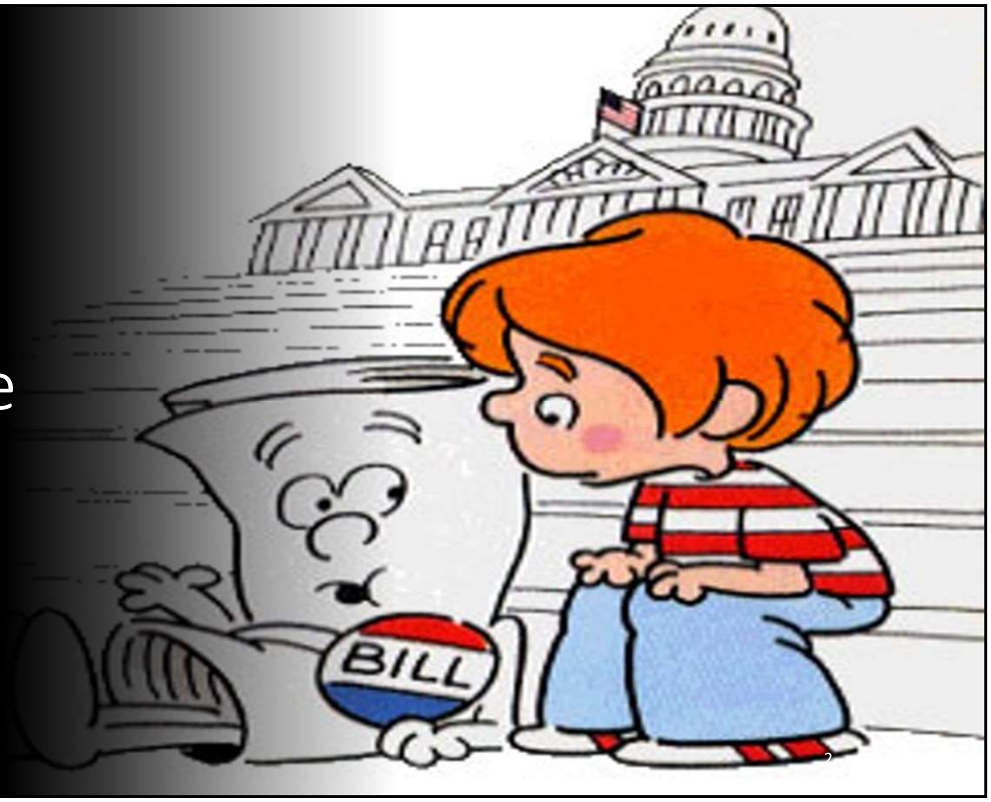
Jessica Westenhiser: 360.534.1380
jessicaw2@dor.wa.gov

2023 Legislative Update



https://propertytax.dor.wa.gov/Documents/Legislation/2022%20Bill%20Matrix.pdf

	What it does	Why do you care	What you need to do	When it goes into effect
HB 1265	Establishing a property tax exemption for adult family homes that serve people with intellectual or developmental disabilities and are owned by a nonprofit.	Just an FYI	-	90 days following adjournment of session. This act applies to taxes levied for collection beginning January 1, 2024.
HB 1303	DOR can convert informal to formal appeals at the BTA "nonprofit exemptions"	You shouldn't really doesn't impact deferrals.	-	90 days after session so approximately August.
HB 1355	Updating property tax exemptions for service-connected disabled veterans and senior citizens.	Income thresholds have changed	Rely on what the Assessor is removing them for and make sure the taxpayer is showing they meet the qualifications (sometimes each year has a different qualification)	90 days after session so approximately August.
HB 1527	Made corrections to the local tax increment financing program.	Just an FYI	-	Immediately
SHB 1572	Allows an appeal to be taken to another venue in regards to recovering property tax.	Doesn't impact directly	-	Immediately upon enactment
EHB 1663	Port of Chelan and Douglas are interested in creating a consolidated port.	FYI	Port district commissioners may, by 2/3 majority vote of the commissioners in each district, may functionally consolidate 2 or more adjacent districts for property tax purposes.	90 days after session so approximately August.
SHB 1756	Clean energy	FYI – excise tax	Exemption from the state portion of property taxes for personal property used to generate renewable energy.	For taxes levied in 2025 and after
E2SSB 5045	incentivizes rental of accessory dwelling units to low-income households	Expands the property tax exemption for improvements to a single-family dwelling	We are not sure how it will be administered yet. It most likely won't be by the assessor so standby for an update.	90 days following adjournment. This applies to taxes levied for collection in 2024 and thereafter.
SSB 5218	This exempts medically prescribed rehab products from retail sales and imposed use tax. Now includes a definition.	This will affect deductions to the adjusted gross income of an applicant of the senior exemption program.	Be aware because this can affect appeals and qualifications are tricky due to constant changes and retroactivity.	90 days following the adjournment of session. This applies to complex rehabilitation technology products sold on or after August 1, 2023.
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SSB 5565	This was a DOR bill that made technical corrections	FYI	-	90 days after session so approximately August.
SSB 5714	Property tax payments aren't considered delinquent if received within 3 days of April 30th when made with an automated check processing service or if there is not discernable postmark	Good to know if you pay a mortgage	-	90 days after session so approximately August.

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HB 1265

- Establishing a property tax exemption for adult family homes that serve people with intellectual or developmental disabilities and are owned by a nonprofit
- 90 days following adjournment of session
- Just an FYI
- This act applies to taxes levied for collection beginning January 1, 2024

HB1303

- DOR can convert informal to formal appeals at the BTA "nonprofit exemptions"
- You shouldn't really doesn't impact deferrals
- 90 days after session so approximately August

HB 1355

- Updating property tax exemptions for service-connected disabled veterans and senior citizens
- Income thresholds have changed
- Rely on what the Assessor is removing them for and make sure the taxpayer is showing they meet the qualifications (sometimes each year has a different qualification)
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HB 1527

- Made corrections to the local tax increment financing program
- Just an FYI
- Immediately

SHB 1572

- Allows an appeal to be taken to another venue in regards to recovering property tax
- Doesn’t impact you directly
- Immediately upon enactment

EHB 1663

- Port of Chelan and Douglas are interested in creating a consolidated port
- FYI
- Port district commissioners may, by 2/3 majority vote of the commissioners in each district, may functionally consolidate 2 or more adjacent districts for property tax purposes
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- Clean Energy
- FYI – Excise Tax
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Three Approaches to Value

- Cost Approach
- Income Approach
- Market Approach (Sales Comparison)

Appraisal standards require considering all three approaches to value:

1. The Cost Approach – the value of a property should not exceed what it would cost to replace the property,
2. The Market (Sales) Comparison Approach – should not exceed the cost to acquire a similar property in the open market, and
3. The Income Approach - should not exceed the present value of anticipated income the property is expected to produce.

