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Washington Department of Revenue
Property Tax Division

**2011 Follow-up
Review of the
Current Use Program
in Klickitat County**



May 2012

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Overview

Introduction This report contains the results of the Department of Revenue's (Department) follow-up review of the Current Use Program in Klickitat County (County).

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

- The progress the Assessor and the county legislative authority have made since our original review
- Any new items that may have come up since our last review
- Administrative procedures for compliance with state statutes and regulations

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

We did not examine all parcels enrolled in the program or the assessed values of these parcels. The processes used to determine value are within the scope of this review and may be addressed in this report. However, the level of assessment for properties is not within the scope of this review. The Department's Ratio Study Program monitors and measures assessment levels.

Continued on next page

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
 - Advisory committee (open space farm and agricultural land) processes, meeting notices, and meeting minutes
-

Executive Summary

About this Review

In September 2009, 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. The Department issued a report in 2010: *Review of the Current Use Program in Klickitat County*.

In December 2011, the Department conducted a follow-up review to determine if the requirements identified in our 2010 report had been resolved. We also reviewed additional items that surfaced in our discussions with staff.

Categories of Results

The Department has completed its follow-up 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's 2010 report identified four requirements and two recommendations directed toward improving the administration of the County's Current Use Program.

The Department and Assessor's staff identified one additional requirement and two additional recommendations during our 2011 follow-up visit.

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.

Continued on next page

Executive Summary, Continued

Summary of Requirements and Recommendations

Requirements

1. **The Assessor is required to assess all non-integral homesites at true and fair market value. Only qualified integral homesites on parcels 20 acres or more in the farm and agricultural land classification are authorized by statute for classification in the Current Use Program. 8**
2. **The Assessor is required to use the prescribed methodology for valuing qualified integral homesites on parcels 20 acres or more in the farm and agricultural land classification of the Current Use Program. 10**
3. **The county legislative authority is required to appoint advisory committee members and consider providing public notice of advisory committee meetings..... 11**
4. **The county legislative authority cannot place minimum acreage limits on timber land classification parcels that are more restrictive or provide greater latitude than the acreage limits provided by Washington statute. 12**
5. **The Assessor is required to remove parcels classified as designated forest land (DFL) that do not meet minimum acreage requirements of the classification..... 13**

Recommendations

1. **The Department recommends the Assessor enhance their existing audit program to ensure only parcels meeting the statutory requirements are eligible to continue in the Current Use Program..... 16**
2. **The Department recommends personnel involved in administration of the Current Use Program (county legislative authority staff and Assessor’s staff) maintain an adequate level of knowledge about the Current Use Program..... 17**
3. **The Department recommends the Assessor continue to collect the necessary data to appraise farm and agricultural land accurately..... 18**
4. **The Department recommends the Assessor continue to use the prescribed methodology for calculating the current use value on classified farm and agricultural land..... 20**

Requirements

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

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Minimum Acreage for Designated Forest Land Parcels (New)	13

Valuing Non-Integral Homesites

Requirement	The Assessor is required to assess all non-integral homesites at true and fair market value. Only qualified integral homesites on parcels 20 acres or more in the farm and agricultural land classification are authorized by statute for classification in the Current Use Program. (RCW 84.33.140, 84.34.020, 84.34.065, WAC 458-30-267, 458-30-317)
What is required	<p>RCW 84.34.020(2)(f) provides for <i>qualified integral homesites</i> on land classified as farm and agricultural land which is 20 acres or more (or multiple parcels of land that are contiguous and total 20 acres or more).</p> <p>There is no statutory authority for a reduction in value for non-integral homesites located on land classified as open space, farm and agricultural conservation land, timber land, or designated forest land.</p> <p>When a residence is located on land classified as open space, farm and agricultural conservation land, timber land, designated forest land, or parcels less than 20 acres classified as farm and agricultural land, the homesite (meaning the land under the residence) must be removed from classification and assessed at its true and fair market value.</p>
What we found	<p>During our 2009 review, we found that homesites on classified open space parcels and farm and agricultural conservation land subcategory parcels were assessed at the same current use value as the surrounding classified land, not the true and fair market value.</p>
What has changed since the 2009 review?	<p>The Department reviewed the same parcels we identified in 2009. No changes were made to these parcels (classification or value) since our original review.</p> <p>The Assessor's staff has indicated they are developing a plan to audit all classified parcels to determine homesite valuation as either a market value homesite or a classified qualified integral homesite.</p>
Action needed to meet requirement	<p>The Assessor must review all parcels with homesites that are in the Current Use Program and designated forest land to ensure proper identification and classification of the portion of land that is attributable to a homesite. Only qualified integral homesites may receive the reduction in value provided by the Current Use Program.</p>

