

Washington Department of Revenue
Property Tax Division

**2011 Review of
Property Tax Administration
in Wahkiakum County**



July 2011

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Overview

Introduction This report contains the results of the Department of Revenue's (Department) review of the Property Tax Administration Review in Wahkiakum County (the County).

Purpose The purpose of this review by the Department is to provide the Wahkiakum County Assessor (Assessor) and county legislative authority the information needed to successfully perform the duties associated with the various property tax programs. Though most of the responsibility for property tax administration falls upon the Assessor, there are some duties that are the responsibility of the county legislative authority.

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

Scope of Review The review is limited in scope. The Department reviewed both the Assessor's and the county legislative authority's roles in property tax program administration. We did not review internal fiscal controls or internal management of the Assessor or county legislative authority offices.

The Department reviewed 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. However, the level of assessment for properties is not within the scope of this review. The Department's Ratio Study Program monitors and measures assessment levels.

Information Reviewed To complete our review, the Department 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
 - Personal property
 - Revaluation and accreditation
 - New construction
 - Property segregations
 - Exemption and deferral programs
 - Centrally assessed property
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Executive Summary

About this Review

In April and May 2011, the Department conducted on-site visits to the Assessor's office and the office of the Board of County Commissioners (county legislative authority). We interviewed the Assessor and the county legislative authority staff on 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 considered to be 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 and the county legislative authority. A change is required to adhere to the law.
- The second category, *Recommendations*, requires the attention of the Assessor and the county legislative authority. We note recommendations as being in the best interest of all parties. We believe changes can be made which lay the groundwork for process improvements in the office, improved succession planning, and enhanced 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, as well as areas we saw opportunities to improve processes, procedures, and communication.

Results

Results

The Department identified twenty-three requirements and sixteen recommendations directed toward improving the administration of property tax programs in the County. The items identified may be specific to the Assessor's duties, the county legislative authority's duties or they may have shared components of responsibility.

Requirements

For the items listed as Requirements, the Assessor and/or county legislative authority must make changes in procedure to comply with law. A summary is listed below.

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Reporting to Officials

Reports and Timelines

The Assessor is required to submit accurate, complete, timely reports and certifications to the Department and other county officials. (RCW 84.08.020, 84.08.040, 84.40.040, 84.40.320, 36.21.070, 36.21.080)

The Department may require reporting on assessments of property, equalization of taxes, the expenditure of public funds for all purposes, and other information which we may request (RCW 84.08.020(3)).

The Department and other county officials rely on the Assessor to provide timely reporting throughout the year. Some reports and their due dates are mandated by law. Other reports are required by the Department by specific dates in order to produce meaningful information to state and local officials.

The Assessor failed to timely submit required reports to the Department, county officials, and boards during the 2010 reporting year. Reporting is not optional, but a duty of office. To ensure timely reporting, each year the Department publishes the *Property Tax Calendar*, which details important property tax deadlines and dates of reporting.

Assessor's Certificate of Assessment Rolls

The Assessor is required to certify the taxable (assessed) value of all locally assessed real and personal property after revaluation is complete. The Assessor's Certificate of Assessment Rolls (form 64 0051) serves as a permanent record of locally assessed values for the county (forest land, current use land, improvements on current use land, senior frozen value, real property, and personal property). The Assessor is required to deliver the certificate to the Board of Equalization (BOE), with a copy to the Department, by July 15 each year (RCW 84.40.320).

Assessor's Certificate of New Construction Value

The Assessor is required to certify the value of new construction added to the assessment roll (RCW 84.40.040). The Assessor's Certificate of New Construction Value (form 64 0059), provides the value of new construction added to the assessment role. The Assessor is required to deliver the certificate to the BOE, with a copy to the Department by September 15 each year.

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Reporting to Officials, Continued

Reports and Timelines (Continued)

The consequences of the delays were:

- The assessment roll was not formally closed during 2010, nor was the BOE formally notified of roll closure and directed to proceed with hearing petitions.
The calculation and setting of levies was made without certified values,
- which potentially jeopardizes the assessments and put the County at risk for inaccuracies and public loss of confidence in the results.
- The Department was required to estimate the County's real property ratio for 2010 (while legally permissible, estimating the ratio can seriously impact the results of a county's ratio which is used to calculate the state school levy and equalization of utility assessments).

Timely filing of the Certificate of Assessment Rolls and the Certificate of New Construction Value results in:

- The assessment roll being formally closed, allowing the BOE to proceed with hearing appeals and equalizing values.
- The calculation and setting of levies can be completed with certified values, giving the process credibility.
- Real and personal property ratios can be calculated without the need to estimate a ratio for the County, authenticating the County's ratio utilized to calculate the state school levy and equalize utility assessments.

Stratification of Real Property Parcels and Personal Property Accounts

The Assessor is required to report the Stratification of Real Property Parcels to the Department in a timely manner to enable the Department to certify the preliminary ratios (WAC 458-53-030).

The Assessor is required to report the Stratification of Personal Property Accounts to the Department in a timely manner to enable the Department to certify the preliminary ratios (WAC 458-53-140).

The Stratification of Real Property Parcels and Personal Property Accounts is required for the Department to appropriately conduct audits of real and personal property accounts to complete the ratio calculation. If the reports are not submitted timely, the Department (to ensure timely assignments of workload to Department auditor/appraisers), must utilize the prior year's stratification reports for sampling purposes. This causes additional work due to the substitution of parcels and accounts, further delaying the completion of the ratio.

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Reporting to Officials, Continued

Reports and Timelines (Continued)

The Assessor should develop policies, procedures, and training to ensure the accurate and timely reporting to the BOE, County Auditor, County Treasurer, and the Department. Staff training should include procedures for proper querying of the database and the production of required reports.

Accurate and timely reporting promotes integrity and public confidence in the equalization of the centrally assessed utility values, the state school levy calculation, and ensures the fair and equal administration of property tax in the County and the state of Washington

Annual Sales Study

The Assessor is required to accurately complete the annual sales study. (RCW 36.21.100, 84.48.080, WAC 458-53-070)

The real property sales report documents the results of sales-assessment ratio studies performed by the Assessor. The ratio study is based on use classes of real property and is performed under a plan approved by the Department.

The County has yet to provide the 2010 annual sales study as is required in establishing a real property ratio. The Assessor's staff stated they have input sales information into PACS (new computer software). Staff indicated PACS has all fields necessary to generate the required reports, but at the time of our on-site visit, the reports had not been completed.

In-house training on the County's system for the ratio sales program and reporting is necessary. The Assessor's staff needs to be able to extract the appropriate data from the sales program to satisfy the requirements for the state's ratio study. Instructions for the extraction process should be developed, maintained, and utilized in conjunction with the Department's Ratio Procedures Manual. Staff training should include procedures for proper querying of the database and the production of required reports.

Developing staff procedures ensures accurate and timely reporting to the Department.

Personal Property

Personal Property Listings

The Assessor is required to mail or electronically transmit a listing to taxpayers liable to assessment of personal property on or before January 1 of each year. (RCW 84.40.040, WAC 458-12-060)

All personal property subject to taxation must be listed and assessed every year by the Assessor. Annually, the Assessor is required to send to all individuals known to have taxable personal property in their county, a personal property listing. For existing accounts, Assessor's office staff may refer to this as a "pre-list". Pre-lists typically contain the owner's name, mailing address, location address, and the property listed on the prior year's report by that owner, as well as room to report personal property acquired since last reporting. The personal property listings are due back to the Assessor by April 30 (RCW 84.40.040 and WAC 458-12-060). Penalties may be assessed for listings returned to the Assessor after April 30 (RCW 84.40.130).

For the 2011 assessment year (AY), personal property listings (pre-lists) had not been mailed as of the date of our review. The Assessor stated the delay in mailing was caused by the conversion to a new computer system during 2010, which led to half of the 2010 AY listings not getting entered into the new system, as well as the office being short-staffed. Staff expressed the desire to complete entering 2010 personal property listings into the system, in order to create the 2011 listings to mail to taxpayers.

Though we understand the desire to finish the prior year's listings before working on the current year's listings, we believe the focus should be completing the 2011AY listings. Therefore, the Department recommends a two-pronged approach to completing the 2011 personal property lists.

For all accounts that were processed in 2010 AY:

- Print and mail from the PACS/TA system 2011 AY personal property listings (pre-lists) for those accounts that exist in the system (the accounts processed in 2010 AY).
- Include a letter of explanation with each pre-list, acknowledging why the listing is being mailed late (i.e. new computer system, budget situation, etc.).
- Set a new due date of 30 days from date sent.
- Forego late fees for the 2011 AY only.

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Personal Property, Continued

**Personal
Property
Listings**
(Continued)

For all accounts that went unprocessed in 2010 AY (those never entered in the PACS/TA system):

- DO NOT continue entering 2010 AY pre-lists.
- To expedite the processing of all 2011 pre-lists, manually copy and mail the last known personal property listing – this may involve printing a copy from CompuTech or manually copying from the hardcopy binder from last year.
- Include a letter of explanation with each pre-list acknowledging not only the lateness of the mailing but also an explanation as to why the listing was not processed in 2010 (a brief explanation such as, “the new computer system and budget constraints limited the input of listings last year.”).
- Set a new due date of 30 days from date sent.
- Forego late fees for the 2011 AY only.

Completing the assessment of personal property timely each assessment year ensures all property is listed on the tax roll and taxpayers are treated uniformly in the processing of listings.

**Personal
Property
Valuation and
Assessment**

The Assessor is required to assess the value of all personal property as reported by the taxpayer on or before May 31 of each year, and is required to deliver or mail to each taxpayer a copy of the statement of valuation. (RCW 84.40.040, 84.40.060, WAC 458-12-060)

The Assessor is required to value the property that is listed on the returned personal property listings at 100 percent of the true and fair value. If any property is listed or assessed on or after May 31, it is binding as if it was listed and assessed before that time (RCW 84.40.060). In all cases of personal property assessment, the Assessor must mail the taxpayer a copy of the statement showing the valuation of the property that was reported.

It is unclear what occurred in the 2010 AY. Despite the Assessor’s desire to input any unprocessed 2010 personal property listings into the computer system, the current emphasis needs to be the valuation of personal property for the 2011 AY. In order to value all personal property at 100 percent of true and fair market value, the assessor needs to focus on processing all personal property listings when received from taxpayers for the 2011 AY. Despite the fact that the personal property may have been listed and assessed by the Assessor after May 31, the assessment is still valid (RCW 84.40.060).

