

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

Washington Department of Revenue
Property Tax Division

**2011 Review
of the
Revaluation and
Physical Inspection Process
in Mason County**



October 2011

Table of Contents

Overview	3
Introduction	3
Purpose	3
Scope of Review	3
Background	4
Information Reviewed	5
Executive Summary	7
About this Review	7
Categories of Results	7
Summary of Results	7
Requirements	9
Valuation of Real Property in a Uniform and Consistent Manner	9
Recommendations	15
Develop sales validation and verification procedures	15
Develop ratio study procedures	16
Computer training	17
Develop appraisal review process	18
Develop performance measures	19
Strategic and operational planning	19
Next Steps	21
Prioritizing Requirements and Recommendations	21
Follow up	21
Questions	21
For Additional Information Contact	21

Overview

Introduction This report contains the results of the Department of Revenue's (Department) review of the revaluation and physical inspection process in Mason County (the County).

Purpose The primary purpose of this review by the Department is to provide the Mason County Assessor (Assessor) the information needed to successfully perform the duties associated with revaluation and physical inspections of real property in the County.

An effective review of the methods employed by the County promotes the timely completion of mandated duties.

We hope this review can provide the Assessor the information necessary to develop effective strategies for the Assessor to complete their mandated work efficiently. The goal is for the Assessor's office to timely carry out its work according to accepted standards and rules, promoting fair administration of property taxes.

We commend the Assessor and the Assessor's staff for their willingness to look at opportunities to improve the revaluation and physical inspection process.

Scope of Review The review is limited in scope. The Department reviewed:

- The Assessor's revaluation and physical inspection process in accordance with generally accepted appraisal practices, as well as Department approved processes.
- Why appraisers are using differing valuation methodologies.
- The Assessor's processes and procedures as they relate to revaluation and physical inspections of real property.

The Department did not examine:

- Specific parcels or the assessed values of these parcels.
- Segregations.
- Exemption programs.
- The internal fiscal controls or the internal management of the Assessor's office.

Continued on next page

Overview, Continued

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 ownership and legal description records for each parcel of property.
- Maintaining maps of all parcels and taxing districts.
- Calculating levy rates for the various taxing districts.
- Administering state-legislated tax exemptions and deferral programs.
- Providing property tax related information to the public and other governmental agencies.

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 law and statutes 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.

County's request for assistance

The Assessor requested the Department conduct a review of selected areas of the assessment process and provide the Assessor assistance in identifying opportunities for improvement. The request focused on the review of the appraisers' current valuation methodology and the effect of current practices on assessment uniformity.

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

- To ensure that assessment administration complies with state statutes and regulations.
- To provide recommendations for improving assessment operations.
- To identify efficiencies and cost-effective operational improvements.

Continued on next page

Overview, Continued

Information Reviewed We gathered information through staff interviews, documents provided by the Assessor's staff, as well as through independent verification. The areas we reviewed included (but were not limited to):

- Review of current revaluation process
- Evaluation of the physical inspection process
- Review of new construction methodology

To complete our review, we interviewed:

- The Assessor
- The Chief Deputy
- Appraisal staff

We wish to thank the Assessor and the Assessor's staff for their cooperation throughout our review.

This page intentionally left blank.

Executive Summary

About this Review In August 2011, the Department conducted on-site visits to the Assessor's office. We interviewed the Assessor and the Assessor's staff about the processes and procedures used in completing the County's revaluation and physical inspection process.

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 note recommendations as being in the best interest of all parties. We believe improvements in these areas will improve service to the public.

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

Summary of Results The Department identified one requirement and six recommendations directed toward improving the administration of the Assessor's revaluation and physical inspection process. 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 value and assess all property at one hundred percent of its true and fair market value as of the assessment date. The assessor is required to value and assess all real property in a uniform and consistent manner.....9**

Recommendations

- 1. The Department recommends the Assessor develop and maintain sales validation and verification procedures and standards.....15**
- 2. The Department recommends the Assessor develop and maintain ratio study procedures in the form of manuals and handbooks.16**
- 3. The Department recommends the Assessor coordinate computer training for staff members and document procedures for using the new computer system.17**
- 4. The Department recommends the Assessor develop and maintain internal review procedures and standards for the appraisal process.18**
- 5. The Department recommends the Assessor develop and monitor performance measures. 19**
- 6. The Department recommends the Assessor continue formal planning and develop a long-term strategic plan together with operational work plans for completing work in alignment with the Property Tax Calendar.19**

