



March 2005

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# Property Tax Review

## A Tribal Exemption

By Peri Maxey, Assistant Director

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Substitute House Bill 1322 was passed by the 2004 Legislature and became effective June 10, 2004. This legislation exempts Washington property owned by a federally recognized Indian Tribe that is used exclusively for "essential government services". The bill defines "essential government services" to mean:

*...services such as tribal administration, public facilities, fire, police, public health, education, sewer, water, environmental and land use, transportation, and utility services.*

The Department has been working with County Assessors, the Washington Association of County Officials, and Tribes to create a rule that will be used to administer this exemption. The first rule draft was published and a public meeting was held on Sept. 2<sup>d</sup>. Comments were presented at the meeting and were considered as the Department prepared to adopt an emergency rule. An emergency rule is necessary to begin implementation of the statute and was adopted on October

1st. A second public hearing (known as a CR 102 meeting) is scheduled for March 31 at 10:00 a.m., and the public will have this opportunity to provide additional comments. Following the second public hearing, the Department will adopt a final rule. The CR 102 meeting was scheduled after we had a chance to receive and review Declaration Forms. This gave us the opportunity to identify any other questions that were not addressed in the emergency rule.

**Initially, the rule specified the administration of this exemption would be done by assessors.**

Initially, the rule specified the administration of this exemption would be done by assessors. After consideration of the uniqueness of this exemption and following testimony at the first public hearing, we determined the Department would administer this exemption. We created a

Declaration Form for use by the Tribes that is available on our web site (<http://www.dor.wa.gov/>). A copy of the emergency rule has been distributed to interested parties. The Tribes have received a copy of the emergency rule, the Declaration Form, and a letter explaining the process. We are reviewing each declaration and issuing a determination letter to the Tribe and the assessor as to the status of each parcel. The determinations will be appealable by either party to the State Board of Tax Appeals. Once exempt, a parcel will remain in exempt status until the ownership or use of the property changes to warrant a change in taxable status.

Any questions on the process for this exemption or comments on the legislation should be directed to PeriM@dor.wa.gov.♦

### Special points of interest:

- **Quarterly Reminders (see pages 4-5)**
- **Upcoming Training (see page 7)**



# 2003 Assessor Statistics Released

By Cindy Boswell, Revaluation Specialist

County assessors' workload continues to expand with new parcels and new construction! Growth is not restricted to counties based in the Puget Sound region. The ratio of new property to county assessed value is at the highest levels in several of Washington's more rural counties located on both sides of the Cascades. How are changes measured and how do county resources stack up? Find out by reviewing the **Comparison of County Assessor Statistics, 2003 County Comparison** (Comparison Report) released this past October. This report provides property tax administrators with a uniform set of comparative statistics to assist in the evaluation of their operation. Also, the Department of Revenue uses this summary report, together with respective counties' Revaluation Progress Reports, to monitor revaluation progress.

## Comparison Highlights

The Comparison Report has historically been based on locally assessed taxable parcels, and comparisons continue to be based on this unit of measure. Use of taxable parcels reflect much of the assessor's workload; however, the nontaxable/exempt and state assessed parcels also require use of county resources. A table is now included within the Comparison Report that illustrates exempt parcels as a percentage of total parcels. The County Revaluation Progress Report was revised this past year to include the reporting of all parcels listed on the assessment roll. Not all counties are currently able to provide precise numbers, but the table does reflect administrative work that is statutorily required of assessors over and above that reflected directly in the statistics.

How integrated is GIS with assessor functions? Incorporating data from the Assessor's Technology Committee 2003 survey, a revised table presents a very basic overview of mapping technology integration with the assessors' functions.

Eight counties have made notable improvement (20+ days) in roll certification date during 2003 with at least a 20 day gain over 2002.

## Budgets

Comparison of assessors' budgets (less central services) from 2002 to 2003 reflects a change for individual counties in the range of -15.6 percent to 18.3 percent and an average of .47 percent growth. Assessors' budgets (less central services) for 2004 reflect a change for individual counties in the range of -12.3 percent to 18.7 percent. Although the average increase in 2004 budgets is 2.84 percent, there are 11 counties that are operating at a level near or less than their 2003 budget.