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Personal Property, Continued

**Personal
Property
Valuation and
Assessment
(Continued)**

The Department recommends the Assessor:

- Value all taxable personal property within the county.
- Send valuation notices to all taxpayers (in advance of certifying the assessment roll for the 2011 AY).

Timely receipt and valuation of returned personal property listings provides taxpayers their opportunity for appeal and ensures equitable distribution of taxes.

**Farm
Machinery &
Equipment
Exemption**

The Assessor is required to administer the Farm Machinery & Equipment exemption and determine who qualifies for the exemption each year. (RCW 84.36.630)

The Assessor is required to administer the Farm Machinery & Equipment exemption. All qualifying farm machinery and equipment is exempt from the state portion of property tax (RCW 84.36.630). Qualifying machinery and equipment must be owned by an active farmer, (i.e. someone who is engaged in the business of farming), and the equipment must have been used in the business of farming during each year the claim for exemption is made. Qualifying equipment is still subject to the local portion of property tax and must continue to be reported on the personal property listing form. The claim for exemption must be filed each year by April 30, with the personal property listing form.

The Assessor's staff indicated that they sent an application to claim the exemption to all farm accounts when the exemption was originally enacted by the legislature. However, since that time applications to claim the exemption have *not* been provided to taxpayers each year with the personal property listings, as required. The exemption was input into the system on the accounts that qualified, and has been rolled over each year automatically.

Exemptions are to be narrowly construed. If there is doubt with the exemption, then taxation is the rule. To appropriately administer the farm machinery and equipment exemption, the Assessor must:

- Send a Farm Machinery & Equipment Exemption Application (form 63 0027) with each personal property listing pertaining to farm accounts.
 - Determine the accounts that qualify for the exemption based on the returned exemption application received each year.
 - Input the qualifying accounts into the system each year.
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Personal Property, Continued

**Farm
Machinery &
Equipment
Exemption**
(Continued)

Properly administering exemptions provides uniform treatment of taxpayers potentially eligible for exemptions, and ensures other taxpayers are not shouldering a disproportionate amount of property taxes.

**Head of Family
Exemption**

The Assessor is required to administer the Head of Family exemption and determine who qualifies for the exemption each year. (RCW 84.36.110, 84.36.120, WAC 458-16-115)

Each head of a family is entitled to an exemption from his or her taxable personal property in an amount up to \$15,000. The taxpayer must qualify for the head of a family exemption on January 1 of the assessment year (the assessment date) or the exemption is lost for taxes payable the following year. The taxpayer must request the exemption at the time they file their personal property listing with the Assessor. Household goods, furnishings, and personal effects not used for business or for commercial purposes are already exempt from property taxation.

Commonly, a list of questions is printed on the personal property listing and the taxpayer checks the appropriate boxes. The Assessor uses this information to determine which taxpayers qualify, then inputs the exemption on the system.

It appears that the Assessor has granted the Head of Family exemption to most sole-proprietors but not necessarily on a systematic basis. The prior computer system and personal property listing forms were vague in the area of questions necessary to determine qualification. Though unclear, it is likely the head of family exemption was granted to some non-qualifying individuals.

The new listing form in PACS has the exemption criteria and questions clearly written on the form. This additional information should make it easier for staff to determine which accounts qualify for the exemption. However, more training in this area is recommended, as it appears the Assessor may not be aware of all the criteria necessary to qualify. The Department recommends the Assessor's staff review WAC 458-16-115 and Head of Family exemption Q&As on the Department's Property Tax Resource Center (PTRC) online at propertytax.dor.wa.gov.

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Personal Property, Continued

Head of Family Exemption (Continued)

Exemptions are to be narrowly construed. If there is doubt with the exemption, then taxation is the rule. To appropriately administer the Head of Family exemption, the Assessor must:

- Review the returned personal property listings.
- Determine if the qualifications of the Head of Family exemption are met.
- Input the qualifying accounts into the system each year.

Properly administering exemptions provides uniform treatment of taxpayers potentially eligible for exemptions, and ensures other taxpayers are not shouldering a disproportionate amount of property taxes.

Late Filing Penalties

The Assessor is required to administer late filing penalties for taxpayers who do not timely file personal property listings, on a uniform and systematic basis. (RCW 84.40.130, WAC 458-12-110)

Taxpayers that do not file their personal property listing (or file late), are subject to late filing penalties (RCW 84.40.130). Certain conditions allow for the waiving of late penalties.

For taxpayers filing late personal property listings, the Assessor must uniformly apply late filing penalties (RCW 84.40.130, WAC 458-12-110). Although the Assessor's office aims to have cooperative working relationships with its taxpayers, it appears the application of penalties for late filers is inconsistent. The Assessor must be less arbitrary in the handling of late fees and apply the statutes uniformly.

In light of delays with the current assessment of personal property, this requirement will begin in the 2012 AY.

Uniformly administering penalties will ensure a greater awareness by taxpayers and improve filing compliance.

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Personal Property, Continued

**Omitted
Property**

The Assessor is required to add discovered omitted property to the assessment rolls. (RCW 84.40.080, WAC 458-12-050)

The County does not have an audit program; rather, it uses the Department's personal property audits as their primary audit program. The Department commonly recommends this to Assessors. Omitted property discovered from these audits must be added as a *supplement* to show the change in value, then provided to the Treasurer's office to recalculate the tax. A change of value notice showing the omitted value must be sent to the taxpayer, along with notification of their appeal rights (RCW 84.40.080).

The Assessor processes the audits and appropriately makes changes to the accounts based on the audit information. However, it appears in some cases omitted property is only added to the *current* assessment year, but not to additional *prior* year's assessments (RCW 84.40.080).

The Assessor must enter all omitted personal property on the assessment roll beyond the current year if it's determined the property existed and was taxable in the county for prior years.

Properly administering omitted property ensures property is placed on the assessment roll for the appropriate years and should result in the County receiving complete personal property listings from taxpayers.

Revaluation

**Appraisers
Must be
Accredited**

Any person responsible for valuing real property for purposes of taxation is required to be an accredited appraiser. (RCW 36.21.015, WAC 458-10-010)

Any person who determines real property values or reviews appraisals prepared by others (including assistants or deputies to a county assessor) is required to be an accredited appraiser. This requirement does not apply to persons working in the Assessor's office who *do not* exercise appraisal judgment with respect to real property.

The Assessor is the only accredited appraiser in the office. The Assessor must attend the 15-hour *Uniform Standards of Professional Appraisal Practice* (USPAP) class and pass the exam by April 29, 2013. The Assessor indicated he will enroll in a USPAP course as soon as it is offered by one of the various accredited appraisal organizations.

Accredited appraisal organizations, courses, and exam dates are available online at dol.wa.gov/business/appraisers/appcrsexams.html.

Maintaining accreditation promotes uniformity and consistency throughout the state in education and experience qualifications and maintains the standards of competence in real property appraisal.

**Physical
Inspections**

The Assessor is required to complete a physical inspection of all real property once every four years, in accordance with their Department approved revaluation plan. (RCW 84.08.070, 84.41.030, 84.41.041, WAC 458-07-015, 458-07-025)

The Assessor is required to maintain an active revaluation program. In cyclical counties, a physical inspection of all real property within the county occurs at least once every four years. Physical inspection means, (at a minimum), an exterior observation of the property to determine if there have been any changes in the physical characteristics that affect value.

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Revaluation, Continued

**Physical
Inspections**
(Continued)

Physical inspection of all the property in the County must be completed according to the plan filed with the Department (WAC 458-07-025). Prior to each four-year cycle, the Department reviews the county proposed revaluation plan to ensure approximately equal portions of property are inspected each year. The revaluation review is one method the Department uses to evaluate if the Assessor will be able to successfully and timely complete the revaluation and/or physical inspection program. Any significant changes to the plan (including inspection areas) must be submitted to, and approved by, the Department prior to implementation of the changes. This requirement helps ensure property owners are treated fairly and uniformly, and the revaluation program can be completed successfully.

When the revaluation area being physically inspected is not completed in the current year, the remaining parcels must be completed before beginning the physical inspection of another revaluation area in the next year.

We reviewed the current revaluation plan to identify which inspection area is scheduled for the 2011 inspection and reappraisal cycle. The current revaluation plan submitted by the prior Assessor provides for a systematic and continuous reappraisal process. The Assessor did not make any changes to the revaluation plan currently on file. Reappraisal area four was the scheduled area for 2010 AY which was physically inspected and the revaluation work completed, however neither physical inspections nor valuation work were completed timely. The new computer conversion and data migration impacted the Assessor's ability to complete the mandated assessment functions in a timely manner.

The Department recommends the Assessor refer to the PTRC for resources and examples to use in the inspection process (*Property Inspection Field Sheet, Common Fields and Property Characteristics, etc.*) and to the Department's Gap Analysis Report issued in August 2010.

Timely completion of physical inspections promotes uniformity, fair assessment, and adds integrity to the assessment process.

Continued on next page

Revaluation, Continued

Revaluation Methods

The Assessor is required to appraise property at 100 percent of its true and fair market value, according to its highest and best use. Appraisal principles require the Assessor to demonstrate and document the valuation methodology used to determine accurate property values. (RCW 84.40.030, 84.48.150, WAC 458-07-030)

The Assessor is required to appraise property at 100 percent of its true and fair market value, according to its highest and best use. The Assessor is required to demonstrate and document the valuation methodology used to determine property values. Assessed values are based on market data and should reflect market conditions at appraisal date. Valuation starts with market analysis, benchmarking, calibration, and calculation of preliminary values. Ratio studies can be used to evaluate the accuracy and consistency of values between property types. Values are then subject to office and field review. Finally, assessed values are listed on the assessment roll.

Documentation is vital to valuation and necessary when explaining values to taxpayers. A well documented valuation process should detail:

- The valuation process
- Sales analysis
- Property characteristics
- The appraisal approach to value (cost, sales or income)

2010 Reappraisal Process

According to the Assessor, they utilized a hybrid approach to residential and commercial valuation. The hybrid model consists of the cost and sales approaches to value. The Assessor stated the valuation process began by determining a cost for reconstruction new, less depreciation for improvements, then calibrating costs to market.

