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Washington Department of Revenue Property Tax Division

2016 Review of the Current Use Program in Pierce County



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Overview

Introduction

This report contains the results of the Department of Revenue's (Department) review of the Current Use Program in Pierce County (County).

There are parts of the Current Use Program that are the responsibility of the Pierce County Assessor (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 administrative duties may be delegated to other units of county government (land use, planning, etc.).

Purpose

The primary purpose of this review by the Department is to provide the Assessor and the county legislative authority the information needed to perform the duties associated with the Current Use Program successfully.

An effective review of the methods employed by the county in administering the Current Use Program will promote fair, timely, and uniform property tax assessments.

Scope of Review

The review is limited in scope. We reviewed:

- The Assessor's role in administering the program
- The county legislative authority's role in administering the program
- Administrative procedures for compliance with state statutes and regulations

We did not review the internal fiscal controls or the internal management of the Assessor or county legislative authority offices.

We did not examine all parcels enrolled in the program or the assessed values of these parcels. 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.

Overview, continued

Information Reviewed

To complete our review, we gathered information about the administration of the Current Use Program via interviews, documents provided by the County, as well as through independent verification. The areas we reviewed included (but were not limited to):

- Information provided or available to the public about the Current Use Program (forms, publications, and/or education efforts)
- Administrative procedures for applications, removals, and continuances
- Homesite classification and valuation
- Technology utilized in the program administration
- Audit processes used to ensure continued eligibility
- Resolutions adopted by the county legislative authority pertaining to current use
- Advisory committee processes, meeting notices, and meeting minutes

Acknowledgement

We commend the Assessor, the Assessor's staff, the county legislative authority, and the Planning and Land Services (PALS) staff for their willingness to look at opportunities to improve the uniformity and administration of the Current Use Program.

Executive Summary

About this Review

In March 2016, the Department conducted an on-site visit to the Assessor's office. We interviewed the Assessor's staff and the PALS staff (delegated by the county legislative authority to handle open space and timber land applications) about the processes and procedures used in administering the County's Current Use Program.

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 employed that could be considered "best practices," 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 improvements in these areas can improve service to the public.

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

Results

The Department identified five requirements and one recommendation directed toward improving the administration of the Current Use Program.

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. The Requirements and Recommendations are listed in the next part of the report.

Executive Summary, continued

Requirements

1. The Assessor is required to use the prescribed methodology for calculating the current use value on classified farm and agricultural land. (RCW 84.34.065 and WAC 458-30-260)
2. The Assessor is required to collect the necessary data to appraise classified farm and agricultural land accurately. (RCW 84.34.065, WAC 458-30-260, and 458-30-262)
3. The county legislative authority is required to appoint open space advisory committee members and provide public notice of advisory committee meetings. (RCW 84.34.145 and WAC 458-30-345)
4. The county legislative authority is required to rate all land classified as open space in the Current Use Program under the County's adopted PBRs. Parcel rating may be delegated, but the county legislative authority must hear and approve all parcel ratings. (RCW 84.34.037, 84.34.055, and WAC 458-30-330)
5. The Assessor is required to value all open space land according to the adopted Public Benefit Rating System (PBRs) valuation schedule. (RCW 84.34.055, 84.34.060, 84.40.045, and WAC 458-30-330)

Recommendations

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

Requirements

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

This section contains the requirements we identified during the review process.

Calculating Farm and Agricultural Land Values

Requirement

The Assessor is required to use the prescribed methodology for calculating the current use value on classified farm and agricultural land. (RCW 84.34.065 and WAC 458-30-260)

What the law says

The value of farm and agricultural land is determined by considering the earning or productive capacity of comparable lands from crops grown, most typically in the area averaged over not less than five years, capitalized at indicative rates. The earning or productive capacity of farm and agricultural lands shall be the net cash rental capitalized at the rate of interest charged on long-term loans secured by a mortgage on farm or agricultural land plus a component for property taxes.

Net cash rental means 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. The lease must be for a period of at least three years to any reliable person without unreasonable restrictions on its use for production of agricultural crops. A deduction can be made (from the rental received or computed) for costs of crop production charged against the landlord, if the costs are customarily paid by a landlord.

If net cash rental data is not available, the earning or productive capacity of farm and agricultural lands shall be 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. Standard costs of production are allowed as a deduction from the cash value of the crops.

After gathering adequate information to calculate net cash rental, the Assessor must divide the net cash rental 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 assessors to apply to their current use calculations. (WAC 458-30-262)

What we found

According to the Assessor's staff, current use values for land in the farm and agricultural classification have remained the same for many years. The assessed values range from \$102 to \$1082 per acre based on the location of the property within one of four defined areas and the soil capability of land for farming purposes. In the early 1970s, the Pierce County Farm Bureau identified four areas in the county with Area 1 designated as the most desirable productive land and Area 4 the least desirable. Land within each area is assigned ratings of A, B, C, or D to signify the quality of those soil types present in each parcel. The classification of soil type as used by the County was at one time available through the U.S.