Requirements

Valuation of Real Property in a Uniform and Consistent Manner

The Assessor is required to value and assess all property at one hundred percent of its true and fair market value as of the assessment date. The assessor is required to value and assess all real property in a uniform and consistent manner. RCW 84.40.020, RCW 84.40.030, WAC 458-07-010, 458-07-030

What is required

Assessors are required to list and assess all real property in this state subject to taxation every year. The assessment date for real property is January 1 of the year in which it is assessed. The basis of valuation is one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law (RCW 84.40.030). The true and fair value of real property is based on the following criteria:

1. Any sales of property being appraised or similar properties with respect to sales made within the past five years. The extent to which the sale of a similar property actually represents the general effective market demand for property of such type, in the geographical area in which property is located.
2. In addition to sales, consideration may be given to cost, cost less depreciation, reconstruction cost less depreciation, or capitalization of income.

The Washington Constitution requires that all taxes be uniform upon the same class of property. To comply with this constitutional mandate, real property must be valued in a manner consistent with the principle of uniformity, using proper appraisal methods (WAC 458-07-010).

What we found

The Assessor is working on the second year of a cyclical (four-year) revaluation plan. A new annual revaluation plan approved by the Department is scheduled to begin in the 2012 revaluation year.

We interviewed individual appraisers to get an indication of the uniformity of methods used in their valuation and physical inspection work. Each appraiser has worked independently and the appraisers are at different stages of completion in their work assignments for the 2011 revaluation year (ranging from 100 percent complete to 55 percent complete).

We found the Assessor had not previously provided written and standardized policies and procedures for appraisers to follow during the revaluation and physical inspection process.

Continued on next page

Requirements, Continued

What we found *Valuation Methodology*

(continued)

Valuation methodology based on proper appraisal methods enables the appraisers to produce accurate, equitable, and uniform assessments.

Uniformity in ad valorem appraisal is dependent on having standardized procedures and processes that adhere to accepted appraisal principles and using proper appraisal methods.

Mason County Appraisers (appraisers) each have their own unique and different approach to determining assessed values. Differing valuation methodology can greatly impact assessment uniformity. We found the following inconsistencies in the appraisal methods used by the appraisers:

- Some appraisal staff change subjective parcel characteristics (such as quality of construction or condition), as a method to adjust cost for better alignment with market data and sales.
- Evaluating the level of depreciation for individual properties by appraisal staff is not standardized or consistent between appraisers.
- Some appraisers practice sales trending or adjusting sales for the influence of time between the sale date and the assessment date, while other appraisers do not trend or adjust sales.
- Some appraisers use five years of sales data to determine value, while other appraisers use the most recent two years of sales data to determine value.
- Some appraisers use the sales comparison approach with adjustments based on the cost data, while other appraisers rely on adjustments derived from sales.
- One appraiser applies value based on their appraiser judgment without regard to the standard cost manual used in the office or the impact on assessment uniformity within the same property types.

Physical inspections

Appraisers rely on individual techniques for inspecting and listing new construction and physical inspection process. Methods for determining quantity and quality of data inventory vary from appraiser to appraiser. Standards have not been developed or maintained that would guide appraisers in documenting the physical inspections of property and listing of new construction.

Continued on next page

Requirements, Continued

What we found *Depreciation schedules*

(continued)

Because different property types depreciate at different rates, depreciation schedules are developed and tailored to account for differences in market value for different property types. An assessor can develop depreciation rates from market data, or they can acquire depreciation rates from published construction cost manuals, and then calibrate those base rates to reflect local market factors accurately.

Standard criteria that is used by all appraisers in the application of depreciation schedules is a component in establishing uniformity in the assessment process and determining fair and equitable market values. We found:

- The Assessor does not use local cost factors to calibrate their depreciation schedule to the local market.
- The current depreciation schedule was in existence prior to the current Assessor taking office. Depreciation schedule documentation is not available; therefore, we are unable to determine how or when the current depreciation schedule was formulated.
- The appraisers are not consistent in how they determine and apply depreciation rates in the computations to estimate assessed value.
- The Assessor lacks standard procedures or guidelines that would ensure appraisers uniformly determine and apply accrued depreciation.

Trending

The Assessor is allowed to use any arms length sales of the property being appraised or similar properties with respect to sales made within the past five years, (including the assessment year). We found:

- The Assessor lacks procedures to assist appraisers with the trending process.
- Appraisers decide if the impact of time on sales is applicable based on sales data available for their assigned valuation area.
- It is unclear if there are controls in place to ensure consistency in the analysis by appraisers.
- A few appraisers do not have the required skills to trend appropriately.
- Appraisers all have different approaches to trending.

