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# Washington Department of Revenue Property Tax Division

## 2019 Review of Property Tax Administration in Okanogan County



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# Overview

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## Introduction

This report contains the results of the Department of Revenue's (Department) review of property tax administration processes in Okanogan County (County).

## Purpose

The primary purpose of this review by the Department is to assist the Okanogan County Assessor (Assessor) in successfully performing the duties associated with administration of the various property tax programs.

An effective review of the methods employed by the County in administering property tax will promote fair, timely, and uniform property tax assessments

## Scope of review

The review is limited in scope. We reviewed the Assessor's role in property tax program administration. We did not review the internal fiscal controls or the internal management of the Assessor's office.

We reviewed selected administrative procedures for compliance with state statutes and regulations. We did not examine all parcels or accounts enrolled in the various programs or the assessed values of these accounts. The processes used to determine value are within the scope of this review and may be addressed in this report.

## Background

### *Duties of the Assessor*

The Assessor is responsible for listing and valuing all real and personal property in the county. In addition to valuing property, the Assessor's Office is responsible for a number of complementary functions, including:

- Maintaining record of ownership and legal description for each parcel of property
- Maintaining maps of all parcels and taxing districts
- Calculation of levy rates for the various taxing districts
- Administration of state-legislated tax exemption and deferral programs
- Providing property tax related information to the public and other governmental agencies

## Overview, continued

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### *Duties of the Department*

The Department has the responsibility of general supervision and control over the administration of the assessment of property and the property tax laws of the state. The Department is authorized to direct and advise assessors, boards of equalization, county boards of commissioners, county treasurers, and county auditors as to their duties under the laws of the state relating to property taxation.

The Department has the authority to examine and test the work of county assessors at any time. The County Review Program is one of the Department's principal efforts to address these interests and promote fair, timely, and uniform property tax assessments.

As part of the Department's commitment to assisting the Assessor, this review is conducted with these general goals in mind:

- To ensure that assessment administration is in compliance with state statutes and regulations
- To provide recommendations to improve assessment operations
- To identify efficiencies and cost-effective operational improvements
- To identify immediate and long-term resource needs in the Assessor's office

### **Information reviewed**

To complete our review, we gathered information about property tax program administration via interviews, documents provided by the county, as well as through independent verification. The areas we reviewed included (but were not limited to):

- Reporting to officials
- Revaluation

To complete our review, we interviewed:

- The Assessor
- The Chief Deputy
- The Chief Appraiser

### **Acknowledgment**

We thank the Assessor and staff for their cooperation throughout our review. We commend the Assessor for his willingness to look at opportunities to improve the uniformity and administration of property tax.

# Executive Summary

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## About this review

The Department conducted on-site visits to the Assessor's office. We interviewed the Assessor's staff about the processes and procedures used in administering the County's various property tax programs.

An administrative review of this type is prone to underscore problem areas even in a county that is doing well. Though we may have observed processes or procedures where the County is doing well, those items may not be reflected in this report.

## Categories of results

The Department has completed its review and grouped the results into two categories:

- The first category, *Requirements*, is of the greatest urgency for effective administration by the Assessor. A change is required to adhere to the law.
- The second category, *Recommendations*, requires the attention of the Assessor. We believe improvements in these areas can improve service to the public.

The Department based the requirements and recommendations contained in this report on our analysis of the administrative procedures employed, existing state statutes and regulations, and areas we saw opportunities to improve processes, procedures, and communication.

## Results

The Department identified one requirement and two recommendations directed toward improving property tax administration in the County. A summary of these items follows.