Calculating Farm and Agricultural Land Values, continued

Soil Conservation Service (SCS). The current USDA Natural Resources Conservation Service replaced the former SCS.

The value range for current use farm and agriculture land includes benchmarks based on four geographically defined areas and the four primary soil types within each area. There are sixteen different value rates (based on value per acre).

To calculate the rate on a parcel:

- Determine the area where the parcel is located.
- Determine soil type (or types) of soil present based on SCS studies.
- Measure the acreage for each soil type present.
- Find the rate (value per acre) for the soil type within the defined area and multiply by acreage.

Although it is clear how the Assessor rates the land and assigns value to individual parcels, it is unclear how the value benchmarks were determined. The Assessor and staff indicated interest in gathering additional data and reviewing their process. The Assessor and staff indicated that gathering data and creating new tables necessary to update the values will be labor intensive and may take some time to fully complete.

Action needed to meet requirement

The Assessor must revalue *all* real property each year, including current use farm and agricultural land. If net cash rental is not updated annually because of a lack of data, or lack of change in the data, the updated 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.

If the current use values are not updated because of lack of available rent or lease information, or productive capacity data (income, expense, and production), the Assessor should begin collecting this information (see Appendix A – Data Sources). At a minimum, the current use value should change based on a change in the capitalization rate. The Assessor should have documentation supporting the change in value, (or lack of change), since the last revaluation of a parcel.

Why it's important

Using updated data and the current-year capitalization rate ensures accurate farm and agricultural land values that reflect changes in land rents, production expenses, and commodity prices.

Data Collection

Requirement

The Assessor is required to collect the necessary data to appraise classified farm and agricultural land accurately. (RCW 84.34.065, WAC 458-30-260, and 458-30-262)

What the law says

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

Net cash rental is the average rental paid on an annual basis, in cash, for the land being appraised or for other farm and agricultural land of similar quality and similarly situated. When considering average rental paid, the land rented should be 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 no less than five years. (RCW 84.34.065)

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 the 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. The Assessor may also use other reliable statistical sources including a soil capability analysis in determining the earning or productive capacity of the classified land. (WAC 458-30-260)

What we found

The Assessor has collected some lease information through the audit program. The staff indicated difficulty collecting sufficient lease information. There are only a few known leases in the program. Most leases are verbal agreements between parties that do not provide the preferred written lease documentation available to the Assessor. Although lease information collected is documented as part of the account information for the parcel, the information is not used for updating values.

The Assessor also has not used earning or productive capacity data in the calculation of values. Earning or productive capacity data (income, expenses, and yields) is not required from program participants; however, some property owners include this type of information with their audit questionnaire.

Without adequate information, about leases or components related to the earning or productive capacity (income, expenses, yields), it is difficult to verify the accuracy of current values based on soil capability classes used by the Assessor. The staff expressed interest in gaining additional lease and earning or productive capacity information for future use.

Data Collection, continued

Action needed to meet requirement

The Assessor should gather additional lease and earning or productive capacity information. A soil capability analysis used by the County can be one variable in determining productive capacity. Determining the current use value also requires rental income or data related to crop income, expenses, and production information. By gathering current lease and earning or production information from local farmers and other available sources, the Assessor ensures income, expense, and production data is readily available each year when determining the net cash rental and current use value of farm and agricultural land.

The Assessor's audit program is a good method for routinely gathering information from farmers. Another resource is the County's Farm Advisory Board (Board). The Board's primary role is a resource for the assessor that can provide the assessor with information about farming in the county (addressed in requirement 3). Additional data resources are listed in Addendum A of this report.

Why it's important

Periodically gathering relevant data and using the data to update classified farm and agricultural land values ensures a more accurate valuation. It also ensures other taxpayers are not paying a disproportionate amount of property taxes.

Appoint Advisory Committee

Requirement

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

What the law says

As a method of assisting the Assessor 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, for farm and agricultural land. (RCW 84.34.065)

What we found

Pierce County does not have an advisory committee; it is unclear if the county legislative authority has ever appointed members to serve on this committee.

Action needed to meet requirement

The county legislative authority must appoint an advisory committee. The Assessor can assist by contacting individuals who may be interested in serving, but the county legislative authority is responsible for the annual appointment of members. If the county legislative authority is unable to locate persons to serve on the committee, they should document their annual effort to appoint committee members.

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.

Why it's important

The committee ensures the Assessor has reliable information and advice about typical farming activity in the county. Public access to advisory committee meetings and records ensures the committee's actions are transparent to county officials, Current Use participants, and the public.