How do you know which approach is the best to choose? Why?

Principle of Substitution: The value of a property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time.

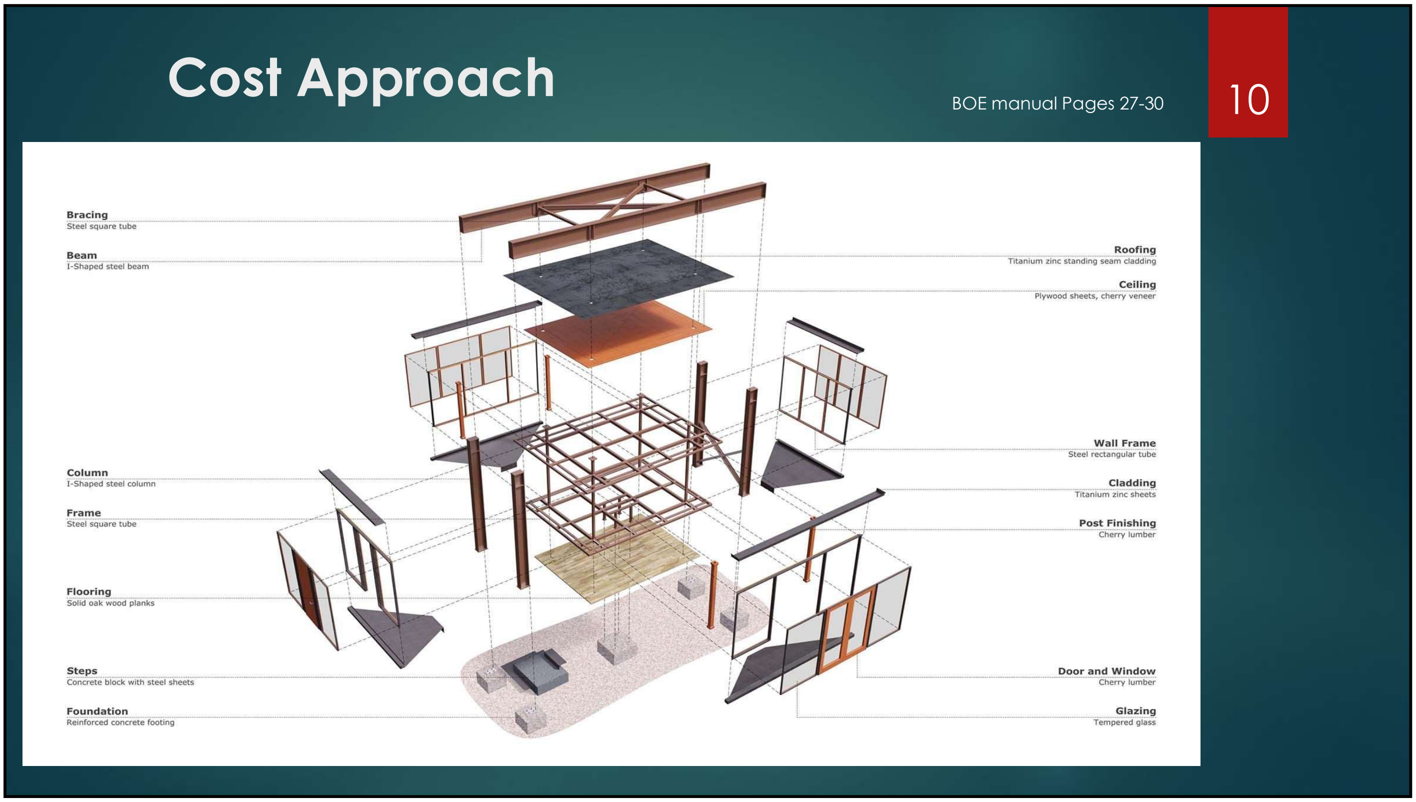
Example:

A potential property owner has two choices: a vacant site costing $50,000 upon which they can construct a one-story office building for $250,000 (total of $300,000) or a vacant building built in the last year available for $300,000. Under the principal of substitution, both have the same value and highest and best use.

Principle of Contribution: The value of a particular component is measured in terms of its contribution to the value of the whole property. Inversely, the amount that it's absence would detract from it.

Example:

A hose rack built into a fire station is a useful and valuable item as long as the building is used as a fire station. If the use as a fire station is abandoned, the hose rack probably does not add value to the property, unless it can be used for a similar or identical purpose.



The cost approach takes the components of a house and assigns a price per sq. foot based on style/materials/finish and adds value for amenities, quality, condition, etc.

- Based on Principle of Substitution
- Cost doesn’t always equal value - but is a valid determinant of value
- May be applied to most classes of property

Market adjusted cost valuation is built into the valuation models of most counties by building cost models (proprietary software) and adjusting the cost models to the local market.

The formula used to determine property value is:
Improvement Cost New – Depreciation + Land Value = Property Value

Data Needed:
- Subject characteristics
- Construction cost figures
- Depreciation factors
- Land value

Principle characteristics influencing cost are:
- Design Type
- Construction Type
- Quality / Class
- Square Footage / Floor Area
- Building Shape
- Age

Causes of depreciation:

Physical deterioration

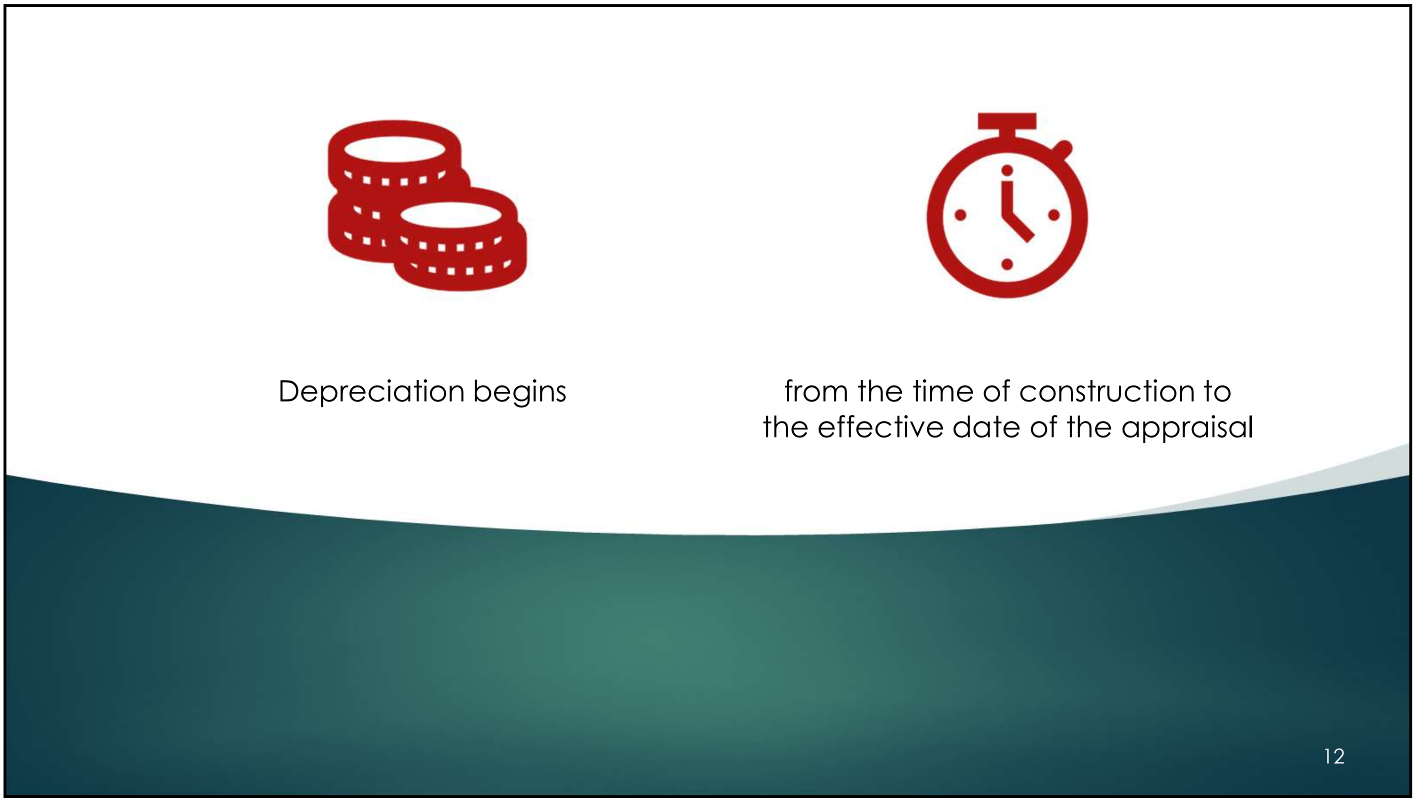
- Wear and tear
- Use and abuse
- Inadequate repairs, etc.

Functional Obsolescence

- Poor layout or design
- Under or over improvement
- Changes in tastes or nonconforming style

Economic Obsolescence (External Obsolescence)

- Heavy traffic and excessive noise
- Unpleasant odors
- Increased crime rates



In the three approaches to value, only the cost approach can measure each individual form of depreciation.

Sales comparison and income depreciation is a lump sum number that represents the total of all three forms (physical deterioration, functional obsolescence and economic external obsolescence)

Example:

If the cost of the lot of land that a property was built on was valued at $100,000 and the cost to build the property new was determined to be $180,000, but the property had also depreciated in value over time by $20,000, you would calculate the property value as follows:

Property Value = 100,000 + (180,000 - 20,000)

Therefore, according to the cost approach to valuation, the property would be worth $260,000

	47 Sheridan Road	25 Chiles Avenue	32 Duke Street	23 Chiles Avenue	1 Plymouth Circle
Status	U	U	C	C	C
List Price	$445,000	$585,000	$424,900	$457,500	$550,000
List$ SqFt	$263	$245	$265	$290	$276
Sold Price			$403,000	$450,000	$546,000
Sold$ SqFt			$251	$285	$274
Contract Date	06/27/20	06/08/20	06/11/20	08/10/19	02/17/20
Settled Date			07/21/20	10/15/19	03/17/20
DOM	2	8	126	42	3
Subdiv	Kenilworth	Kenilworth	Kenilworth	Kenilworth	Kenilworth
Year Built	1955	1941	1953	1951	1954
Appx Acres	0.28	0.25	0.28	0.16	0.28
Total SqFt	1690	2391	1604	1578	1990
Type	1 Story Basement	2 Story	1 Story Basement	1 Story	1 Story
Style	Ranch	Cape Cod	Ranch	Cottage, Ranch	Ranch
Exterior					
Bedrooms	3	3	3	2	3
Full Baths	2	2	2	2	2
Half Baths	0	0	0	0	0
Heat/Cool	Central Air	Central Air	Central Air	Gas Hot Air	Central Air
Heat/Cool	Gas Hot Air	Gas Hot Air	Gas Hot Air	Gas Water Heater	Gas Hot Air
Fireplace	Living Room	Gas Logs	Gas Logs	Bonus Room	Living Room
Parking	Garage - 1 Car	Attached Garage	Driveway	None	None
Parking		Driveway	Garage - 1 Car		

Compares the sales prices of comparable properties and adjusts them to make them similar to the property being appraised.

- Based on principles of Substitution & Contribution
- Value tends to be set by the cost of acquiring a substitute property
- Generally, reflects market behavior (data comes directly from market actions of buyers and sellers)
- Easily understood

The formula used to determine property value is:

Sales Price +/– Adjustments = Property Value

Data Needed:

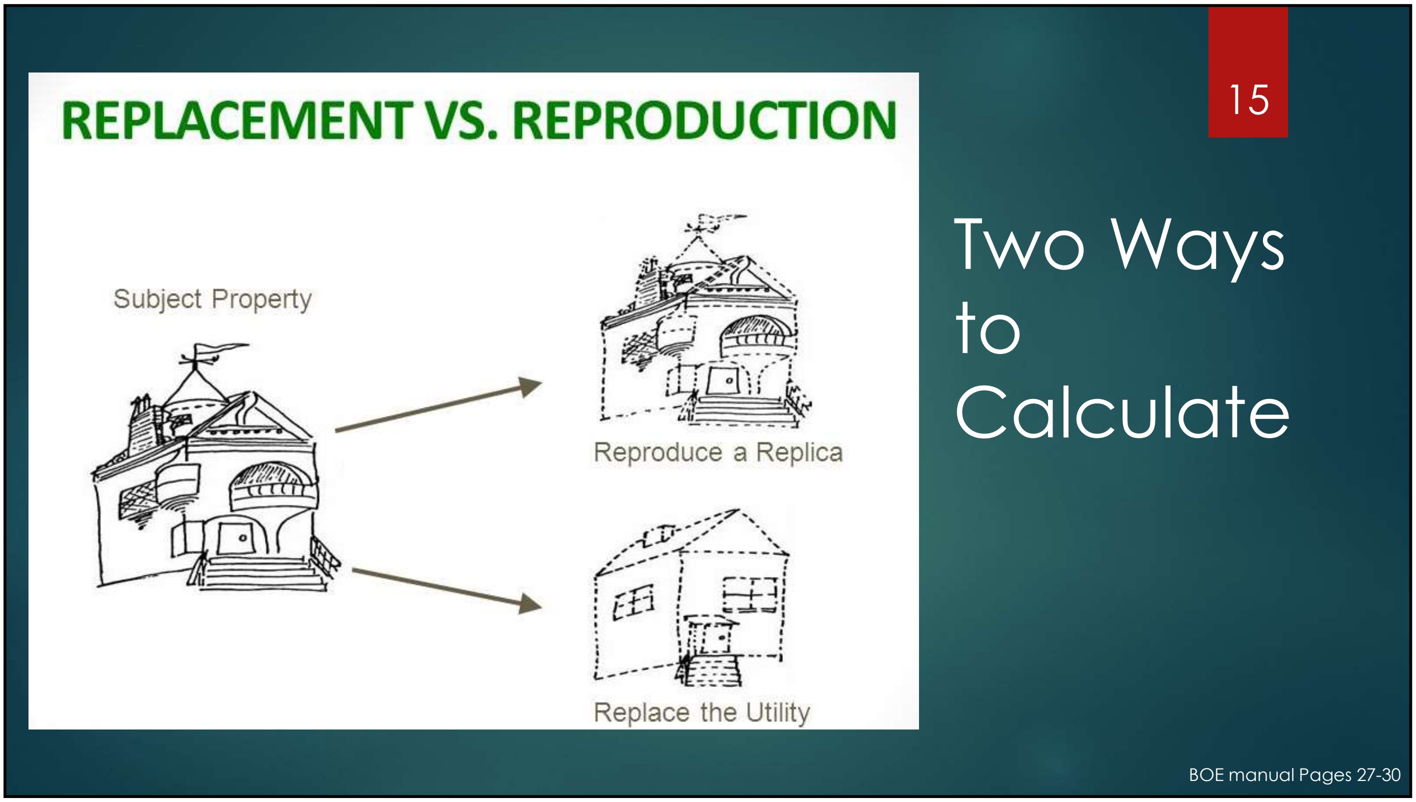
- Subject characteristics
- Design
- Construction Type
- Quality
- Square Footage
- Age
- Characteristics and sales data for similar properties

A comparable sale is a property similar to a subject:

- Similar in physical, economic, or operating characteristics
- Sales need to be recent and similar in use, utility & function
- Sales need to be “Arms-length Transactions”
- Comparability is greatest when both sales and subject are influenced by the same physical, economic, legal and social factors

Major types of adjustments: amount of adjustment is allocated by the contributory value not individual cost. Adjustments should be isolated and are **always made to comparable** properties, <u>never</u> to the subject

1. Time of sale
2. Location
3. Physical condition
4. Contributory value of components



Replacement Cost is the cost including material, labor and overhead, that would be incurred in constructing an improvement having the <u>same utility</u> to its owner as the improvement in question, without necessarily reproducing exactly, any particular characteristic of the property.

- Current prices, standards, & materials
- Typically used in property tax valuation/appraisal

Reproduction Cost is the cost including material, labor, and overhead, to construct an improvement having <u>exactly the same characteristics</u> as the improvement in question.

- Identical materials and identical construction
- Typically used with new construction or unique properties for insurance related valuation