## Staffing

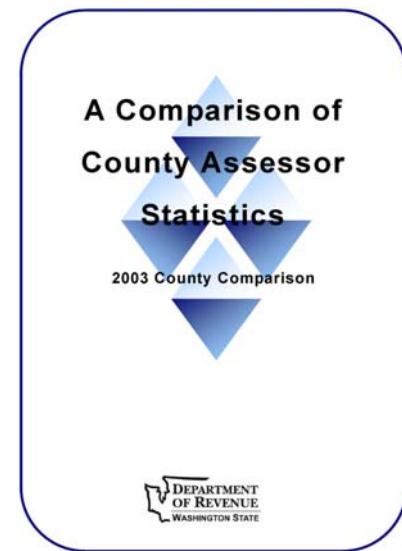
Measured by FTE equivalents on a statewide basis, the level of staffing for 2003 dropped 3.3 percent with FTE positions reduced in 18 counties. Funded FTE's for 2004 is stable at the 2003 statewide level; however, six counties have experienced a decrease in funded FTE positions during 2004.

## Workload

During 2003, the statewide average number of parcels per appraiser was 6,010 in cyclical counties and 5,764 parcels in annual counties. The average number of inspections per appraiser was 1,572 inspections in cyclical counties, and 997 inspections in annual counties. These levels will increase during 2004 based on a projected increase in parcels and reports of consistent staffing at the statewide level into 2004.

The current issue of the Comparison Report is available through the DOR's website, together with the previous issues back to 1999. The internet address is: <http://www.dor.wa.gov> under the link "Statistics & Reports."

Questions or comments regarding this survey should be directed to Cindy Boswell, at (509) 663-9747, or e-mail at cindyb@dor.wa.gov.♦



The current issue of the County Comparison Report is available through the DOR website at [www.dor.wa.gov](http://www.dor.wa.gov).

# *Utility Value Certification Process and County Roll Closure: What's the Link?*

By Steve Yergeau, Utility Program Manager

The Property Tax Division of the Department of Revenue has many responsibilities, two of which are: 1) the measurement of the assessment level in each county and 2) the certification of equalized intercounty utility assessments to each county assessor. Although the primary focus of this article is the certification of equalized utility valuations and county roll closure, a brief overview of how the Ratio Study affects utility valuations may be helpful.

## **The Ratio and Utility Companies**

The foundation of our property tax system is deeply-rooted in the principles that all property must be taxed fairly, uniformly, and at market value unless it is specifically exempted from taxation by the Legislature. Although it is the goal as well as the statutory requirement of every assessor to value property at market value, our courts have, on multiple occasions, let us know that uniformity of taxation is just as important as assessing property at market value. Considering uniformity together with the valuation standard of fair market value will ensure a fair property tax system. In order to ensure uniformity in taxation, the Department annually initiates and completes a real property and personal property ratio study in each of the 39 counties for the purpose of equalizing state assessments of utility companies with local assessments.



## **When can the Department certify equalized utility valuations to the county assessor?**

Several things have to happen before utility values can be equalized and given to the county assessor for inclusion on the assessment roll.

- 1) Utility valuations cannot be equalized to the level of assessment in each county until the ratios for that county are complete.
- 2) Calculation of each ratio is dependent upon the closure of the assessment roll and certification of the final assessed values to the Board of Equalization.
- 3) When final ratios are calculated, they are certified to the county and given to the Utility Section for application to the utility values.
- 4) The Utility Section of the Department applies the final ratios to the assessed values and certifies the utility values to the county.
- 5) The Department's statutory deadline for computing all ratios is December 6<sup>th</sup>. Counties who haven't closed their roll by this date will receive estimated ratios.
- 6) Certification of utility values are completed in batches as ratios are finalized.

(For more information on ratios, please visit our web site at: [http://dor.wa.gov/Docs/Reports/2003/Tax\\_Statistics\\_2003/Table30.pdf](http://dor.wa.gov/Docs/Reports/2003/Tax_Statistics_2003/Table30.pdf))

(For more information on utility valuations, please visit our web site at: [http://dor.wa.gov/Docs/Reports/2003/Tax\\_Statistics\\_2003/Table28.pdf](http://dor.wa.gov/Docs/Reports/2003/Tax_Statistics_2003/Table28.pdf)) ♦

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## This Quarter's Reminders

### March 1

Most taxing district boundaries must be established to permit levy for collection the following year. (RCW 84.09.030) For exceptions, see RCW 84.09.030 through 84.09.035. Also, changes in district boundaries must be submitted to the DOR in order to receive proper apportionment of values of state assessed properties. (WAC 458-50-130).