Continued on next page

Requirements, Continued

What we found *Overall appraiser guidance*

(continued)

There is an absence of documented procedures to guide appraisers in their work. Many inconsistencies in the appraisal process in Mason County are due to the lack of standardized practices and structured procedures.

The Assessor stated they are working to document procedures applicable to the appraisal and assessment process. The Assessor hired a Chief Appraiser to spearhead the documentation work and direct the appraisal process. The new Chief Appraiser has many years of appraisal experience in Mason County. The Assessor (with the Chief Appraiser's assistance), plans to:

- Review proper appraisal methods with appraisal staff.
 - Provide specific recommendations for appraisers to achieve better accuracy and uniformity in the assessment process.
 - Review valuation schedules and analysis reports from appraisal staff to ensure consistency and improve uniformity in the appraisal process.
-

Action needed to meet requirement

To gain consistency between appraisers and promote uniformity and equitability in the assessment process, change in the areas of physical inspections, depreciation schedules, and trending is necessary.

Physical Inspections

The Assessor should:

- Develop and maintain procedures manuals for physical inspection and new construction processes, which includes the standards and methods for listing variations in the quality and quantity of parcel characteristics that are necessary for mass appraisal work.
- Review the data adequacy and quantity necessary to accommodate new mass appraisal techniques.
- Develop tracking procedures for new construction and characteristic changes (tracking errors in characteristics) to provide information for making changes in the data collection process to prevent future errors.

Depreciation Schedules

The Assessor should:

- Develop and maintain procedure manuals with depreciation guidelines for the appraisers to use in determining levels of depreciation in a consistent

Continued on next page

Requirements, Continued

Action needed to meet the requirement (continued)	<p><i>Depreciation schedules (continued)</i></p> <p>and uniform manner. The manual should include:</p> <ul style="list-style-type: none">• Criteria appraisers should consider when determining depreciation rates for various improvement classifications• The source of the data for the depreciation schedule• The process for calibrating the schedule based on local factors
---	---

Trending

The Assessor should:

- Develop and maintain an appraisal procedures manual, which includes appropriate trending procedures for time adjustment of sales.
- Provide staff necessary training to ensure that staff understand and follow approved procedures and standards.
- Use their *round table meetings* to discuss time adjustment methods and provide appraisers with consistent trending techniques.
- Review trending information found in appraisal training manuals (Resources include International Association of Assessing Officers (IAAO) and Appraisal Institute material and books).

Overall appraiser guidance

The Department's Property Tax Resource Center (PTRC) provides tools used to promote consistency in physical inspections, depreciation, and sales trending. The following tools are available online:

- *Property Inspection Field Sheet* - to collect data during a physical inspection
- *Common Fields and Property Characteristics* - which provides a list of frequently used administrative fields and property characteristics
- *Numerical Quality Checklist* - to assist counties in achieving uniformity in determining a quality rating.
- *Preparation for Conversion to Annual Revaluation* - a summary of steps to ease the transition from cyclical revaluation to annual revaluation.
- *Effective Age with Addition* - provides examples of calculating the effective age of a home with an addition.
- *Property Sales Verification Template* – used to assist in collecting data during a sales verification inspection.

Visit the PTRC at www.propertytax.dor.wa.gov; choose *Annual Revaluation*, then *Tools and Practical Resources*.

Continued on next page

Requirements, Continued

Why it's important	<p>Ad valorem property appraisals conducted in a uniform and consistent manner, based on proper appraisal methods, ensures fair and equitable assessed values for property owners in Mason County.</p> <p>Use of proper appraisal methods assures the Assessor complies with real property assessment laws.</p> <p>Proper application of trending and valuation procedures ensures assessed values reflect true and fair value (or market value) as of the assessment date.</p> <p>Documenting procedures ensures guidance on the approved processes and standards is available to staff.</p> <p>Consistency in standards and procedures enhances stakeholder confidence in the assessment process.</p>
---------------------------	---

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.

Develop sales validation and verification procedures

The Department recommends the Assessor develop and maintain sales validation and verification procedures and standards.

Sales verification and validation procedures required for both the sales comparison approach and ratio studies are inconsistently applied by appraisers. Some appraisers inspect and screen all sales in their assigned areas, while others inspect and screen only a percentage of the improved property sales. A few appraisers mail sales questionnaires to buyers or sellers, while others just discovered that the office has a sales questionnaire they could mail.

