

P. O. Box 47471
Olympia, WA 98504-7471

Washington Department of Revenue Property Tax Division

2019 Review of Property Tax Administration in Lincoln 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 Lincoln County (County).

Purpose

The primary purpose of this review by the Department is to assist the Lincoln 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 property tax program administration via interviews, documents provided by the county, as well as through independent verification. The areas we reviewed included (but were not limited to):

- Reporting to officials
- Revaluation

To complete our review, we interviewed:

- The Assessor
- The Chief Appraiser

Acknowledgment

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

Executive Summary

About this Review

The Department conducted an on-site visit 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 four recommendations directed toward improving property tax administration in the County. A summary of these items follows.

Executive Summary, continued

Recommendations

1. The Department recommends the Assessor perform additional analysis, conduct ratio studies, and update assessed values of parcels in the areas of the County not scheduled for physical inspection in a given year. The Assessor should update the assessed value of all parcels in the County to reflect the current market value, unless market data indicates that no change in market value has occurred year to year. (RCW 84.40.030 and 84.41.030)
2. The Department recommends the Assessor use the *International Association of Assessing Officers (IAAO) Ratio Standard* to measure the quality of mass appraisals. The IAAO Standard suggests that the level of assessment be analyzed using the median assessment ratio for each jurisdiction being reviewed. The IAAO standard states that the median ratio should be between 90% and 110%.
3. The Department recommends the Assessor adopt practices that will allow for the use of mass appraisal in determining and updating values on an annual basis.
4. The Department recommends that the Assessor consider adding staff positions in the future to help complete their workload in a timely manner and increase mass appraisal functionality using the current computer assisted mass appraisal (CAMA) system.

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.

Updating Values Annually

Recommendation

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

What the law says

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

What we found

The Department found a possible connection between the County’s lower level of assessment (ratio) and the low number of parcels that have had a change in the assessed value. The ratio is a measure of how close assessed value is to market value. If the market sales indicate that there has been an increase or decrease in market value, not reflecting those changes in assessed values on an annual basis for a number of years can potentially result in low ratios. In an appreciating market, this will result in lower and lower ratios over time. The following table shows a five-year history of ratios and valuation changes in the County:

Assessment Year	Median Ratio	Weighted Mean Ratio	% of Parcels in the Inspection Area That Had a Change in Value	% of Parcels in Non-Inspection Area That Had a Change in Value
2019	N/A	82.2%	10.9%	3.1%
2018	N/A	85.9%	15.9%	2.3%
2017	87.0%	88.5%	36.4%	2.3%
2016	86.0%	91.4%	25.1%	3.0%
2015	81.0%	87.0%	3.4%	6.6%

Sources:

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

Median Ratio

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

Weighted Mean Ratio

The County's overall weighted mean ratio, used for equalization, has been below 90% for the last three years and is the third lowest in the state for 2019 at 82.2%.

Percentage of Parcels That Had a Change in Value

The Assessor reports to the Department the percentage of parcels that have valuation changes each year in their annual County Revaluation Progress Report. They reported the percentage of parcels with a value change for both the inspected area (1/6 of the county) and the non-inspected area (5/6 of the county). The statistics for the past five years indicates that a very low percentage of parcels had a change in value in the both the inspected and non-inspected areas. In 2019, in the inspection area, the county updated under 15% of their residential and commercial/industrial parcels and 16.7% of their exempt parcels. In the non-inspected area there was not any category of properties that had more than 6% of parcels with updated values.

The Assessor currently does not have the ability to do analysis and mass updates in their system, therefore it is difficult to update values in a uniform and consistent manner. Updating every value would require manually updating parcels on an individual basis. In addition, determining appropriate valuation adjustments is difficult if there is not a process in place to analyze groups of similar properties. Setting up the mass appraisal processes mentioned in Recommendation 3 in this report would allow them to analyze and apply market adjustments as needed. These processes include setting up accurate land use codes, neighborhood code delineation, updating cost tables, updating depreciation schedules, and developing land models. In addition, additional training is needed to accomplish these tasks with their current CAMA system.

Action recommended

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

- Update values in non-inspection areas by applying an adjustment to the previous assessed value.
- Marshall and Swift improvement values as percentage market adjustments, application of depreciation, and/or calibration of variables in the model.
- Percentage market adjustments to land values and/or calibration of variables in the land model.

Other recommendations include (also see Recommendation 3):

- Increase use and functionality of the computer assisted mass appraisal (CAMA) system to update values throughout the county.
- Run new cost values in your CAMA system for all parcels in the county, make market adjustments to the cost valuation as needed, and apply depreciation as indicated. This methodology creates the

most uniformity and consistency because all parcels are being treated the same. If new values are not generated in the CAMA system, values should be trended to reflect current market value.

