

BEFORE THE IDAHO BOARD OF TAX APPEALS

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| TOM BUMGARNER, |) | |
| |) | |
| Appellant, |) | APPEAL NO. 21-A-1034 |
| |) | |
| v. |) | FINAL DECISION AND ORDER |
| |) | |
| BONNER COUNTY, |) | |
| |) | |
| Respondent. |) | |
| |) | |
| |) | |
| |) | |

RESIDENTIAL PROPERTY APPEAL

This appeal is taken from a decision of the Bonner County Board of Equalization modifying an appeal of the valuation for taxing purposes on property described by Parcel No. RP0004400A0210A. The appeal concerns the 2021 tax year.

This matter came on for telephonic hearing November 1, 2021, before Board Member Leland Heinrich. Appellant Tom Bumgarner was self-represented. Bonner County Appraiser Rachel Castor represented Respondent.

Board Members David Kinghorn, Leland Heinrich, and Kenneth Nuhn join in issuing this decision.

The issue on appeal concerns the market value of an improved rural residential property.

The decision of the Bonner County Board of Equalization is modified.

FINDINGS OF FACT

The current assessed value of the subject property is somewhat unclear. The initial assessed value totaled \$827,011, with \$656,860 attributable to the land and \$170,151 to the improvements. Appellant timely appealed the assessed valuation to the Bonner County Board of Equalization (BOE). The BOE issued two (2) separate decision letters, both dated July 7, 2021. One (1) decision letter reported a total valuation of \$730,432 and

the other indicated a valuation of \$601,660. For purposes of this decision, the Board will use the lower figure. Appellant disagrees with both numbers and contends the correct land value is \$197,066, and the improvements' value is \$170,151, totaling \$367,217.

The subject property is a .33 acre rural residential parcel situated in the gated Cape Horn Estates subdivision located a few miles east of Bayview, Idaho, in southern Bonner County, near the Kootenai County boundary line. The parcel enjoys 71.06 front feet on the western shores of Lake Pend Oreille. The property is improved with a one (1) bedroom, one (1) bathroom residence constructed in 2003. The residence totals 1,152 square feet in size, with 576 square feet on the main level and 408 finished square feet in the basement. The remaining footage in the basement is unfinished. The residence is perched on a rock cliff high above the water, with a series of wooden staircases leading down to the boat dock.

Appellant disagreed with the methodology Respondent used to assess properties in the Cape Horn Estates subdivision for 2021. Specifically, Appellant objected to Respondent's reliance on a single waterfront sale from subject's subdivision to set values throughout the development. Appellant explained the sale residence had been completely renovated prior to its sale in October 2020 for \$1,100,000. This sale was the basis for subject's assessed value to increase from \$372,497 in 2020 to \$827,011 for 2021, a roughly 222% increase. In Appellant's view, the sale residence was newly-remodeled vastly superior to subject's residence and should not have been used to value the subject property.

Appellant additionally questioned whether adequate consideration was given to the roadway easement which crosses the subject parcel twice, effectively splitting the lot

into thirds. Appellant noted, due to the county's setback requirements of twenty-five (25) feet on each side of the access road, plus the forty (40) foot setback from the lake, subject has a rather small building footprint, which limits the size and type of residence that can be constructed. Indeed, the building footprint is roughly 575 square feet. In its written narrative, Respondent suggested a 15% downward adjustment to account for the access easement, however contended the adjustment should only be applied to the original land value, not the new value Respondent proposed at hearing, which will be discussed in more detail below. Appellant suggested using subject's 2020 land value as a starting point, then adding 15% for market appreciation over the prior year, and then deducting 20% for the restricted building site. This yielded a land value estimate of \$197,066. Appellant agreed with the valuation of the improvements, so proposed adding the improvements' value of \$170,151 to the newly calculated land value, resulting in a total valuation of \$367,217. Appellant petitioned the Board to adopt the new calculated value.

Respondent explained there has been a dearth of sales activity in subject's neighborhood for the past couple years, so assessed values have remained relatively flat. That changed in 2020, with the sale of a waterfront property in subject's subdivision. The sale property was a .34 acre parcel with 64 front feet on the lake. The property was improved with a 1,936 square foot residence which was thoroughly renovated prior to sale. The property included other improvements, the value of which Respondent estimated at \$120,300, though no details or descriptions of these other improvements were provided. The property sold in October 2020 for \$1,100,000. As this was the only recent sale in the subdivision, Respondent relied on this data point to adjust waterfront values throughout the neighborhood.