### March 15

Utility company annual returns on standard form must be filed with the DOR. Penalties prescribed. (RCW 84.12.230 and 260).

### March 31

Applications for exemption from the property tax must be received by the DOR to avoid \$10 per month penalty. (RCW 84.36.815 and 825) Newly incorporated cities may establish boundaries. (RCW 84.09.030)

### April 30

Personal property listing form must be filed with county assessor. Penalties prescribed. (RCW 84.40.020, 040, 060 and 130). Also, last day for payment of taxes except when taxes on one lot or tract are \$50 or more, or when personal property taxes total \$50 or more, one-half may be paid by April 30 and the remaining one-half by October 31. (RCW 84.56.020)

### May 1

Assessor must notify applicant for forest land designation prior to this date if request denied.

## *Staff Changes at the Department of Revenue*

By Kathy Beith, Technical Programs Manager and Deb Mandeville, Property Tax Supervisor

Over the last few months, the Department of Revenue's Property Tax Division has had some changes in staff that we would like to share with you

As many of you probably know, **Mary Skalicky**, our senior citizen exemption and deferral expert, retired at the end of August 2004. We miss Mary and we're jealous of all the fun she is having in retirement. But we are very fortunate that we have found **Peggy Davis** to take over the senior exemption and deferral duties.

Peggy gained experience in the property tax field in California and, most recently, in Alaska. She has worked with personal property issues as well as exemption and deferral programs. Prior to Mary's retirement, Peggy had the opportunity to train with her for about a month, learning about Washington's senior exemption and deferral programs.

We're happy to have Peggy on our team. If you have any questions regarding the senior exemption or deferral programs, Peggy can be reached at [peggyd@dor.wa.gov](mailto:peggyd@dor.wa.gov) or by telephone at (360) 570-5867.



**Peggy Davis**



**Alexandra Porter**

If you have visited our Olympia office, you probably were first greeted by our long time receptionist, **Cathy Berry**. Cathy also retired recently. Our new front desk receptionist, **Alexandra Porter**, came on board in February 2005 and hit the ground running. If you call our office, it's likely you'll get to speak with her.

Alexandra previously worked for the Washington State Patrol and the Little Creek Casino. We feel fortunate to welcome her to Property Tax. Alexandra will be continuing college next quarter in pursuit of a degree in mathematics. Alexandra can be reached at [alexandrap@dor.wa.gov](mailto:alexandrap@dor.wa.gov) or by telephone at (360) 570-5900.



**Elizabeth Seaberg**

Another new addition to our Support Staff Team is **Elizabeth**

**Seaberg**. Elizabeth previously worked for a mortgage company, where she was a loan officer as well as a processor. She will be continuing college next quarter at South Puget Sound Community College, pursuing a degree in Business Administration. Elizabeth can be reached at [ElizabethS@dor.wa.gov](mailto:ElizabethS@dor.wa.gov) or by telephone at (360) 570-5895.

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After nearly four years with the Department, **Danny Walton** is off to write a new chapter in his life. He begins a new job with Columbia Valuation Group, a commercial real estate appraisal firm in Shoreline, Washington. For the last four years, Danny has been the private railcar appraiser in the Property Tax Division's Utility Valuation Section. We wish Danny the best.