The Department recommends the Assessor:

- Prepare and maintain sales verification and validation procedures in the form of manuals or handbooks.
- Ensure sales verification and validation processes provide a method to consider sales data outside the revaluation area (including counties that border Mason County).
- Provide guidance and training to appraisers on conducting consistent sales verification and validation using approved procedures.
- Review the information related to sales verification and validation that is available on the PTRC at www.propertytax.dor.wa.gov.
 - For the *Property Sales Verification Template*: choose, *Annual Revaluation*, then *Tools and Practical Resources*.
 - For *Recommendations for Developing a Sales Verification Process and County Sales Validation Process* (a Best Practice Report), choose *Annual Revaluation*, then *Informational Resources*.
- Review the IAAO Standard on Verification and Adjustment of Sales online at www.iaao.org; choose *Library & Resources*, then *Technical Standards* (document located under *Downloads* on right side).

Sales verification and validation provides a method for appraisers to identify sales that may require adjustments or sales that are not arms length transactions. Sales data is necessary to identify value benchmarks and for sales-ratio studies. The reliability of any valuation benchmark depends on the quality of the sales data. Sales verification and validation is the best method to ensure that sales were arms length transactions and valid indicators of market value. Adequate numbers of verified sales provides the Assessor with a sales database for appraisers to access in valuation work and appeal preparation.

Continued on next page

Recommendations, Continued

Develop ratio study procedures

The Department recommends the Assessor develop and maintain ratio study procedures in the form of manuals and handbooks. (WAC 458-07-015(2))

In gathering appropriate statistical data and determining real property market trends, the Assessor must consider current sales data. To the extent feasible and in accordance with generally accepted appraisal practice, the Assessor must compile the statistical data into categories of comparable properties.

Preparing sales-ratio studies can:

- Provide appraisers the data necessary to analyze and reach an informed, reasoned interpretation of market trends for use in adjusting sales and determining market values.
- Serve as appraisal performance indicators for evaluating the level of assessment and the uniformity in assessment. Ratio studies measure the effectiveness of appraisal methods and the reliability of the mass appraisal model.

The Assessor lacks documented procedures for conducting sales-ratio studies that appraisers can use to analyze and develop local market adjustments. Appraisers are inconsistent in their application of sales-ratio studies for analyzing sales data. The appraisers' methods vary when conducting sales-ratio studies used to determine market adjustments:

- Some appraisers conduct both pre and post sales-ratio studies, while other appraisers conduct only post sales-ratio studies.
- Some appraisers do not perform sales-ratio studies as a means of analyzing current sales data.

The Department recommends the Assessor:

- Prepare and maintain sales-ratio study procedures in the form of manuals or handbooks.
- Provide in-house training to ensure that appraisers use appropriate procedures and analysis processes.
- Provide training for appraisers on conducting sales-ratio studies and interpreting the statistical inferences from the sales-ratio studies.
- Review and provide each appraiser with a copy of the IAAO Standard on Ratio Studies online at www.iaao.org; choose *Library & Resources*, then *Technical Standards* (document located under *Downloads* on right side).

Continued on next page

Recommendations, Continued

Develop ratio study procedures (continued)

The Department recommends the Assessor (continued):

- Provide appraisers with a copy of Statistical Tool For Analytics and Ratio Studies (STARS), an Excel based analysis tool that is available from the Department for use by county appraisers. An overview of STARS is available online at www.propertytax.dor.wa.gov; choose *Annual Revaluation*, then *Training*.

Sales-ratio studies provide stakeholders documented measures of appraisal performance and promote confidence in local assessed values.

Computer training

The Department recommends the Assessor coordinate computer training for staff members and document procedures for using the new computer system.

Appraisers have varying degrees of computer knowledge and skills navigating the newly acquired system. Appraisers commented there is a lack of procedure manuals and training material available. Some appraisers are still learning how the new system operates and need additional training.

Access to training is critical in learning how to efficiently use T2, the new system from TerraScan (the vendor), for routine administrative functions and to fully utilize the computer assisted mass appraisal (CAMA) module of the new software. This may include training provided by the vendor through on-site training, webinars, and technical assistance by phone.

The Department recommends the Assessor develop and maintain computer system operational procedures in the form of manuals and handbooks.

Material and training may include:

- Vendor provided online instructions for various procedures conducted by all assessors using TerraScan.
- If a process is not documented, it will be useful for the Assessor and the staff to write step-by-step instructions as a process is completed.
- The Assessor should provide each appraiser a quick reference handbook that includes trouble shooting methods and suggestions on navigating T2.
- Periodic computer training sessions to ensure that staff understands approved procedures and applies them correctly.

