



Property Tax Review

December 2008

Volume 9, Issue 3

Low Income Housing Valuation Guide Issued

By David Saavedra, Program Coordinator

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Special points of interest:

- **Quarterly Reminders (see pages 2-3)**
- **Upcoming Training (see page 4)**

Determining the fair market value of subsidized, low-income housing has been a national issue over the last two decades for assessment officials, administrative boards, and courts. In Washington, there have been hundreds of valuation appeals at local Boards of Equalization, the State Board of Tax Appeals, and superior court in the last five years alone.

The Department prepared a Property Tax Advisory (PTA 15.0.2008) on "Low Income Housing Valuation" and a companion "Low-Income Housing Valuation Guide" (Guide) to provide assistance to assessment officials as they attempt to determine the market values of these specialized properties. The PTA and Guide try to reconcile the results of recent Washington appeals, recent legislative initiatives, and the only Washington appellate court case dealing with the restricted rent issue, *Cascade Court Limited Partnership v. Noble*.

The PTA and Guide were developed by Department staff with the extraordinary

assistance of a large workgroup of stakeholders that met regularly throughout 2007 and 2008. That workgroup included industry representatives, attorneys, appraisers, and assessment officials from across the state. Monthly workgroup meetings were held at the Department's office in Olympia. Guest speakers included several state and federal regulators, developers, a real estate broker, a low-income appraiser, attorneys, and a broker in tax credits. There was a lot of good dialogue among the members of the workgroup, with most issues and topics being thoroughly vetted.

The PTA and Guide emphasize the importance for assessors to recognize how rent restrictions impact the value of the housing and that there are several subcategories of low-income housing for which those impacts might lead to very different results. While the PTA and Guide emphasize the Income Capitalization Approach, they leave the assessor considerable flexibility in applying other methods.

The PTA and Guide also remind the taxpayers of their responsibility to provide timely, accurate information about the properties, the specific program under which they operate, and the local market in which they compete.

PTA 15.0.2008 can be found on the Department's website at: http://dor.wa.gov/Docs/Pubs/Prop_Tax/PTA1502008.pdf

The "Low Income Valuation Guide" can be found at: http://dor.wa.gov/Docs/Pubs/Prop_Tax/Low-IncomeHousingValuationGuide.pdf.

Due to the complicated nature of the varied government programs available and the scarce source of data available in order to assess these properties, the PTA and the Guide are not really conducive to the mass appraisal environment.

Thanks to everyone who participated in the work study. If you have questions or comments, please contact me at DavidS@dor.wa.gov. ♦

This Quarter's Reminders

January 1

Existing real and personal property is valued for taxes due next year. (RCW 84.36.005 and RCW 84.40.020)

January 15

County assessor delivers tax roll to county treasurer and provides county auditor with an abstract of the tax rolls showing total amount of taxes collectible in each taxing district. (RCW 84.52.080) Property taxes can be paid once the treasurer has provided notification that the tax roll (based on last year's assessments) has been completed. (RCW 84.56.020)

March 1

Counties' new revaluation plans are due. (RCW 84.41.041, WAC 458-07-025)

March 15

Utility company annual returns must be filed with DOR. Penalties prescribed. (RCW 84.12.230 and 260)

March 15

PUD Privilege Tax Annual Reports are due.

March 31

Nonprofit property tax exemption applications are due. Penalties apply. (RCW 84.36.815; 825) Property tax assistance claims for widows/widowers of qualified veterans' are due. (RCW 84.39.020)

April 30

Personal property listing forms are due to the county assessor.

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Increased Assessment Appeals

By Diann Locke — Levies, Collections & Appeals Specialist

Many counties are facing increased property assessment appeals for the 2008 assessment year. This unfortunately is coupled with budget reductions in both the assessor and board of equalization offices across the state. While the assessor and board of equalization may find it necessary to change the services being offered to taxpayers, there remain several statutory requirements that must be met by the taxpayer, assessor, and board of equalization during the appeal process.

- ▶ Taxpayers must timely file a properly completed petition with the BOE (WAC 458-14-056)
 - What is timely? Petitions must be filed within 30 days of the revaluation notice mail date. The county legislative authority may extend this time period up to 60 days. There are a few exceptions where the board may waive the deadline if the petition is filed within a reasonable time after the deadline and the taxpayer can show good cause for the late filing.
 - What is a complete petition? All relevant questions on the appeal form must be completed (questions 1-5). A reason for the appeal must be included stating what market evidence will be provided to prove the assessor's value is incorrect.
- ▶ Taxpayer and assessor exchange of data (WAC 458-14-066)
 - The taxpayer is not required to submit the market evidence they will use during the appeal at the time they file their petition. The taxpayer's evidence must be provided to the assessor and board at least 7 business days prior to the hearing.
 - The assessor must provide valuation information requested by the taxpayer within 60 days of the request, but at least 14 business days prior to the hearing.
 - What data must be exchanged by the assessor? All valuation information, including comparable sales. (WAC 458-14-066)
- ▶ Assessor's presumption of correctness (RCW 84.40.0301)
 - The assessor enjoys the presumption of correctness. Clear, cogent, and convincing evidence must be given by the taxpayer before the board can overrule the assessor's valuation.