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Valuing Non-Integral Homesites, Continued

**Action needed
to meet
requirement
(continued)**

The Assessor must remove non-qualifying homesites from classification and assess them at true and fair market value. The Assessor may waive additional tax, interest, and penalty resulting from removal of a classified farm and agricultural land homesite (RCW 84.34.108(6)(g)) or if the land was classified under chapter 84.34 or 84.33 RCW in error, through no fault of the owner. "Fault" means a knowingly false or misleading statement, or other act or omission not in good faith that contributed to the approval of classification under this chapter or the failure of the assessor to remove the land from classification under this chapter. (RCW 84.34.108(6)(l), 84.33.140(13)(i))

**Why it's
important**

Proper classification and assessment of parcels in the Current Use Program ensures other property owners are not shouldering a disproportionate amount of property tax.

Valuing Qualified Integral Homesites

Requirement	The Assessor is required to use the prescribed methodology for valuing qualified integral homesites on parcels 20 acres or more in the farm and agricultural land classification of the Current Use Program. (RCW 84.34.065, WAC 458-30-317)
What is required	The value for land under a qualifying residence is calculated by adding the value of land improvements, such as sewer, water, and power to the <i>prior year's average value of classified farm and agricultural land in the county</i> . 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.
What we found	During our 2009 review, we found qualified integral homesites were valued using the same per acre value as the county's classified farm and agricultural land (based on net income/earning capacity and capitalization rate), then adding the land improvements. Though the use of net income/earning capacity is appropriate in determining the value of classified land, it is not the prescribed method of valuing integral homesites.
What has changed since the 2009 review?	The Department reviewed the same parcels we identified in 2009. No changes in homesite value were made to these parcels since our original review.
Action needed to meet requirement	<p>Klickitat County is on an annual revaluation cycle. The Assessor must update the calculation each year and apply it to all qualified integral homesites in the farm and agricultural land classification. The Assessor's staff has indicated they understand how to value qualified integral homesites and will review all qualified integral homesites and apply the appropriate per acre value.</p> <p>The Department recommends the Assessor review WAC 458-30-317 and Property Tax Advisory (PTA) 4.2.2009 for guidance on valuing integral homesites.</p>
Why it's important	Accurate valuation of qualified integral homesites ensures uniformity in taxation of the same class of property as required by the state Constitution.

Advisory Committee Appointments

Requirement	The county legislative authority is required to appoint advisory committee members and consider providing public notice of advisory committee meetings. (RCW 84.34.145, WAC 458-30-345)
What is required	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.
What we found	During our 2009 review, staff stated the last advisory committee met sometime in the 1990s and that it had been difficult to find people to serve on the committee.
What has changed since the 2009 review?	<p>The Assessor assisted the county legislative authority by contacting individuals who she felt were qualified and interested in serving. The county legislative authority publicly advertised for persons from the farm community who were interested in serving on the committee. At the time of follow-up, the deadline for applications had not arrived.</p> <p>In the time since our follow-up visit, the county legislative authority has appointed the advisory committee and the committee has conducted their meeting(s).</p>
Action needed to meet requirement	<p>It is clear that all parties understand that the county legislative authority is responsible for the appointment of all members to the advisory committee. If at some time in the future the county legislative authority is unable to locate persons to serve on the advisory committee, they should document their efforts to appoint committee members.</p> <p>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.</p>
Why it's important	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.

