



KENAI PENINSULA BOROUGH

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MIKE NAVARRE
BOROUGH MAYOR

MEMORANDUM

TO: Blaine Gilman, Assembly President
Members of the Kenai Peninsula Borough Assembly

THROUGH: Mike Navarre, Mayor *MN*
Craig Chapman, Finance Director *BA*
Tom Anderson, Assessing Director *TC*
Colette Thompson, Borough Attorney *CT*

FROM: Larry Persily, Assistant to the Mayor. *LP*

DATE: May 26, 2016

SUBJECT: Ordinance 2016-24, amending KPB 5.12.105 to allow for a phase-out of the optional senior citizen exemption for new applicants by the year 2024, subject to voter approval.

This ordinance proposes a gradual reduction in the optional portion of the borough's senior citizen property tax exemption. For property owners who are 65 years old before Jan. 1, 2018, this ordinance would not affect their tax exemption benefits. For property owners who turn 65 on or after that date, this ordinance would not affect the state-mandated exemption on the first \$150,000 of their assessed property value; the gradual phase-out will apply only to the second \$150,000 in property value, which is an optional exemption for municipalities under state law.

This ordinance would not reduce the \$50,000 residential exemption provided to all qualifying residential property owners in the borough, including seniors.

Under this ordinance, the \$150,000 optional senior exemption would be reduced, but not eliminated, for seniors who reach age 65 between Jan. 1, 2018, and Dec. 31, 2023:

- For seniors who reach age 65 between Jan. 1, 2018, and Dec. 31, 2020, the optional senior exemption would be \$100,000.
- For seniors who reach age 65 between Jan. 1, 2021, and Dec. 31, 2023, the optional senior exemption would be \$50,000.

There would be no optional senior exemption for residents who turn 65 on or after Jan. 1, 2024.

If approved by the borough assembly, the change in the optional senior citizen property exemption for the tax assessments levied by the borough and its service areas would go before borough voters Oct. 4, 2016.

The public policy issue addressed by this ordinance is the steadily increasing number of borough residents 65 and over, and the growing impact of the substantial (up to \$300,000 per home) senior citizen property tax exemption on borough and service area finances, shifting more of the tax responsibility to other residents as the borough's demographics change.

Between tax years 2009 and 2015, the number of senior-owned parcels with a property tax exemption increased from 2,897 to 4,162. During that same period, the value of senior-owned residential property in the borough exempt from property taxes increased almost 75 percent, climbing from \$466 million in tax year 2009 to \$815 million in 2015 (that includes the state-mandated exemption of \$150,000 per home and the optional \$150,000 exemption). During that same period, the total taxable value of all residential property in the borough increased just 2.5 percent, from \$3.13 billion to \$3.21 billion.

Clearly, the rate of increase in the tax-exempt assessed value of senior-owned property is growing much faster than other residential and commercial property values in the borough, shifting a larger share of the tax load to other property tax payers.

The two \$150,000 exemptions saved senior citizens almost \$7 million in property taxes to the borough and service areas in 2015. That represents more than 7 percent of total tax revenues collected by the borough and its service areas, or about 11 percent of property tax collections.

Without any change in the additional and optional \$150,000 senior exemption, and with the projected increase in the borough's senior citizen population, the shift of the property tax burden to other borough taxpayers will increase substantially in the years ahead. The Alaska Department of Labor's latest population projections, released in April 2016, show the borough's 65 and older population increasing from 8,600 in 2015 to almost 15,000 by 2030 — almost 23 percent of the borough's entire estimated population.

A breakdown of the current roll of senior-owned property receiving the tax exemption shows that in the 2015 tax year 4,160 parcels received some amount of a senior exemption. That's less than the total number of senior citizens in the borough because married couples are eligible for the exemption on only a single property, and not all senior-owned properties are eligible for an exemption (the home must be the primary residence).

- Of those 4,160 parcels, about half (2,180) were assessed at more than \$200,000.
- 1,320 were assessed at more than \$250,000.
- 930 were assessed at more than \$300,000.
- 535 were assessed at more than \$350,000. (Under current code, only the owners of those 535 parcels pay any property taxes after the combined \$350,000 in exemptions allowed to seniors.)
- And 9 were assessed at more than \$1 million.

In addition to the growing senior population and accompanying shift in the tax responsibility to other borough property owners, the other issues to consider in this ordinance are the actual, pending and anticipated further reductions in state services and state funding to assist with municipal services and school district budgets. The borough should prepare for the inevitable shift of financial responsibility from the state to municipalities by being vigilant in its spending and also by ensuring that the local tax burden is shared fairly among all tax types (sales and property) and all property tax payers (residential, commercial and industrial). A gradual reduction in the optional senior property tax exemption — when viewed in the context of a projected increase in the senior citizen population to almost one-quarter of the borough by 2030 — will help ensure a more equal sharing of the tax burden.