Our review revealed the Assessor did not document the process in any detailed form. Neither the cost breakdown, nor the calibration process was available for our review. The Assessor provided a list of parcel sales used to determine market value for the 2010 physical inspection and reappraisal cycle. The Appraiser used the list as a valuation guide. The Department found:

- The list is generic and provides limited market information for use in the benchmarking process.
- Detailed information on the valuation process was not available for our inspection.

Continued on next page

Revaluation, Continued

Revaluation Methods (Continued)

- Information on sales analysis was not available.
- It is unclear if the Appraiser considered the factors or land characteristics that influence the value of land.
- The Assessor was unable to provide documentation to indicate the Appraiser performed any sales analysis on the data used to determine values.

We reviewed the Assessor's benchmarking records for value adjustments to land and improvements. We found the Appraiser did not:

- Stratify the sales by common characteristics
- Consider time or location adjustments
- Document the valuation methodology used to determine fair market value

The impact of the lack of analysis and limited documentation of land characteristics is evidenced by the high number of stipulations the Assessor is currently processing.

Sales and Ratio Study – Puget Island Area

The Assessor provided us with electronic copies of the sales and ratio studies developed for Puget Island area (valued in 2010), which included the formula used to determine the median ratio. We reviewed the data but found it was the formula to determine the mean, not the median. The median is the midpoint or middle value when a set of values is ranked in order of magnitude. No supporting statistical information was provided for our review.

2011 Reappraisal Process

The Assessor provided a sales list, sales analysis, and statistical data developed for land valuation models for the 2011 physical inspection and reappraisal cycle. When the Assessor reviewed the value estimates the Appraiser's model applied to the 32 sales using the Department's *Statistical Tool for Analytics and Ratio Studies* (STARS), he directed the Appraiser to:

- Reduce land values by an additional \$17,500 (reducing the remaining land value by \$15,000 for each buildable lot and adjusting utility value by \$2,500).
- Reduce improvement value by 1 percent.

The Assessor stated the reason for adjustment is to achieve a better statistical profile for the 2011 assessment cycle.

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Revaluation, Continued

**Revaluation
Methods**
(Continued)

The Department recommends the Assessor follow standard principals of appraisal and document each part of the process in a manner that can be understood by the stakeholders. The Assessor should follow the recommended appraisal process:

- First, conduct a market analysis
- Stratify or sort sales into groups of similar properties
- Perform a location analysis (this is perhaps the most important aspect of market analysis which may reveal patterns in values due to location and will aid in model building)
- Identify important parcel characteristics that contribute to total value
- Finally, proceed with model specification and calibration using market sales

Proper data collection and analysis is necessary to build accurate valuation models and ensures a true and fair basis for property tax assessment.

New Construction

Listing and Assessment of New Construction

The Assessor is required to list and assess all real property subject to taxation every year. The Assessor should review the policy that places restrictions on the inspection and listing of new construction with a permit value listed at \$30,000 or less. (RCW 36.21.080, 84.40.020)

The Assessor is required to list and assess all real property subject to taxation every year, including new construction. New construction means the construction or alteration of any property for which a building permit was issued, or should have been issued, which results in an increase in the value of the property (WAC 458-19-005(2)(p)).

While conducting inspections of parcels located in the current revaluation area, permitted and non-permitted new construction is inspected and listed. The inspection and listing of new construction in the current revaluation area is completed first. Then the Appraiser moves into the other three, (non-current revaluation), areas to focus on inspection of permitted new construction.

Under the previous administration, the Appraiser was instructed to conduct on-site inspections with the priority placed on permits for projects \$30,000 or greater. Additionally, the Appraiser conducted on-site inspection of previously incomplete projects to confirm current level of completion as of July 31 of the current AY.

According to the Appraiser, all current year inspections of new building permits over \$30,000 in permit value and “check-backs” to verify the current level of completion for on-going projects were completed by July 31, 2010. This work included new permits issued since July 31, 2009 and the check backs on previously permitted (but incomplete) construction.

The Assessor functions under a 4-year cyclical revaluation plan. The Assessor has one appraiser position funded for the office. The policy establishing a threshold of \$30,000 or greater permit value for permits that are inspected and listed is an approach used by officials to help balance completion of all current year work with their available resources. Although the Department recognizes this policy is an efficiency measure used to manage workload, by not listing all new construction, the county is not listing and assessing all real property every year as required by RCW 84.40.020. This could delay listing and assessment of new construction by four years, depending on the physical inspection and revaluation cycle.

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New Construction, Continued

Listing and Assessment of New Construction
(Continued)

The Department recommends the Assessor review the policy of inspection and listing of new construction with permit value listed at \$30,000 or less to ensure that all new construction that contributes to value is listed and valued.

Restricting the listing of all new property by the value of the permit, allows some property to escape from taxation until the construction is finally listed during routine inspection and revaluation cycle

Percentage of Completion

The Assessor is required to place any property that is increased in value due to construction on the assessment roll with the assessed valuation of the property considered as of July 31 of that year, regardless of its percentage of completion. (RCW 36.21.080)

The Assessor is to place new construction on the assessment roll. In listing new construction, all new construction that contributes to value must be inspected, listed, and valued by the Assessor (RCW 36.21.080, 36.21.070).

The Appraiser indicated that the County has a policy of not listing new construction until the project is at least 60 percent complete. This is not the prescribed approach to new construction. New construction must be assessed at its true and fair value as of July 31 each year, regardless of its percentage of completion (WAC 458-12-342).

Even small levels of new construction omitted from the assessment roll can cause inequity between those owners who have their property listed at 100 percent of completion.

The Department recommends the Assessor eliminate the practice of listing only the new construction that is at least 60 percent complete and ensure there is documented market support for the use of percent complete factors.

Listing all new construction ensures taxing districts receive the budget increases provided by new construction to provide services to the property owners in their district.

Continued on next page

New Construction, Continued

Notice of Value Change **The Assessor is required to send change of value notices to each property owner who has new construction added to their property value. (WAC 458-12-342, 458-12-360)**

After new construction is inspected, it is added to the assessment roll at a value based on the same appraisal methods used for similar and neighboring property. Typically this includes the use of cost factors and market adjustments as used for similar improvements located in the area of the subject property. The Assessor must send a change of value notice to each property owner who has new construction added to their property value (WAC 458-12-342, 458-12-360).

It is unclear if county staff understood the timing for mailing change of value notices when the parcel with new construction is located within the current revaluation area. When the property was located in the current revaluation area, the staff thought the notice included the total of both change in value for routine revaluation and the value for new construction.

Parcels with new construction that are located outside the current inspection area are sent change of value notices specifically for the change in value due to new construction.

New buildings are treated differently than old buildings:

- First, all property except new construction is appraised at its value on January 1 of the AY and is listed on the tax roll by May 31.
- Next, the portion attributed as new construction is appraised at its value on July 31 of the AY and must be listed by August 31 of the AY

The value of new construction in each taxing district must be tracked for levy limit and levy calculation purposes. As not all increase in value is new construction, it must be tracked separately from increases in value due to revaluation. It will be important to ensure that the new software system can be queried for this data. This topic may be addressed in past and future levy audits.

The Department recommends the Assessor review and document the process for sending change of value notices to property owners to ensure that property owners are properly notified of any change in the value of their property.

Property Segregations

Listing of Land or Lots Subject to Taxation

The Assessor is required to maintain a complete list of all lands or lots subject to taxation. The list should include the owner's name, the number of acres or list of lots included in the description of the property, and the value. (RCW 84.40.160)

The Assessor's listing of all property subject to taxation is also referred to as the Assessor's roll or assessment roll. The list should include the owner's name, the number of acres or list of lots included in the description of the property, and the value (RCW 84.40.160).

When transfers of property through recorded conveyance documents are not properly recorded in the Assessor's records, the listing of property for assessment and tax purposes will not contain the correct owner of the property. Timely processing of conveyance documents ensures that the Assessor's records contain each parcel subject to assessment and name of the property owner(s).

When straight-across transfers of ownership are not entered into PACS timely:

- The sale may not be included in Assessor's reports to the Department.
- Sales available for the Assessor's sales analysis and valuation work could be limited.
- Both internal and external ratio studies can be impacted when valid sales data is omitted from the studies.
- Untimely processing of conveyances can lead to problems with:
 - physical inspections
 - validation and verification of sales
 - valuation work
 - identifying new construction
 - verification of eligibility for property tax programs and exemptions
 - property owners receiving change of value notices and tax statements

Like other small counties, the Assessor's staff must assume numerous office functions. The person responsible for transfers also handles personal property, current use, various exemption programs, and provides customer service. The impact of backlogs of work have compounded over time.

Continued on next page

Property Segregations, Continued

**Listing of Land
or Lots Subject
to Taxation**
(Continued)

2009 and prior conveyance documents

The Assessor's staff indicated that prior to 2009 they were able to process all conveyance documents for straight-across transfers of property timely. A lag in processing ownership transfers began in the fall of 2009 with:

- The conversion to PACS
- A 50 percent reduction in work hours (beginning in October 2008) for the staff member responsible for processing transfers of ownership

2010 conveyance documents

The Assessor's staff indicated that they are not current in processing the straight-across transfer of ownership documents recorded in 2010. A summary prepared by the Assessor indicates at least six 2011 tax statements were held back from mailing until ownership could be corrected in the property records. The Assessor indicated that the summary may not include all affected parcels. The actual number of conveyance documents recorded in 2010 that have *not* been processed is unclear.

2011 conveyance documents

For documents recorded in 2011, the Assessor is current in processing straight-across transfers of ownership. The estimated number of documents processed during the first quarter of 2011 was 25.

The Department recommends the Assessor consider the following approach to completing all current and backlogged ownership transfers:

- Verify with the Treasurer that you receive copies of all real estate excise tax (REET) documents.
- Work with the County Auditor to determine if a listing of daily recorded documents may be useful in reconciling conveyances of property with REET documents.
- Cross reference the two sources to verify that all ownership changes are received.
- Document the process for changing ownership for property records in PACS.
- Begin with the oldest documents and work forward. Prior changes may be necessary in order to process the more recent changes in ownership.

Continued on next page

Property Segregations, Continued

Listing of Land or Lots Subject to Taxation (Continued)

- Screen each document to determine if it is a straight-across transfer or a segregation of an existing parcel.
- Depending on the staff assigned to screen sales, this may also be a good time to screen each document to determine if it is a valid sale for purposes of external and internal ratio studies.

