

BEFORE THE IDAHO BOARD OF TAX APPEALS

BRET AND CHERYL CANNON,)	
)	
Appellants,)	APPEAL NO. 21-A-1061
)	
v.)	AMENDED*
)	FINAL DECISION AND ORDER
BONNER COUNTY,)	
)	
Respondent.)	
)	
)	

*Amended to correct a mathematical error in the final decision issued February 4, 2022. The Board ordered subject's 2021 land value revert to the 2020 valuation of \$391,673. In the initial decision, \$13,000 was mistakenly added to the land valuation to account for subject's onsite improvements. As the \$391,673 figure already included the value of the onsite improvements, it should not have been added again. The final order has been amended to reflect a land value of \$391,673, which figure includes the \$13,000 standard assessment rate for onsite improvements.

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. RP0004400A012AA. The appeal concerns the 2021 tax year.

This matter came on for telephonic hearing November 1, 2021, before Board Member Leland Heinrich. Appellants Bret and Cheryl Cannon were 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 assessed land value is \$734,723, and the improvements' value is \$168,249, totaling \$902,972. Appellants contend the correct land value is \$426,788, and the improvements' value is \$168,249, totaling \$595,037.

The subject property is a .72 acre parcel located in the Cape Horn Estates subdivision a few miles east of Bayview, Idaho. The property enjoys 180 front feet on the southwestern shores of Lake Pend Oreille. The property is improved with a 1,612 square foot residence situated atop a granite outcropping high above the waterline. Access to the rocky shore is via a series of stairs which extend out over the water to a swimming dock. Due to a large granite boulder located a few feet offshore, there is insufficient water depth to dock a boat.

Appellants began their presentation with a description of the events leading to this appeal. The subject property was initially assessed at \$1,143,547 for the 2021 assessment year. Appellants, as well as many other waterfront owners in the subdivision, appealed to the Bonner County Board of Equalization (BOE) to protest their valuations. The BOE reduced subject's land value by 25%, resulting in a total valuation of \$902,972. Similar land value adjustments were made to all other waterfront parcels in the neighborhood. Though the value reduction was appreciated, Appellants viewed the 25% adjustment as arbitrary and questioned whether it was sufficient to accurately reflect subject's current market value.

Appellants examined subject's valuation from several perspectives, beginning with a visual comparison between subject and several sale properties in the area. The first two (2) sales were located roughly one (1) mile west of subject, in neighboring Kootenai

County, and both sold for nearly \$1,000,000. The first was a 2,826 square foot residence with three (3) bedrooms, three (3) bathrooms, and an attached 1,008 square foot garage. The topography was gently sloping down to the level beachfront and boat docks. The property sold in August 2019 for \$890,000. The next sale property concerned a .83 acre parcel with 100 front feet of relatively level and deep shoreline on the lake. The property was improved with a 3,177 square foot three (3) bedroom, two (2) bathroom residence with five (5) fireplaces, which had been extensively remodeled in 2018. Other improvements included a 1,728 square foot shop with RV parking and space for four (4) vehicles, as well as a large private dock with a covered boat lift. This property sold in June 2020 for \$995,000. From a visual standpoint, Appellants highlighted the contrasts between subject's steep waterfront and modest improvements compared to the relatively flat and deep frontages and extensive improvements enjoyed by these two (2) roughly one (1) million dollar sale properties.

In similar fashion, Appellants provided information and photographs concerning three (3) properties which recently sold in the \$500,000 range. The first was a 1,648 square foot two (2) bedroom, two (2) bathroom multi-level residence situated on a .37 acre lot with 67 feet of deep water shoreline. Other amenities included expansive decks and a dock with a boat lift. This property sold in October 2019 for \$600,000. The second sale property concerned a .16 acre lot with 76 front feet on the lake. The parcel was improved with a 1,600 square foot two (2) bedroom, two (2) bathroom residence constructed in 2018. The property was further improved with boat docks and a boat lift. The property sold in April 2018 for \$466,000. The final sale property in this category was a .16 acre parcel with 70 waterfront feet. In addition to a dock and covered hydraulic boat

lift, the property was improved with a two (2) bedroom, one (1) bathroom residence totaling 1,344 square feet in size. This property sold in September 2019 for \$490,000. Appellant's contended subject more resembled the \$500,000 sale properties than the one (1) million dollar properties.