## Executive Summary, continued

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### Requirements

1. The Assessor is required to assess new construction at its true and fair value as of July 31 each year regardless of its percentage completion. (RCW 36.21.070, RCW 36.21.080, WAC 458-19-005(2)(p), WAC 458-12-342)

### Recommendations

1. The Department recommends the Assessor use the *International Association of Assessing Officers (IAAO) Ratio Standard* to measure the quality of mass appraisals. The IAAO Standard suggests that the level of assessment be analyzed using the median assessment ratio for the jurisdiction being reviewed. The IAAO standard states that the median ratio should be between 90% and 110%.
2. The Department recommends the Assessor perform additional analysis, conduct ratio studies, and update assessed values of parcels in the areas of the County not scheduled for physical inspection in a given year. The Assessor should update the assessed value of all parcels in the County to reflect the current market value, unless market data indicates that no change in market value has occurred year to year. (RCW 84.40.030 and 84.41.030)

# Requirements

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For the items listed as *Requirements*, the Assessor must make changes in procedure to comply with law.

This section contains the items we identified following our interview.

## Procedure for adding new construction at percent complete to the assessment roll

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### Requirement

The Assessor is required to assess new construction at its true and fair value as of July 31 each year regardless of its percentage completion. (RCW 36.21.070, RCW 36.21.080, WAC 458-19-005(2)(p), WAC 458-12-342)

### What the law says

New construction covered under the provisions of RCW 36.21.070 and 36.21.080, and defined in WAC 458-19-005(2)(p), must be assessed at its true and fair value as of July 31 each year regardless of its percentage of completion. The Assessor is authorized to place new construction on the assessment rolls up to August 31 each year. In instances when new construction continues after July 31 of any year, the increase in value of the property due to the new construction that occurs between August of that year through July 31 of the following year is added to the assessment roll as "new construction" in the following year.

New construction refers only to real property, as defined in RCW 84.04.090 and further defined in WAC 458-12-010, and also to improvements, as described in WAC 458-12-005(2)(d), located on leased public land, for which a building permit was issued or should have been issued. The Assessor must notify the owner, or person responsible for payment of taxes, of the value of any new construction that has been assessed.

### What we found

In our discussion at the Assessor's office on November 13, 2019, the Assessor stated that they did not add any new construction value to the assessment roll until the improvement was weathered in.

### Action needed to meet requirement

The Assessor must determine the assessed value of new construction based on the true and fair market value, as of July 31. When the construction is incomplete, the value should reflect the market value for that level of completed construction, as of July 31. The Assessor should provide appraisers with written guidelines to help ensure consistency in estimating the value of incomplete construction.

Methods for determining percent complete and value of incomplete construction:

- Appraisers can estimate percentage of completion based on the contribution of each component of construction, as compared to the completed project. For example, a home with only the site work and foundation completed, as of July 31, would be considered 14 percent complete using the Percent Completion Guide in Marshall and Swift building cost manuals. The Department provides forms that help to calculate a percent complete for new construction.



- For parcels in the very early stages of construction, after inspection, the appraiser might apply a percentage of the permit value to the parcel, until such a time that he or she can measure the new improvement more accurately.
- Another option would be to attach a flat value to a parcel in the early stages of construction (i.e. foundation), which would be a fair cost estimate for groundwork, utility installation, and foundation work.

### **Why it's important**

One of the major functions of the assessor's office is placing new construction on the assessment roll. It is important to capture the new construction value each year regardless of the percentage of completion, so the added value is part of the assessment roll for the appropriate year. The assessment of new construction provides an important source of funding for the county and local taxing districts, and ensures equity in taxation between property owners.

## Recommendations

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For the items listed as *Recommendations*, the Department believes the Assessor could improve program compliance and service to the public by making voluntary changes in procedure.

This section contains the items we identified following our interview.

## Meet the IAAO Standard for median assessment ratio

### Recommendation

The Department recommends the Assessor use the *International Association of Assessing Officers (IAAO) Ratio Standard* to measure the quality of mass appraisals. The IAAO Standard suggests that the level of assessment be analyzed using the median assessment ratio for the jurisdiction being reviewed. The IAAO standard states that the median ratio should be between 90% and 110%.

