

House Rule Committee

Sponsors: REPRESENTATIVES Coulombe, Tomaszewski, Prax, Story, Carpenter, Rauscher, Hannan, Vance

I support your efforts on HB 347, however, I'm concerned the bill does not do enough to stem the rampant assessment valuations being observed in the Kenai Peninsula Borough.

The following section is a copy of an email I provided to Borough Mayor Micciche and Assembly Members Tunseth, Cooper, Johnson, Ecklund, Ribbens, Hibbert, Tupper, Cox and Elam on March 20, 2024.

I have not received a response from any of them.

I encourage you to see if you can do even more to shape legislation that will prevent Boroughs from taxing their residents out of their homes. Included in the email I sent to our Borough officials is a 4-point plan as described below. The first point is critical: Time out, pencils up, freeze the squeeze. Points 2 and 3 are equally important. The fourth point may take some time to implement.

Please note my additional observations. I provide some detail of the flaws in the valuation process—in general, the language in HB 347 is helpful, but the bill does not go far enough. Thank you for your attention on this matter.

Email to Borough Mayor and Assembly Members, March 20, 2024:

I recently received my 2024 Kenai Peninsula Borough (KPB) Real Property Notice of Assessment and was shocked to see my property

valuation had increased over the previous year's valuation by greater than 16%.

This assessment increase is on top of the other increases that have occurred because of the Covid pandemic anomaly in the housing market. This situation is unfair and untenable. Unchecked property valuations and subsequent taxes are exactly what contributed to the Proposition 13 revolt in California. Homeowners on fixed income were being taxed (squeezed) out of their homes that they, through years of mortgage payments, sacrifice, and determination, owned free and clear. The unchecked, unjustified, unfair assessment process that led to the 2024 KPB valuations (and subsequent tax bill that will soon follow) is morally unacceptable.

I will be filing an appeal with the Kenai Peninsula Borough Assessment Department; however, you should know, the appeal form and process is NOT structured to facilitate dialogue—it's structured for the property owner to fill in the blanks to formulaically spit out a result of what an alternative valuation should be. I'm concerned that my appeal request will be denied out of pocket or deemed incomplete because it doesn't conform to the specified format required on the form. I will be recommending a valuation that is consistent with the principles identified herein and specifically noted in Item 1 below. I expect others will have the same concerns and encourage you to be actively engaged and monitor this situation as it proceeds.

Recognizing the urgency of this situation, I respectfully request that you take immediate action to "Freeze the Squeeze" by implementing the following four measures (with points 1-3 expedited to the fullest extent permissible by legislative means):

1. Freeze assessed values for the year 2024 at 2023 levels, with exceptions granted to successful appellants who have secured

reductions in their 2023 evaluations, wherein the lower valuation shall prevail.

2. Pass an ordinance establishing a cap on the rate of assessed value increase permissible within a single year, limiting it to no more than the Consumer Price Index (CPI) or 5% annually, whichever is lesser.
3. Enhance the senior exemption to \$500,000, incorporating an escalation clause tied to the rate of assessed value growth, thereby safeguarding seniors from the diminishing returns associated with rising property values. It is immoral to provide a complete senior exemption in the past, only to renege on that promise and replace that exemption with a fixed, non-escalating value. This is exactly the same kind of approach our federal government took with establishing the Alternative Minimum Tax, knowing full well that, over time, it would become a tax increase for more and more Americans.
4. Initiate discussions on transitioning to an elected assessor model, thereby ensuring direct accountability to the electorate, recognizing that this may necessitate a lengthier deliberation process and could potentially involve a referendum.

Additional Observations

While the methodology the Borough uses to assess value does not provide a fully transparent granular level of detail, there are some areas where it appears the Borough ignores drivers that reduce valuations. The following is a list of such drivers:

- 1) The full and true value—"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.” This definition is fine for an actual real estate transaction, however, for someone owning a home with no intent to sell, it grossly overstates the value of the home. In order for the homeowner (or any property owner, for that matter) to realize the benefit of the market value assessed, they would need to actually sell the home and incur a variety of home sale repairs, inspection fees, cleaning, staging, temporary storage of household items, and realtor sales costs—amounting to 8 to 10% of value destruction, or perhaps more. This represents the NET value of the property. Put more simply, the homeowner must spend money to realize the assessed value, and most homeowners are not actively planning to spend that money. It appears the Borough ignores this fact in their assessment.

