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Washington Department of Revenue Property Tax Division

2018 Review of Property Tax Administration in Kittitas County



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Overview

Introduction

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

Purpose

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

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

Scope of Review

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

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

Background

Duties of the Assessor

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

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

Overview, continued

Duties of the Department

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

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

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

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

Information Reviewed

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

- Mass Appraisal Processes
- Revaluation Plan for 2019-2024
- Reporting to officials

We gathered information through staff interviews, documents provided by the Assessor's staff, and through independent verification. To complete our review, we interviewed:

- The Assessor
- The Chief Appraiser
- Appraisal Staff Members

Acknowledgment

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

Executive Summary

About this Review

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

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

Categories of Results

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

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

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

Results

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

Executive Summary, continued

Requirements

1. The Assessor must assess new construction at its true and fair value as of July 31 each year regardless of its percentage completion. (RCW 36.21.070, RCW 36.21.080, WAC 458-19-005(2)(p), WAC 458-12-342)
2. The Assessor is required to submit accurate, complete, and timely reports/certifications to the Department and other County officials. (RCW 84.08.020, 84.08.040, 84.40.040, 84.40.130, 84.40.320, 84.48.50, 84.48.080, 36.21.100, WAC 458-53-030, 458-53-070, 458-53-080, 458-53-140)

Recommendations

1. The Department recommends the Assessor develop a separate sales database that allows for updating and freezing property characteristics as of the sale date.

Requirements

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

This section contains the items we identified following our interview.

Procedure for Adding New Construction at Percent Complete to the Assessment Roll

Requirement

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

What the law says

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

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

What we found

In our discussion with the Assessor and his staff on May 2, 2018, the Assessor explained the current office policy about new construction. The policy instructs the appraisers to add new construction value to the assessment roll if the completed construction of the structure includes the frame, interior sheetrock, and roof. The Assessor stated they are aware a foundation added to the property can increase the property value and the new value should be included on the assessment roll. He also acknowledged there are challenges for appraisers in adding an improvement without being able to get accurate measurements and style information.

Action needed to meet requirement

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

Methods for determining percent complete and value of incomplete construction:

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

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

Why it's important

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

Assessor Must Complete Statutorily Required Reports by the Due Date

Requirement

The Assessor is required to submit accurate, complete, and timely reports/certifications to the Department and other County officials. (RCW 84.08.020, 84.08.040, 84.40.040, 84.40.130, 84.40.320, 84.48.50, 84.48.080, 36.21.100, WAC 458-53-030, 458-53-070, 458-53-080, 458-53-140)

What the law says

The Department requires information to be reported as to assessments of property, valid and invalid sales, equalization of taxes, the expenditure of public funds for all purposes, and other information that we may request. (RCW 84.08.020(3))

The law mandates some reports and their due dates. The Department requires other reports by specific dates in order to provide meaningful information to state and local officials. Reporting is not optional, but a duty of the office.

What we found

Due to the inability of the Assessor's office to complete revaluation and new construction assessments in a timely manner last year, the Assessor did not deliver three of five required reports and certifications in a timely manner. However, as of the day of our meeting, May 2, 2018, the Assessor stated they currently are on target to finish inspections by June 1 and send out change of value notices by the end of June this year. This would significantly improve the timeframe for reporting. The required reports include the following:

<i>Required Reports & Certifications</i>	<i>Due Date</i>	<i>Reported by Assessor</i>
Assessor's Certificate of Assessment Rolls to the County Board of Equalization	July 15, 2017	November 2, 2017
Assessor's Certificate of New Construction Value to the County Board of Equalization	September 15, 2017	November 2, 2017
Real Property Sales Study (Ratio Study Valid and Invalid Sales Report)	As soon as possible after the real property roll is closed. The Department estimates the ratio if report(s) are not received by November 30.	November 9, 2017
Real Property Stratification Report	As soon as possible after rolls closed. Ratio will be estimated if report(s) are not received by November 30.	November 9, 2017
Abstract of Assessed Value	October 31, 2017	November 21, 2017

Assessor's Certificate of Assessment Rolls to the County Board of Equalization and Assessor's Certificate of New Construction Value to the County Board of Equalization.

The consequences of the Assessor's delay in certifying the assessment roll were:

- The assessment roll was not officially closed timely.
- The Board of Equalization (BOE) was not able to proceed with hearing petitions until officially notified of the roll closure.
- In addition, late certification of values to neighboring counties with joint taxing districts could affect their ability to certify their levy rates timely.

Real Property Sales Study (Ratio Study Valid and Invalid Sales Report)

The Assessor's staff could not complete the Valid and Invalid Sales Report until the 2017 assessment roll was officially closed, and the values updated. The delay in receiving the report resulted in:

- Delays completing the ratio.