**Danny Walton**



**Fletcher Barkdull**

After 2 1/2 years with the Department, we are personally sad to see our levy review auditor, **Fletcher Barkdull**, leave for greener pastures. Fletcher had worked very closely with county assessors and staff in the newly created levy review program. He was offered and has accepted a position with Boeing as a Procurement Analyst in their new Multi-Mission and Maritime Aircraft program within the Integrated Defense Systems group. They made him an offer he just couldn't refuse. His last day with the Department of Revenue was Thursday, February 17<sup>th</sup>. Fletcher was truly an asset to our office, both professionally and personally. We wish him the best in this new endeavor.♦

## Kudos for Thurston County!



Citizens and real estate professionals are increasingly able to access assessor's data without leaving their homes or offices. More than half of Washington's 39 counties provide internet access to property and sale information. A growing number of counties also have GIS maps available online. Thurston County Assessor's Office was recently recognized by the International Association of Assessing Officers (IAAO) for their internet *Assessor's Parcel-Look-Up System* (*A+*). Assessor Patricia Costello was presented with the Public Information Program Award during the 2004 Conference in Boston. This award is in recognition of their development and implementation of effective outreach to provide taxpayers with assessment information.♦

## GIS Award Presented



Congratulations to Clark County Assessor Linda Franklin and the Department of Assessment and Geographic Information Systems (GIS) who took home a first place award in Best Instructional Presentation Map at the ESRI International User Conference held in San Diego during August. The winning project was a poster created by Matt Deitemeyer, Gary Bishop, A. Paul Newman, and Dan Kaler that explains the process used by GIS staff to create a map of Vancouver's Urban Tree Canopy Study.♦

### This Quarter's Reminders

(Continued from page 4)

(RCW 84.33.130) Also, open space farm and agriculture land application deemed approved unless assessor has notified owner otherwise. (RCW 84.34.035)

#### May 31

County assessors to have completed listing and placing of valuation on all property no later than this date. However, assessors may add property (new construction and mobile homes) to list later after written notice to person to be assessed. (RCW 84.40.040)

#### June 1

Penalty of three percent will be assessed on the amount of current year's taxes delinquent on June 1. (RCW 84.56.020) Also, may establish newly incorporated taxing district if co-terminus boundaries with established district (RCW 84.09.030).

#### June 30 (on or before)

DOR sets stumpage values for July through December 2005. (RCW 84.33.091) DOR to determine value of state assessed property. June 30 is the first day to request a formal hearing on value of state assessed property.♦

**PROPERTY IN MOTION**

## Personal Property Assessment Issues

By Neal R. Cook, MAI, Personal Property Specialist

The focus of this column is personal property valuation and administration issues. If you have topics or questions that you would like included in a future issue, please let me know. Contact me via e-mail at [NealC@dor.wa.gov](mailto:NealC@dor.wa.gov) or by phone at (360) 570-5881.

### **Bankruptcy, Fair Value, and Impaired Assets vs. Assessed Value**

In 2004, many counties in Washington and throughout the nation received personal property listings from a major retailer that looked nothing like prior year listings. What does the Department of Revenue (DOR) recommend should be done with these listings? The company says the assets have been appraised, and they are reporting the fair value as ordered by the court. Is *fair value* the same as *fair market value*? We recommend using the prior year listings rather than accepting the restated costs. Although fair value may be equal to fair market value in the year it is restated, it is not an appropriate basis for subsequent year's assessments.

The Personal Property Valuation Guidelines DOR publishes and recommends counties use are designed to be applied to the cost of new assets. Hence, restating the cost or employing or applying a used equipment value for the cost will not produce equitable values when comparing like assets for other retailers. Using the value of used equipment tied to 2003 will also distort the value in future years when applying the DOR tables. Although the value (fair value) may be a reasonable value for the first year, it should not be entered as the "cost" as the base value that is depreciated from then on. Use the historical/original cost and year of purchase and apply the 2004 depreciation factor. If the value indicated is similar to the "fair value" reported, you should continue using the historical/original cost. If, however, the value is not similar, you may consider other evidence from the company and apply additional depreciation. If there isn't specific evidence, then stick to the original cost and year method.

**Preparers should make an estimate of fair value using the best information available in the circumstances.**

If a company emerged from bankruptcy in 2003, in some cases, when filing the 2004 listings, they recalculated the acquisition cost of their assets by taking the appraised value and backing into an acquisition cost using the DOR tables. In other cases, they reported the fair value as ordered by the court. We do not consider these to be acceptable methods of reporting because fair value does not necessarily equate to fair market value as defined in Washington law. However, the former method is better than the latter.