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Income Approach

BOE manual Pages 32-35

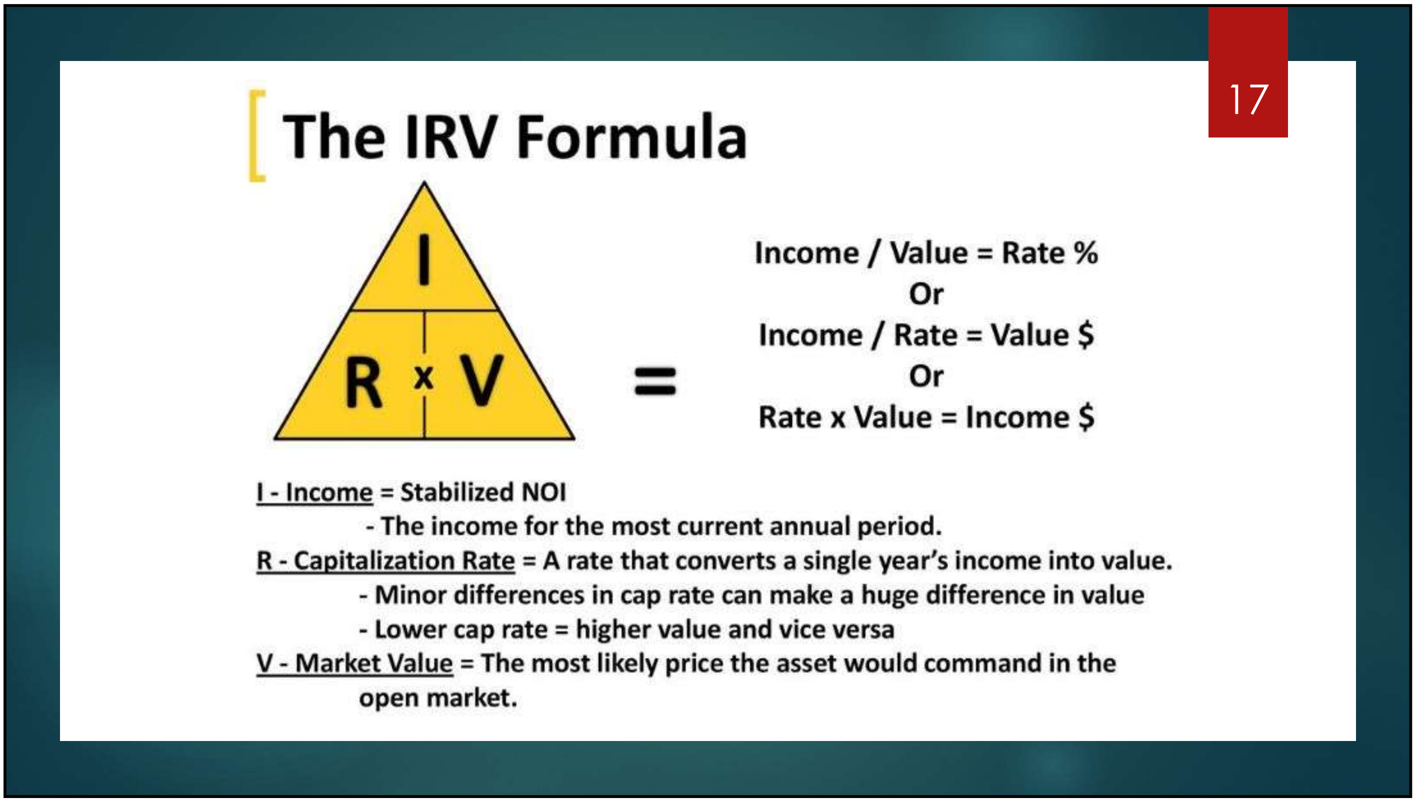
Based on the Principal of Anticipation

This approach is a means of converting future benefits to present value.

- Must consider the quantity, quality, & duration of the potential income stream.

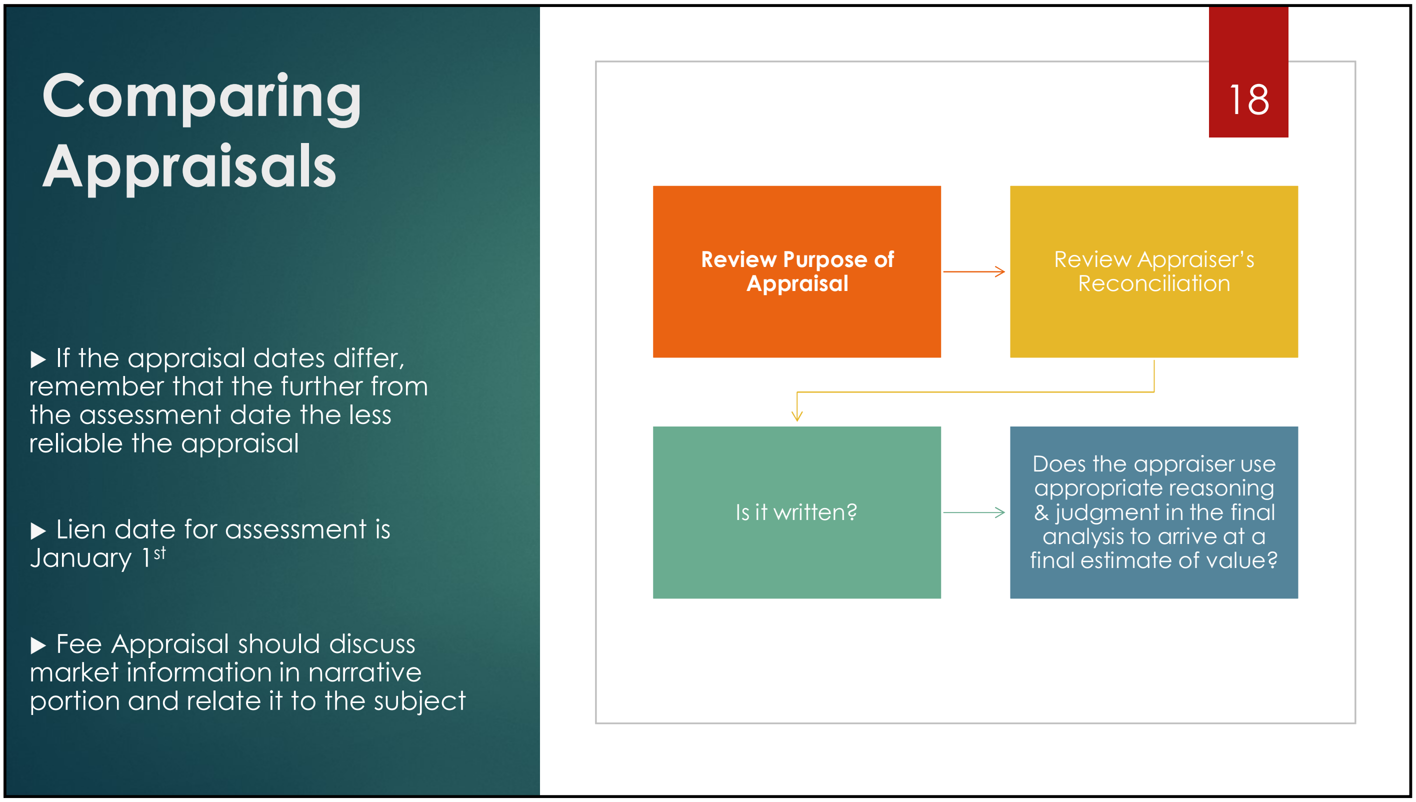
Estimating the value of an income-producing property is done by a method called capitalization.

There are calculations and market research that needs to be done to determine the net income and what the cap rate should be.



Data Needed:

- Subject income & expense data
- Economic income & expense data from the market
- Appropriate rate to apply (cap rate)



The purpose of an appraisal is to develop an opinion of some type of value. When comparing and/or reviewing appraisals ask what is the purpose of the appraisal?

Consider all three approaches to value and their applicability.

- Value should fall within the final range of values indicated by all three approaches
- Final estimate of value should **never** be averaged - it should come from reasoning & judgment of all market evidence.

Review provided data for:

- Validity
- Pertinence
- Consistency
- Quantity
- Quality

20

Special Use Valuation Principles

Right tool for the job?

The Cost Approach –

Advantages:

- Sometimes the only approach for special purpose properties
- Universal application
- Well adapted and easily applied under a mass appraisal system

Disadvantages:

- Difficulty in estimating depreciation especially in older structures (when a large amount of depreciation would need to be estimated and subtracted from the cost new)

The Market Comparison (Sales) Approach –

Advantages:

- Widely recognized as a reliable valuation approach
- Processed directly from market actions of buyers and sellers
- Easily understood

Disadvantages:

- Instances when sufficient sales data is unavailable
- Difficult when subject property is unique with no reasonable sales available

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Special Use Valuation Principles

Right tool for the job?

