

BEFORE THE IDAHO BOARD OF TAX APPEALS

SARAH ZABEL,)	
)	
Appellant,)	APPEAL NO. 21-A-1028
)	
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. RP0004400A0280A. The appeal concerns the 2021 tax year.

This matter came on for telephonic hearing October 25, 2021, before Board Member Leland Heinrich. Appellant Sarah Zabel was self-represented. Bonner County Chief Deputy Assessor Dina Brown represented Respondent.

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

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

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

FINDINGS OF FACT

The assessed land value is \$595,919, and the improvements' value is \$502,831, totaling \$1,098,750. Appellant agrees with the value of the improvements, but contends the correct land value is \$247,097, for a total value of \$749,928.

The subject property is a .26 acre waterfront parcel with 127 front feet along the southwestern shores of Lake Pend Oreille. The property is located a couple miles east of

Bayview, Idaho, in the Cape Horn Estates subdivision. The parcel is improved with a 2,541 square foot residence and attached garage constructed in 2020. The residence is situated above a steep granite outcropping roughly 140 feet above the lake's high-water mark. There is no access to the water, nor useable beach.

Appellant briefly recounted the history leading up to this appeal. As subject's residence was constructed during 2020, the current year marks the first time it has appeared on subject's assessment notice. Appellant explained there was regular communication with the assessor's office throughout and after the construction process to ensure the characteristics were correctly noted in the property record. Through this collaborative effort, it was determined \$502,831 was the market value of the residence.

Initially for the 2021 assessment year, subject's lot was assessed for \$909,798, nearly 300% higher than the 2020 valuation. Other waterfront property owners received similar increases, which prompted a number of appeals to the Bonner County Board of Equalization (BOE). The BOE ultimately resolved to reduce all waterfront land values in the subdivision downward by 25% and applied a further 10% downward adjustment to those parcels with other issues, such as inaccessible waterfront. Due to its difficult topography and inaccessible waterfront, subject received both adjustments, resulting in a new land value of \$685,598. Though the reduction was appreciated, Appellant argued it was insufficient in light of recent sales data indicating further downward adjustment is needed to accurately reflect subject's current market value.

Appellant questioned the methodology used by Respondent to develop subject's initial assessment. Specifically, Appellant critiqued Respondent's reliance on a single 2020 sale from the subdivision as the basis from which to increase land values throughout

the waterfront parcels in the neighborhood. The sale property in question, 100 Grandview Lane, was an improved parcel with 63 front feet on the lake. Prior to sale, the residence had been extensively remodeled, including a new steel roof with added skylights, new fiber cement siding and insulation, new windows and doors, relocated kitchen and upgraded quartz countertops and high-end appliances, updated bathrooms, plumbing and light fixtures, and a new split-duct HVAC system. The prior owner also added a detached three (3) car air-conditioned garage with approximately 1,000 square feet of shop space in the loft and replaced all the wood decking, including the dock. In Appellant's view, Respondent attributed too little value to the improvements situated on 100 Grandview Lane, resulting in too much value (roughly \$9,000 per front foot) ascribed to the land, which was then applied to waterfront parcels throughout the subdivision. Appellant argued a single sale is an insufficient amount of data upon which to base a reliable valuation model.

Appellant next sought to demonstrate the unreliability of Respondent's land valuation model by applying it to several recent sales. The first group of sales concerned unimproved waterfront parcels which sold during 2020. Sale No. 1, located just across the Kootenai County line, was a vacant lot with 60.88 feet of waterfront with a December 2020 sale price of \$75,000. Applying Respondent's land value model to this sale property resulted in a value of roughly \$280,000 or a value 375% higher than the sale price. Sale No. 2 was a nearby Bonner County parcel with 66.2 front feet on the lake which sold in January 2020 for \$200,000. Respondent's valuation model yielded an indicated value of approximately \$610,000, or 305% more than the sale price. Lastly, Sale No. 3 concerned two (2) adjacent parcels in Kootenai County sold together. The combined frontage was

137 front feet, and the sale price was \$227,500. Respondent's land value model resulted in a value indication of roughly \$910,000, a figure 400% higher than the sale price.

