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Washington Department of Revenue
Property Tax Division

**2011 Review
of the
Current Use Program
in Skagit County**



August 2011

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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 Skagit County (the County).

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

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.

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

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

We reviewed administrative procedures for compliance with state statutes and regulations. 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.

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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
 - Homesites (reviewed how homesites are classified and valued)
 - Technology utilized in the program administration
 - Audit process and audit correspondence used to ensure continued eligibility
 - Resolutions adopted by the county legislative authority pertaining to current use
 - Open space advisory committee processes, meeting notices, and meeting minutes
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Executive Summary

About this Review

In June 2011, the Department conducted an on-site visit to the Assessor's office and the office of the Board of County Commissioners (county legislative authority). We interviewed the Assessor's staff and the county legislative authority's staff 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 if improvements in these areas can be made, it will 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.

Summary of Results

The Department identified three requirements and five recommendations directed toward improving the administration of the County's 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. A summary of these items follows.

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Executive Summary, Continued

Summary of Requirements and Recommendations

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Requirements

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

Valuing Qualified Integral Homesites

The Assessor is required to use the prescribed methodology for valuing homesites on parcels 20 or more acres 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's staff, qualified integral homesites are valued at the same per acre value as the surrounding farm and agricultural land. Then staff 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.

When reviewing parcels with qualified integral homesites, it was unclear if the value of improvements used to serve the residence were included in the assessed value.

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Requirements, Continued

Valuing Qualified Integral Homesites (continued)

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*.

Skagit County is currently on an annual revaluation cycle, so the Assessor's staff must complete the homesite calculation annually and apply it to all qualified integral homesites in the farm and agricultural land classification. The Assessor's staff should review all qualified integral homesites to ensure the value of improvements used to serve the residence are assessed appropriately.

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 and 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)

Skagit County has an active advisory committee. Committee members and the Assessor's staff meet formally each year. It is clear the committee and the Assessor's staff work well together, sharing information pertinent to farming conditions in the County. The committee appropriately documents the meeting minutes. The Assessor's staff provided copies of the current and the prior year's meeting minutes.

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Requirements, Continued

Open Space Advisory Committee (continued)

It is unclear if the county legislative authority has appointed the current members to the advisory committee or if the committee itself appointed the current members. There was no record of recent appointments or delegated authority. The committee and 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 to the advisory committee.

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 Taxation Agreements

The county legislative authority (or their delegated authority) is required to obtain property owner signatures on Open Space Taxation Agreements. (RCW 84.34.141, WAC 458-30-240)

When an application for classification or reclassification as open space or timber land has been approved, the granting authority is required to prepare an agreement which states the conditions attached to the approval of the application. The owner may accept or reject the agreement.

If the agreement is not signed and returned to the granting authority within thirty days of the date the unsigned agreement was mailed to the owner, the granting authority shall conclusively presume the agreement has been rejected (except as noted in WAC 458-30-240(3)(d)).

A review of applications approved by the county legislative authority included cases where additional action must be taken:

- A parcel sold in July 2010 (in the middle of the process for reclassification from farm and agricultural land to open space). On approval of classification, the Open Space Taxation Agreement (OSTA) was drafted (incorrectly) in the name of the prior owners and the executed OSTA signed by the prior owners in December 2010.
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Requirements, Continued

**Open Space
Taxation
Agreement
(Continued)**

To remedy this error, the county legislative authority must prepare a corrected OSTA to reflect the proper owner at approval. The corrected OSTA should be recorded upon acceptance by the property owner. In the future, the granting authority should follow procedures in WAC 458-30-215(4) for changes in ownership during pending applications for classification and reclassification.

- A parcel was approved for reclassification from farm and agricultural land to open space. The OSTA was prepared and mailed to the address on the application for reclassification but the mail was returned as undeliverable. The granting authority had not located an alternative mailing address. At the time of our on-site visit, the owner still had not signed and returned the executed OSTA and no further contact with the applicant had been made.

Due to the amount of time that has passed since the original approval of the property reclassification, the county legislative authority should attempt to locate a proper mailing address for the property owner and resubmit the OSTA to the property owner, following the procedures outlined in WAC 458-30-240(3). If the OSTA is not signed and returned within thirty calendar days, the granting authority should inform the Assessor that the OSTA is presumed to be rejected. The Assessor would then determine if the property is eligible to continue in its current classification.

Following the procedures outlined in the statutes and regulations ensures due process and consistent treatment of all Current Use Program applicants.

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.

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)**

Only those parcels meeting the statutory requirements are eligible to continue in the Current Use 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's staff, parcel audits occur at the point of sale or transfer, or if information is received from the public. In addition to the review of parcels at sale or transfer, the Department recommends a system of random sample audits (at a minimum). 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, expenses, 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.

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Recommendations, 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, WAC 458-30-330)

At the time of our review, the County had 226 parcels in the open space classification and farm and agricultural conservation land subcategory. As the Assessor audits parcels in the farm and agricultural land classification, there may be more interest by property owners to reclassify 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))

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Recommendations, 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 Property Tax Resource Center (PTRC) at <http://propertytax.dor.wa.gov/>.

**Desk Reference
Manual**

The Department recommends the Assessor develop a desk reference manual for the Current Use Program administrator duties.

To ensure consistency and continuity, the duties of the Current Use Program administrator should be documented in a desk reference manual.

Desk reference manuals can include policy information and specific step-by-step procedures on how to administer the Current Use Program. 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.

Of particular note (and time sensitivity) is the planned year-long absence of the Current Use Program administrator, beginning in September. Priority should be given to documenting the procedures for this position so the staff member assuming the duties of this position has the tools needed to handle the work efficiently.

Desk reference manuals are useful for training staff and a good tool in preventing the loss of institutional knowledge.

**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.

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Recommendations, Continued

Forms and Publications (Continued)

The Assessor provides information about the Current Use Program through personal contact with property owners via phone calls and visitors to the Assessor's office and through the Skagit County website. A review of the Assessor and county legislative authority websites showed the current Open Space Taxation Act publication and a paragraph about the Current Use Program on the Assessor's website.

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.

The Department recommends the Assessor include links to the Department's current use forms and publications with the information already on the Assessor's website. The Department further recommends the county legislative authority include information on their website about the open space and timber land classifications with links to the Department's website.

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/#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/.

Training

The Department recommends staff involved in administration of the Current Use Program (including county legislative authority staff) maintain an adequate level of knowledge about the Current Use Program.

The Current Use Program can be difficult to administer. The Department recommends staff involved in the application and approval process, including the county legislative authority staff, maintain an adequate level of knowledge about the Current Use Program through formal training or other learning opportunities. The Assessor's staff has regularly attended current use training offered by the Department (most recently in 2011).

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Recommendations, Continued

Training (Continued)

The Department offers current use training courses each year to assist staff involved in current use administration. The schedule of course offerings is available at the Department's PTRC online at <http://propertytax.dor.wa.gov/>.

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 these scholarships, contact the Department's Education Specialist at (360) 534-1424.

Attending training provides an opportunity to gain information about the Current Use Program and encourages discussion with other counties about their administrative processes.

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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 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 below.

County Review Auditor	Judy Wells	(360) 534-1360
Current Use Specialist	Leslie Mullin	(360) 534-1424

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

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