Restrictive Ordinances

Requirement	The county legislative authority cannot place minimum acreage limits on timber land classification parcels that are more restrictive or provide greater latitude than the acreage limits provided by Washington statute. (RCW 84.34.020, WAC 458-30-210)
What is required	The timber land classification is available for any parcel that is 5 acres or more or multiple parcels of land that are contiguous and total 5 acres or more that are devoted primarily to the growth and harvest of timber for commercial purposes.
What we found	Klickitat County Code Chapter 3.16 provides that land cannot qualify for timber land classification if it is 5 acres or more and does not exceed 20 acres of contiguous ownership (as defined in RCW 84.34.020) <i>and</i> contains a residence. This acreage/residence restriction conflicts with Washington statute.
What has changed since the 2009 review?	The county legislative authority has not taken action to amend the code that conflicts with Washington statute.
Action needed to meet requirement	<p>An option available to the county legislative authority is a partial approval of a parcel into timber land. The Assessor could administratively segregate or identify qualifying land, while non-qualifying land would not go into current use classification (i.e. the portion of a potential timber land parcel that includes a residence). The remaining portion of land which otherwise qualifies, can then be classified and monitored for compliance with the Current Use Program.</p> <p>The county legislative authority should review RCW 84.34.020, WAC 458-30-210, and Property Tax Advisory (PTA) 16.1.2011 for additional guidance relating to timber land and restrictive ordinances.</p>
Why it's important	The county legislative authority must ensure provisions of ordinances do not conflict with Washington statute. The ordinance cannot be more restrictive or provide greater latitude than Washington statute.

Minimum Acreage for Designated Forest Land Parcels (New)

Requirement **The Assessor is required to remove parcels classified as designated forest land (DFL) that do not meet minimum acreage requirements of the classification. (RCW 84.33.035, 84.33.140)**

This requirement was not included in our 2009 Current Use Program review. The Assessor's staff brought this issue forward while seeking advice on how to handle parcels not meeting the minimum acreage requirements of the classification. This requirement represents the Department's advice.

What is required

DFL means any parcel of land that is 20 acres or more or multiple parcels of land that are contiguous and total 20 acres or more that are devoted to growing and harvesting of timber (RCW 84.33.035). DFL includes:

- Land only (and does not include residential homesites).
- Land used for incidental uses that are compatible with the growing and harvesting of the timber, provided that no more than 10 percent of the land may be used for such incidental use.
- Land on which appurtenances necessary for the production, preparation, and sale of timber products exist in conjunction with the timber producing land.

The Assessor is required to remove parcels that do not meet the minimum acreage requirements provided in law. The Assessor is required to deny applications for DFL that do not meet the minimum acreage requirements provided in law.

What we found

The Assessor's staff stated they had started working on a preliminary plan for auditing DFL parcels. Staff indicated that after sampling parcels, they believed there are DFL parcels that do not meet the minimum acreage requirement.

The Department reviewed several DFL parcels and found inconsistencies in minimum acreage, as well as the amount of timber present on classified DFL parcels. Some parcels were classified as 100 percent DFL, but aerial photography from 2006 and 2009 showed considerably less than 100 percent of the acreage with timber present. Staff stated they found many of these parcels had not been audited since entering into the program.

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Minimum Acreage for Designated Forest Land Parcels (New), Continued

**Action needed
to meet
requirement**

When the Assessor determines a parcel does not meet the requirements for DFL, they must complete a Notice of Intent to Remove (form 62 0048). The landowner has 30 days to provide the Assessor information that reflects the parcel's compliance with the program.