Rating Land Under the Public Benefit Rating System (PBRs)

Requirement

The county legislative authority is required to rate all land classified as open space in the Current Use Program under the County's adopted PBRs. Parcel rating may be delegated, but the county legislative authority must hear and approve all parcel ratings. (RCW 84.34.037, 84.34.055, and WAC 458-30-330)

What the law says

When a county legislative authority adopts or amends a PBRs, all existing open space parcels must be rated under the criteria of the PBRs (as last amended). The county legislative authority (or the combined granting authority for parcels located in an incorporated area), must approve or deny the assigned rating or rerating of a parcel after a public hearing.

What we found

Pierce County adopted their PBRs in 1999 and amended the PBRs in 2003. The county legislative authority has delegated the rating process to PALS staff. At the time of our on-site visit, only a portion of the open space land was rated under the revised PBRs. County staff reported that there are about 200 remaining parcels not rated using the current PBRs (as last amended).

PALS staff has been rating the parcel(s) under the current PBRs when the classified property sells and ownership changes. Once the parcel rating is complete, the staff ensures proposed ratings go before the granting authority for approval. The granting authority holds a public hearing to approve or deny the rating of open space parcels under the PBRs, then notify the Assessor of the approved rating(s) for assessed valuation purposes.

The Department did not review all parcels with the open space classification, so we did not verify the number of parcels still requiring rating under the PBRs (as last amended). While the staff understands the issue, they indicated that the rerating process for the 200 parcels would take significant time to prepare, schedule, and hold public hearings before the county legislative authority approves or denies a new PBRs rating for each parcel.

Action needed to meet requirement

PALS staff must review and rate any open space parcels that have not been rated under the PBRs (as last amended). The Department recommends coordinating the necessary rating of parcels as soon as possible.

When the parcel rating is complete, staff must ensure proposed ratings go before the granting authority for approval. The granting authority must hold a public hearing to approve or deny the rating of open

Rating Land Under the Public Benefit Rating System (PBRs), cont.

space parcels under the PBRs, then notify the Assessor of the approved rating(s) for assessed valuation purposes.

Staff must apply the amended PBRs criteria to *all* current parcels in the program, not just future applicants.

Why it's important

Applying the PBRs criteria to all land classified as open space provides uniformity of taxation and ensures other property owners are not paying a disproportionate amount of the property tax.

Valuing Open Space Land

Requirement

The Assessor is required to value all open space land according to the adopted Public Benefit Rating System (PBRs) valuation schedule. (RCW 84.34.055, 84.34.060, 84.40.045, and WAC 458-30-330)

What the law says

When the county legislative authority notifies the Assessor that a parcel rating under the PBRs (as last amended) is approved, the Assessor must revalue the parcel based on the approved rating and the assessed valuation schedule. The Assessor must notify the owners of newly rated open space land of the land's assessed value under the PBRs.

What we found

County staff reported there are about 200 parcels not rated under the PBRs (as last amended). As a result, open space parcels not yet rated under the latest PBRs are valued differently than those parcels rated based on the amended PBRs and approved by the county legislative authority.

The Assessor is unable to value the unrated parcels based on the current PBRs assessed valuation schedule until PALS staff has completed rating the parcels and the legislative authority has approved the rating. The rating translates to a percentage of market value reduction.

The Department did not review all open space parcels, so we did not verify the number of parcels still requiring valuation under the PBRs (as last amended).

Action needed to meet requirement

The Assessor must determine the new assessed value of the parcels based on the current PBRs approved by the legislative authority. The Assessor must notify the property owner(s) of their new assessed value under the PBRs (as last amended). (RCW 84.40.045)

Why it's important

The Washington State Constitution requires all taxes be uniform upon the same class of property within the County. This ensures fair and equitable assessment of all property in the County and ensures other property owners are not paying a disproportionate amount of the property tax.

Recommendations

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

This section contains the recommendation we identified during the review process.

Forms and Publications

Recommendation

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

The Department must prepare and make available to the Assessor's office the necessary forms, publications, and applications for the Current Use and DFL programs. The appropriate granting authority is required to provide these forms to property owners who want to apply for these programs. (RCW 84.33.130(4))

What we found

The Assessor provides information about these programs through personal contact with property owners via phone calls and visitor's to the Assessor's office. The Assessor also provides information through speaking engagements, targeted education, and the County website.

The County website contains information about the Farm and Agriculture, Forest Land, and Open Space classifications. The information provided is very informative and provides forms and comprehensive information about each program. The page on the website for Farm and Agricultural land has a section outlining the appeal option if an application is denied.

The website is a prime example of a county providing excellent customer service to the property owners in their area.

The Assessor's office uses forms developed by the Department and has several that the staff customized to include County specific information. At the time of our review, many of the customized forms were not based on the most recent Department forms.