Appellants next sought to demonstrate flaws or inconsistencies in Respondent's land valuation model. Focusing on three (3) vacant lot sales from 2020, two (2) from Kootenai County and one (1) from Bonner County, Appellants calculated land values using Respondent's valuation model and compared those values to the respective sale prices. In each instance, the indicated assessed value was higher than the sale price, ranging from 305% to 400% above the respective sale prices.

In another illustration of flaws with Respondent's valuation model, Appellants highlighted residual improvement values of seven (7) sales from 2019 and 2020. After removing land values, which were estimated using Respondent's model, Appellants calculated residual improvement values ranging from -\$170,193 to \$495,320. Employing the same methodology, though using the 25% land value reduction ordered by the BOE, Appellants reported residual improvement values ranging from -\$10,937 to \$633,490. Particularly with respect to the negative value indications, which suggests the current owner would have to pay a buyer a notable sum of money to assume ownership of the improvements, Appellants questioned the effectiveness of Respondent's valuation model.

Appellants further criticized Respondent's reliance on a single sale from subject's subdivision to determine waterfront values throughout the neighborhood. The sale in question was the October 2020 sale of 100 Grandview Lane for \$1,100,000. The 1,936 square foot residence had been extensively remodeled prior to sale, including new roof

and skylights, new doors and windows, new split-duct HVAC system, upgraded plumbing and light fixtures, relocated kitchen with added cabinetry and quartz countertops, new flooring, replaced decking including the dock, a new detached three (3) car garage with an air-conditioned shop in the loft, and other improvements. Prior to the adjustment by the BOE, the property was assessed at \$905,285, with \$663,520 attributable to the land and \$241,765 to the improvements. These values equated to a land valuation rate exceeding \$10,000 per front foot and a value rate of roughly \$63 per square foot for the residence, despite the numerous updates and additions. In Appellants' view, these valuation rates were unrealistic and did not yield reliable market value estimates. In short, Appellants argued a single data point is insufficient to develop a reliable statistical valuation model, and further cited guidance from a prior decision of the Board of Tax Appeals cautioning against the use of a single sale to determine market value.

In terms of support for reducing subject's assessed value, Appellants developed a valuation model which mimicked Respondent's for determining adjusted sale prices. Roughly thirty (30) properties were used to develop Appellants' model, resulting in land value indications ranging from \$433,034 to \$529,264, or in total value from \$614,283 to \$710,513. Alternatively, Appellants calculated subject's land value based on waterfront rates used by Kootenai County for 2021, which yielded a land value estimate of \$460,888, or a total value of \$642,137 for the subject property. In another approach, Appellants proposed using Bonner County's 2016 land value rate and increasing it by 33%, which represented the increase in Kootenai County's land value model over the last five (5) years. This approach resulted in a land value indication of \$444,060, and a total value of \$625,309. Lastly, Appellants calculated a land value of \$435,474, with a total value of

\$616,723, using the 15% increase in Kootenai County's land value rates from 2020 to 2021. In the end, Appellants argued that due to the unreliability of Respondent's valuation model, subject's assessed value should revert to the 2020 valuation of \$553,459, with \$391,673 attributable to the land and \$161,786 to the improvements.

Respondent explained due to a lack of waterfront sales in subject's neighborhood the past several years, assessed values have remained relatively stable in the subdivision. That changed for 2021, however, with the sale of 100 Grandview Lane for \$1,100,000 in 2020. Respondent inserted this sale into its valuation model and applied the results throughout the subdivision's waterfront parcels. Following appeals from multiple owners in the subdivision, Respondent was made aware of some additional sales information from neighboring Kootenai County. After reviewing the new sales data, Respondent concluded waterfront land values in subject's subdivision were overstated for 2021. The new information indicated 2020 land values were more accurate reflections of current market value, but that residential improvements needed to be increased by 75%. Accordingly, Respondent petitioned subject's land value be reverted back to the 2020 value of \$391,673, and the improvements' value be increased to \$294,436.