Continued on next page

Recommendations, Continued

Computer training
(continued)

The availability of documented instruction and reference manuals for current and future staff will help eliminate frustrations, ensure consistency in processes, and create efficiencies. Effective use of TerraScan is essential in performing critical work and adequate training is required to enhance the effectiveness of staff members using the system.

The Assessor should begin to benefit from the efficiencies associated with the new technology once appraisers begin realizing real time efficiencies in their daily work processes

Develop appraisal review process

The Department recommends the Assessor develop and maintain internal review procedures and standards for the appraisal process.

A key component of a uniform appraisal process is an internal review process. Currently there is no internal appraisal review process in the Assessor's office. Additionally, the Assessor lacks an appraisal monitoring process to ensure appraisals are compliant with generally accepted appraisal practices and internal standards.

The Department recommends the Assessor prepare and maintain an internal review procedures manual. The manual should include:

- Detailed procedures for assessment review that guide staff in using proper appraisal methods with an emphasis on uniformity between locations and property types.
- Methods to detect inconsistencies in the appraisal process early enough to implement corrective action in a timely manner.
- Monitoring work completed to identify areas where additional staff training is needed.
- Review controls for the appraisal process to ensure that staff understand and follow the approved procedures and standards.

An internal review of appraisal practices establishes a process to assure the Assessor and stakeholders of the use of standardized methods and ensures greater uniformity in the assessment process.

Continued on next page

Recommendations, Continued

Develop performance measures

The Department recommends the Assessor develop and monitor performance measures.

The Assessor lacks performance objectives and performance evaluation measures for appraisal staff. The Assessor has no method of communicating work performance goals to individual appraisers. The Assessor does not have a process in place to measure individual work progress and performance in terms of quantity, quality, and timeliness.

The Department recommends the Assessor:

- Develop and maintain a performance objective manual that includes detailed and realistic goals for staff. The manual should include performance expectations in terms of quantity, quality, and timing. Performance standards should be express in terms of productivity per employee, timeliness, quality, accuracy, and reliability of work performed.
- Review the current year revaluation data to determine how well the current year objectives were accomplished. The Assessor can then use the data to refine performance objectives for the next year.
- Develop performance measures and objectives to provide the Assessor a method to evaluate individual and overall revaluation performance. The data tracked can be used by the Assessor to pinpoint problem areas, improve the office, and establish priorities to address operational weaknesses (including challenges in workflow, schedules, and assignments).

Performance monitoring is useful in measuring the progress in completing work required in the assessment process and measuring progress in meeting overall performance objectives

Strategic and operational planning

The Department recommends the Assessor continue formal planning and develop a long-term strategic plan together with operational work plans for completing work in alignment with the Property Tax Calendar.

The purpose of this element of our review was to identify and review the Assessor's strategic and operational plans. Plan documentation was unavailable for our review. The Assessor does not have a documented strategic or operational plan to coordinate assessment activities or to communicate work activities to appraisal staff. Additionally, the Assessor does not have documented work plans for accomplishing appraisal functions according to the assessment calendar.

Continued on next page

Recommendations, Continued

Strategic and operational planning (continued)

We recommend the Assessor create and document long-range strategic plans with stated objectives, goals, and strategies that foster accomplishment of appraisal functions in accordance with the assessment calendar. The Assessor's work plan should include detailed information about appraiser workloads, event and report deadlines, and individual performance measures.

We recommend the Assessor access the Property Tax Calendar to use as a guide for administering the assessment process. We also recommend the Assessor consider utilizing the *County Conversion Work Plan* tool. A description of the tool is online at www.propertytax.dor.wa.gov; choose *Annual Revaluation*, then *Tools and Practical Resources*. The work plan provides information applicable to the conversion process to an annual revaluation program. To request a working file that you can customize for your office, you may contact Michael Dahle at (360) 534-1362.

Plans provide a roadmap for improving performance and a method for evaluating performance. Strategic plans provide the Assessor an opportunity to communicate expectations, objectives, and long-range goals. Additionally, it affords the Assessor a method to promote uniformity throughout the appraisal process. Documented plans provide guidance that appraisers can draw on to accomplish all of the assessment requirements in a fair, timely, and equitable manner.

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 will follow up over time 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 staff member listed below:

Revaluation Specialist	RC Cavazos	(425) 984-6448
County Review Supervisor	Cindy Boswell	(509) 663-9747

For Additional Information Contact

Washington State Department of Revenue
Property Tax Division
P.O. Box 47471
Olympia, WA 98504-7471
(360) 534-1400
www.dor.wa.gov