Following appeals by many of the owners in subject's subdivision, Respondent re-examined the analysis which caused values in the neighborhood to be increased, particularly land values. This included consideration of two (2) previously unknown sales from Kootenai County located just across the county line which were provided to Respondent by property owners in subject's subdivision. In light of the new sales data, Respondent concluded that while assessed values needed to be broadly increased to reflect current market levels, the increase should have been allocated to the residential improvements, not land values. Therefore, Respondent proposed reverting land values back to 2020 levels and increasing improvement values by 75%. For subject, Respondent proposed a land value of \$214,202 and a value of \$297,764 for the improvements, or a total assessed value of \$511,966.

In support of its new proposed valuation, Respondent provided three (3) sets of sales; one (1) set for subject's land value, one (1) for the value of the improvements, and one (1) set in support of the total valuation. For subject's land value, Respondent provided information on three (3) waterfront sales which transpired during 2020. Sale No. 1 was the same \$1,100,000 sale discussed above used by Respondent to set values throughout the subdivision. Sale No. 2 was a vacant lot with 137 front feet on the lake located roughly one and one-half (1½) miles from subject, which sold in August 2020 for \$227,500. Sale No. 3 was an improved parcel with 100 waterfront feet which also sold in August 2020 for \$995,000. Respondent removed the assessed improvement values from the respective sale prices and then compared the sale lots to subject. As the sale lots shared the same "Average" land grade rating, the only adjustment was for differences in the amount of water frontage compared to subject. The result was residual land value indications

ranging from \$194,533 to \$567,183, or from roughly \$1,300 to \$8,000 per front foot. Respondent's proposed land value for subject is \$201,202, or \$2,831 per front foot.

Respondent's next data set was offered in support of the value of subject's residence. The three (3) sales included in the analysis were not located in subject's neighborhood, although all the residences shared the same "Fair+" construction quality rating as subject's residence. The first sale concerned an 887 square foot converted barn with an effective year built of 2006. This property sold in July 2020 for \$536,550. The next sale property was a 1,152 square foot residence constructed in 2003, which sold for \$315,000. The final sale in this data set was a 1,353 square foot residence constructed in 2005. This property sold for \$275,000 in November 2020. Similar to the prior analysis, Respondent removed assessed land and other improvement values from the respective sale prices in an effort to isolate the value attributable to the sale residences. Respondent then made adjustments for differences in gross living area, effective age, and garage size, which yielded adjusted price indications from \$197,824 to \$305,882 for the sale residences. Respondent's proposed value for subject's residence is \$213,162, which was noted to fit within the range indicated by the sales analysis.

The final set of sales was offered in support of subject's overall valuation. In addition to the \$1,100,000 sale from subject's subdivision, the data set included two (2) improved sales located less than one (1) mile from subject, in neighboring Kootenai County. The first was a lot with 100 front feet on the lake improved with a 3,177 square foot residence constructed in 2015. This property sold in June 2020 for \$995,000. The remaining sale property concerned a parcel with 100 waterfront feet improved with a 2,052 square foot residence constructed in 2015. This property sold in August 2020 for

\$995,000. The sale properties were compared to subject with adjustments made for differences in construction quality, condition, age, gross living area, garage size, and other improvements. The result was adjusted sale prices ranging from \$448,970 to \$846,256. Respondent's total proposed value for subject is \$511,966.

CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to support a determination of fair market value in fee simple interest or, as applicable, exempt status. This Board, giving full opportunity for all arguments and having considered all the testimony and documentary evidence, hereby enters the following.

Idaho Code § 63-205 requires taxable property be assessed at market value annually on January 1; January 1, 2021, in this case. Market value is always estimated as of a precise point in time. Market value is defined in Idaho Code § 63-201, as,

“Market value” means the amount of United States dollars or equivalent for which, in all probability, a property would exchange hands between a willing seller, under no compulsion to sell, and an informed, capable buyer, with a reasonable time allowed to consummate the sale, substantiated by a reasonable down or full cash payment.