Action recommended

The Department encourages the Assessor to check forms and publications regularly to ensure they are providing the most current information. The Department updates forms and publications to reflect legislative changes, or to improve clarity and usability. Each quarter the Department sends assessors an index of all forms and publications including the last revision. The index is also now available through the Property Tax Resource Center.

The Assessor should add information about the appeal process to the Forest Land and Open Space sections of their website.

Why it's important

Utilizing updated forms and publications by linking to the Department's website ensures the use of materials that reflect recent changes in statute, regulation and/or procedure.

Next Steps

Prioritizing Requirements and Recommendations

Once the Assessor and the county legislative authority receive a final copy of this review, the Department will (if requested) consult with them to help prioritize the work they must complete.

Follow-up

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

The Department will follow-up in twelve months 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.

Questions

For questions about specific requirements or recommendations in our report, please contact the contributing staff member listed below:

County Review Auditor	Julie Herr	julieh@dor.wa.gov	(360) 534-1363
Current Use Specialist	Jeri Lux	jeril@dor.wa.gov	(360) 534-1360
County Review Supervisor	Cindy Boswell	cindyb@dor.wa.gov	(509) 885-9842

For additional information contact:

Washington State Department of Revenue
Property Tax Division
PO Box 47471
Olympia, WA 98504-7471
(360) 534-1400
<http://dor.wa.gov>

Appendix A – Data Sources

The data sources below are examples of the many sources available to county assessors. Other data sources are available and the Department encourages assessors to locate, document, and use any reliable data sources available to them.

The websites and instructions provided below are current as of September 2016. The Department encourages assessors to become familiar with navigating the data sources and share any new sources they locate.

USDA National Agricultural Statistics Service - www.nass.usda.gov

To locate county/region data for cash rents, production, expenses, etc.

Step	Locate...	Then...
1.	<i>Data & Statistics</i>	Click on <i>By State</i>
2.	Select <i>Washington</i>	
3.	<i>Washington Statistics / Quick Stats</i>	
4.	Available data options (may open to a new window based on your browser settings)	Filter data by selecting appropriate options for available categories (see Note 1)
5.		Select <i>Get Data</i>
6.	Displayed results	Save results, print results, or export results to a spreadsheet
Example of data filtering for specific results		
	Production data: <ul style="list-style-type: none"> <input type="checkbox"/> Select <i>Crops</i>, then <i>County</i> <input type="checkbox"/> Select specific Crop in listing (winter wheat/spring wheat/etc; see Note 2) <input type="checkbox"/> Select <i>Get Data</i> <input type="checkbox"/> Locate bushels per acre on list of results 	Cash rent data: <ul style="list-style-type: none"> <input type="checkbox"/> Select <i>Economics</i>, then <i>Rent</i> <input type="checkbox"/> Select <i>County or Region</i> <input type="checkbox"/> Select <i>Years</i> (if applicable) <input type="checkbox"/> Select <i>Get Data</i> <input type="checkbox"/> Locate rent data on list of results

*Notes:

1. If data selections are too few, too much data is returned; if data selections are too many, necessary data may be excluded. It's a balance. You will find what you need through experience using the search tools.
2. Of the dry land small grain crops, winter wheat is the most useful. Spring wheat (a rotation crop) generally produces 50 to 70 percent of the bushels per acre of winter wheat. Combining the two crops will negatively affect the validity of your data.

Appendix A, continued

Department of Natural Resources data requests - www.dnr.wa.gov

DNR will provide cropland rents, if requested, by phone, email, or formal letter. Land rents are available by county or by region. There are five DNR regions and contact information is available on the website. When requesting rents include specific detail about what information you want included and excluded, and the format you would like to receive it.

Example of information request

Please provide the crop rents for DNR land in Pierce County (or multiple counties).

Excluding rents from leases for:

- Conservation
- Habitat
- CRP
- Public access
- Homesites

For each lease, please provide:

- Location of each property including county, section, township, range, and parcel number
- Type of land such as irrigated cropland, non-irrigated cropland, or grazing land
- Size of the parcel and the number of crop acres in the parcel
- Detail of parcel improvements such as trees, vines, an outbuilding or irrigation equipment
- If the rents include or exclude the Leasehold Excise Tax
- Start date and end date of each rental agreement and parcel
- Total rent per year
- Tenant's name

Washington State University

<http://ext.wsu.edu>

Enterprise Budgets - http://extecon.wsu.edu/pages/Enterprise_Budgets

Enterprise Budgets are authoritative studies of the cost, yield, and income from a particular crop in a particular part of the state (for example cherries in central Washington; or spearmint using rill or center systems). A team of local farmers or orchardists and a WSU agricultural economist conduct the studies. The studies are especially helpful when they include land rents, which can be used for data comparison of farm and agricultural land value calculations.