Timely processing of conveyance documents ensures accuracy in county's ownership and assessment records.

Updating Maps and Property Records

The Assessor is required to continually update the maps and property records to reflect combinations and divisions of parcels. The Assessor must timely process transfers, conveyances, acquisitions, or any other transaction or event that changes the boundaries of any parcel. (RCW 84.40.160)

The Assessor's maps and property records must accurately reflect combinations and divisions of parcels. The configuration of a parcel may change due to:

- Subdivisions
- Alterations to subdivisions
- Short subdivisions
- Boundary line adjustments (BLA)
- Binding site plans
- Conveyance documents
- Other types of segregations

Taxpayers may request the Assessor segregate the value for one parcel for use in allotting the property tax to multiple taxpayers (administrative segregation). Administrative segregations may be required for exemption or deferral programs. For simplification, the term *segregation* is used to refer to all types of divisions and consolidations.

Staff stated that before completing an administrative segregation for tax purposes, the Assessor requires the property owner to complete a request form that is notarized. This provides documentation of the reason for the segregation.

Continued on next page

Property Segregations, Continued

**Updating Maps
and Property
Records**
(Continued)

Prior to our on-site review, the Assessor compiled a listing of tax statements for taxes payable in 2011 that were identified and withheld from mailing due to some type of administrative process or correction needed. Of the 238 statements held for correction, sixty-eight were held for unfinished segregation work and eighteen were held for boundary line adjustments (BLA). This count appears to be based on parcels rather than projects.

At the time of review, the Assessor was processing the backlog of segregations based on the “crisis of the moment.” The Assessor’s maps and property records do not accurately list the parcels, owners, and property values for properties that the Assessor has not completed processing property divisions, consolidations, and segregations. Prioritization is made to ensure taxpayers can pay taxes, and sales or other financial transactions by property owners can proceed forward. In the short-term, segregations for separation of tax are documented outside of the PACS system and will be entered into PACS as time permits. Many segregations were not input or documented within PACS, so the Treasurer’s side of PACS generated incorrect tax statements.

Long delays processing segregations of property result in incorrect assessment records and tax statements. When segregations of property are not processed timely, the assessor’s records will contain incorrect information (i.e. the size of the parcel). These elements may influence property values. Outdated parcel configurations and incorrect property characteristics can lead to problems with:

- Physical inspections
- Verification of sales
- Valuation work
- Identifying new construction
- Verification of eligibility for property tax programs and exemptions

Because the segregation process for most of the recently divided property is not yet entered into PACS, this impacts reports generated by PACS. Incomplete information about recently divided property may be excluded from the Assessor’s sales analysis and valuation work if the segregations have not been timely processed. The quality of ratio studies depends on the inclusion of valid sales data.

Continued on next page

Property Segregations, Continued

Updating Maps and Property Records (Continued)

Several issues contribute to the backlog of incomplete segregations:

- Complexity ~ divisions of property requires staff to review documents, surveys and maps. Staff may have questions about the ownership of land and rights being transferred. Staff may need confirmation of payment of current taxes and advance payment of taxes (RCW 84.56.340).
- PACS software ~ conversion to new software in the fall of 2009 compounded the normal complexity of segregations. According to the staff, segregations require they gather information from multiple sources including PACS, frozen CompuTech records, and paper records or “packets”. The process of parcel segregation in the new system is complex. The Assessor stated the first two segregations completed required hours to complete.
- Staff reduction ~ the October 2008 reduction from full to half time hours for the person responsible for processing conveyance documents for the transfer of ownership negatively affected the backlog.
- Competing office priorities ~ The many functions of the office, together with assistance to walk-in traffic and phone calls, limits the time available by staff to learn and document new processes in PACS.

To complete all current and backlogged segregations, the Department recommends the Assessor:

- Work with the Auditor and Planning Department to ensure access (as needed) to all conveyance documents, recorded surveys, subdivision documents and plat maps, and all other documents that are useful in processing divisions and consolidations.
 - Document the processes in PACs necessary to:
 - Create parcels
 - Create administrative parcels (if necessary)
 - Make acreage and value changes between parcels (BLAs)
 - Cross train staff to enable more than one person to review documents and legal descriptions (legal description training may be useful).
 - Work with the new GIS administrator to ensure updating the parcel layer and any paper maps used by office staff.
 - Begin with the oldest documents and work forward. The oldest changes may be necessary in order to process the more recent segregations.
 - Work with the Planning Department to ensure requests for segregations are only allowed for reasons permitted by law (and do not permit unlawful division of land).
 - Consider continuing short office closures until backlogs are caught up.
-

Current Use Program

Data Collection **The Assessor is required to collect the necessary data to appraise farm and agricultural land accurately. (RCW 84.34.065)**

The per acre current use value of farm and agricultural land is computed by dividing net cash rental by the capitalization rate. The Department provides the capitalization rate each year, but the Assessor must calculate net cash rental.

Net cash rental is defined as the average rental paid on an annual basis, in cash, for the land being appraised and other farm and agricultural land of similar quality and similarly situated that is available for lease for a period of at least three years to any reliable person without unreasonable restrictions on its use for production of agricultural crops. If net cash rental data is not available, the earning or productive capacity of farm and agricultural lands is determined by the cash value of typical or usual crops grown on land of similar quality and similarly situated averaged over not less than five years.

It is unclear what information has been collected in prior years. Historically, property owners have not recorded leases of farm and agricultural land. Lease data has not been requested directly from the property owners.

If an insufficient number of leases are available, the Assessor must calculate net cash rental by the actual or estimated earning or productive capacity of land. The value of government subsidies must be included when calculating net cash rental if the subsidies are based on the earning or productive capacity of the land (WAC 458-30-260). The Assessor has not collected productive capacity and expense information from program participants in the past.

The Assessor should begin requesting lease information, productivity (yield), and expense data from program participants. The Assessor should also consider information gathered from other farm data sources (using the collected data in determining the valuation of farm and agricultural land).

The following sources can be used in obtaining lease and productive capacity information for agricultural land:

- Surveys of local farmers and ranchers
- Farm advisory board (open space advisory committee)
- Wahkiakum County Auditor's Office

Continued on next page

Current Use Program, Continued

Data Collection (Continued)

- American Society of Farm Managers and Rural Appraisers <www.asfmra.org>
- Washington State University Extension <<http://ext.wsu.edu>>
- National Agricultural Statistics Service <www.nass.usda.gov>
- Washington State Department of Natural Resources www.dnr.wa.gov

Periodically gathering data on typical leases and the productive capacity of farm and agricultural land ensures accurate valuation of farm and agricultural land parcels and ensures other taxpayers are not shouldering a disproportionate amount of property taxes.

Calculating Current Use Value

The Assessor is required to use the prescribed methodology for calculating the current use value on classified farm and agricultural land. (WAC 458-30-260)

Once adequate information is gathered to calculate net cash rental, the Assessor must divide this amount by the capitalization rate to obtain the current use value of farm and agricultural land. The capitalization rate consists of an interest rate and a property tax component for each county. Each year, the Department updates the capitalization rate and provides it to the Assessor to apply to their current use calculations (WAC 458-30-262).

According to the Assessor, the current use values on parcels in the farm and agricultural land classification have not changed for many years (since prior to his taking office). It is unclear if the capitalization rate has been applied to net cash rental to calculate the current use value of farm and agricultural land. If net cash rental is not updated annually because of a lack of data or change in the data, the capitalization rate must still be applied to the net cash rental of the parcel being revalued. A change in the capitalization rate results in a change in the current use value of farm and agricultural land.

The County is currently on a four-year revaluation cycle, so the Assessor must revalue the real property located in the current revaluation area. When the county converts to an annual revaluation cycle, the Assessor must revalue *all* real property each year. If the current use values have not been updated because of a lack of expense and productive capacity data, the Assessor should begin collecting expense and productive capacity data. If applicable, the Assessor should have documentation supporting that the data has not changed since the last revaluation of a parcel. At a minimum, the current use value should change based on a change in the capitalization rate.

Continued on next page

Current Use Program, Continued

Valuing Integral Homesites

The Assessor is required to use the prescribed methodology for valuing homesites on parcels of 20 acres or more in the farm and agricultural land classification of the Current Use Program. (RCW 84.34.065, WAC 458-30-317)

Qualifying *land* on which the principal residence of a farm operator or owner of farm and agricultural land or the housing for farm and agricultural employees is situated is valued by adding the prior year's average value of classified farm and agricultural land in the County to the value of any land improvements used to serve the residence or housing, such as sewer, water, and power. However, *buildings* used by the farm operator or owner as his or her principal residence and building(s) used to provide shelter to farm and agricultural employees are valued at their true and fair market value.

To qualify for a reduction in assessed value, the land on which the residence or housing stands must be 20 acres or more or consist of multiple parcels that are contiguous and total 20 acres or more. The residence or housing must be integral to the use of the classified land for commercial agricultural purposes. If the residence or housing for employees is *not* integral to the farming operation, the land on which the residence or housing stands is valued at its true and fair market value.

According to the Assessor, qualified integral homesites are valued at the same per acre value as the surrounding farm and agricultural land, and then the Assessor adds the market value of the land improvements used to serve the residence, such as sewer, water, and power. This is not the prescribed method of valuing qualified integral homesites.

Land under a qualifying residence is calculated by adding the value of land improvements, such as sewer, water, and power to the *prior year's average value of classified farm and agricultural land in the county*. The prior year's average value of classified farm and agricultural land is calculated by dividing the county's *prior year total farm and agricultural current use land value* by the county's *prior year total acreage in the farm and agricultural land classification*.

Continued on next page

Current Use Program, Continued

**Valuing
Integral
Homesites**
(Continued)

The County is currently on a four-year revaluation cycle, so the Assessor must complete the homesite calculation annually and apply it to all qualified integral homesites in the farm and agricultural land classification located in the current revaluation area. When the county converts to an annual revaluation cycle, the Assessor must update the homesite calculation annually and apply it to all qualified integral homesites in the farm and agricultural land classification.

The Department recommends review of WAC 458-30-317 and Property Tax Advisory (PTA) 4.2.2009 for further guidance on valuing qualified integral homesites.

