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Washington Department of Revenue Property Tax Division

2009 Review of the Current Use Program in Klickitat County



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Table of Contents

Overview.....	3
Executive Summary	4
Requirements	7
Recommendations.....	11

Overview

Purpose

The primary purpose of this review by the Department of Revenue (Department) is to assist the Klickitat County Assessor (Assessor) and county legislative authority in successfully performing the duties associated with the Current Use Program.

There are parts of the Current Use Program that are the responsibility of the Assessor and parts that are the responsibility of the county legislative authority. The Assessor and the county legislative authority may work closely together in administering the program or may administer their duties independently. Some duties may have been delegated to other units of county government (land use, planning, etc). An effective review of the methods employed by Klickitat County in administering the Current Use Program will promote fair, timely, and uniform property tax assessments.

Once the Assessor and the county legislative authority receive a final copy of this review, the Department will conduct a follow-up review after six months to review the implemented changes. This will also provide an opportunity for the Assessor and the county legislative authority to provide information to the Department on various issues they encountered during the implementation process.

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

Executive Summary

About This Review

This report contains the results of the Department's review of the Current Use Program in Klickitat County.

In October 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, the Commissioner's staff, and/or any staff made available to talk about the processes and procedures used administering the county's Current Use Program.

We 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.

An administrative review of this type is prone to underscore problem areas even in a county that is doing well. Though we may have observed processes or procedures employed that could be considered "best practices," those items may not be reflected in this report.

Scope of the Review

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

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

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)
- Contiguous parcels (ownership and parcel size for contiguous parcels)
- How technology is utilized in the program administration
- Audit process and audit correspondence used to ensure continued eligibility

- Resolutions adopted by the county legislative authority pertaining to the Current Use Program
- Open Space Advisory Committee processes, meeting notices, and meeting minutes

Results of the Review

The Department has completed its review and grouped the results into two categories:

- The first section, *Requirements*, is of the greatest urgency for effective administration by the Assessor and the county legislative authority. Adherence to these requirements is mandatory.
- The second section, *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 identified four requirements and two recommendations directed toward improving the administration of the county's Current Use Program. The items identified may be specific to the Assessor's duties, the county legislative authority's duties or they may have shared components of responsibility. We have listed a summary of these items below:

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 and eligible to receive a reduction in assessed value.**
- 2. The Assessor is required to use the prescribed methodology for valuing homesites on parcels 20 or more acres in the farm and agricultural land classification of the Current Use Program.**
- 3. The county legislative authority is required to appoint advisory committee members and provide public notice of advisory committee meetings.**
- 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.**

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.**
- 2. The Department recommends personnel involved in administration of the Current Use Program (county legislative authority staff, planning department staff, and Assessor's staff) maintain an adequate level of knowledge about the Current Use Program.**

Requirements

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 84.34.020, 84.34.065, WAC 458-30-267, 458-30-317, 458-12-301)

While RCW 84.34.020(2)(e) provides for qualified integral homesites on land classified as farm and agricultural land which is 20 acres or more, there is no statutory authority for a reduction in value for homesites located on land classified as open space, farm and agricultural conservation land, timber land, or designated forest land.

The Assessor's staff provided documentation for timber land and designated forest land parcels that indicated the homesites located on these two types of classified land are assessed at true and fair market value. Documentation provided for open space parcels (and the farm and agricultural conservation land subcategory), indicated homesites located on these types of classified land are assessed at the same current use value as the land, not the true and fair market value.

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 assessed at its true and fair market value.

The Assessor should 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 on parcels 20 acres or more classified as farm and agricultural land may receive the reduction in value provided by the Current Use Program.

Non-qualifying homesites must be removed from classification and assessed at true and fair market value. The Assessor may waive additional tax, interest, and penalty resulting from removal if the land was classified under Chapter 84.34 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)(1))

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

The Assessor is required to use the prescribed methodology for valuing qualified integral homesites on parcels 20 or more acres in the farm and agricultural land classification of the Current Use Program. (RCW 84.34.065, WAC 458-30-317)

Qualifying *land* on which the principal residence of a farm operator or owner of farm and agricultural land or the housing for farm and agricultural employees is situated is valued by adding the prior year's average value of classified farm and agricultural land in the county to the value of any land improvements used to serve the residence or housing, such as sewer, water, and power. However, *buildings* used by the farm operator or owner as his or her principal residence and building(s) used to provide shelter to farm and agricultural employees are valued at their true and fair market value.

To qualify for a reduction in assessed value, the land on which the residence or housing stands must be 20 or more acres or consist of multiple parcels that are contiguous and total 20 or more acres. The residence or housing must be integral to the use of the classified land for commercial agricultural purposes. If the residence or housing for employees is *not* integral to the farming operation, the land on which the residence or housing stands is valued at its true and fair market value.

According to the data received from the Assessor's staff, qualified integral homesites are 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.