With limited time and resources, the assessor and board of equalization may be looking for ways to make the use of their time more efficient.

The board may find it necessary to hold hearings with a hearing examiner to process more appeals in a shorter period of time. The hearing examiner takes all the evidence from the taxpayer, assessor, and their witnesses and reports back to the full board or quorum. The board then determines the outcome of the appeal.

Communications between the assessor and taxpayer after an appeal has been filed and before the hearing may result in a stipulated value agreement. This could also save time for both the assessor and the board.

If you have any questions concerning the appeals process, you can reach me at (360) 570-5885 or by e-mail at diannl@dor.wa.gov. ♦

County General Levy & Earmarked Funds

By Diann Locke — Levies, Collections & Appeals Specialist

This past year has brought many questions concerning the calculation of earmarked funds across my desk. For those who missed the very educational and exciting 2008 senior levy classes in Ellensburg and Lacey, we talked about the county general levy and veteran's relief fund and briefly mentioned county mental health. I would like to take another moment and review how the earmarked funds are related to the county general levy. ♦

County General Levy

The county is authorized to levy a regular property tax levy under RCW 84.52.043. Subsection (1) (b) of this statute states the rate cannot exceed \$1.80 per thousand dollars of taxable value. The statute goes on to say a county may increase its levy from \$1.80, not to exceed \$2.475, for general county purposes if the total levies for both the county and road district do not exceed \$4.05 per thousand dollars of assessed value, and no other taxing district is harmed.

In addition to the statutory maximum rate limit, the county general levy is also limited by the \$5.90 limitation and the constitutional one percent limitation.

From the county general levy, funds are directed to specific programs, such as Veteran's Relief Fund (RCW 73.08.080) and County Mental Health (RCW 71.20.110); these are referred to as "earmarked funds."

Veteran's Assistance Fund

The Veteran's Relief Fund is slightly different than the average levy because it not only has a maximum levy rate, it also has a minimum levy rate. RCW 73.08.080(1) directs the county legislative authority to levy a tax in a sum equal to the amount which would be raised by not less than \$0.01125 per thousand dollars of assessed value and not greater than \$0.27 per thousand dollars of assessed value against the assessed property within the county. Did you note the part that the legislative authority authorizes a "sum," not a levy rate? It is the responsibility of the assessor to calculate the levy rate.

Subsection 2 of RCW 73.08.080 goes on to direct the auditor or chief financial officer in the county to determine the direct and indirect costs incurred in the administration of the Veterans Assistance Fund. Following the computation of these costs, an amount equal to these costs may be transferred from the Veterans Assistance Fund to the county current expense fund. If the fund balance as of the 1st Tuesday in September exceeds the expected yield of \$0.01125, the county legislative authority may levy less than the minimum levy rate, or they may decide not to levy any funds at all for veteran's relief.

In other words, if the fund balance was \$100,000 on the 1st Tuesday in September and the expected yield with a rate of \$0.01125 was \$90,000, the county could levy an amount less than the minimum rate of \$0.01125, or not levy at all. It appears that the statutory framework requires that all counties maintain at least a minimum amount in the veteran's relief fund. But if that minimum is exceeded, and there are few veterans needing assistance, the county could choose not to levy.

But, if the fund balance was \$100,000 on the 1st Tuesday in September and the expected yield was \$110,000, then the county must levy an amount resulting in a rate between \$0.027 and \$0.01125.

County Mental Health Fund

Once again, the County Mental Health fund is slightly unusual from the average levy, as this levy does not have a minimum or maximum levy rate. RCW 71.20.110 authorizes the county legislative authority to levy a tax in a sum equal to the amount which would be raised by a levy of \$0.025 per thousand dollars assessed value within the county.

(Continued on page 4)

This Quarter's Reminders

(Continued from page 2)

Penalties apply. (RCW 84.40.020, 040, 060 and 130)
Taxes are due. If taxes are less than \$50, full payment is due. If taxes are \$50 or more, one half of the payment is due. Second half payment is due October 31. (RCW 84.56.020) PUD Privilege Tax billings are issued.