Real Property Stratification Report

The delay in receiving the report resulted in:

- Delays in completing the ratio.

Abstract of Assessed Value

Submitting the abstract late results in:

- Delays in review and resolution of issues in the reporting.
- Delays in calculating the state school levy.

Action needed to meet requirement

The Assessor must improve the timeliness in completing required reports. We will look for improvement in dates you submit reports. Once we see evidence of incremental improvement, the requirement will be considered complete. If late certification delays the performance of other statutorily required duties and reports, our continued follow up may be necessary. 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. Although some reporting dates are guidelines and not absolute requirements, missing them can adversely affect the property tax process and the other departments and entities that rely on the Assessor's work.

Assessor's Certificate of Assessment Rolls to the County Board of Equalization

The Assessor must certify the taxable (assessed) value of all locally assessed real and personal property after revaluation is complete. The Assessor's Certificate of Assessment Rolls to the County Board of Equalization (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 BOE, with a copy to the Department by July 15 each year. (RCW 84.40.320)

Assessor's Certificate of New Construction Value to the County Board of Equalization

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

Real Property Sales Study (Ratio Study Valid and Invalid Sales Report – current year)

The Assessor is required to submit a sales study to the Department each year. The sales study consists of all sales occurring in the county between May 1 (preceding January of the current assessment year) and April 30 (of the current assessment year). The Assessor must deduct one percent from each recorded sales price, as adjustments for values transferred that are not assessable as real property. All sales must be reviewed and coded by the Assessor as valid or invalid sales as per WAC 458-53-070 and 458-53-080. Prior to running the report, all assessed values must be updated to reflect the current year's values.

Real Property Stratification Report / Personal Property Stratification Report

The Assessor must complete and return the stratification reports as soon as the current assessment year is completed and the revaluation and new construction rolls are closed. The Department uses these reports to calculate the current year's real and personal property ratios. They are also necessary for utilization in the random sampling process for the next year's real and personal property ratio studies.

Abstract of Assessed Value

The Assessor is required to complete and return the Abstract of Assessed Value (October 31). The Abstract of Assessed Value reports the various components of real and personal property values used to calculate the state school levy, produce statistical reports, and assist in determining the impact of proposed legislation. The Department sends a letter requesting this information along with instructions each year by the end of September.

Reliance on Assessor to report timely

The Department and other state/local officials rely on the Assessor's reports to complete several critical functions throughout the year. The timeliness of these reports is critical to keeping work on schedule, as the delay of any of these reports will often delay the Department, the BOE, or other county officials from completing their obligations in accordance with the Property Tax Calendar and the County Assessor's Manual. The Property Tax Calendar is updated each year and located online at dor.wa.gov/docs/Pubs/Prop_Tax/PropCal.pdf. The County Assessor's Manual is available online at http://dor.wa.gov/Docs/Pubs/Prop_Tax/AssessorRefManual.doc.

Why it's important

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.

Recommendations

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

This section contains the items we identified following our interview.

Develop a Sales Database and Inspect Sales Promptly

Recommendation

The Department recommends the Assessor develop a separate sales database that allows for updating and freezing property characteristics as of the sale date.

What we found

The Assessor's office currently does not have a separate sales database. When the office converted to a new computer assisted mass appraisal (CAMA) system four years ago, some parcel data did not convert from the old system into their new system. The staff has been manually updating records to capture missing and additional characteristics useful for analysis. The Assessor's current plan is for the appraisers to complete updating characteristics for all parcels in their CAMA software system (TerraScan 2 or T-2) before establishing a dedicated sales database.

Appraisers are currently inspecting sales only in the inspection area designated for that year. In the past several years, the assessment staff has progressed through the challenging and enormous task of updating property characteristics in each property record as part of their conversion to T-2. The resources have not been available to inspect all of their sales each year. After the conversion is complete, they are planning to dedicate a person to inspecting sales.

Action recommended

Create an Excel spreadsheet for all sales information to record and freeze the actual property characteristics as of the sale date. Characteristics as of the sale date may be different from those currently included in the assessment property record from an old inspection. Accurate sales analysis requires maintaining the correct characteristic data on parcels as of the date the sale occurred. An appraiser or sales analyst should inspect the sold property close to the sale date, or at least contact the buyer and seller after closing, to verify the correct characteristic data as of the sale date.

Why it is important

The assessor considers all three approaches to value (market or sales comparison, income, and cost) in appraising property. Comparable sales are the basis for the market approach. Sales are a primary source used in developing market trends and evaluating depreciation rates in the cost approach, determining adjustments in the income approach, and reconciling final cost or income valuations to make sure they are accurate. Reliable, accurate sales data is crucial to achieving uniform and consistent assessed values.

Next Steps

Prioritizing Requirements and Recommendations

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

Follow-up

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

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

Questions

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

For additional information contact:

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