**Open Space
Advisory
Committee**

The county legislative authority is required to appoint open space advisory committee members and should consider providing public notice of advisory committee meetings. (RCW 84.34.145, WAC 458-30-345)

As a method of assisting the Assessor's office with valuable information about the farming community, the county legislative authority is required to appoint an advisory committee (commonly referred to as a farm advisory board). This five-member committee represents the active farming community and advises the Assessor in implementing assessment guidelines.

The advisory committee does not give advice regarding the valuation of specific parcels; however, it may supply the Assessor with advice on typical crops, land quality, leases, and expenses. This information will assist the Assessor in determining appropriate values (RCW 84.34.065).

The County does not have an advisory committee. It may be difficult for the county legislative authority to locate five people to serve on the committee because of the small number of farmers in the county. The Assessor and staff can assist the county legislative authority by contacting individuals who may be interested in serving but the county legislative authority is responsible for the appointment of all members to the advisory committee. The county legislative authority should attempt to locate and appoint members each year and document their efforts if they are unsuccessful in appointing the five-member committee.

Continued on next page

Current Use Program, Continued

**Open Space
Advisory
Committee
(Continued)**

Meetings of the advisory committee may constitute a public meeting. The Department recommends the county legislative authority review WAC 458-30-345 and chapter 42.30 RCW to determine if public notice and access is required.

Public access to advisory committee meetings and records ensures the committee's actions are transparent to county officials, Current Use Program participants, and the public.

**Open Space
and Timber
Land Approval
and Procedures**

The county legislative authority is required to hold a public hearing for open space and timber land applications. (RCW 84.34.037, 84.34.041)

An application for classification or reclassification to open space or timber land must be approved or denied by the county legislative authority after a public hearing (with public notice of the hearing provided). The granting authority may approve the application in whole or in part. If any part of the application is denied, the applicant may withdraw their application.

The county legislative authority stated that for open space applications the Assessor:

- Accepts and processes the application
- Approves the application
- Forwards the application to the county legislative authority

The application is placed on the consent agenda for the next meeting of the county legislative authority, without additional consideration or hearing. This is not the prescribed process for applications.

The county legislative authority is the granting authority. They may seek advice and guidance from the Assessor, Planning Department, or other interested parties, but the decision to grant or deny classification is the responsibility of the county legislative authority.

Continued on next page

Current Use Program, Continued

**Open Space
and Timber
Land Approval
and Procedures
(Continued)**

Open space applications (RCW 84.34.037)

In making their decision on open space applications, the granting authority can consider the benefits of preserving the current use of the property under application, and shall consider:

- The revenue loss or tax shift
- Whether granting the application will:
 - conserve or enhance natural, cultural, or scenic resources
 - protect streams, stream corridors, wetlands, natural shorelines and aquifers
 - protect soil resources and unique or critical wildlife and native plant habitat
 - promote conservation principles by example or by offering educational opportunities
 - enhance the value of abutting or neighboring parks, forests, wildlife preserves, nature reservations, sanctuaries, or other open spaces
 - enhance recreation opportunities
 - preserve historic and archaeological sites
 - preserve visual quality along highway, road, and street corridors or scenic vistas
 - affect any other factors relevant in weighing benefits to the general welfare of preserving the current use of the property
- Whether granting the application for farm and agricultural conservation land will:
 - preserve land previously classified as farm and agricultural land (RCW 84.34.020(2))
 - preserve traditional farmland not classified under chapter 84.33 or 84.34 RCW
 - preserve land with a potential for returning to commercial agriculture
 - any other factors relevant to the general welfare of preserving the current use of property

Timber land applications (RCW 84.34.041)

In making their decision on timber land applications, the granting authority can consider all relevant evidence, without any one or more items of evidence necessarily being determinative.

Continued on next page

Current Use Program, Continued

Open Space and Timber Land Approval and Procedures (Continued)

In addition to the application for classification or reclassification to timber land the applicant must provide a timber management plan. The timber management plan must be filed with the county legislative authority either:

- When an application for classification is submitted
- When a sale or transfer of timber land occurs and a notice of continuance is signed
- Within sixty days of the date the application for reclassification is received.
 - An application for reclassification must be accepted, but not be processed until the timber management plan is received
 - If the timber management plan is not received within 60 days of the date the application for reclassification is received, the application for reclassification must be denied (RCW 84.34.041(4))

The Assessor may give an extension of time (in writing), to submit a timber management plan when an application for classification or reclassification or notice of continuance is filed. If the Assessor approves an extension of time for filing the timber management plan, the county legislative authority may delay processing the application until the timber management plan is received. If the timber management plan is not received by the Assessor's extended due date, the application or the notice of continuance must be denied.

Open space and timber land notifications ~ Open Space Taxation Agreement (OSTA)

The granting authority must approve or deny an application for classification or reclassification within six months of receipt (RCW 84.34.050(1)). The granting authority may approve application in whole or in part and must notify the Assessor of their decision within ten days. If denied, the applicant can appeal to Superior Court. If approved, the granting authority will prepare an *Open Space Taxation Agreement* (form 64 0022). The OSTA shall contain (WAC 458-30-240):

- All conditions for the approval of the application
- Parcels subject to the agreement
- Can include description of ways the classified land may be used
- The actions that will cause removal of classification
- The consequences of a change in use of the classified land

Continued on next page

Current Use Program, Continued

**Open Space
and Timber
Land Approval
and Procedures**
(Continued)

Timeline for OSTA

An OSTA proceeds on the following timeline (WAC 458-30-240):

- Agreement is submitted to owner within five calendar days of approval (by certified mail, return receipt) for the owner to accept or reject.
- Owner has thirty days from receipt to sign and return the agreement (If the agreement is not signed and returned to the granting authority within thirty days of the date the agreement was mailed to the owner, the granting authority shall presume the agreement has been rejected).
- The executed OSTA becomes effective on the date the granting authority receives the signed agreement from the owner of the classified parcel(s) of land.
- The signed OSTA is recorded with the county Auditor.
- Within ten days after receiving the signed agreement back, the granting authority sends one copy to the Assessor.

To ensure compliance, the Department recommends the county legislative authority and the Assessor's staff develop written procedures for processing open space and timber land applications. If any duties are delegated to other units of county government, the Department recommends a formal documentation of the delegation.

Individual Tax Relief Programs

Written Taxpayer Notification

The Assessor is required to notify applicants in writing when an application is denied. (WAC 458-16A.140)

When an applicant does not meet the qualifications of the exemption or deferral program, the Assessor must deny the exemption or deferral (RCW 84.36.385(5)). The Assessor must give the applicant written and dated notification of any denial (WAC 458-16A-140(6)).

Notifications to applicants should include the reason the exemption was denied and the applicant's right to appeal. The applicant may appeal the Assessor's decision to the BOE.

The Assessor's staff stated:

- For approval of an exemption, staff verbally advises taxpayers of the requirement to notify the Assessor of any change in status.
- The tax statement showing the exemption applied is confirmation of approval.
- Incomplete applications and renewals are held until the additional information is received.
- Staff confirms denials verbally, either at the counter or by phone.

While it is taxpayer friendly to hold incomplete applications and continue to request additional information, the Assessor may find it more expedient to deny the exemption based on WAC 458-16A-140(3), providing the taxpayer with a dated denial form listing the information or documents needed to complete the application.

Denials must be in writing and include the reason for denial, instructions for appealing the Assessor's decision, and the deadline for filing an appeal (RCW 84.36.385(5) and WAC 458-16A-140(6)).

Though not required by statute, the Department recommends the Assessor also provide written approval of exemptions.

Formal approval or denial of an application provides the applicant information necessary to appeal the Assessor's decision, and ensures the applicant their due process.

Continued on next page

Individual Tax Relief Programs, Continued

Changes in Status

The Assessor is required to assess the required taxes and penalties when a change in status occurs which affects prior years. (RCW 84.36.385, 84.40.360, WAC 458-16A-150)

A person granted an exemption must inform the Assessor of any change in status affecting the person's entitlement to the exemption. If the person had received exemption in prior years based on changed or erroneous information, the taxes must be collected (subject to penalties), for a period of time not to exceed five years.

Change in residence

When a person granted an exemption no longer qualifies for the program because they sold their residence, moved from their residence or died (except as provided in RCW 84.36.381), the Assessor's staff correctly removes the exemption and prorates the tax from the date the person no longer qualified for the program.

Change in income

The Assessor's staff stated that when there is a change in status due to a change in income discovered during the renewal process, the exemption is removed or the appropriate change is made in the exemption level for the *current* year. The change is carried forward until the next change in status is received. Adjustments are not made for *prior* years even when the change in status is due to a prior year's change in income.

When the Assessor's staff discovers any change in status affecting prior years, the taxes must be recomputed and collected for those prior years (not to exceed five years), subject to applicable penalty (RCW 84.36.385(5)).

Monitoring effective dates of changes in status verifies property owners are not inappropriately receiving an exemption and ensures other taxpayers are not shouldering a disproportionate amount of property taxes.

Exemptions (Nonprofit, Tribal, Government, Historic Property)

Exemption Administration **No notable errors were found in our review of exemptions for nonprofit, tribal, government, or historic properties. (Chapter 84.36 RCW)**

The Assessor's staff maintains a physical file/documentation system which appears to contain essential data and documentation or a reference to the location of the essential documents.

The Assessor's staff is aware of their duty to notify the Department of property which no longer qualifies for exemption.

The Assessor's staff displayed adequate knowledge regarding exemption statutes. The Assessor's staff provides the correct application and information brochure to the public.

Centrally Assessed Property

**Assessed Values
Added to Tax
Rolls**

No notable errors were found in our review of centrally assessed property. (Chapter 84.12 RCW)

The Assessor's office maintains documentation for the placement of utility values on the assessment rolls. The Assessor was able to locate documentation in the prior Assessor's files.

The Assessor's staff displayed adequate knowledge regarding utility valuation for centrally assessed property. The Assessor provided documentation of the assessed values listed on the tax rolls.

Mapping

There were no changes in tax code areas or mapping changes in the several years prior to our review.

The Assessor's staff is aware of their duty to notify the Department of property of tax code area changes for the purposes of mapping.

Recommendations

Introduction Recommendations require the attention of the Assessor and the county legislative authority. We note recommendations as being in the best interest of all parties. We believe changes can be made which lay the groundwork for process improvements in the office, improved succession planning, and enhanced service to the public. A summary of these items listed below.