May 1

Applications for forest land designation are considered approved unless assessor has notified the owner otherwise. (RCW 84.33.130) Current use farm and agricultural land applications are considered approved unless assessor has notified owner otherwise. (RCW 84.34.035)

May 31

County assessors complete valuation on all property. Property may be added later (new construction and mobile homes) after giving written notice to the taxpayer. (RCW 84.40.040)

For a complete version of the *Property Tax Calendar*, visit the Department of Revenue's website at this link: http://dor.wa.gov/Docs/Pubs/Prop_Tax/PropCal.pdf ♦

2009 Upcoming Training

(State/County Personnel ONLY)

January 14

Legal Descriptions (Basic & Intermediate)
Olympia — \$100

February 9-10

Residential Quality, Condition and Effective Age Workshop
Ellensburg — \$150

February 12-13

Residential Quality, Condition and Effective Age Workshop
Olympia — \$150

February 25

Mobile Home Appraisal
Olympia — \$75

March 3-4

USPAP
Olympia — \$125

March 5

USPAP Update
Olympia — \$100

March 10-11

Introduction to Personal Property
Olympia — \$100

March 12

Advanced Personal Property
Olympia — \$50

March 18

Land Segregations and other related Topics
Olympia — \$100

April 13-17

Fundamentals of the Assessor's Office
Tumwater — \$125

April 28

Legal Descriptions (Basic & Intermediate)
Ellensburg — \$100

For further information, contact:

Patty Concepcion
Education Coordinator
Washington Department of Revenue
Property Tax Division
PO Box 47471
Olympia, WA 98504-7471
Phone: (360) 570-5866

County General Levy & Earmarked Funds (cont.)

(Continued from page 3)

What else do I need to know about earmarked funds?

Earmarked funds are a portion of the general county levy. The assessor will not individually calculate a 101% levy limit for the Veterans Relief Fund or County Mental Health Fund.

The statutes allow for prorationing of both the Veteran's Relief Fund and County Mental Health Fund in the same proportion as the county general levy if the county general levy is reduced by chapter 84.55 RCW (the 101% levy limitation). If these earmarked funds were not part of the same levy calculation as the county general levy, then the language authorizing equal prorationing for Veteran's Relief and County Mental Health would not be necessary.

If you have any additional questions concerning earmarked funds, please contact me at (360) 570-5885 or by e-mail at diannl@dor.wa.gov.

Levy Season

By Annette Hargadon, Levy Auditor

It's that time of year again — the taxing districts are certifying their budgets to the county legislative authority and submitting resolutions/ordinances to the assessor who is now gearing up for the levy season.

I just completed the excess levy audit cycle for the Department's County Performance and Administration team. The Department annually reviews the assessor's levy process in about one-third of the counties in Washington. In 2009, the tentative levy review schedule includes the following counties: Jefferson, Mason, Island, Clallam, Kitsap, Kittitas, Yakima, Asotin, Adams, Spokane, Lincoln, Grant, Klickitat, and Garfield.

The primary purpose of the Department's levy audit is to assist the county assessor in successfully performing the duties associated with levying taxes for the districts within their county.

An effective audit of levy calculations consists of gathering information from the assessor's office to determine the level of compliance with laws and rules, the accuracy of levy calculations, and the effectiveness of recordkeeping.

The objective of the audit is to assist the assessor in the levy process, to ensure the taxing districts' levy calculations are accurate, and to ensure that the limits have not been exceeded. Upon completion of an audit, a comprehensive report detailing discoveries, errors, and recommendations is written.

Beginning next year, we will be reviewing the assessors' processes of *regular levy* calculations for the 2008 levy for the 2009 tax year. Some of the items to be reviewed may include:

- Levy calculations for each district
- Districts' budgets or levy certificates
- Amount authorized by the resolution/ordinance
- Statutory dollar rate limit
- Ballot measures for lid-lifts and EMS levies
- \$5.90 aggregate limit
- 1 percent constitutional limit

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Levy Season (cont.)

(Continued from page 4)

Just a reminder that many regular levies are not voted on by the public but remain subject to several specific legal limitations. Not every levy is subject to each of these limitations listed above. However, all levies — regular or excess, voted or non-voted — are subject to the constitutional requirement for uniformity.

The Department of Revenue “levy forms” for taxing districts and assessors are available online. These forms should assist the assessors in the upcoming 2009 levy process. The forms can be found at this link: http://dor.wa.gov/content/getaformorpublication/formbysubject/forms_prop.aspx#Levy.

If you have questions about the levy audit process, please contact me at (360) 570-5891 or by e-mail at AnnetteH@dor.wa.us. ♦

Annual Revaluation Project

Preparation for Conversion to Annual Revaluation

By Vicky Carr, Real Property Analyst

As part of the Department’s commitment to assist counties with the conversion from cyclical to annual revaluation, we have interviewed several counties and identified areas where cyclical counties desire more information for the transition to annual revaluation. We are in the process of gathering data on effective methods and techniques used in the assessment process for the areas identified during our interviews. One question we have been asked is “What can we (the county) do now to prepare for conversion to annual revaluation?” Following is a summary of steps that will help make the transition to annual revaluation go smoother.