In a separate table, Appellant applied Respondent's land value model to seven (7) improved sales which transpired during 2019 and 2020. The sale residences varied in construction quality, condition rating, age, gross living area, and other amenities. Sale prices ranged from \$506,835 to \$1,100,000. Appellant calculated the land values of the sales using Respondent's valuation model and removed those values from the respective sale prices. This resulted in three (3) of the residual value indications for the sale properties' improvements being less than \$0. Specifically, the residual value of the improvements for Sale No. 1 calculated to a value of -\$113,728, Sale No. 2 resulted in a value of -\$142,515, and Sale No. 3 came in at -\$170,193 for the value of the improvements. With such illogical results, Appellant characterized Respondent's valuation model as flawed and unreliable.

Using the three (3) vacant lot sales described earlier, Appellant sought to estimate the rate of market appreciation during 2020. The three (3) respective sale price rates of \$3,030, \$1,661, and \$3,100 per front foot were plotted on a graph. The trend line between Sale No. 1 which occurred in January 2020 and Sale No. 2 from November 2020 indicated a 15% rate of market appreciation over the year. Sale No. 3, at \$1,661 per front foot was considered an outlier in the analysis. Appellant noted the 15% appreciation rate mirrored the increase in Kootenai County's land value model, and also closely resembled the rate of increase indicated by analyses developed by several other owners in the subdivision. In Appellant's opinion, these other indicators served as validation for the 15% increase

indicated by Appellant's model and was strong evidence the increases championed by Respondent were overstated.

Based on the above, Appellant contended subject's land value should have only increased 15% for 2021. However, due to subject's inaccessible waterfront, Appellant argued a downward adjustment should also be applied. The BOE determined a 10% adjustment for subject's difficult topography, but Appellant questioned whether 10% was sufficient. In this regard, Appellant pointed to subject's property record sheet which showed historically subject received a downward topography adjustment of 35%, though the adjustment was reduced to 25% in 2016. The adjustment was completely removed in 2019 and has not been applied since. Appellant additionally provided an appraisal sheet from a 2001 BOE hearing concerning another parcel in the subdivision in which the appraiser recommended a 25% adjustment for the property's difficult topography. Lastly, Appellant secured bids from two (2) local contractors concerning the cost to develop access from subject's residence down to the lakefront. The first bid was \$79,800 to fabricate and install metal stairs. The second bid of \$143,000 was to install a cable tram system. In summary, Appellant argued the historical 35% adjustment to subject's land value should be reinstated, which would yield a total valuation of roughly \$750,000.

Respondent acknowledged its original waterfront valuation model for subject's subdivision was based on the sale of 100 Grandview Lane, but explained it was the only sale in the subdivision received by the assessor's office since 2016. After receiving additional sales information from waterfront owners during the BOE process, Respondent determined adjustments needed to be made to its model. Instead of increasing waterfront land values in the subdivision, Respondent concluded the increase should have been

applied to residential improvements. As such, Respondent petitioned the Board to revert subject's land value back to the 2020 valuation of \$313,173, and to increase the value of the improvements by 75%, to \$861,747, for a total valuation of \$1,174,920.

Respondent provided three (3) sales analyses: one (1) in support of subject's land value, one (1) in support of the improvements' value, and one (1) in support of the total valuation. The analysis for the land value consisted of just the 100 Grandview sale for \$1,100,000. After removing the assessed value of the improvements, Respondent calculated a residual land value of \$728,087, or \$11,376 per front foot. To this, a downward adjustment of nearly \$260,000 was made for subject's undeveloped waterfront, and an upward adjustment of roughly \$305,000 was made for the difference in shoreline length. The result was an adjusted residual land price of \$775,985, or \$6,110 per front foot. Subject's land value, after the BOE adjustment, is \$595,919, or \$4,590 per front foot.

The next model, developed in support of the value of subject's improvements, consisted of three (3) improved sales located in Sandpoint and Dover, both more than thirty (30) miles north of subject. Though there were some variances, the sale residences generally resembled subject in terms of size, age, quality, and condition. Sale prices ranged from \$850,000 to \$1,300,000. Similar to the above analysis, Respondent extracted assessed land values from the respective sale prices and calculated residual price indications for the sale residences ranging from \$526,500 to \$760,805. Adjustments were then made to account for differences in property characteristics compared to the subject property, resulting in adjusted prices from \$610,849 to \$697,984. Subject's

residence is currently assessed for \$502,831, though Respondent requested the value be increased to \$861,747.