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General Property Tax Administration

Policy Development

The Department recommends the Assessor develop internal policies to assure assessment practices are uniformly applied.

Though the Assessor has had limited time to review the assessment process, he understands the need and benefits associated with quality assessment system controls. The assessor is currently reviewing the in-house assessment process to identify where controls are necessary to promote efficiencies and assessment uniformity.

The Assessor should implement policies and procedures that will ensure directives are carried out uniformly and will result in an efficient assessment process to produce fair and uniform assessments. Internal controls are vital, because the accuracy of values is dependent on the reliability of the data used to generate values.

Internal policies and controls are necessary to maintain the reliability of data used to generate accurate property values.

Desk Reference Manuals

The Department recommends the Assessor develop a desk reference manual to minimize the loss of institutional knowledge and ensure that property tax is administered uniformly.

The effect of a loss of institutional knowledge during staff transitions (specifically, newly elected Assessors) can be minimized by a more transparent approach to office administration. To ensure consistency and continuity, the duties of the Assessor should be documented in a desk reference manual. Desk reference manuals are useful not only for training and succession purposes, but to ensure that all property owners are treated uniformly and the assessment processes are timely managed.

The Department recommends the Assessor document (in writing) the step by step process for each office function and the duties of each staff member.

Desk reference manuals should be developed for each staff position. Staff desk reference manuals can include policy information and specific step-by-step procedures on how to administer the various property tax programs. A detailed desk reference manual can serve as a back-up for the employee and assist their coworkers, in the event of a short term (or long term) staff absence.

Continued on next page

General Property Tax Administration, Continued

Desk Reference Manuals (Continued)

Desk reference manuals serve as a resource tool for employees, especially where employees perform multiple tasks, or tasks which must be performed in a specific way. Staff should be involved in the creation of their desk manuals, with assistance from the Assessor.

Desk reference manuals should include:

- Instructions on how to use the manual
- Definitions of terms
- Step-by-step instructions for tasks performed, procedures, or processes
- Time requirements/deadlines for tasks
- Information about when and where to get help
- Other resources and reference materials

Staff can begin this process immediately by documenting step by step procedures for specific functions where there is currently no written guidance, such as:

- How a computer system query is performed
- How to complete a *Certificate of New Construction Value* report
- How to process a personal property listing
- How to process a current use application
- How to complete a parcel segregation
- How to process a request for refund

These individual written instructions are the core of the manual and will, over time, develop into a comprehensive manual.

Desk reference manuals are useful in:

- Training staff
- Ensuring consistent application of property tax laws and rules
- Ensuring consistent application of policies and procedures
- Promoting uniformity throughout the County

Written procedures and desk reference manuals are tools which can prevent the loss of institutional knowledge and provide staff with the means to operate with some independence, freeing the Assessor's time for other management and appraisal duties.

Continued on next page

General Property Tax Administration, Continued

Computer Software Training

The Department recommends that all staff receive adequate training on the software utilized by the county.

Due to the county's previous computer assisted mass appraisal (CAMA) software vendor (CompuTech) no longer servicing its systems, the County began the process of selecting a replacement system. The County purchased PACS from True Automation, Inc (the vendor), an independent software vendor specializing in Assessor/Treasurer software. The County went online with PACS in mid-February, 2010.

It is clear the Assessor's staff does not have a full understanding of the new software. The Assessor's staff stated that they do not have user manuals for the system so, when they need assistance, they contact the vendor to request assistance by phone. The amount of time needed to walk through an issue with the vendor results in work delays.

The Department recommends that all staff receive necessary computer software training to complete the functions required by their position. Computer software training ensures staff understands the full capabilities of the software. Training will help staff to:

- Input and maintain data efficiently
- Generate the necessary reports timely
- Gain the appropriate system knowledge to implement changes in the program, if and when changes become necessary

The Department recommends the Assessor and the staff participate in all available training on the use of the new software for assessment administration and valuation work from the vendor. This may include training provided by the vendor through:

- on-site training
- webinars
- technical assistance by phone
- on-line instructions available for various procedures conducted

Access to training will be critical to use PACS for routine administrative functions and to fully utilize the CAMA module of the new software. Other counties who have purchased PACS have formed a user group to pool resources in resolving issues experienced in their conversions.

Continued on next page

General Property Tax Administration, Continued

Computer Software Training (Continued)

The Department recommends a staff member join the PACS user group to gain additional understanding of the software. The Assessor should make contact with other counties who have purchased PACS to obtain any documentation that could be helpful to staff.

Communication with other counties may provide useful insight on customizing the CAMA module (valuation model and building matrices or database tables).

The Assessor should have a clear understanding of the capabilities of the county's computer system to sufficiently query the assessment records, perform internal audit functions, efficiently administer the various property tax programs, and maintain assessment records.

As staff gain experience with the system, the processes should be documented and included in a desk reference manual.

A systematic approach to computer software and technology training will make additional efficiencies possible and streamline tax administration in the County.

Property Tax Training

The Department recommends staff involved in administration of the property tax (including county legislative authority staff) maintain an adequate level of knowledge about the various property tax programs administered by the Assessor.

Property Tax can be difficult to administer. The Department recommends staff involved in the administration of property tax programs (including the county legislative authority staff where applicable), maintain an adequate level of knowledge through formal training or other learning opportunities. The Department offers a variety of training courses each year to assist staff involved in property tax administration. The schedule of course offerings is available at the Department's PTRC online at <http://propertytax.dor.wa.gov/>. To minimize the cost associated with training, many courses are offered via *webinar* format.

Continued on next page

General Property Tax Administration, Continued

Property Tax Training (Continued)

In addition to training noted in other areas of this report, the Department recommends training in the subject matter below.

Reporting to Officials ~ At least one staff member or contract person should be trained and responsible for completing the assessment roll reports.

Personal Property ~ Staff who administer personal property should attend the personal property course. The course provides a good opportunity to refresh personal property assessment skills, as well as pick up new trends, learn about legislative changes, and participate in discussions with others involved in the assessment of personal property.

Revaluation / Mass Appraisal ~ The Assessor and the staff have received minimal training in statistical analysis and mass appraisal. Statistical analysis and mass appraisal modeling is essential to the Assessor's successful conversion to annual revaluation. The Assessor and staff members that may be involved in valuation work would benefit from additional training in STARS and MARS, (Department provided analysis tools). The Department recommends the Assessor follow a training plan with an emphasis on mass appraisal training and courses sponsored by the Department and the Washington State Association of County Assessors (WSACA).

Segregations ~ Staff involved in completing segregation work, should attend Basic and/or Intermediate Legal Description training. The basic course provides a hands-on approach to the foundation of legal descriptions. The intermediate course builds on the foundation presented in the basic course and includes discussion of the framework of the computer drafting and GIS, but with hands-on practice using traditional drafting tools.

Current Use Program ~ Staff involved in the current use application and approval process, including the county legislative authority staff, should attend the Current Use Basic and Current Use Advanced training held each year in the Spring.

Individual Benefit Programs ~ Exemption and Deferral staff should attend the Admin Workshop on an annual basis to ensure continuing education. If possible, the Assessor and one other staff member should attend the Basic Course.

Exemptions (Nonprofit, Tribal, Government, and Historic Property) ~ The Department offers training to assist staff involved in exemption administration (part of the Fundamentals of the Assessor's Office course).

Continued on next page

General Property Tax Administration, Continued

**Property Tax
Training**
(Continued)

The Washington State Association of County Assessors' Education Committee annually awards scholarships to Assessor's office employees to assist with the cost of attending various assessment-related training. For information about course offerings and scholarships, contact the Department's Education Specialist at (360) 534-1424.

Attending training provides an opportunity to learn about the various property tax programs and encourages discussion with other counties about their administrative processes.

Personal Property

Audit Program **The Department recommends the assessor implement some form of an audit program.**

The Assessor is responsible to ensure that all property is appraised and assessed on a uniform basis. The Assessor's staff does a good job at utilizing the Department's ratio audits. In addition, we recommend the Assessor establish an audit program. The Assessor could complete audits by mail, requesting each taxpayer's IRS depreciation schedules, beginning in the 2012 AY. The requested information can be utilized to audit what is reported by each taxpayer.

An audit program encourages voluntary compliance with the full and proper listing of all personal property in the county.

Revaluation

Parcel Characteristics

The Department recommends the Assessor continue to develop property records for mass appraisal purposes.

The Assessor is actively working to ensure property records created under the new system will contain the components necessary for application of mass appraisal techniques and analysis. The assessor modified a *property inspection sheet* from the Department's PTRC for the appraiser to use during physical inspections. The Assessor's memo to his appraiser dated April 4, 2011 provides written clarification on the 2011 physical inspection process, directing the appraiser to collect more detailed data on each parcel inspected and valued. Of particular importance is capturing additional data related to the land and service/utility sections and the improvement information relating to quality and condition. The Assessor instructed the appraiser to update heat source, fireplace, other amenities, and garage data during the inspection process. The Assessor directed the appraiser to complete this process on or before April 16, 2011.

The Assessor should continue to collect detailed parcel data and update parcel characteristic in a standardized format which will allow the Assessor to implement mass appraisal in the near future.

Measuring Results

The Department recommends the Assessor expand the use of ratio studies and other statistical testing to measure the results of his revaluation program.

Mass appraisal modeling is an effective and efficient valuation tool. The Assessor should consider adding this tool to develop uniform assessments and enhance consistency in appraisals.

The Assessor indicated he understands the importance of conducting and incorporating ratio studies as well as sales analysis in county revaluation program. The Assessor is making an effort to understand the underlying concepts that pertain to determining the value of real estate using market-extracted data.

Continued on next page

Revaluation, Continued

**Measuring
Results**
(Continued)

The Assessor conducted an initial ratio study and sales analysis for the Puget Island area for the 2010 AY (the last area revalued by the prior Assessor). The ratio study and sales analysis performed by the current Assessor indicated the prior Assessor had overvalued most of the parcels in this area. However, in reviewing the background information used in the current Assessor's sales and ratio study, key elements associated with sales analysis and ratio studies did not appear to be considered in determining adjustment factors. Several key components did not appear to be included in the current Assessor's process:

- Stratification of sales
- Location
- Value elements associated with property characteristics
- Sales validation and verification

Model specification and calibration are necessary components in model development and are reflective of market complexities associated with basic appraisal principles. We found that these basic model principles were not addressed in the Assessor's model. We acknowledge the County is on cyclical revaluation schedule and model development is a tool better suited for annual revaluation. This does not preclude the Assessor from developing models for the scheduled physical inspection area as an efficient valuation method. The Assessor has the opportunity to increase efficiency and promote a greater sense of confidence in the appraisal process through accurate model development.