Develop a written plan:

- Identify short-term and long-term goals.
- Include mission, goals, priorities, and establishment of action plans and timelines.
- Conduct an organizational review; ensure that functions, goals, and structures are aligned.
- A plan will make it easier to achieve long-term change.

Clean up property data:

Create written data standards and training for uniform rating of property characteristics amongst appraisers. Written standards also benefit new appraisers so they rate similar to existing or past appraisers. This is especially important in offices with one appraiser. If that appraiser leaves, the incoming appraiser will most likely have a completely different idea of average quality or good condition. Make sure all relevant property characteristics are included in each electronic property record. Have photos linked to each parcel. Attend the “Residential Quality, Condition, and Effective Age Workshop” offered in Ellensburg and Olympia during February 2009. Review the article that provides an overview of physical inspection titled “Maximize Your Investment in PI” printed in the Property Tax Review, June 2007 issue. http://dor.wa.gov/Docs/Pubs/Prop_Tax/NewsletterSummer2007.pdf Property data clean up can take a full four-year inspection cycle to get characteristics accurate and should be a continuous process thereafter.

Improve data collecting process:

- Develop a written process or checklists for each property type.
- Identify sources for property data, sales data, cost data, and income/expense data.
- Establish a training program for data collectors.

Have a good sales verification process:

Sales data is essential for calibrating and specifying market models as well as developing sales ratio studies. The reliability of any ratio study or valuation model depends on the quality and quantity of the data. In order to obtain valid measures of market value, specific sales data must be collected, analyzed, and adjusted to reflect the market conditions at the time of assessment. Sales data needs to be accurate for proper model calibration and ratio studies. Bad sales data can skew trend results and ratios.

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Preparation for Conversion to Annual Revaluation (cont.)

(Continued from page 5)

Accurate characteristics at the time of sale are necessary for proper comparison.

Develop sales validation codes to distinguish between types of sales and sales to include or exclude from trending calculations and ratio studies.

The Property Tax Division developed a Best Practice Report titled “*County Sales Validation Process Innovations*,” which can be found at the following link: http://dor.wa.gov/content/FindTaxesAndRates/PropertyTax/prop_BestPractices.aspx

Review WAC 458-53-070 and WAC 458-53-080 which address real property sales studies and real property sales sample selection.

[WAC 458-53-070: Real property sales studies.](#) [WAC 458-53-080: Real property sales sample selection.](#)

Begin public relations:

So taxpayers understand the benefits, which include uniformity, level of assessment, and predictability, public relations are important. With decreasing property values in some areas, taxpayers are ready for annual revaluation.

Our research on the most effective methods to disseminate information to stakeholders indicates that dissemination should not be a one-time event instead it should be a strategic and ongoing process. We believe that engaging a range of stakeholders will ease the acceptance of the message and will facilitate the general acceptance of project, in this case annual valuation.

Refine valuation area (neighborhood) delineation and coding:

Well-defined valuation areas are expected to enhance the use of mass appraisal models as well as provide better utilization of staff resources. This allows for comparing areas and developing ratings which are utilized for modeling purposes. It enables the conducting of more efficient and useful ratio studies and other statistical analysis, which aids the assessor in ascertaining whether there is appraisal uniformity by area across the county. Valuation areas (neighborhoods) need to be coded for the efficient application of mass appraisal models. When property characteristics are converted to a numerical code, mathematical calculations can be performed.

Identify and code property characteristics for modeling:

Identify characteristics that contribute most value (these should be included in the model).

Don't have too many in the model to begin with, the model can be refined later on. However continue to collect all relevant data in the field, since property value influences change over time and additional details are often needed for appeals.

Expand ratio studies:

Expand ratio studies to include stratifying ratios by characteristics like quality, size, condition, etc. This will identify areas of inequity so adjustments can be made to the valuation calculation which will ease the transition to model specification and calibration.

Promote training:

Train staff in understanding different types of modeling, model development, statistical terminology and calculations

Emphasize computer program use and functions (i.e., Excel, Access, SPSS, NCSS, CAMA system, GIS, etc.)

Develop specific training plans and standards for each of the major functions in the assessment process.

Prepare Appeal Boards:

Begin to use statistics when working with the Board of Equalization. For example, in addition to presenting three comparables, include the statistical measures from your analysis of the subject valuation area (neighborhood). This may help prepare members of the board for greater use of mass appraisal techniques and built their confidence in the process.

Conclusion

Implementation and/or refinement of the above process will help the transition to annual revaluation and aid in the creation of effective models and meaningful ratio studies. It will make for a more efficient and accurate assessment process regardless of whether you are on an annual revaluation cycle or multi-year revaluation cycle.