The senior citizen property tax exemption has a long history in Alaska and in the Kenai Peninsula Borough.

The state legislature in 1972 adopted a full exemption from local property taxes for low-income senior citizens (limited to seniors with a gross annual income under \$10,000). Lawmakers the next year removed the income limit, opening the full exemption to all Alaska seniors. In 1986, the legislature set a limit to the exemption, adopting \$150,000 as the mandatory exemption that cities and boroughs must grant for senior-owned property. The legislation also included a provision allowing municipalities to go beyond the \$150,000 by a vote of the public. (Alaska Statute 29.45.030(e)-(g) requires that the first \$150,000 in value of eligible residential property owned and occupied as a permanent place of abode by a resident 65 years of age or older, or their surviving spouse who is at least 60 years old, be exempt from taxation. Alaska Statute 29.45.050(i) allows a municipality to provide an optional senior citizen exemption from taxation for the value of eligible residential property in excess of \$150,000 upon approval of the voters.)

The state legislature fully funded reimbursement of municipalities for the cost of the senior citizen property tax exemption (the mandatory \$150,000) until 1986, when it started to scale back the state reimbursement. Then, in Fiscal Year 1997, state reimbursement ceased and never resumed.

As allowed under state law, Kenai Peninsula Borough voters in 1986 approved an additional exemption (the optional exemption under state statute) for senior-owned property beyond the state-mandated \$150,000. Voters that year approved an unlimited residential property tax exemption for 65 and older senior citizens.

Then, in 2007, borough voters limited the senior tax exemption to \$300,000 per parcel (limiting the optional exemption to \$150,000 on top of the state-mandated \$150,000). None of the cities in the Kenai Borough have adopted the optional additional exemption for senior-owned properties.

The Kenai Borough is one of only four boroughs in the state to provide the additional property tax exemption for senior citizens beyond the state-mandated amount. The North Slope Borough, with a Permanent Fund-like savings account of \$573 million, is the only other municipality in Alaska that grants an additional \$150,000 exemption for seniors. The City of Skagway provides a \$100,000 exemption, and the Matanuska-Susitna Borough allows a \$68,000 optional exemption.

In another residential property tax break, Kenai Borough voters in 2013 approved an exemption on the first \$50,000 in assessed value for all residential property, making the tax exemption available for seniors to \$350,000 total. State law allows such residential property exemptions up to \$50,000, and the North Slope Borough and Bristol Bay Borough are the only other municipalities in the state to provide the maximum \$50,000 benefit. Homer, at \$20,000 per residential property, is the only city in the Kenai Borough to adopt this optional exemption.

The Kenai Borough faces tight budgets and difficult years ahead as it deals with state cutbacks and seeks to share equally the local tax burden — just as senior citizens, many of whom live on fixed incomes, face their own financial limits. And so, too, do many pre-65-year-old borough residents, who may have factored the existing senior citizen property tax exemptions into their retirement planning. That's why this ordinance proposes no change in the senior tax exemption for eligible property owners who turn 65 by Dec. 31, 2017 — there just would not be enough time for many of them to adapt their finances to higher tax bills. And that's also why the gradual reduction in the optional \$150,000 additional exemption would be phased in through 2024, to provide time for people to prepare for the change. Even with the reduced tax exemption, senior citizens who turn 65 on or after Jan. 1, 2024, would still be eligible for an exemption on up to \$200,000 in property value under current borough code, unchanged by this ordinance.

For those present and future senior citizens who cannot afford their property tax bill, even with the exemptions, borough code KPB 5.12.105(I) provides a hardship provision — which this ordinance does not change. That hardship provision in code says seniors facing a property tax bill for the borough and service areas in excess of 2 percent of their gross annual income, after any exemptions in assessed value, may apply for a hardship exemption setting their borough tax bill at that 2 percent cap. None of the cities in the Kenai Borough have adopted a hardship exemption for their portion of a senior's property tax bill.

It is also important to note that this ordinance would make no changes to the unlimited property tax exemption provided for disabled veterans and their surviving spouses.

It is difficult to estimate the fiscal impact of this ordinance because it involves some significant unknowns: Future property values, future mill levies, how many pre-65 borough residents remain in the borough and apply for the senior property tax benefit in the years ahead, and how many new residents move to the borough and qualify for the tax reduction. What is certain is that without any changes in the senior property tax exemption, the tax shift to other property owners will continue to grow each year with the aging population and accompanying increase in their tax-exempt property values.

This ordinance would help to slowly reduce the growing imbalance between taxpayers in the borough and service areas, particularly residential property owners. By applying reasonable estimates to the variables above, in the first year of the phase-out (2018) the borough and its service areas would receive an estimated \$200,000 in additional tax revenues on senior-owned property that otherwise would not have been paid at the full optional exemption. That number would gradually increase over the years as newly eligible seniors receive a smaller tax exemption and the revenue impact to the borough and its service areas declines for those properties.