After 30 days, if the Assessor concludes that the land still does not qualify for designation, the Assessor must:

- Determine if there is an exception to compensating tax or if the removal qualifies as a no-fault removal (WAC 458-30-700)
- Send the Notice of Removal (form 62 0047) which provides:
 - the reason for removal
 - the amount of compensating tax due (if any)
 - information about applying for reclassification
 - information about appealing the Assessor's decision

**Why it's
important**

Monitoring all parcels in the DFL classification on a periodic basis adds integrity to the assessment process and ensures other property owners are not shouldering a disproportionate amount of property tax.

Recommendations

Introduction 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.

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Enhance Existing Audit Program

Recommendation **The Department recommends the Assessor enhance their existing audit program to ensure only parcels meeting the statutory requirements are eligible to continue in the Current Use Program. (RCW 84.34.121)**

What we found During our 2009 review, we found the Assessor’s staff conducted audits of farm and agricultural land classification parcels on a four-year cycle by mailing questionnaires to one area of the county, one year ahead of the inspection cycle. Staff compiled questionnaire responses and reviewed the data gathered to ensure parcels meet the eligibility requirements for continued classification. The Department highlighted homesites (both qualified integral homesites and non-integral homesites) as an area that could benefit from an enhanced review.

What has changed since the 2009 review? No changes in the audit program occurred prior to 2011. The Assessor is in the process of developing an audit program to include compliance audits. The Assessor expects the audits to improve procedures and program accountability.

Action recommended The Department recommends the Assessor’s staff complete compliance audits of all parcels in the Current Use Program and designated forest land to include:

- Homesite verification – homesites administratively segregated or identified, removed from classification, and market value calculated if necessary (exception: *qualified integral homesites* for farm and agricultural land classification).
- Open space and timber land – verify compliance with executed open space taxation agreements.
- Designated forest land – verify all parcels have 20 acres or more devoted primarily to growing and harvesting trees. Remove non-qualifying parcels or process applications for reclassification to other classifications.
- Farm and agricultural land – verify proof of commercial farming activity (parcels of 20 acres or more) *or* income verification (under 20 acre parcels); verify ownership of classified contiguous parcels.

Why it’s important 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.

Training

Recommendation **The Department recommends personnel involved in administration of the Current Use Program (county legislative authority staff and Assessor's staff) continue to maintain an adequate level of knowledge about the Current Use Program.**

What we found The Assessor's staff has regularly attended current use training offered by the Department.

Prior to 2009, it was not typical for the county legislative authority staff to attend the Department's formal Current Use Program training. The county legislative authority staff stated they had attended current use training in the past. The Department's training records (2004 to present) do not show attendance by county legislative authority staff. We acknowledge that attendance may have occurred prior to 2004.

What has changed since the 2009 review? The Assessor's staff has attended current use training offered by the Department (most recently in 2011). The county legislative authority staff has not attended formal Department training since our review, but may have alternate ways to maintain an adequate level of knowledge about the Current Use Program.

Action recommended The Department continues to recommend all staff involved in the application and approval process (county legislative authority staff and Assessor's staff) maintain an adequate level of knowledge about the Current Use Program regulations through formal training or other learning opportunities.

The Department offers current use training courses each year to assist staff involved in current use administration. The schedule of course offerings is available from the Department's Education Specialist.

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.

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

Collecting Data Necessary for Valuation (New)

Recommendation **The Department recommends the Assessor continue to collect the necessary data to appraise farm and agricultural land accurately. (RCW 84.34.065)**

This recommendation was not included in our 2009 Current Use Program review. Department staff and the Assessor's staff have discussed the data necessary to appraise farm and agricultural land. This recommendation represents the Department's advice.

What we found According to the Assessor, they have not found reliable lease information. Historically, property owners have not recorded leases of farm and agricultural land. If an insufficient number of leases are available, the Assessor must calculate net cash rental by the actual or estimated earning or productive capacity of land.