You may contact Annual Revaluation Project team members at: Cindy Boswell, Phone: (509) 663-9747, E-mail: CindyB@dor.wa.gov; or R. C. Cavazos, Phone: (425) 356-4848, E-mail: RC@dor.wa.gov; or Michael Dahle, Phone: (360) 570-5878, E-mail:

MichaelD@dor.wa.gov; or Vicky Carr, Phone: (360) 570-5899, E-mail: VickyC@dor.wa.gov. ♦

2009 Advisory Assistance

By Neal Cook — Utility Valuation, Advisory & GIS Program Manager

The Property Tax Division's Valuation Advisory Team for 2009 is comprised of: Neal Cook program manager, Howard Hubler, program supervisor, Carl Klingeman, Dean Ando, Omar Medina, Lynn Hilton, Grant Boyer, and Chuck Boyce advisory appraisers. The 2009 assignments have been distributed, and the appraisers have begun the preliminary work on the appraisals. We expect to complete approximately 37 valuations in 18 counties this upcoming year. Thanks to the counties for getting their requests promptly returned, we are off to a quicker start this year.

One enhancement incorporated in 2008 was enlisting the expertise of ratio appraisers Scott Sampson and Lisa Brewer in the valuation of personal property. This worked extremely well. The 2009 assignments also will require personal property expertise so we will continue the practice. As in 2008, the taxpayer will receive a copy of the appraisal report at the same time as the assessor. This facilitates the exit review between the taxpayer, the assessor, and the appraiser. To discover more enhancements, the Department will meet with taxpayers and assessors this Winter to fine tune the exit review process in an attempt to improve communication among the parties.

In addition to their advisory valuation assignments, team members will also be actively participating to help meet other division needs by providing training and assistance in the 2009 assessment year. Valuation issues surrounding shopping malls have been numerous enough that the Department is spearheading a workgroup this upcoming year similar to what was done in past years. Counties and taxpayers are encouraged to participate in the workgroup. The goal of the workgroup will be to resolve the issues that counties face when appraising this type of property.

If you have questions about the Department's Valuation Advisory Program or wish to contribute to the shopping mall workgroup, please contact Neal Cook at (360) 570-5877 or via e-mail at NealC@dor.wa.gov. ♦

2008 Ratio Study Results Released

The results of the Department of Revenue's 2008 ratio study have been released. A copy of *Property Tax Ratios By County* showing the ratio results for both real and personal property is included with this newsletter.

The ratio study is a statistical study that is performed annually by the Department's Property Tax Division. The assessment or indicated ratio is the total assessed value of property in the county divided by the total true and fair value. This document is also available on the Department's website at: http://dor.wa.gov/content/aboutus/statisticsandreports/stats_proptaxctyratios.aspx ♦

We Can Help

By Heidi Audette, Washington Department of Veterans Affairs

Are you meeting veterans or family members of veterans who are struggling in today's economy?

Did you know that the Washington State Department of Veterans Affairs is ready to help veterans and their loved ones with their VA benefits and entitlements?

Our role at the Washington State Department of Veterans Affairs is to advocate on behalf of veterans and their families to ensure they receive all federal, state and local benefits that are available. We also provide a number of state programs focusing on homeless services, financial assistance for veterans returning from Iraq and Afghanistan, Post Traumatic Stress Disorder Counseling, and many others.

Brochures are available for display and can be viewed and printed, or downloaded as pdf files, by visiting www.dva.wa.gov, click on 'Public Information', then 'Publications'.

You can serve as an ambassador for Veterans and their Families by providing us with their contact information or by sharing our toll free number, 1-800-562-2308, or website, www.dva.wa.gov. ♦

The Open Space Taxation Act and the Boarding of Horses

By Kathy Beith, County Performance & Administration Program Manager

In recent weeks, the Department of Revenue has been reviewing the meaning of “commercial agricultural purposes” within the Open Space Taxation Act and the relevant rule, WAC 458-30-200. This act provides several classifications of property and is commonly referred to as the “current use” program. Properties approved for these classifications benefit from reduced valuations and lower taxes.

Horse Boarding

Horse boarding and related businesses have been added to this review following considerable publicity related to the treatment of horse boarders by the King County Assessor. The issue arose when assessor staff called the Department inquiring as to whether horse boarding would qualify for the farm and agricultural land classification for purposes of property taxation. Based on the definition of “commercial agricultural purposes” outlined in the rule and our long-standing interpretation and advice, we informed the assessor’s office that horse boarding did not qualify as an eligible commercial agricultural purpose under the farm and agricultural land classification. This was not a new interpretation, but rather an interpretation that this assessor’s staff was not aware of.

The assessor discovered that some horse boarding operations had been approved over the years for the classification’s low valuation. The assessor contacted a number of taxpayers and requested information about the activities performed on their property. Property owners became very concerned that removal of their land from current use classification, and the resulting additional tax (seven years back tax plus interest plus 20 percent penalty) would cause them to lose their farms. As a result, many property owners have contacted the Department, their legislators, the Governor, and the media hoping that the law could be interpreted differently so that horse boarding and related activities might be included in the current use program.