- Learn more about how Marshal & Swift/Core Logic cost factors, depreciation, and multipliers are loaded, used and updated in the CAMA system.
- Confirm whether depreciation tables are activated, so that a percentage of depreciation is applied each year and improvement values will change.
- Evaluate property records and add missing characteristics useful for mass appraisal.
- Concentrate efforts on improving the county ratios by analyzing property by land use codes, highest and best use, and location in addition to other analyses already being performed.
- Perform audits of valuations before finalizing values to ensure consistency and equity in valuations. Such audits may include checking: that new construction parcels reflect the new improvement value, that there is a reason for large increases or decreases in value, or that parcels have the correct land use code. The Department has a list of suggested audits and edits to be performed prior to finalizing values.

Why it's important

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

Meet the IAAO Standard for Median Assessment Ratio

Recommendation

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

What we found

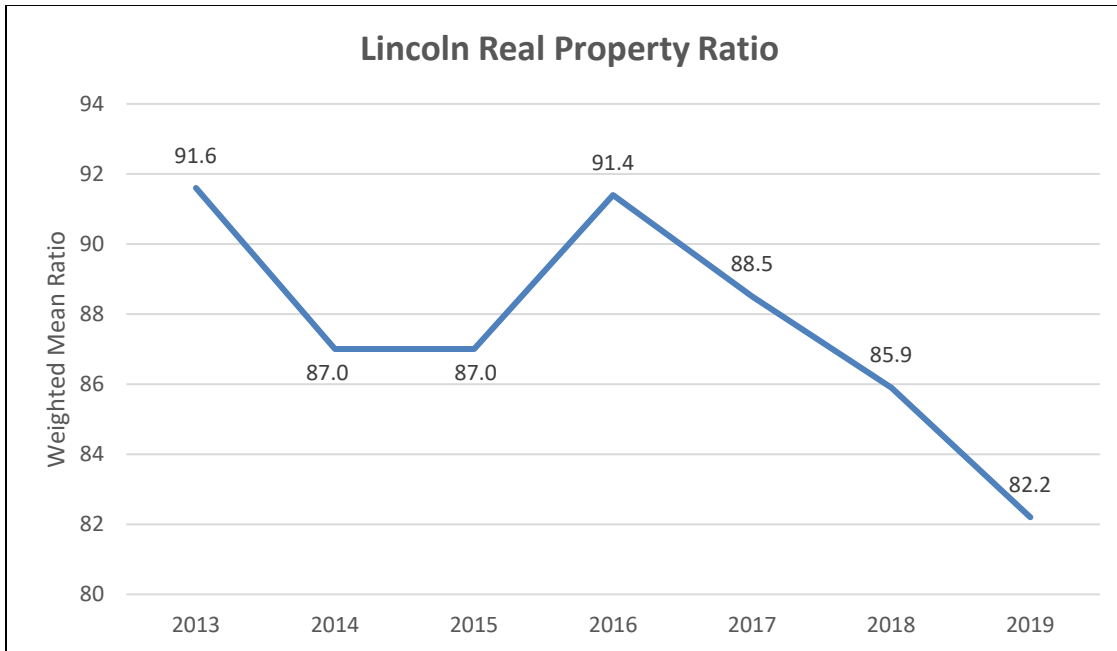
For the years 2013 through 2017, the level of assessment or ratio for the County was less than 90% and outside the IAAO's recommended range for the median ratio. The report with median ratios is not yet available for 2018 and 2019. The weighted mean ratio used for equalization by the Department has been under 90% for five of the past seven years. Our 2019 Ratio Study indicates a mean ratio of 82.2%, which reflects lower assessed value to sale price ratios for multiple categories of property, including agricultural, multifamily and commercial, and single family residential.

Recent real property ratios for Lincoln County are as follows:

Assessment Year	Median	Weighted Mean
2019	N/A	82.2%
2018	N/A	85.9%
2017	87.0%	88.5%
2016	86.0%	91.4%
2015	81.0%	87.0%
2014	82.0%	87.0%
2013	87.0%	91.6%

Sources:

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



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

Action recommended

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

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

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

Why it's important

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

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

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

Develop Mass Appraisal Valuation Practices

Recommendation

The Department recommends the Assessor adopt practices that will allow for the use of mass appraisal in determining and updating values on an annual basis.

What we found

The Assessor is currently in the process of updating their CAMA valuation system.

Action recommended

We recommend the Assessor develop a plan for implementing mass appraisal. The following suggestions will help to set up basic system functionality so that parcels can be updated in a consistent and uniform manner. It would be beneficial to have a staff member dedicated to managing this transition and implementing the plan by inspection area for a six-year cycle until all parcels have been updated.