The Assessor is beginning to review options for collecting productive capacity, expense data, and lease information from program participants. The Assessor is also considering information available from other farm data sources.

Action recommended The per acre current use value of farm and agricultural land is computed by dividing net cash rental by the capitalization rate. The Department provides the capitalization rate each year, but the Assessor must calculate net cash rental. Net cash rental is defined as the average rental paid on an annual basis, in cash, for the land being appraised and other farm and agricultural land of similar quality and similarly situated that is available for lease for a period of at least three years to any reliable person without unreasonable restrictions on its use for production of agricultural crops.

If net cash rental data is not available, the earning or productive capacity of farm and agricultural lands is determined by the cash value of typical or usual crops grown on land of similar quality and similarly situated averaged over not less than five years. The value of government subsidies must be included when calculating net cash rental if the subsidies are based on the earning or productive capacity of the land. (WAC 458-30-260)

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Collecting Data Necessary for Valuation (New), Continued

**Action
recommended**
(continued)

The Assessor should continue to collect and analyze the data necessary to determine the value of farm and agricultural land. The following sources (in addition to other reliable sources) can be used in obtaining lease and productive capacity information for agricultural land:

- Surveys of local farmers and ranchers
- Farm advisory board
- County Auditor's Office(s)
- American Society of Farm Managers and Rural Appraisers
<www.asfmra.org>
- Washington State University <www.farm-mgmt.wsu.edu>
- Washington State University Extension <<http://ext.wsu.edu>>
- National Agricultural Statistics Service <www.nass.usda.gov>
- Washington State Department of Natural Resources
<www.dnr.wa.gov>

**Why it's
important**

Periodically gathering data on typical leases and the productive capacity of farm and agricultural land ensures accurate valuation of farm and agricultural land parcels.

Calculating the Value of Farm and Agricultural Land (New)

Recommendation **The Department recommends the Assessor continue to use the prescribed methodology for calculating the current use value on classified farm and agricultural land. (WAC 458-30-260)**

This recommendation was not included in our 2009 Current Use Program review. Department staff and the Assessor's staff have discussed the steps necessary to appraise farm and agricultural land. This recommendation represents the Department's advice.

What we found According to the Assessor, the current use values on parcels in the farm and agricultural land classification had not changed for many years. The Assessor stated that the capitalization rate has not been applied to net cash rental to calculate the current use value of farm and agricultural land.

Action recommended Once there is adequate information (data) to calculate net cash rental, the Assessor must divide this amount by the capitalization rate to obtain the current use value of farm and agricultural land. The capitalization rate consists of an interest rate and a property tax component for each county. Each year, the Department updates the capitalization rate and provides it to all assessors to apply to their current use calculations. (WAC 458-30-262)

Klickitat County is on an annual revaluation cycle, so the Assessor must revalue all real property each year. If the current use values have not been updated because of a lack of expense and productive capacity data, the Assessor should begin collecting expense and productive capacity data. If net cash rental is not updated annually because of a lack of data or change in the data, the capitalization rate must still be applied to the net cash rental of the parcel being revalued. A change in the capitalization rate results in a change in the current use value of farm and agricultural land.

If applicable, the Assessor should keep clear documentation that explains why there is no change in value since the last revaluation of a parcel. At a minimum, the current use value should change based on a change in the capitalization rate.

Why it's important Accurate valuation of farm and agricultural land parcels ensures other taxpayers are not shouldering a disproportionate amount of property taxes.

Next Steps

Prioritizing Requirements and Recommendations

Once the Assessor and the county legislative authority receive a final copy of this review, the Department will (if requested) consult with them to prioritize the items remaining to 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
County Review Supervisor	Cindy Boswell	(509) 663-9747

Follow-up

The Department will continue to follow the County's progress in meeting the requirements listed in this report and changes implemented. This will give the Assessor and the county legislative authority opportunities to provide information to the Department about any issues they encounter during the implementation process.

For Additional Information Contact

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