Current Rule

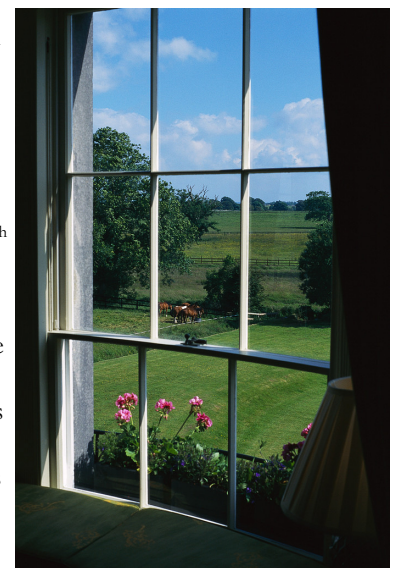
At this time, boarding horses does not fit within the current definition of "commercial agricultural purposes" in WAC 458-30-200. For farm activity involving animals, the rule requires that the land be used for the "feeding, breeding, managing, and selling of livestock" The Department’s position has been that, in order to qualify, the owner must use the land and engage in all four activities specified in the rule. Because many of the horse boarding facilities don't engage in all four activities, their property doesn't qualify for farm and agricultural classification. That same provision also excludes some common agricultural practices such as purchasing piglets or calves in the spring, raising them throughout the summer, and selling them in the fall.

Stakeholder Work

To fully understand the issues surrounding current farm and agricultural practices and how the current rule fits with those practices, we scheduled three stakeholder meetings. Two meetings were held in Olympia on November 13th, and a third meeting was held in Yakima on December 4th. At the November 13th meetings, DOR collected comments from over 150 people representing a wide variety of businesses, including horse boarding facilities and horse farms, cattle farms, veterinarians, hay growers, and numerous other agricultural related businesses. Extensive information was gathered about the types of activities being conducted, the economic impact of horse operations, and why these activities should be considered agricultural. Additional comments collected at the December 4th meeting will further help us understand current agricultural practices.

Anticipated Rule Revisions

As a result of information we've gathered so far, the Department plans to make some revisions to the definition of "commercial agricultural purposes" in WAC 458-30-200. DOR must determine what changes can be made under the statute, using the Department’s rule making authority. Some changes being suggested may require legislative action. As the Department reviews the input from all parties, local county officials have been asked to delay actions against these particular properties. DOR plans on recommending a course of action over the next few weeks, before the start of the Legislative Session. If you have questions on these issues, you may contact Kathy Beith at KathyB@dor.wa.gov or Brad Flaherty at BradF@dor.wa.gov. ♦



Property Tax Exemption for Senior Citizens & Disabled Persons

By Peggy Davis, Exemption & Deferral Specialist

As the 2009 Legislative Session approaches, it is clear that taxpayers, county officials, and legislators will again focus on property tax relief for senior citizens and others that are struggling to pay property taxes. The Property Tax Exemption for Senior Citizens and Disabled Persons is the most widely used program for property tax relief and receives much of the attention when legislature comes into session. In 2008, approximately 114,000 households across the state had their property taxes reduced by more than \$181,000,000 under the program. The program is administered at the local level by county assessors with the help of county treasurers. We felt it would be useful to review how the program works and some of the issues that are revisited each year.

Program Requirements and Benefits

For the eligible applicant, the Property Tax Exemption Program freezes the taxable value of the residence and reduces the amount of tax due by exempting the senior from all excess levies and, depending upon income level, a portion of regular levies. The exemption applies to the primary residence and the parcel of land where it is located (up to one acre, or, up to five acres if the larger parcel size is required by local land use regulations). To be eligible for this program, the applicant must meet the age or disability, ownership, residency, and income requirements.

- Must be 61 years of age by December 31 of the application year or unable to work because of a disability or a veteran with a 100 percent service connected disability
- Must own and occupy the residence
- Must have combined disposable income of \$35,000 or less

\$0 - \$25,000	Exempt from regular property taxes on \$60,000 or 60% of value, whichever is greater; plus exemption from 100% of excess levies
\$25,001 - \$30,000	Exempt from regular property taxes on \$50,000 or 35% of value, whichever is greater, but not to exceed \$70,000; plus exemption from 100% of excess levies
\$30,001 - \$35,000	Exempt from 100% of excess levies

"Disposable Income" is the key

When the Legislature enacted RCW 84.36.379 in 1980, the intent section declared that the property tax exemption authorized in our State Constitution should be available on the basis of a retired person's ability to pay property tax and that a person's disposable income is the best measure of that ability. For purposes of the property tax exemption, the Legislature gave "disposable income" a specific definition. This measure of income is often misunderstood by taxpayers who believe it to be a Department policy, rather than the law.