Continued

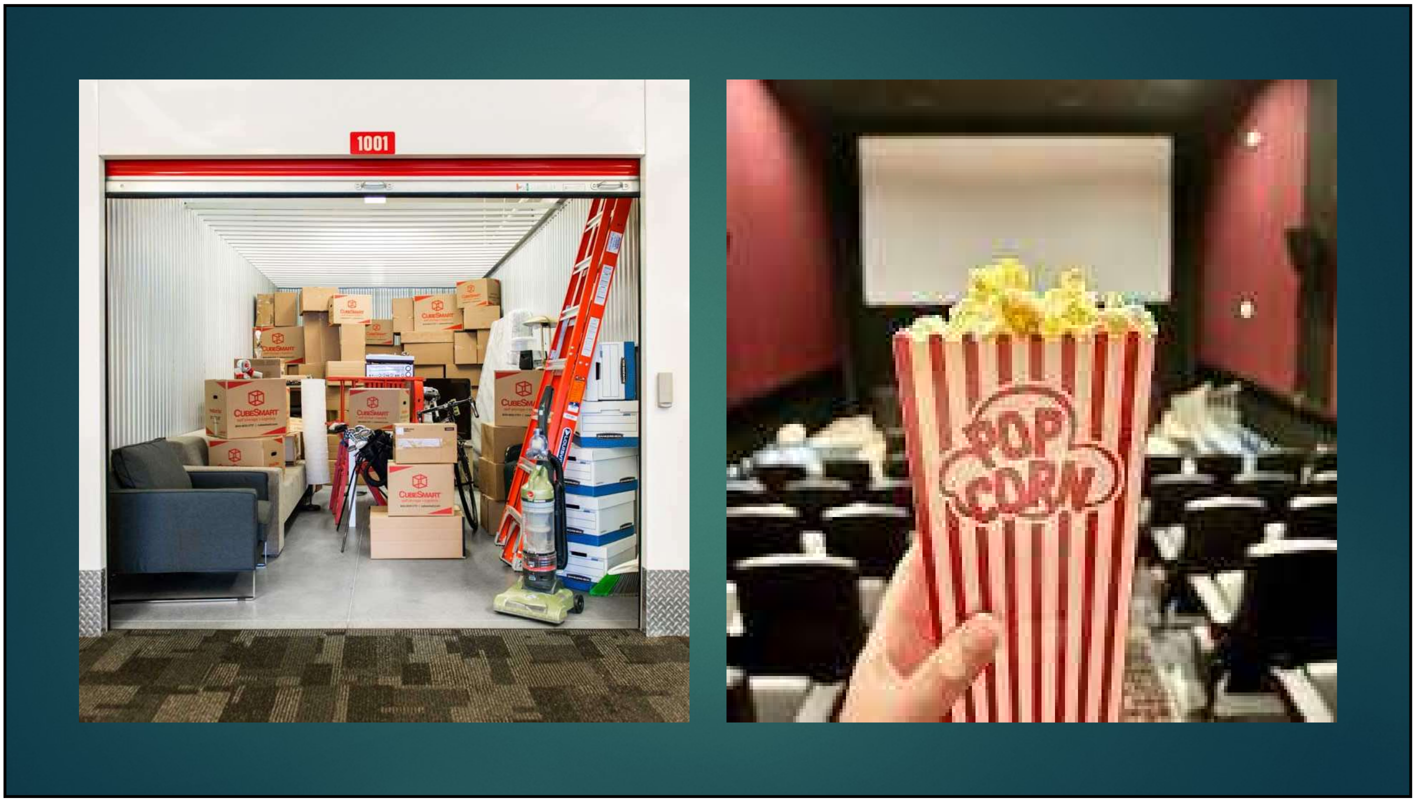
<u>The Income Approach</u> - Should not exceed the present value of anticipated income the property is expected to produce.

Advantages:

- Generally, most reliable for commercial / income producing properties
- Requires market data available from investors who buy & sell on the basis of a property's income capabilities

Disadvantages:

- Limited use for valuation of residential properties or some types of special use properties
- Availability of income data available to Assessors



Notes:

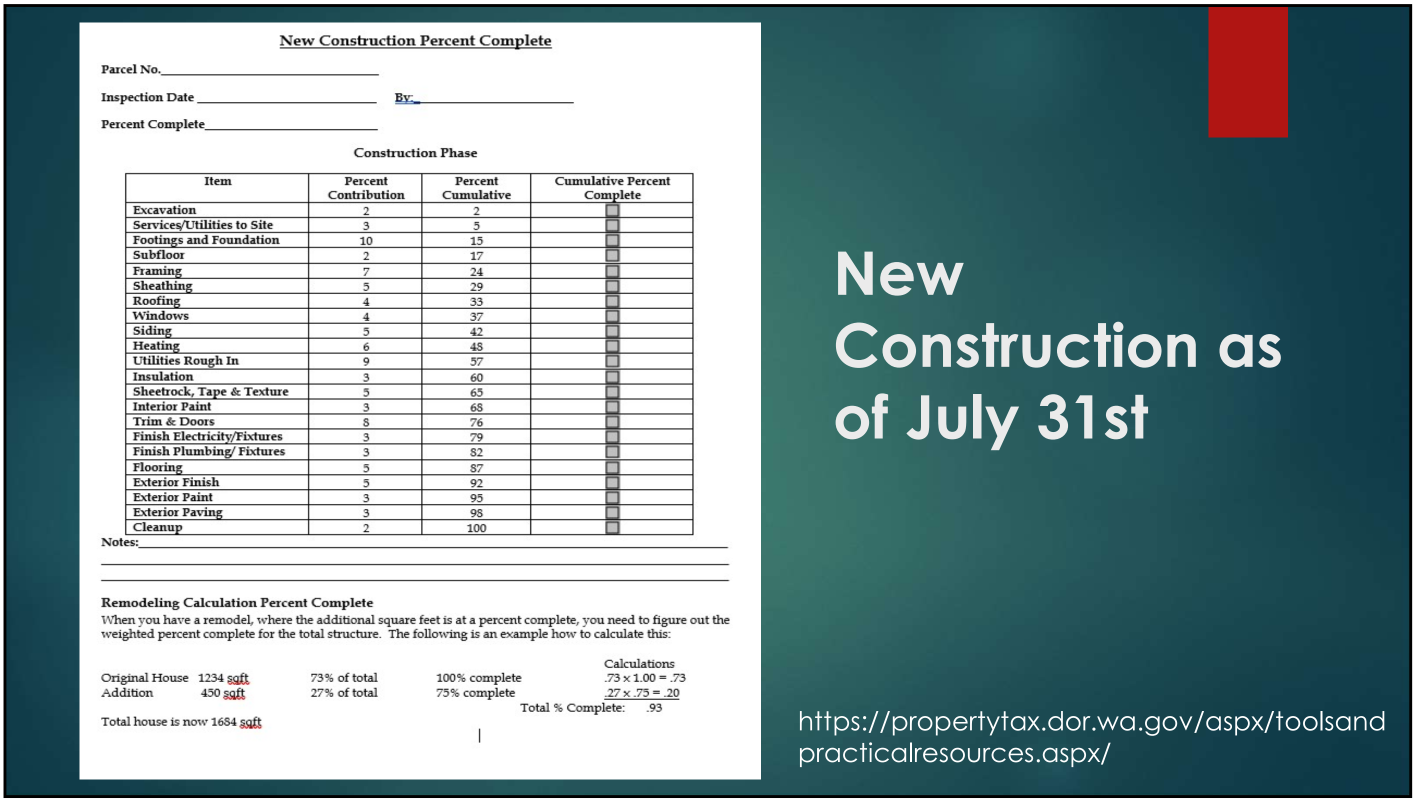
Notes:

The assessor must add increases in value due to construction or alteration.
- This value should be added to the assessment roll by August 31 each year.
- If construction is not started or not completed, the assessor should schedule follow up inspections.

The assessed value should be determined as of July 31 of that year, regardless of the percentage of completion (RCW 36.21.080 and WAC 458.12.342).
- When new construction continues after July 31 of any year the additional new construction would be added to the assessment roll in the following year.

When inspecting new construction, the appraisers:

- Use both plans and physical measurements to make sure the improvement is added as accurately as possible.
- The characteristics that are added during the new construction, especially interior characteristics, will be the basis for valuation throughout the life of the improvement, so it is important to be accurate.
- Use plans to make an initial drawing in the office, if possible, and then measure on site to verify the plan measurements and characteristics.
- Perform detailed inspection of the interior and exterior in order to note features, construction quality, and open interior areas.
    - Measure interior open spaces
    - Record the number of plumbing fixtures/bathrooms
    - Observe interior finish material quality
    - Review site characteristics such as view



New Construction Percent Complete

Parcel No.____________________________

Inspection Date ______________________ By:_ ____________________

Percent Complete______________________

Construction Phase

Item	Percent Contribution	Percent Cumulative	Cumulative Percent Complete
Excavation	2	2	☐
Services/Utilities to Site	3	5	☐
Footings and Foundation	10	15	☐
Subfloor	2	17	☐
Framing	7	24	☐
Sheathing	5	29	☐
Roofing	4	33	☐
Windows	4	37	☐
Siding	5	42	☐
Heating	6	48	☐
Utilities Rough In	9	57	☐
Insulation	3	60	☐
Sheetrock, Tape & Texture	5	65	☐
Interior Paint	3	68	☐
Trim & Doors	8	76	☐
Finish Electricity/Fixtures	3	79	☐
Finish Plumbing/ Fixtures	3	82	☐
Flooring	5	87	☐
Exterior Finish	5	92	☐
Exterior Paint	3	95	☐
Exterior Paving	3	98	☐
Cleanup	2	100	☐

Notes:____

Remodeling Calculation Percent Complete

When you have a remodel, where the additional square feet is at a percent complete, you need to figure out the weighted percent complete for the total structure. The following is an example how to calculate this:

				Calculations
Original House	1234 sqft	73% of total	100% complete	.73 x 1.00 = .73
Addition	450 sqft	27% of total	75% complete	.27 x .75 = .20
			Total % Complete:	.93

Total house is now 1684 sqft

This worksheet is used to calculate the percent of new construction complete.

By following this guideline new construction improvements can be reflected from the start of construction.

ercent Complete_______________________________

Construction Phase

Item	Percent Contribution	Percent Cumulative	Cumulative Percent Complete
Excavation	2	2	
Services/Utilities to Site	3	5	
Footings and Foundation	10	15	
Subfloor	2	17	
Framing	7	24	
Sheathing	5	29	
Roofing	4	33	
Windows	4	37	
Siding	5	42	
Heating	6	48	
Utilities Rough In	9	57	
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Sheetrock, Tape & Texture	5	65	
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Finish Plumbing/ Fixtures	3	82	
Flooring	5	87	
Exterior Finish	5	92	
Exterior Paint	3	95	
Exterior Paving	3	98	
Cleanup	2	100	

Iotes:

Percent Contribution

- Shows you what each item adds to the cumulative percent complete
- Allows you to make deductions for items not complete