### What we found

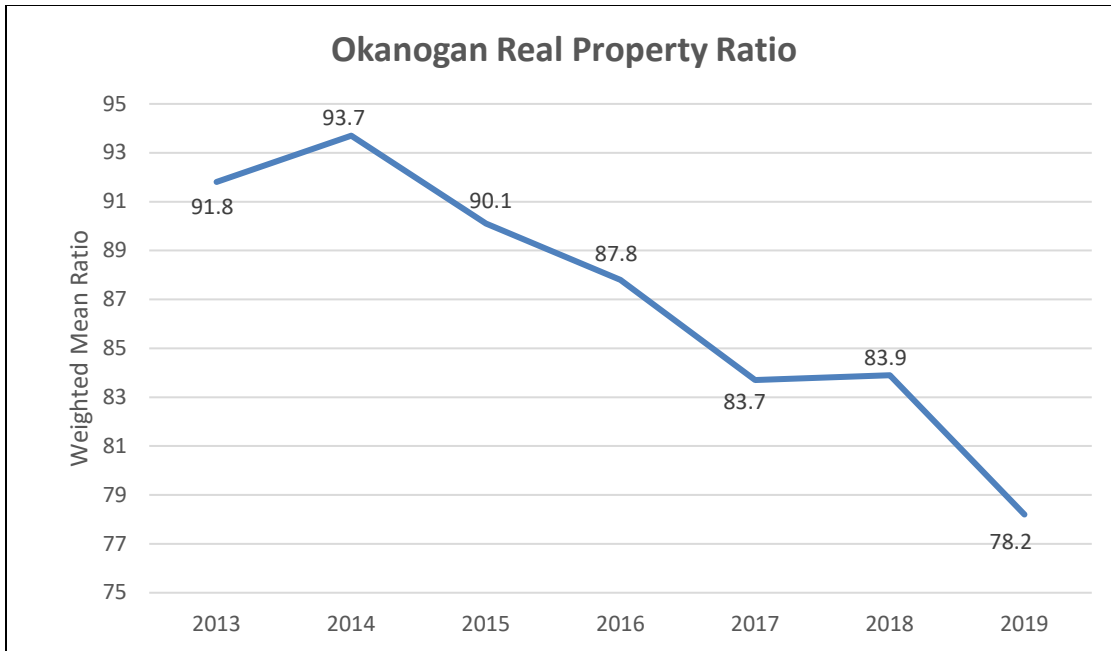
For the years 2016 and 2017, the level of assessment or ratio for the County was less than 90% and outside the IAAO's recommended range for the median ratio. The report with median ratios is not yet available for 2018 and 2019. The weighted mean ratio used for equalization by the Department has been under 90% for four of the past five years. Our 2019 Ratio Study indicates a weighted mean ratio of 78.2%, which reflects lower assessed value to sale price ratios for multiple categories of property, including agricultural, multifamily and commercial, and single family residential. This is the second lowest ratio in the state for 2019.

Recent real property ratios for Okanogan County are as follows:

Assessment Year	Median	Weighted Mean
2019	N/A	78.2%
2018	N/A	83.9%
2017	86.0%	83.7%
2016	88.0%	87.8%
2015	92.0%	90.1%
2014	96.0%	93.7%
2013	94.0%	91.8%

Sources:

[Measuring Real Property Appraisal Performance In Washington's Property Tax System](#)  
[Property tax ratios by county | Washington Department of Revenue](#)



In 2017, 30 counties met the IAAO standard for median ratio at 90% or greater for the overall county, while nine counties, including Okanogan, did not meet the standard because their level of assessment was less than 90%.

### Action recommended

The Department recommends that County appraisers use ratio studies and other statistical analysis to test the quality and accuracy of their appraisal process and methods. Appraisers should do the following:

- Analyze both the level of assessment and the uniformity of the assessments in all categories of property and locations. Calculate the statistical measures recommended by the IAAO to test whether valuation models and methods accurately value all parcels at 100% of market value each year.
- Develop skill using Excel, an easily accessible tool, that appraisers can use for ratio studies and calculating most of these statistical measures. The IAAO provides training and publications that explain the use of statistical measures. The *Property Tax Training Calendar* typically includes classes about ratio studies, including how to conduct the study using Excel.
- Review the Department’s annual ratio study for your county and our published reports that explain statistical analysis with calculated measures for each county, including:
  - [Measuring Real Property Appraisal Performance In Washington’s Property Tax System](#) - Annual reports published through 2017 are available on the Department’s website.
  - *Real Property Ratio Summary Statistics Report* - Available by contacting the Department or through the Property Tax Resource Center (PTRC).