[RCW 84.36.383\(5\)](#) defines "disposable income" as adjusted gross income, as defined in the federal internal revenue code, plus all of the following items to the extent they were included in or excluded from adjusted gross income:

- Capital gains, other than gain excluded from income under section 121 of the federal internal revenue code to the extent it is reinvested in a new principal residence;
- Amounts deducted for loss;
- Amounts deducted for depreciation;
- Pension and annuity receipts;
- Military pay and benefits other than attendant-care and medical-aid payments;
- Veterans benefits other than: (i) attendant-care payments; (ii) medical-aid payments; disability compensation, as defined in Title 38, part 3, section 3.4 of the code of federal regulations, as of January 1, 2008; and (iv) dependency and indemnity compensation, as defined in Title 38, part 3, section 3.5 of the code of federal regulations, as of January 1, 2008
- Federal social security act and railroad retirement benefits;
- Dividend receipts; and
- Interest received on state and municipal bonds.

"Disposable Income" as defined above is also used in determining eligibility for the Senior Citizen Deferral Program, the Limited Income Deferral Program and the Grants for Widows/Widowers of Disabled Veterans.

"Combined Disposable Income" for the household

[RCW 84.36.383\(4\)](#) defines "combined disposable income" as the disposable income of the applicant, plus the disposable income of the applicant's

(Continued on page 10)

Property Tax Exemption for Senior Citizens & Disabled Persons (cont.)

(Continued from page 9)

spouse or domestic partner, and the disposable income of each cotenant, less amounts paid by the applicant and his or her spouse/domestic partner during the assessment year for:

- (a) Drugs supplied by prescription of a medical practitioner authorized by the laws of this state or another jurisdiction to issue prescriptions;
- (b) The treatment or care of either person received in the home or in a nursing home, boarding home, or adult family home; and
- (c) Health care insurance premiums for Medicare under Title XVIII of the social security act.

Taxpayer Concerns

The most common objections or criticism voiced by taxpayers are:

- The disposable income calculation does not allow a deduction for supplemental health insurance premiums (only for Medicare), long-term care insurance premiums, and necessary medical expenses
- The disposable income limit should be increased
- Disposable income should not include pensions, annuities, investment losses and other items that are not considered taxable by the IRS.
- Seniors should receive frozen value benefit and/or exemption regardless of income

Legislation

In each of the recent past Legislative Sessions, bills affecting the income requirement and/or the program benefits were introduced in both the House and Senate.

In 2008, there were 38 bills introduced. Of those,

- 9 bills affected the income thresholds and/or benefit levels
- 5 bills affected the disposable income calculation (all were related to exclusion of veterans' disability benefits)
- 8 bills added an additional tier to allow frozen value benefit only (ranging from threshold of \$50,000 to unlimited)
- 6 bills affected allowable deductions (ranging from allowance of supplemental health insurance premiums to allowance of all medical costs allowed under IRS rules)
- 3 bill extending spousal benefits to domestic partners
- 1 bill changing the definition of "residence" to include mobile home lots not owned by the applicant
- 1 joint resolution amending Article VII, Section 10, to provide legislative authority to grant property tax relief based solely on age
- 5 bills affecting miscellaneous administrative provisions (including changes in lien recording requirements, refunds, and renewals)

Only two bills were passed and signed into law:

- SSB 5256 - changing the calculation of disposable income to exclude income from veterans' disability benefits and survivors' dependency and indemnity compensation.
- 2SHB 3104 - extending spousal benefits to domestic partners.

Changes in Recent Years

Other legislative changes in recent years include:

- **2003** - SB 5758 – Amended RCW 84.36.387 to change reference making filings under the penalty of perjury. The law now references ch 9A.72 RCW for perjury offenses.
- **2004** - SB 5034 - Amended RCW 84.36.381, 84.36.383, and 84.38.030 - Changed income limits for Exemption (\$35,000) and Deferral Programs (\$40,000). Revised combined disposable income calculation to include deductions for insurance premiums under Medicare Title XVIII and costs associated with care received in a boarding home or adult family home. Linked definition of "disability" to SSA definition.
- **2005** - HB 1019 - Amends RCW 84.36.379 and 84.36.383 to allow an exemption for veterans who have a 100% disability that is service connected.
- **2006** - SB 6338 – Amended RCW 84.36.383, 84.38.020, and 84.38.030 and to allow exemption on more than one acre, up to five acres, if the larger parcel size is required by land use regulations.