Market value is estimated according to recognized appraisal methods and techniques. The three (3) primary approaches for determining market value include the sales comparison approach, the cost approach, and the income approach. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Residential property is commonly valued using the sales comparison approach, which in general terms examines recent sales of similar property and makes adjustments for noted differences in property characteristics compared to the subject property.

Though references were made to certain sales, particularly the one (1) from subject's subdivision, Appellant was primarily concerned with the lack of consideration given for the roadway easement which crosses the subject parcel twice. As a result of the access easement, the subject property is effectively split into thirds, which, as Appellant highlighted, limits the available building footprint to approximately 575 square feet. This is a notable restriction on the size and type of residence which can be constructed on the property and negatively affects the market value. Respondent's failure to include an adjustment for this negative attribute in its valuation proposal was an error in the Board's view. The limited building site is a condition which exists and should therefore be considered in subject's valuation.

Respondent developed three (3) sales comparison models in support of its new proposed valuation. Each model included three (3) sales, with direct comparisons made to subject and adjustments made for noted differences. While the Board appreciated the efforts, there were some concerns. Chief among those concerns was the lack of details regarding the sale properties. For example, in the valuation model for subject's land value two (2) of the sales were improved; however, there were zero details or descriptions about the improvements. Instead, Respondent reported improvement values of roughly \$630,000 and \$315,000 and simply removed those values from the respective sale prices. With no details about the improvements, there was no way to evaluate whether the improvement values reported by Respondent were accurate estimates of market value. What was apparent, however, was that both sale properties enjoyed improvements regarded by Respondent to be vastly superior to subject's, as evidenced by the heavy adjustments applied in the analysis. The primary weakness of the abstraction

methodology utilized by Respondent is that it presumes the assessed values of the sale properties' improvements are accurate and can thus be simply subtracted from the respective sale prices, with the remaining value therefore attributable to the land. A traditional sales comparison analysis looks to compare the entirety of the subject property to the available sales in an effort to estimate the market value of the total property, because that is how property transacts in the marketplace. Buyers typically do not attempt to separately value land and improvements when making a purchase decision. The Board acknowledges Respondent is required by law to separately identify land and improvement values on assessment notices issued to taxpayers. However, for purposes of estimating a property's market value, it is necessary to consider the whole property as a single unit.

Admittedly, one (1) of Respondent's sales comparison models did compare subject to three (3) improved sales on a whole-property basis, but again physical details concerning the sale properties' attributes were minimal. Another concern was with the level of adjustments made to the sale properties to make them "comparable" to subject. Gross adjustments to the sale prices were approximately 55%, 23%, and 42%, respectively, which suggests a high degree of dissimilarity compared to subject and brings the reliability of Respondent's value conclusion into question. The sale properties were clearly superior to subject, as evidenced by the respective sale prices of \$995,000, \$1,100,000, and \$995,000, whereas Respondent concluded a notably lower value of roughly \$512,000 for subject. In short, given such large adjustments to the sales, the Board was reluctant to rely heavily on Respondent's value conclusion for the subject property.

Given the Board's concerns with aspects of Respondent's valuation modeling, the Board was ultimately disinclined to accept the proposed value of \$297,764 for subject's improvements and will instead accept the value of \$170,151 as reflected on the 2021 assessment notice. As for subject's land value, the Board will accept Respondent's proposal to revert back to the 2020 value of \$214,202, however will also apply a downward adjustment for the access easement which materially restricts the lot's development options.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of proving error in subject's current valuation by a preponderance of the evidence. Given the record in this matter, the Board finds the burden of proof satisfied and will therefore reduce subject's assessed value to \$362,933.

Based on the above, the decision of the Bonner County Board of Equalization is modified, as detailed below.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bonner County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in total valuation to \$362,933, with \$192,782 attributable to the land and \$170,151 to the improvements.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 63-1305, any taxes which have been paid in excess of those determined to have been due be refunded or applied against other *ad valorem* taxes due from Appellant.

Idaho Code § 63-3813 provides under certain circumstances that the above ordered value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 31st day of January, 2022.

IDAHO BOARD OF TAX APPEALS