In support of the new value recommendation, Respondent developed two (2) sales models; one (1) for subject's total valuation, and one (1) for the land value. Three (3) sales were included in the first model. Sale No. 1 concerned a parcel with 100 waterfront feet located approximately one-half ($\frac{1}{2}$) mile from subject. The 3,177 square foot sale residence was characterized as superior to subject's residence in both construction quality and condition. The property also included dock improvements and a boat lift. This property sold in June 2020 for \$995,000. The next sale was the 100 Grandview Lane

property from subject's subdivision for \$1,100,000. Sale No. 3, located roughly three-quarters ($\frac{3}{4}$) of a mile from subject concerned a 2,052 square foot residence with superior construction quality and condition ratings. This property sold in August 2020 for \$995,000. Respondent directly compared each sale property to subject and made appraisal adjustments for differences in property characteristics such as square footage, construction quality, condition, effective age, waterfrontage, and other improvements. After adjustments, Respondent reported adjusted sale prices ranging from \$574,039 to \$1,006,768

Respondent's land value model similarly included three (3) sales, all of which were vacant at the time of sale. Sale No. 1 concerned a parcel with 75 front feet which sold in October 2018 for \$190,000. Sale No. 2 was a parcel with 137 front feet which sold for \$227,500 in August 2020. Sale No. 3, with an October 2020 price of \$310,000, concerned a parcel with 118 front feet on the lake. The only adjustment to the sale prices was for differences in the number of front feet, which, due to subject's larger frontage of 180 feet, resulted in some rather large upward adjustments to the respective sale prices. Indeed, Sale No. 1 was adjusted upward 90% and Sale No. 3 was adjusted 29%. Overall, adjusted sale prices ranged from roughly \$270,000 to \$440,000, or from approximately \$1,500 to \$2,400 per front foot. The land value Respondent requested for subject was \$378,673, or roughly \$2,100 per front foot, which was noted to fit within the range indicated by the adjusted sale prices.

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, 2020, 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 sales comparison approach, the cost approach, and the income approach comprise the three (3) primary methods for determining market value. *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 basic terms compares recent sales of similar property to the subject property and considers adjustments for differences in property characteristics.

Both parties developed sales comparison models using various sales, which efforts were appreciated by the Board. That being said, there were some concerns from the Board's perspective. Respondent's sales comparison models included rather large adjustments to the respective sale prices, which suggests a notable degree of dissimilarity to the subject property. A general principle in appraisal is the higher the adjustments to the sales, the less reliable the results. Admittedly, there were few sales in the area, so Respondent was limited in the sales data available for its valuation model, which is no fault of Respondent's.

Appellants offered several different analyses in support of reducing subject's valuation. While the models were interesting, they produced multiple indications of total value ranging from roughly \$614,000 to \$710,000, and in land value from approximately \$433,000 to \$529,000. Another concern was Appellants' use of Kootenai County waterfront assessment rates blended with Respondent's land value rates. A comparison of assessed values is not a recognized appraisal approach, so using assessed values for certain inputs in Appellants' modeling created some cause for concern for the Board. Plus, there were few details concerning how Kootenai County developed its valuation model or whether its valuation rates were accurate.

One thing clear from the record is that subject's current valuation is erroneous. On this point, the parties both concurred. Based on the sales and analyses presented, it was apparent to the Board subject's value needs to be adjusted. Both parties petitioned subject's land value be reverted back to the 2020 valuation of \$391,673, which equates to a valuation rate of \$2,099 per front foot. As this rate is comfortably within the range indicated by the sales data, the Board will accept the proposed land valuation.

What remains is the value of subject's improvements. Due to the concerns with Respondent's valuation model, Appellants argued the improvements' value should revert to the 2020 valuation. Respondent, by contrast, contended the improvements should increase in value by 75%. The concern from the Board's perspective is Appellants' value position represents zero market appreciation over the prior year, which runs contrary to the well-known generally appreciating trend in the residential real estate market over the past several years. Respondent's proposal is based on a comparison of subject to three (3) sale properties with vastly superior residences and other amenities, which

necessitated some rather large adjustments in its analysis. In short, the Board was not confident either position represented the best estimate of the value of subject's improvements. Without a more clear value indication, the Board ultimately declined to disturb the current assessed value of \$168,249 for subject's improvements.

Pursuant to Idaho Code § 63-511, Appellants bear the burden of proof to demonstrate subject's valuation is erroneous by a preponderance of the evidence. Given the record in this matter, the Board finds the burden of proof satisfied, though did not find sufficient support for the value petitioned by Appellants. Instead, the Board will reduce subject's land value to \$391,673, which includes Respondent's standard \$13,000 value for onsite improvements, and will leave in place the \$168,249 value of the improvements.

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

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 \$572,922, with \$391,673 attributable to the land, and \$168,249 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 Appellants.

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.