The Department recommends the Assessor pursue training in the fundamentals of mass appraisal. We recommend the assessor attend the following IAAO courses:

- IAAO 300 Fundamentals of Mass Appraisal
- IAAO 310 Application of Mass Appraisal Fundamentals
- IAAO 311 Residential Modeling Concepts
- IAAO 400 Assessment Administration

Additional training can provide the Assessor a foundation of the concepts of mass appraisal and will enhance the Assessor's ability to produce efficient, uniform, and equitable property values for property owners.

New Construction

Monitoring Building Permits

The Department recommends the Assessor continue to monitor and track building permits issued.

The Assessor is required to make a physical appraisal of the building or buildings within twelve months of the date a permit is issued (RCW 36.21.070). County and city permit issuing departments are required to provide the Assessor with copies of all building permits issued by the respective jurisdiction (RCW 19.27.140). It is important for the Assessor to promptly receive notification of all building permits.

The County Building and Planning Department has been consistent in timely providing the Assessor with a list of building permits. The listing provided includes parcel and owner information for each permit and contains adequate information for the Assessor to locate the property and identify the construction project. Cathlamet is the only incorporated city in the County and has regularly provided the Assessor with copies of building permits issued.

The Assessor must ensure that all incoming permits are reviewed and then scheduled for inspection. Because not all building permits issued result in added value to the property, it is important for the Assessor to screen each permit and only send appraisers out to inspect projects that are likely to have an effect on the value of the property. Follow-up inspections must be conducted in each following year to document the percentage of completion. The Assessor should continue this process each year until full completion of the building project is listed on the assessment roll.

The Assessor's staff has a process for tracking the receipt of building permits and they track the inspection and listing of new construction for the purpose of assessment. Once the Assessor receives notification of new building permits, the staff adds the new permit information to an Excel spreadsheet used to track their listing of the property in assessment property records. The worksheet is also used to track the completion level of construction at the time of inspection and listing. The level of completion, as of July 31, of the current AY is noted on the tracking document.

The tracking document indicates that the Assessor continues to check back each year on incomplete construction projects. Some permits date back to 2003 and 2005; while construction is still incomplete the annual check-backs require additional use of Assessor resources each year.

Continued on next page

New Construction, Continued

**Monitoring
Building
Permits**
(Continued)

The Department recommends the Assessor identify if PACS has a function for monitoring the listing and tracking of incomplete construction that will require an inspection in the next AY.

Tracking building permits and the level of completion each year ensures the Assessor inspects and documents the additional value of new construction in the County.

Property Segregations

Valuation of Divided or Combined Property

The Department recommends the Assessor review the laws and rules directing the valuation and assessment of divided or combined property. (RCW 84.40.042)

As the office's only accredited appraiser, the Assessor will be responsible for completing all valuation functions. The division and consolidation of property is one of the conditions that the law recognizes for a revaluation out of cycle by a cyclical revaluation county.

It is unclear how the previous appraisers have assigned value to new parcels resulting from a division of land. The timing of the land division may affect the manner in which divided land is valued by the Assessor.

Understanding the provisions for listing and valuing parcels created through land division helps to ensure appropriate valuation of altered or divided property.

Tracking Value of Improvements to Property

The Department recommends the Assessor establish a procedure for tracking added value for *improvements to property*. This is in addition to tracking value added as new construction. (Chapter 84.55 RCW)

New value due to new construction, improvements to property, and other criteria impact levy calculations. The Assessor's staff was unsure if they tracked the new value added to the assessment roll resulting from division, merge, or segregation of parcels.

Improvement is defined in levy rules as "...any valuable change in or addition to real property, including the subdivision or segregation of parcels of real property or the merger of parcels of real property" (WAC 458-19-005).

When new property value is not tracked, taxing districts may not receive the benefit of adding that new value at the appropriate level in their levy calculations. The levy calculation process is covered during levy training and levy audits and is not in the scope of this review.

The Assessor should review the Department's Special Notice, *Adding New Value to the Assessment Rolls*, to gain understanding of how to identify new value attributable to subdivisions.

Current Use Program

Audit Program **The Department recommends the Assessor implement an audit program to ensure only those parcels meeting the statutory requirements are eligible to continue in the Current Use Program. (RCW 84.34.121)**

To ensure only those parcels meeting the statutory requirements are eligible to continue in the Current Use Program, the Assessor should implement an audit program. While an audit program is not statutorily required, the Assessor should request all the information necessary to determine if the land is eligible for continued classification (WAC 458-30-270).

According to the Assessor, audits did occur prior to the loss of staff resources. Currently, parcel audits occur at the point of sale or transfer. Questionnaires could be mailed through a random sampling of current use parcels located in the current physical inspection area. The Assessor could also gather additional information (production, expense, leases, etc) through an audit questionnaire, which could be useful when completing farm and agricultural land valuation calculations.

Some of the relevant data or information the Assessor can collect includes:

- Receipts from sales of agricultural products produced on the classified land
- Federal income tax returns
- Rental or lease agreements/receipts
- Government payments and subsidies
- Crop and livestock data
- Crop production or yield rates
- Income/expense information related to the land

Monitoring all parcels in the Current Use Program on a periodic basis adds integrity to the assessment process and ensures other property owners are not shouldering a disproportionate amount of property tax.

Continued on next page

Current Use Program, Continued

Public Benefit Rating System

The Department recommends the county legislative authority consider adopting a public benefit rating system (PBRs) for the open space classification and the farm and agricultural conservation land subcategory in the Current Use Program. (RCW 84.34.055 and WAC 458-30-330)

At the time of our review, there were less than 25 parcels in the open space classification and farm and agricultural conservation land subcategory in the County. As the Assessor initiates an audit program for the farm and agricultural land classification, there may be questions from property owners about reclassifying into the open space classification or the farm and agricultural conservation land subcategory.

Open space parcels are valued on the current use of the property (current use assessed value) rather than the highest and best use (market value). The valuation guidance provided in law only requires that the assessed value of open space land cannot be less than the lowest per acre value of classified farm and agricultural land in the county. An alternate way of valuing open space land is based on a PBRs (RCW 84.34.060).

Determining the assessed value of open space land can be difficult because the features of each parcel are unique and the benefit to the citizens of the County is subjective. With a PBRs, the reduction in assessed value given to a parcel is measured by predetermined criteria. This criteria is customized to what the county legislative authority thinks will be of benefit to the residents of the County. All open space parcels are valued based on identical criteria and awarded points that correspond to a percentage of market value.

The Department recommends the county legislative authority consider adopting a PBRs. Adopting a PBRs:

- Simplifies the Assessor's work when valuing these unique properties
- Gives the county legislative authority a way to award property owners a reduction in value based on the individual features of the property while balancing the benefit to the citizens they serve

A PBRs for the open space classification and farm and agricultural conservation land subcategory can be implemented at any time. If it is implemented after parcels have been accepted into the program, the county legislative authority must apply the new criteria to *all* parcels in the program, not just future applicants (WAC 458-30-330(6)).

Continued on next page

Current Use Program, Continued, Continued

**Public Benefit
Rating System**
(Continued)

To begin the process of developing a PBRS, the county legislative authority should review WAC 458-30-330 for guidance. The Department provides a list of counties that have implemented a PBRS online in the *Property Tax Programs/Current Use* section of our PTRC at <http://propertytax.dor.wa.gov/>.

**Forms and
Publications**

The Department recommends the Assessor and county legislative authority verify Current Use Program forms and publications provided to the public are current.

According to chapter 84.34 RCW, the Department must prepare and make available to the Assessor's office the necessary forms, publications, and applications for the Current Use Program. The Assessor and county legislative authority are required to publicize the qualifications and provide the forms to property owners who want to apply for this program.

The Assessor provides information about the Current Use Program through personal contact with property owners via phone calls, visitors to the Assessor's office, and through the County website. A review of the Assessor and county legislative authority websites showed a variety of forms and publications about the Current Use Program, though some of the forms and publications are not the current form published by the Department.

The Department encourages the Assessor and the county legislative authority to utilize existing forms and publications by linking to the Department's website whenever possible. This can be more effective by including a brief explanation with each link, providing the user information about what they can expect to locate by following the link.

Property Tax forms are available on the Department's website at dor.wa.gov/content/getaformorpublication/formbysubject/forms_prop.aspx.

Property Tax publications are available on the Department's website at dor.wa.gov/content/getaformorpublication/PublicationBySubject/default.aspx#property.

If the county has limited resources for website updates, we recommend providing a brief explanation of each category of classified land with a link to the Department's website at dor.wa.gov/Content/FindTaxesAndRates/PropertyTax/.

Individual Tax Relief Programs

Application and Renewal Backlog **The Department recommends the Assessor structure the existing workload to complete any applications or renewals that expect to generate a refund for any taxes due before 2009. (RCW 84.69.030)**

The County's exemption program participants are required to submit a renewal application at least once every four years. The County is currently on a four-year revaluation cycle, with renewals linked to the cycle. The County will convert to an annual revaluation cycle by 2014. The Assessor is considering converting to a six-year exemption renewal cycle at that time so renewals can be linked to the physical inspection cycle.

Renewals were last mailed in 2010. Processing of new applications and annual renewals are behind schedule due to staff limitations and implementation of new software. The Assessor should consider converting to a six-year exemption renewal cycle in 2011, using the expanded timeframe to:

- Postpone mailing of renewals in 2011
- Use 2011 to catch up on applications and renewals where refunds are in jeopardy of going past the statute of limitations for refunding
- Resume the renewal process in 2012

Restructuring the Assessor's workload is necessary to process any applications or renewals which are due a refund that may go beyond the statute of limitations for refunding if not processed within three years of when the tax was due (RCW 84.69.030(2)).

File Documentation **The Department recommends the Assessor note applicant's age, income amount, sources of income, and the type of documents reviewed on a worksheet and retained in the file. (WAC 458-16A-140)**

Applications and renewals should be reviewed to make sure they are complete and correctly signed according to RCW 84.36.387(1). The Assessor should keep a file copy of any documents provided to establish:

- An ownership interest not reflected on the assessment roll
- Eligibility as a disabled person or disabled veteran

Applicants' age and income, (including sources of income and documents reviewed), should be recorded on a worksheet and the worksheet kept in the Assessor's file. Original documents should be returned to the applicant or destroyed (WAC 458-16A-140(3)).