- 2) Property value preservation. The Borough process ignores the financial and physical effort it takes to simply preserve the value of the property, especially in the Alaska climate. Driveway repairs, snow removal, exterior caulking and paint, landscaping care and replacement due to winter and animal damage, moss removal from roofs, etc. are all maintenance activities that are performed to prevent degradation of the property. As I look around the community, it’s clear that there is a broad range of application of prudent maintenance activities. It’s not clear that the Borough distinguishes between these levels of maintenance efforts. While those maintenance activities are not deemed to be capital improvements for tax basis calculations, they are preserving the value of the asset and should be a consideration in the assessment process. Philosophically, if the community has pride of ownership and maintains their property to be pleasing to the eye, the evidence of their hard work will be realized in the value of their property when they sell, they shouldn’t be penalized by property taxes throughout the duration of ownership. Conversely, if someone owns a property that is a

complete eyesore and blight on the community, they shouldn't be rewarded. A simple example of this is the many Tyvek covered homes we see throughout the Borough. The Borough incents poor behavior that distracts from the beauty of our community by having a policy that allows people to live in homes, that are clearly completed, for years, wrapped in Tyvek, with the benefit of a reduced property tax bill. There are a variety of ways to handle this circumstance (a 90% completion assessment, or determining the structure is complete upon being occupied, for example) and it would allow the Borough to secure property taxes from those residents who clearly are enjoying all the benefits of the Borough but not paying their fair share.

- 3) Interest rates, inflation, and taxes—all taxes. The 2024 Assessment Brochure mentions many economic factors in the “Why do property values change?” section. It appears the Borough doesn't exactly look at these individual factors, but they acknowledge that those factors are represented in market conditions that are reflected in “the price a seller would be willing to accept or the price a buyer would be willing to pay for a given property”. So let's look at three categories to see their direct effect on property valuations. Interest rates: going into the pandemic interest rates were at an all-time low that contributed to the ready availability of money for mortgages as people chose to upsize to work from home and school their children from the household. This artificially drove housing prices (and valuations) up. Then, through a variety of Federal government policies and actions, interest rates and inflation have soared. The State of Alaska has not been exempted from these drivers that are reflected in essentials like food, heating, electricity, gasoline, and diesel. The State additionally sought to tax its people by reducing the PFD payout, and KPB has sought to increase taxes through property tax assessments. Reducing PFD payout is the most regressive tax action available to the State as it seeks to fund

many “wants”. Increasing property taxes in an unchecked fashion, further grows government and reduces disposable income for property owners.

A person’s ability to finance a home depends on their ability to provide a down payment and meet monthly payments with sufficient debt service coverage to also fund the essentials mentioned above. The more expensive the essentials are, the smaller the PFD, and the higher the property taxes, the less money is available to pay the mortgage—this translates directly into a reduced value the average purchaser would be willing to (or even able to) pay and thus a LOWER house valuation. Given the economic reports in the media today, it appears people are amassing debt in order to make ends meet. This once again points to the fallacy of using a “price a buyer would be willing to pay” as the borough doesn’t have line of sight to the vast number of people who have no intention of buying because they are being subjected to all these cost increases. People with no intention to buy and no intention to sell are just trying to make ends meet—make the mortgage payment, put food on the table, heat their home and have fuel to drive to work. These economic factors exist today, though they aren’t evident in the KPB assessment process that results in overvaluation. I believe the Borough is establishing high valuations based on artificial economics propped up by the pandemic anomaly. Those artificial economics will become evident in a short period of time—likely when it is too late to “unring the bell” of higher property taxation.

Michael L. Jones
Resident, Homer