Bankruptcy or court ordered, fair value is very similar to an impaired asset situation where a company has their assets valued and assigns new values to those assets due to the impairment. The impaired value becomes the new book value for the company's assets. Like fair value, book value may be a reasonable value for the year it was originally adjusted for the impairment. We should look at the definitions of fair value and impairment to see if they have any correlation to fair market value. We should keep in mind that, for personal property valuation, fair market value implies that the assets are in continued use, sometimes called 'value in use' since the assets must be valued in the condition found. The value of assets in this condition includes the cost to purchase plus trade-in, freight, and installation but excludes sales tax in determining the historical/original cost.

Here is the definition of fair value as defined by the Securities and Exchange Commission (SEC). *Fair value* is an accounting term originally defined by the SEC under Generally Accepted Accounting Principles ([GAAP](#)). The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, other than in a liquidation. On the other side of the balance sheet, the fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, other than in a liquidation. If available, a quoted market price in an active market is the best evidence of fair value and should be used as the basis for the measurement. If a quoted market price is not available, preparers

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should make an estimate of fair value using the best information available in the circumstances. In many circumstances, quoted market prices are unavailable. As a result, difficulties occur when making estimates of fair value.

What is the difference between fair value and fair market value as noted above? The elements of freight and installation are excluded and sales tax may be included. Also, the used equipment market is often the only active market from which a price can be quoted, necessitating that an additional cost be added to be equivalent to the value in use concept, namely the cost of removal. Therefore, fair value is seldom equivalent to fair market value and almost always less.

## Impairment of Fixed Assets and Goodwill

The objective of Financial Reporting Standard (FRS) 11 is to ensure that: fixed assets and goodwill are recorded in the financial statements at no more than their recoverable amount; any resulting impairment loss is measured and recognized on a consistent basis; and sufficient information is disclosed in the financial statements to enable users to understand the impact of the impairment on the financial position and performance of the reporting entity.

FRS 11 sets out the principles and methodology for accounting for impairments of fixed assets and goodwill. It replaces the previous approach whereby diminutions in value were recognized only if they were regarded as permanent. Instead, the carrying amount of an asset is compared with its recoverable amount and, if the carrying amount is higher, the asset is written down.

*Recoverable amount* is defined as the higher of the amount that could be obtained by selling the asset (net realizable value) and the amount that could be obtained through using the asset (value in use). Value in use is calculated by forecasting the cash flows that the asset is expected to generate and discounting them to their present value. Where individual assets do not generate independent cash flows, a group of assets (an income-generating unit) is tested for impairment. Impairment tests are required only when there has been some indication that an impairment has occurred.

The above definition seems to relate to the value in use of the assets, so why wouldn't the value be appropriate for the assessment of personal property? The impaired value could be the same as fair market value in the year the impairment took place if the impairment value is based on the value in use. The predominate method of valuing the impairment is not unlike setting the fair value and has the same weaknesses.

In the end, the best means to value assets using DOR tables is with the historical/original year of manufacture and cost. Fair value, book value, and impaired value may be considered with respect to the result of the valuation using our guidelines. Additional depreciation may then be applied with reasonable support by the taxpayer. In any case, the assets must be valued in the condition they are found usually in use."♦

**The best means to value assets using DOR tables is with the historical/original year of manufacture and cost.**

**2005**

### Upcoming Training (State/County Personnel ONLY)

**April 12**

BOE Clerk's Conference  
Tacoma — \$0

**May 10**

Current Use Admin. Workshop  
Everett — \$50

**May 12**

Current Use Admin. Workshop  
Tumwater — \$50

**May 18**

Current use Admin. Workshop  
Moses Lake — \$50

**May 19**

Current use Admin. Workshop  
Pasco — \$50

**May 23-24**

Adv. Ratio/Statistical Analysis  
Tumwater — \$100

**June 7-8**

BOE New Member/Clerk Training  
Tumwater — \$0

**June 9**

BOE Senior Member Training  
Tumwater — \$0

**June 10**

BOE Senior Member Training  
Longview — \$0

**June 14**

BOE Senior Member Training  
Pasco — \$0

**June 15**

BOE Senior Member Training  
Moses Lake — \$0

**June 16**

BOE Senior Member Training  
Arlington — \$0

For further information, contact  
Patty Concepcion, Education  
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by e-mail at [PattyC@dor.wa.gov](mailto:PattyC@dor.wa.gov).

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