- *Land Use Codes* (state land use codes listed in WAC 458-53-030) –The Assessor should provide appraisers with a list of the land use codes and review the proper application of the codes to promote consistent application by all staff. Land use codes should reflect the actual use of the land. During inspections, appraisers should review codes for accuracy. Staff application and review of land use codes is a critical function that results in accurate parcel information, allows similar properties to be grouped accurately for analysis and appraisal, and improves accuracy of state reports that require correct land use codes.
- *Neighborhood Codes* – A plan should be developed to delineate parcels within their geographical area. This is a first step in stratifying properties in order to evaluate market influences that affect them.
- *Marshall and Swift Cost Tables* – Marshall and Swift building cost updates were not automatically installed by the vendor and the CAMA system cost approach uses cost tables. It is unclear if current cost multipliers have been used to bring cost factors to current cost. Marshall and Swift Cost Tables should be updated annually before valuation work begins for the current year.
- *Depreciation* – The Assessor has not built any depreciation schedules from local sales data and has not been using the tables provided by Marshall and Swift. Depreciation rates vary by quality of construction and age of the improvement. Routine repairs and maintenance can affect the rate. Depreciation schedules should be built for different building types and grades and applied to the cost approach.
- *Land Characteristics* – The Assessor and appraisers should determine which characteristics are the greatest influences on value and develop guidelines for all appraisers to capture these characteristics consistently in the electronic property record. The Department has several examples of data standards manuals that contain details on land characteristics. These documents are available on request.

Utilize GIS to capture many land characteristics using maps and then verifying or fine-tuning those during the inspection process. Accurate land valuation depends on capturing the major influences that affect value.

- *Land Modeling* – The appraisers should increase their skills using Excel. At least one appraiser with strong Excel skills should begin to develop base land models that can be used in their CAMA system for mass valuation of land by neighborhood.

Why it's important

The law requires that all parcels in a county be appraised every year at 100% of market value. It is imperative that mass appraisal techniques are used because it is the most efficient method available to value all parcels every year. It allows for uniform treatment of taxpayers and consistent application of market trends to all parcels.

Consider Additional Staff Positions to Help Develop Mass Appraisal Techniques

Recommendation

The Department recommends that the Assessor consider adding staff positions in the future to help complete their workload in a timely manner and increase mass appraisal functionality using the current computer assisted mass appraisal (CAMA) system.

What we found

The Assessor's Office has a more limited number of staff than other counties and limited functionality of their CAMA system. An inadequate number of trained appraisers contributes to the Assessor's Office not consistently reviewing and updating assessed values of all parcels each year. The overall county weighted mean ratio has ranged from 88.5% to 82.2% for the past three years. The lower ratio could be the result of not routinely updating assessed values for property in the current year inspection area or for non-inspection areas of the six-year revaluation plan. Current staff have limited time for additional market analysis work, updating building cost and depreciation tables, building land models, and increasing functionality of the CAMA system.

The County has the eighth highest parcel count per appraiser for any county in the state. In 2018, they had workload of 10,638 parcels per appraiser to reappraise or statistically update values, plus conducting physical inspection and valuation of new construction.

Parcels per Appraiser			
	Total Parcels	Parcels per Appraiser	Real Property Appraiser FTEs
Lincoln	17,021	10,638	1.6
Adams	12,865	6,433	2.0
Douglas	26,313	5,263	5.0
Klickitat	19,696	4,924	4.0
Pend Oreille	14,873	4,722	3.15

Source: 2018 Comparison of County Assessor Statistics Report

Action recommended

The Assessor should consider adding staff with the skill to perform specialized functions such as:

1. Sales analyst who is proficient in the use of Excel for model building, statistics and analysis
2. Commercial/industrial/multi-family appraiser
3. CAMA developer/maintenance position
4. GIS technician to create and maintain a parcel layer for the assessor's office

These recommendations are not suggesting the county hire an FTE (full-time equivalent) for each of these positions, but rather include these functions as part of the plan for implementing mass appraisal. These functions may be performed by a single individual or shared by multiple staff members. Success in implementing mass appraisal depends on assigning responsibility to an individual who has a working knowledge of the

processes required for setting up an efficient mass appraisal system, including the above mentioned functions required to accomplish mass appraisal.

Why it's important

The Assessor's Office needs adequate staff to perform necessary mass appraisal functions, implement and maintain a mass appraisal system, and perform other assessment duties as necessary. A fully functioning mass appraisal system with complete and accurate property records leads to more accurate assessed values and greater equity for taxpayers.

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

Questions

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

For additional information contact:

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