Use ratio studies to identify property types and locations across the County where assessed values are not reflective of market value. Update the values of parcels in the current physical inspection area and in the other five non-inspected areas. Annual revaluation means updating values throughout the County each year.

### **Why it's important**

Ratio studies are used for measurement of the level of assessment and uniformity of mass appraisal models. They also provide:

- Internal quality assurance and identification of appraisal priorities where resources should be concentrated in order to improve assessment levels.
- Determination of whether administrative and statutory standards have been met.
- Determination of time trends for older sales, which could be used for adjustment of appraised values for the current assessment year.

Assessors, appeal boards, taxpayers, and taxing authorities can use ratio studies to evaluate the quality and uniformity of assessments.

## Updating values in areas that have not been inspected

### Recommendation

The Department recommends the Assessor perform additional analysis, conduct ratio studies, and update assessed values of parcels in the areas of the County not scheduled for physical inspection in a given year. The Assessor should update the assessed value of all parcels in the County to reflect the current market value, unless market data indicates that no change in market value has occurred year to year. (RCW 84.40.030 and 84.41.030)

### What the law says

Per RCW 84.40.030, “all property must be valued at 100% of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.” In addition, RCW 84.41.030 states that all property must be revalued annually, and inspected at least once every six years. The law authorizes the assessor to revalue property annually in the non-inspection areas of the county, “During the intervals between each physical inspection of real property, the valuation of such property must be adjusted to its current and fair value, such adjustments to be made once each year and to be based upon appropriate statistical data.” (RCW 84.41.041) The appropriate statistical data for accurately adjusting the real property values includes, but is not limited to, the costs of construction and real property trends. (WAC 458-07-015)

### What we found

The Department found a possible connection between the County’s lower level of assessment (ratio) and the low number of non-inspection area parcels that have had a change in their assessed value. The ratio is a measure of how close assessed value is to market value. If the market sales indicate that there has been an increase or decrease in market value, not reflecting those changes in the assessed values of property in the non-inspected areas can potentially result in low ratios. In an appreciating market, not updating assessed values in the non-inspection areas will result in lower and lower ratios over time.

The following table shows a five-year history of ratios and valuation changes in the County:

Assessment Year	Median Ratio	Weighted Mean Ratio	% of Parcels in the Inspection Area That Had a Change in Value	% of Parcels in Non-Inspection Area That Had a Change in Value
2019	N/A	78.2%	73.7%	7.3%
2018	N/A	83.9%	76.2%	4.9%
2017	86.0%	83.7%	71.1%	3.5%
2016	88.0%	87.8%	85.3%	13.3%
2015	92.0%	90.1%	73.9%	2.7%

Sources:

[Measuring Real Property Appraisal Performance In Washington’s Property Tax System](#)  
[Property tax ratios by county | Washington Department of Revenue](#)  
[2015-2019 County Revaluation Progress Report](#)

### **Median ratio**

The median ratio is calculated by dividing the assessed value of sold property by the sales price. Each county reports their yearly sales to the Department. Lincoln County's median ratio was under 90% from 2015 – 2017. Data is not yet available for the last two years. The Department also used the IAAO Standard on Ratio Studies as a guideline for determining whether counties are assessing property uniformly and consistently. These guidelines include an overall county median ratio between 90-110%.

### **Weighted mean ratio**

The County's overall weighted mean ratio, used for equalization, has been below 90% for the last four years and is the second lowest in the state for 2019 at 78.2%.

### **Percentage of parcels that had a change in value**

The Assessor reports to the Department the percentage of parcels that have valuation changes each year in their annual County Revaluation Progress Report. They reported the percentages of parcels with a value change in both the inspected area (1/6 of the county) and the non-inspected area (5/6 of the county). The statistics for the past five years indicates that a very low percentage of parcels had a change in value in the non-inspected areas. In the non-inspected area of the County during 2017-2019, less than 10% of the parcels had an adjustment to the assessed value.