If you need additional information about the Senior Exemption or the complimentary programs, please contact Peggy Davis at PeggyD@dor.wa.gov. If you have questions about the legislative process, please contact Mike Braaten at MichaelB@dor.wa.gov. ♦

Property Tax Special Notices

By Harold Smith, Exemption & Deferral Program Manager

Property Tax Special Notices are generally sent to assessors, treasurers, and those stakeholders that we can identify with a specific interest in the particular topic. Prior to being issued, each Special Notice will go through an internal review process. Special Notices are posted on the Department's website at www.dor.wa.gov under Property Tax Publications. You may also receive a copy of a Special Notice by adding your name to the ListServ. This can be done by going to www.dor.wa.gov, clicking "Find Taxes and Rates," then clicking "Property Tax," and one more click to "Join E-mail Service." A notice will usually provide a contact for more information on the topic.

July 15, 2008

Taxing District Levy Certification

Discusses how a taxing district must certify their property tax levy request to the County Assessor.

http://dor.wa.gov/Docs/Pubs/SpecialNotices/2008/sn_08_LevyCert.pdf

August 27, 2008

2008 Legislation Updates – Levy Lid Lift, Establishing Taxing Districts Boundaries, Beach Management Districts & Binding Site Plans

Discusses the implementation of several legislative measures passed in the 2008 legislative session related to property tax districts and their levies, including ESB 6641, ESB 6663, SB 6950, E2SHB 3186 & HB 1149.

http://dor.wa.gov/Docs/Pubs/SpecialNotices/2008/sn_08_PropLegUpdate.pdf

September 15, 2008

Building Permits in Relation to Adding Value of New Construction

Discusses whether an Assessor can put new construction on the tax rolls when a building permit has not been issued by the city/county.

http://dor.wa.gov/Docs/Pubs/SpecialNotices/2008/sn_08_BuildingPermits.pdf

September 29, 2008

Adding New Value to the Assessment Rolls

Clarifies how to deal with subdivisions and mergers of property relative to "new construction" and how "improvements" are used in the levy process. It has examples for both multi-year cycle counties and annual revaluation counties.

http://dor.wa.gov/Docs/Pubs/SpecialNotices/2008/sn_08_Assessment.pdf◆



Join Our Property Tax Special Notice Distribution List . . .

To be notified when a new Property Tax Special Notice is issued, simply visit the link below and join our e-mail distribution list. While you're there, check out the other distribution lists available from the Department of Revenue. You might find other topics of interest.◆

<https://fortress.wa.gov/dor/efile/SecureForms/content/contactus/email/listservemail.aspx>

A Letter From the Editor . . .

Dear Readers:



Often, the best ideas for articles in the **Property Tax Newsletter** come from our readers. We also know that there is a world of experience and expertise amongst property tax professionals outside of the Washington State Department of Revenue's Property Tax Division. We are considering creating a regular guest column or, perhaps, a "letter to the editor" section in future editions. If you have ideas for this new feature or might be willing to contribute, please contact us at harolds@dor.wa.gov.

Thanks,
Harold

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The Property Tax Review is published quarterly by the Department of Revenue's Property Tax Division. Comments and suggestions for featured topics should be forwarded to our newsletter editor.

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Property Tax Ratios by County 2008 Ratios for 2009 Taxes

County	Real Property 2008	Personal Property 2008	Indicated Combined Ratio 2008
Adams	94.3	91.7	94.0
Asotin	79.9	80.9	79.9
Benton	90.7	92.9	90.8
Chelan	70.9	94.2	71.4
Clallam	82.1	97.6	82.5
Clark	92.8	90.8	92.7
Columbia	89.2	93.2	90.8
Cowlitz	83.7	99.9	84.7
Douglas	92.5	94.8	92.6
Ferry	89.0	93.7	89.3
Franklin	88.2	89.5	88.3
Garfield	95.7	91.5	95.3
Grant	85.6	94.7	86.3
Grays Harbor	81.7	98.9	82.6
Island	94.5	93.5	94.5
Jefferson	89.8	99.3	90.0
King	89.3	98.2	89.7
Kitsap	86.0	96.9	86.2
Kittitas	85.9	96.0	86.5
Klickitat	85.1	100.0	88.2
Lewis	85.3	95.3	86.4
Lincoln	87.5	96.7	88.4
Mason	84.1	90.3	84.2
Okanogan	78.3	95.3	78.8
Pacific	72.9	88.2	73.2
Pend Oreille	70.9	78.6	71.2
Pierce	86.1	94.4	86.4
San Juan	86.7	92.9	86.8
Skagit	88.5	100.0	89.2
Skamania	83.6	88.6	84.0
Snohomish	91.2	98.2	91.5
Spokane	92.5	88.7	92.3
Stevens	78.1	82.6	78.4
Thurston	90.6	96.9	90.8
Wahkiakum	88.9	94.5	89.1
Walla Walla	91.0	93.2	91.2
Whatcom	78.3	94.7	78.9
Whitman	87.1	79.5	86.3
Yakima	90.7	89.3	90.6
STATEWIDE			88.7