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 *prior year's average value of classified farm and agricultural land in the county*. The prior year's average value of classified farm and agricultural land is calculated by dividing the county's prior year total farm and agricultural current use land value by the county's prior year total acreage in the farm and agricultural land classification.

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 Department recommends the Assessor review WAC 458-30-317 and Property Tax Advisory (PTA) 4.2.2009 for guidance on valuing integral homesites.

The county legislative authority is required to appoint advisory committee members and provide public notice of advisory committee meetings. (RCW 84.34.145 and WAC 458-30-345)

As a method in assisting the Assessor's office with valuable information about the farming community, the county legislative authority is required to appoint an advisory committee (commonly referred to as a farm advisory board). This five-member committee represents the active farming community and advises the Assessor in implementing assessment guidelines.

The advisory committee does not give advice regarding the valuation of specific parcels; however, it may supply the Assessor with advice on typical crops, land quality, leases, and expenses. This information will assist the Assessor in determining appropriate values (RCW 84.34.065).

Staff stated the last advisory committee met sometime in the 1990's and that it has been difficult to find people to serve on the committee. The Assessor and staff can assist the county legislative authority by contacting individuals who may be interested in serving. The county legislative authority is responsible for the appointment of all members to the advisory committee.

The county legislative authority should attempt to appoint committee members each year and document their efforts if they are unsuccessful in appointing the five-member committee.

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)

The timber land classification is available for any parcel that is five or more acres or multiple parcels of land that are contiguous and total five or more acres which are devoted primarily to the growth and harvest of timber for commercial purposes. Timber land means:

- a) The land only and does not include a residential homesite
- b) Includes land used for incidental uses that are compatible with the growing and harvesting of timber but no more than ten percent of the land may be used for incidental uses
- c) Includes the land on which appurtenances necessary for the production, preparation, or sale of the timber products exist in conjunction with land producing these products

The county legislative authority staff and the Assessor's staff indicated there is a 20-acre minimum for timber land classification parcels containing a residence. Klickitat County Code Chapter 3.16 provides that land cannot qualify for timber land classification if it is five acres or more and does not exceed twenty acres of contiguous ownership (as defined in RCW 84.34.020) *and* contains a residence. This acreage/residence restriction conflicts with Washington statute.

An option available to the county legislative authority is a partial approval of a parcel into timber land. The Assessor could administratively segregate qualifying land, while non-qualifying land

would not go into current use classification (for example, 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.

When adopting an ordinance, the county legislative authority must ensure provisions of the ordinance do not conflict with Washington statute. The ordinance cannot be more restrictive or provide greater latitude than Washington statute.

The county legislative authority should review RCW 84.34.020 and WAC 458-30-210 for additional guidance on the qualifications of timber land.

Recommendations

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)

To ensure only parcels meeting the statutory requirements are eligible to continue in the Current Use Program, the Assessor should enhance the existing audit program. An audit program is not statutorily required, but the criterion for classification continues to apply after approval of applications. Therefore, the Assessor should request any relevant data or information that will assist him in determining whether the land is eligible for continued classification (WAC 458-30-270).

Some of the relevant data or information the Assessor can collect includes:

- Receipts from sales of agricultural products produced on the classified land;
- Federal income tax returns;
- Rental or lease agreements/receipts;
- Government payments and subsidies;
- Crop and livestock data;
- Crop production or yield rates; and
- Other income/expense information related to the land.

The Assessor's staff conducts audits of farm and agricultural land classification parcels on a four-year cycle by mailed questionnaire to one area of the county, one year ahead of the inspection cycle. The Assessor's staff keep a file on each current use parcel and compile questionnaire responses utilizing a database. Staff reviews the data gathered to ensure parcels continue to meet the eligibility requirements for continued classification.

Each year of the audit cycle, the Assessor's staff verifies all the parcels held in the same ownership so the audit can include criteria for contiguous parcels. The Assessor's staff also reviews contiguous parcels at the time of sale or at parcel segregation to ensure that ownership is the same for all parcels considered contiguous (land adjoining and touching other property *held by the same ownership*). RCW 84.34.020(6)

Areas that could benefit from an enhanced review are:

- Homesites – verifying homesites are not classified (and assessed) as open space, farm and agricultural conservation land, timber land or designated forest land
- Integral homesites – verifying only qualified integral homesites are allowed to be classified and assessed as farm and agricultural land;

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

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

The Current Use Program can be difficult to administer. The Department recommends all staff involved in the application and approval process (county legislative authority staff, planning department 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 Assessor's staff has regularly attended current use training offered by the Department (most recently in 2009) and they have a good understanding of the Current Use Program and the resources available to them.

To assist persons involved in current use administration, the Department offers current use training courses each year. A listing of dates and locations for future class offerings is available at the Department's Property Tax Resource Center online at <http://propertytax.dor.wa.gov/>.

The Washington State Association of County Assessors' Education Committee annually awards scholarships to county employees to assist with the cost of attending various assessment related training. For information about these scholarships, contact the Education Specialist at (360) 570-5865.

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