The Assessor's current process is to update all parcel characteristics based on recent physical inspections and add current building cost data into the CAMA valuation system. Then the system applies current building costs only to those parcels in the current inspection area. The appraisers use the most current Marshall and Swift cost tables in the CAMA system to appraise parcels located in the inspection area for the year, while those parcels in the non-inspection area are valued using the cost table from when they were last inspected. This is an acceptable practice as long as all values in the various non-inspection areas are trended to the current market value each year.

The Assessor currently utilizes many mass appraisal tools, including land valuation tables in the CAMA system, geographic information system (GIS), neighborhood coding, and others. These tools and coding can be useful for mass updating of values in non-inspected areas. It is not clear if the Assessor is analyzing sales and conducting ratio studies for the non-inspection areas, which may indicate a need for a valuation adjustment by trending values and/or recalibrating models (valuation tables).

Our recommendation applies to all property types including commercial property. The Assessor stated that not all commercial values are updated annually and that spot analysis is done of parcels in active areas of the county. In 2019, for example, the Assessor reported 85.1% of the commercial parcels in the inspection area had a change in value, while in the non-inspection area only 2% had a change in value.

### **Action recommended**

The Department recommends the Assessor and county appraisers increase their use of ratio studies and other statistical analysis to review the level of assessment and update values throughout the County each year. Ratio studies and statistics should be used to analyze both land and improvement values in all areas of the County. Analysis of current sales helps to determine market changes that should be reflected in the new assessed values. The results of sales analysis and ratio studies help identify whether an adjustment should be applied to:

- Update values in non-inspection areas by applying an adjustment to the previous assessed value.

- Marshall and Swift improvement values as percentage market adjustments, application of depreciation, and/or calibration of variables in the model.
- Percentage market adjustments to land values and/or calibration of variables in the land model.

Other recommendations include:

- Increase use and functionality of the computer assisted mass appraisal (CAMA) system to update values throughout the County.
- Run new cost values in your CAMA system for all parcels in the County, make market adjustments to the cost valuation as needed, and apply depreciation as indicated. This methodology creates the most uniformity and consistency because all parcels are being treated the same. If new values are not generated in the CAMA system, values should be trended to reflect current market value.
- Learn more about how Marshal & Swift/Core Logic cost factors, depreciation, and multipliers are loaded, used and updated in the CAMA system.
- Confirm whether depreciation tables are activated, so that a percentage of depreciation is applied each year and improvement values will change.
- Evaluate property records and add missing characteristics useful for mass appraisal.
- Concentrate efforts on improving the county ratios by analyzing property by land use codes, highest and best use, and location in addition to other analyses already being performed.
- Perform audits of valuations before finalizing values to ensure consistency and equity in valuations. Such audits may include checking: that new construction parcels reflect the new improvement value, that there is a reason for large increases or decreases in value, or that parcels have the correct land use code. The Department has a list of suggested audits and edits to be performed prior to finalizing values.

### **Why it's important**

Regular review and updating of assessed values to reflect market value for parcels throughout the County ensures that taxpayers are assessed taxes in a uniform and consistent manner. Additionally, accurate assessed values are important for calculation of local levies and the state levy for schools. Updating values for only a portion of the County each year puts parcels out of equity with each other, because they are not all reflecting a current market value.



## Next Steps

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### **Prioritizing requirements and recommendations**

The Department is committed to assisting the County in the implementation of the recommendations contained in this report. Once the Assessor receives a final copy of this review, the Department will (if requested) consult with the Assessor to help prioritize the work that must be completed.

### **Follow-up**

The Department is committed to the success of the Assessor by ensuring they comply with state statutes and regulations.

The Department will follow up in nine months to review the changes implemented. This will give the Assessor an opportunity to provide information to the Department about any issues they encountered during the implementation process.

### **Questions**

For questions about specific requirements or recommendations in our report, please contact the Property Tax Division at (360) 534-1400.

For additional information contact:

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