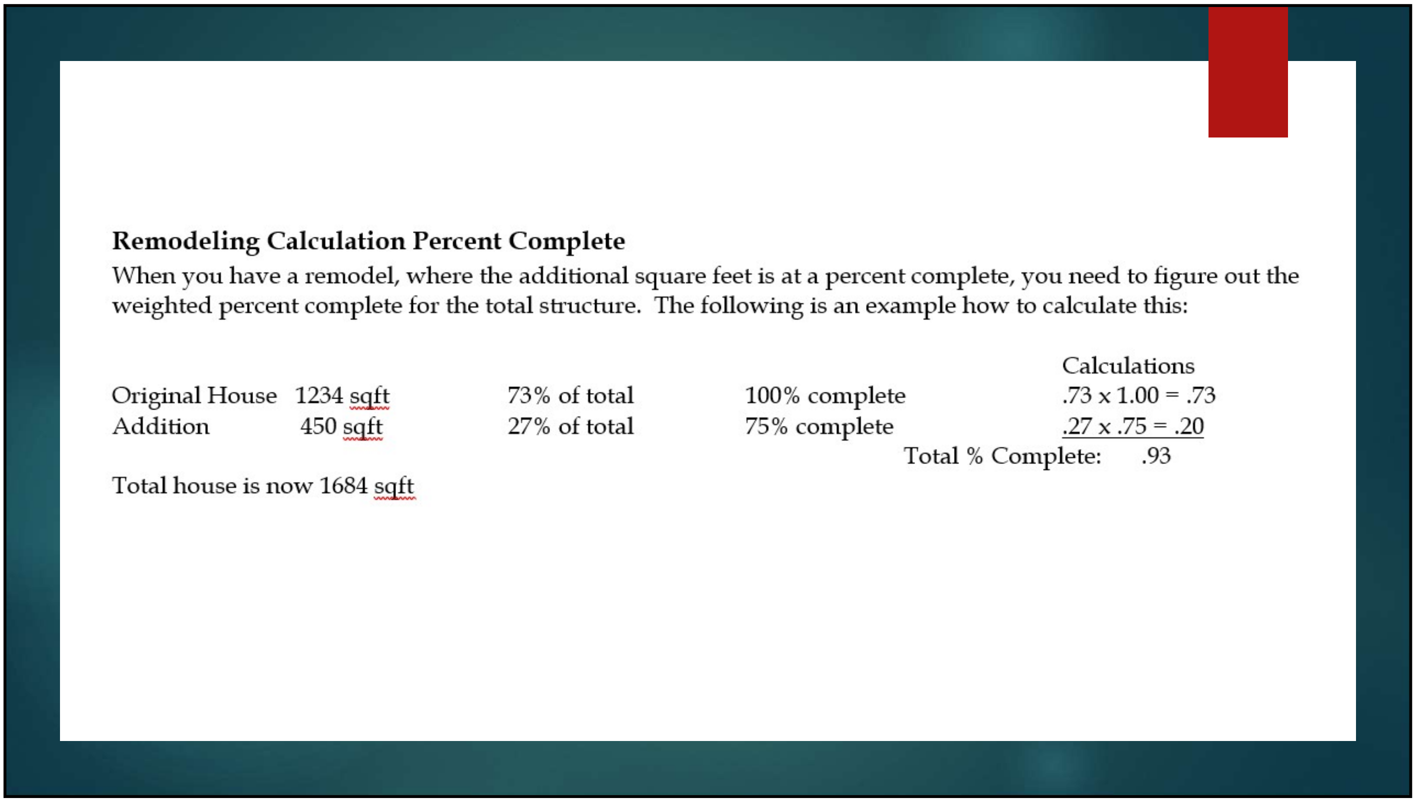
Percent Cumulative

- Helps to determine percentage complete.

For example:

You have a home that hasn't had the well or septic installed yet.

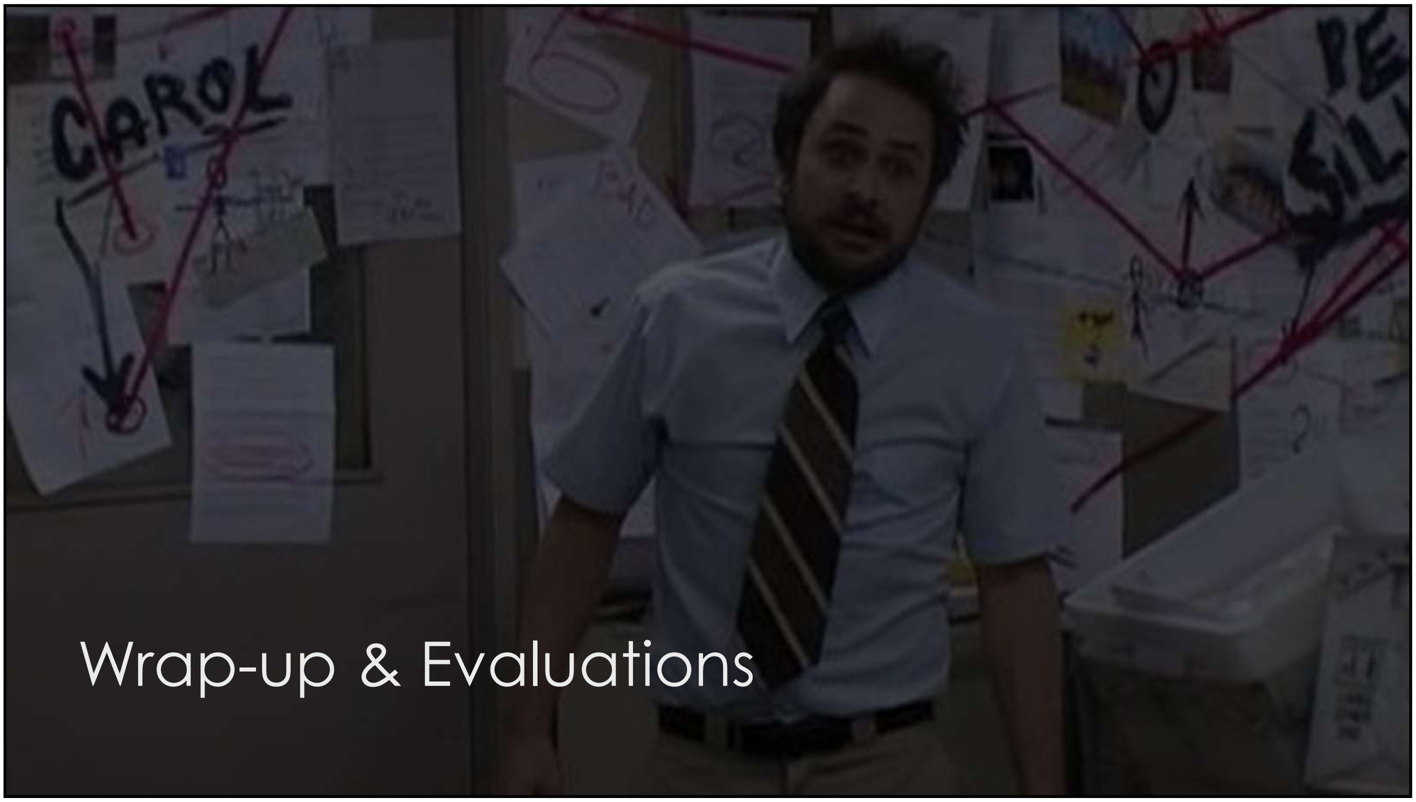
If everything else has been completed, you would take 100% and subtract 3 leaving you with 97% because the highlighted portion shows the utilities to the site give a 3% contribution.



It also includes a resource for remodels.

Case Study

Petition Exercise


Wrap-up & Evaluations
CAROL