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Individual Tax Relief Programs, Continued

**File
Documentation**
(Continued)

It is the Assessor's policy to immediately return any original documentation of income to the applicant and destroy any other document copies. Some files we reviewed, (but not all), included a worksheet documenting age and a summary of income. It is important to retain enough information in the file in order to document that the applicant is, or is not, eligible for exemption.

Maintaining this information provides an audit tool for the review process, as well as providing necessary information for oversight agencies to measure compliance.

Centrally Assessed Property

Tax Code Area Changes - Mapping **The Department recommends new GIS staff receive one-on-one time with the Department's mapping staff to ensure tax code area changes are relayed timely.**

At the time of our review the county had recently hired new GIS mapping personnel. The Department recommends the new staff receive an overview of tax code areas and notifications to the Department when changes occur. This can be accomplished simply via phone conference between the county's GIS staff and the Department's cartographer. The Department's cartographer can be contacted at (360) 534-1369.

General Description of Subjects Covered

Introduction This section provides general background information about the subjects discussed in this report. We have listed a summary of these items below:

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Reporting Reporting to the Department and to other officials is an essential a function of the Assessor’s office. Inaccurate, untimely, or lack of reporting not only endangers the integrity of the state school levy calculation, but also serves to undermine the checks and balances that have been strategically enacted to ensure the fair and equal administration of property tax in the County and the state of Washington.

Personal Property All personal property subject to taxation shall be listed and assessed every year by the Assessor. Annually, each Assessor is required to send to all individuals known to have taxable personal property in their county, a personal property listing.

The personal property listings are due back to the Assessor by April 30 (RCW 84.40.040, WAC 458-12-060). RCW 84.40.130 provides for assessment of penalties for those listings received after April 30. The Assessor values the property that is listed on the returned personal property listings at 100 percent of the true and fair value. If any property is listed or assessed on or after May 31, it is still binding as if listed and assessed before that time (RCW 84.40.060). The Assessor, must mail to the taxpayer a copy of the statement showing the valuation of the reported personal property.

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General Description of Subjects Covered, Continued

Revaluation Each county assessor is required to maintain an active revaluation program that, for cyclical counties such as Wahkiakum, results in the physical inspection of all real property within the County at least once every four years.

During the 2009 session, the Washington State Legislature passed legislation that requires all counties to revalue property on an annual basis by 2014. The Department provides guidance and assistance to county assessors in the process of converting to annual revaluation (RCW 84.41.030).

This report covers the physical inspection, appraisal and revaluation cycle of real property for assessment purposes, as well as the work necessary the County to successfully implement an annual revaluation program as required by law.

New Construction New construction means the construction or alteration of any property for which a building permit was issued, or should have been issued, which results in an increase in the value of the property.

New construction in each taxing district must be tracked for levy limit and levy calculation purposes. The importance of new construction to the individual taxing districts cannot be understated. The increases of individual taxing district budgets is related to the increased assessed value due to new construction in the district(s).

Property Segregation Land segregations are sometimes necessary when property owners participate in property exemption and deferral programs. Property owners rely on timely processing of conveyance documents and requests for land segregations.

When transfers of property through recorded conveyance documents are not properly recorded in the Assessor's records, the listing of property (for assessment and tax purposes) will not contain the correct owner of the property. Timely processing conveyance documents ensures:

- The Assessor's records are accurate
 - Each parcel subject to assessment contains the name of the property owner(s)
 - Tax statements reflect the correct tax calculation
-

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General Description of Subjects Covered, Continued

Current Use Program

The Open Space Taxation Act, enacted in 1970, allows property owners to have their open space, farm and agricultural, and timber lands valued at the current use rather than at the highest and best use. The Act states that it is in the best interest of the state to maintain, preserve, conserve, and otherwise continue in existence adequate open space lands for the production of food, fiber, and forest crops and to assure the use and enjoyment of natural resources and scenic beauty for the economic and social well-being of the state and its citizens.

The Department provides guidance to the Assessor and county legislative authority to assist them in successfully performing their duties. There are parts of the Current Use Program that are the responsibility of the Assessor and parts that are the responsibility of the county legislative authority. The Assessor and the county legislative authority may work closely together in administering the program or may administer their duties independently. Some duties may be delegated to other units of county government (land use, planning, etc.).

Our review focused on the methods employed by the County in administering the Current Use Program.

Individual Benefit Programs

Washington provides property tax relief programs for individuals who are senior citizens, disabled persons, or homeowners with limited income. Household income, age, and disability determine eligibility for the programs. The Washington State Legislature has prescribed specific procedures for the application, valuation, and removal of parcels in the program:

- Exemption for Senior Citizens/Disabled Persons
Chapter 84.36.379–389 RCW and chapter 458-16A WAC
- Deferral for Senior Citizens/Disabled Persons
Chapter 84.38 RCW and chapter 458-18 WAC
- Deferral for Homeowners with Limited Income
Chapter 84.37 RCW and chapter 458-18A WAC

Under the exemption program, the value of a residence is frozen for property tax purposes, and the property becomes exempt from all excess and special levies and possibly all, or a portion of, regular levies – resulting in a reduction in property taxes.

Continued on next page

General Description of Subjects Covered, Continued

**Individual
Benefit
Programs
(Continued)**

Under the deferral programs, the Department pays the property taxes and/or special assessments on the property owner's behalf. The deferred amount, plus interest, becomes a lien in favor of the state until the total amount is repaid.

This review focused on the procedures and processes the Assessor uses for new applicants, the renewal process for continuing participants, and the removal process for applicants who are no longer eligible for the program.

At the time of the review, there were approximately 250 exemption program participants in the County for the 2011 tax year. There were no participants in either deferral program. Though we address procedures for the deferral and exemption programs, our review was focused on the exemption program.

**Exemptions
(Nonprofit,
Tribal,
Government,
Historic)**

All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, *excepting such as is exempted from taxation by law* (RCW 84.36.005).

All property belonging exclusively to the United States, the state, or any county or municipal corporation; all property belonging exclusively to any federally recognized Indian tribe located in the state, if that property is used exclusively for essential government services; all state route number 16 corridor transportation systems and facilities constructed under chapter 47.46 RCW; all property under a financing contract pursuant to chapter 39.94 RCW or recorded agreement granting immediate possession and use to the public bodies listed in this section or under an order of immediate possession and use pursuant to RCW 8.04.090; and, for a period of forty years from acquisition, all property of a community center; is exempt from taxation. All property belonging exclusively to a foreign national government is exempt from taxation if that property is used exclusively as an office or residence for a consul or other official representative of the foreign national government, and if the consul or other official representative is a citizen of that foreign nation (RCW 84.36.010).

Continued on next page

General Description of Subjects Covered, Continued

**Exemptions
(Nonprofit,
Tribal,
Government,
Historic)**
(Continued)

Each parcel of real property, and each personal property account, that has an assessed value of less than five hundred dollars is exempt from taxation (RCW 84.36.015). Additionally, Chapter 84.36 RCW contains numerous exemptions for real and personal property owned and/or used by Nonprofits to conduct an activity specifically exempted by legislature.

The Department expects the Assessor to:

- Accurately implement the Departments determination of tax status.
- Maintain a listing or database of all property in the county which reflects accurate:
 - Description/location data
 - Ownership data
 - Valuation data
 - Tax status data
- Maintain documentation regarding the exempt status of real and personal property. The documentation should include but is not limited to:
 - Ownership confirmation/documentation
 - DOR determination letters
 - Accurate valuation records

A query was written to target/find all property listed as exempt (zero taxable value) in the County's database. Coordinated sampling audits were also conducted on the County's physical file database. During the audit approximately 75 percent of properties listed in the database with zero taxable value were reviewed. Additionally the audit reviewed 100 percent of parcels listed as exempt under the "nonprofit" statutes of Chapter 84.36 RCW (approximately 34 parcels). The audit did not include property receiving a reduced valuation under RCW 84.26 – Historic Property as the staff verbally confirmed no property owners applied for reduced valuation under this statute.

**Centrally
Assessed
Property**

Utility companies (such as electric, gas, telephone, wireless telephone, railroad, or airline companies) often operate across county or state borders. These companies typically have physical assets located in more than one county or more than one state. Intercounty utility companies must file an annual report with the Department for property assessment. The Department assesses and certifies the values to the Assessor (RCW 84.12.200, WAC 458-50-020). The term *centrally assessed property* is sometimes used for these properties.

Continued on next page

General Description of Subjects Covered, Continued

**Centrally
Assessed
Property**
(Continued)

The Department is required to complete property tax assessments on interstate and intercounty utilities and notify the taxpayer on or before June 30 of each year. The Assessor is required to place the equalized assessed value on the rolls in a timely manner (RCW 84.12.370).

Our review of centrally assessed property focused on the ability of the Assessor to utilize the Department's reports in placing utility values on the assessment rolls.

We attempted to review the Assessors reporting of tax code area changes to the department (for mapping purposes) but there were no tax code area changes made in the several years preceding our review.

Next Steps

Prioritization of Work Once the Assessor and the county legislative authority receive a final copy of this review, the Department will consult with the Assessor and county legislative authority to prioritize the work that must be completed.

Questions For questions about specific requirements or recommendations in our report, please contact the contributing staff member (listed by subject matter) below:

General Questions about the Report	Judy Wells	(360) 534-1360
Reporting to Officials	Deb Mandeville	(360) 534-1406
Personal Property Tax	Pete Levine	(360) 534-1423
Revaluation	RC Cavazos	(425) 356-4848
New Construction	Cindy Boswell	(509) 663-9747
Segregations	Cindy Boswell	(509) 663-9747
Current Use	Judy Wells	(360) 534-1360
Individual Benefit Programs	Peggy Davis	(360) 534-1410
Exemptions	Sindy Armstrong	(360) 534-1412
Centrally Assessed Property	Judy Wells	(360) 534-1360

Follow up The Department will follow up over time to review the changes implemented. This will give the Assessor and the county legislative authority an opportunity to provide information to the Department about any issues they encountered during the implementation process.

For Additional Information Contact Washington State Department of Revenue
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