process outlined below, and a CAMA system is an integral part of this process:

- Locating and identifying all taxable property within the borough boundaries;
- Inventorying the quantity and quality of property characteristics that are relevant to value;
- Accurately estimating the full and true value of all property;
- Calculating the taxable value for reach property, minus any eligible exemptions;
- Timely notification of assessed values to all property owners;

- Preparing and certifying the official assessment roll as the basis for annual property tax revenues

Strategic Plan:

In 2015 the Assessing Department established a five-year strategic plan with years one through four focused on the systematic re-inspection of all properties, with full and true value being achieved in year five after automated valuation models could be incorporated into the current database system. Policies were implemented to streamline and simplify processes and thus produce greater efficiency without expansion of current systems. This entailed introduction of technology tools and training to make inspections more productive, and the cross-training of staff in order to increase our valuation production potential. With limited staff and non-automated valuation, the Assessing Department is subject to serious deficiency if a trained staff member were to leave or be out for an extended period; valuation production could significantly slow or cease due to the segmented structure and non-automated nature of the department. Implementing a CAMA system will automate and capitalize this process thus reducing the risk of loss of any one employee and thus production.

These assessment system limitations are resulting in the under-collection of property tax revenues (escapement) and causing assessment inequities between comparable properties. It is estimated that an additional \$1M per year will be collected by establishing a computer-assisted mass-appraisal (CAMA) system for the automated valuation and efficient administration of the property taxbase.

The next step in this strategic plan is to implement a CAMA system that will manage and revalue all 6,900 properties every year, not just a subset, thus keeping the entire taxbase at full and true value. This re-appropriation will move the anticipated revenue recapture from year five to year two by implementing an established CAMA system utilized by Charles Horan, Alaska CAMA Company, LLC.

Why is there Revenue Escapement and how is it Estimated?

Half of the entire population of borough real property accounts have not been revalued within the last six years as required by state law, and it is estimated that about ninety percent of these properties in both the north, south and island areas have not been revalued on average since 2003. Time-trend analysis shows that the market has moved at about one percent per year since then, which translates to values that on average are about fifteen below full and true value. These properties are the basis for the estimated \$1M per year in escaped revenue.

When properties are revalued regularly by segmenting them into six areas each revalued every six years, properties will be maintained at full and true value and equities between comparable properties will then follow thus resulting in fair and equitable taxation. When properties are not kept at full and true value each year we have an under-collection of revenue, and inequities in assessed values between comparable properties. What this means in practicality is that those properties that have been revalued regularly, and are considered to be at full and true value, will be paying the appropriate taxes for general fund services while those not at full and true value will not. This is what we call assessment inequity and needs to be corrected as soon as possible so that taxation across the community is fair and equitable as set forth in AS 29.45.210 (b).

Implementation of the Municipal Assessment Records System (MARS) by Alaska CAMA Company will capitalize this process by automating valuations and utilizing

technology for increased data collection efficiency. This system will take the per-parcel valuation time from two hours per parcel to forty-five minutes per parcel thus increasing efficiency without substantially increasing costs.

Fiscal Impact Analysis:

The net fiscal impact is estimated to be approximately \$150,000. This is estimated by offsetting the total cost of \$(150,000) by the expected revenue gain for FY18 of \$300,000. This approval will result in an award of a professional services contract which is exempt by charter.

The department will have an efficient fully functioning, fully-owned valuation system at the end of this contract and it is anticipated that the department will maintain the system through an annual fee comparable to the minimal maintenance fees within this contract. The associated annual costs are summarized below. The hardware costs estimated to be under \$10,000 are already appropriated within the FY17 Assessing Department/IT Budget, and additional cost savings will be achieved in the amount of \$5,000 for the Marshall & Swift Cost Valuation software that will no longer be needed.

<u>City and Borough of Sitka</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 4</u>	<u>Year 4</u>	<u>Totals</u>
<u>License Admin & Maintenance Fee</u>	<u>\$45,000</u>	<u>\$32,000</u>	<u>\$32,000</u>	<u>\$12,000</u>	<u>\$121,000</u>
<u>Variable -Install, Modify &</u>	<u>\$15,000</u>	<u>\$14,000</u>			<u>\$29,000</u>
<u>Total</u>	<u>\$60,000</u>	<u>\$46,000</u>	<u>\$32,000</u>	<u>\$12,000</u>	<u>\$150,000</u>

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CITY AND BOROUGH OF SITKA

**ORDINANCE NO. 2016-44
AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA
ADJUSTING THE FY17 BUDGET (CAMA PROJECT, WAYFINDING SIGNAGE PROJECT,
COMMERCIAL PASSENGER EXCISE TAX FUND)**

BE IT ENACTED by the Assembly of the City and Borough of Sitka, Alaska as follows:

1. **CLASSIFICATION.** This ordinance is not of a permanent nature and is not intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

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

3. **PURPOSE.** The purpose of this ordinance is to adjust the FY17 budgets for known changes.

4. **ENACTMENT.** The Assembly of the City and Borough of Sitka hereby adjusts the FY17 budget for known changes. In accordance with Section 11.10(a) of the Charter of the City and Borough of Sitka, Alaska, the budget for the fiscal period beginning July 1, 2016 and ending June 30, 2017 is hereby adjusted as follows:

<u>FISCAL YEAR 2017 EXPENDITURE BUDGETS</u>
CAPITAL PROJECTS
Fund 700 – CAMA Project: The Assessor has requested an appropriation of funds in the amount of \$150,000 for the CAMA (Computer Assisted Mass Appraisal) Project. This is a 4 year project totaling \$150,000 with \$45,000 coming from the Assessing Department FY17 operational budget and the remaining amount from the General Fund unassigned fund balance.
Fund 700 – Wayfinding Signage Project #90831: At the June 25, 2013 meeting, the Assembly approved the concept of installing wayfaring signs and assigned \$300,000 of the fund balance of Fund 194, Commercial Passenger Excise Tax (CPET) Fund for such a purpose. Administration is now requesting an appropriation of \$282,300 of the assigned funds in Fund 194 to be transferred to Fund 700, General Capital Projects Fund; an appropriation in Fund 700 in the amount of \$282,300 to construct and install the signs; and, Assembly action to unassign the remaining balance of \$17,700 in Fund 194 and return the amount to the unassigned fund balance.
SPECIAL REVENUE FUNDS
Fund 194 – Commercial Passenger Vessel Excise Tax Fund: Administration is requesting that an amount of \$150,000 be appropriated from Fund 194, Commercial Passenger Excise Tax (CPET) Fund, for the purpose of transporting cruise ship passengers from Old Sitka to downtown. Use of CPET funds for such purposes is appropriate, as the expenditure solely benefits such passengers.

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EXPLANATION

Necessary revisions in the FY 2017 budget were identified. These changes involve the increase of expenditure accounts and causes decreased cash flows to the fund balance of various funds. A short explanation of each budget revision is included.

5. EFFECTIVE DATE. This ordinance shall become effective on the day after the date of its passage.

PASSED, APPROVED, AND ADOPTED by the Assembly of the City and Borough of Sitka, Alaska this 27th Day of December, 2016.

ATTEST:

Matthew Hunter, Mayor

Melissa Henshaw, CMC
Acting Municipal Clerk

1st reading 12/13/16