The final set of sales and corresponding analysis was offered in support of subject's total valuation. Three (3) sales were included in the model, two (2) from neighboring Kootenai County, both of which sold for \$995,000, and the same 100 Grandview Lane sale for \$1,100,000 from subject's subdivision. Each sale property was directly compared to subject, and adjustments were made for differences in property characteristics such as the amount of water frontage, construction quality, effective age, gross living area, garage size, and other improvements. At hearing, Respondent explained the sales grid pre-filed as an exhibit with the Board contained some errors in the adjustments and the adjusted sale price conclusions. The errors were verbally corrected on the record, with Respondent reporting corrected adjusted sale prices of roughly \$940,000 for Sale No. 1, and \$1,350,00 for both Sale Nos. 2 and 3. Subject's current total valuation is \$1,098,750, which Respondent argued should be increased to \$1,174,920 after reverting the land value back to the 2020 valuation and increasing the value of the improvements by 75%.

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) 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 typically valued using the sales comparison approach, which, as the name suggests, compares recent sales of similar properties to the subject property and makes appraisal adjustments for differences in property characteristics.

Though the parties agreed the value determined by the BOE was erroneous, they diverged significantly on what subject’s current market value should be, with Respondent petitioning the BOE’s value be increased to \$1,174,920, and Appellant arguing the value be decreased to \$749,928. The parties also agreed the original valuation model used to assess waterfront parcels in subject’s subdivision was flawed, which came to light when sales information not previously available to Respondent was brought forth by property owners from the subdivision. Against this backdrop, Respondent re-worked its modeling to include the new sales data and concluded waterfront land values should be returned to 2020 values, but that improvement values should be increased by 75%. The Board concurs subject’s 2020 land value represents the better indication of market value, as

evidenced by the vacant lot sales, which ranged in price from roughly \$1,700 to \$3,100 per front foot. Subject's 2020 land value was \$313,173, or \$2,466 per front foot, which is comfortably within the range indicated by the sales. That being said, the Board finds a further adjustment should be made for subject's lack of waterfront access.

In simple terms, access to a desirable water influence is a key component of a waterfront parcel's value. As it currently exists, the subject property lacks access to the lake. That is not to say waterfront access cannot be developed, but as evidenced by the bids provided to Appellant, such a proposition is neither easy nor inexpensive. Historically, subject's lack of waterfront access has been recognized through a 35% downward adjustment. That adjustment was reduced to 25% in 2016 and removed completely in 2019. The 35% reduction ordered by the BOE included a 10% adjustment for the waterfront access issue, though it was unclear how the adjustment was derived. One way to consider the issue is to look at the bids Appellant received to provide access to the waterfront. The estimated cost of the stairs represents roughly 25% of subject's 2020 land value, and the cost of the tram system equates to approximately 45% of the land value. The Board well understands that cost does not necessarily equal market value, but expected costs to improve a property can certainly factor into a purchase price decision, particularly in a case such as this where the improvement in question is to develop access to the lake, and the cost of this improvement is significant. Based on subject's prior assessment history of receiving topography adjustments of 20% and 35%, and with consideration given to the contractors' cost estimates, the Board finds a 25% downward adjustment appropriate for subject's waterfront access issues.

We turn now to the value of subject's residence. Respondent contended the value should be increased by 75% based on its revised valuation model. The Board disagrees. While the new model may broadly suggest residential improvement values need to be increased over 2020 levels, perhaps even by 75%, the Board is not convinced the same applies to subject's residence. Though a precise date was not apparent in the record, construction of subject's residence concluded in 2020. Appellant described several interactions with the assessor's office during and after construction to ensure the property record was accurate. Through these exchanges, the parties effectively reached an agreement on the value of the residence. This was demonstrated by subject's property record, which reported an initial value of roughly \$645,000 for the residence, which was reduced to \$557,028, and then reduced again to the current assessed value \$502,831. In other words, notable time and effort was already made examining the particular attributes of the subject residence to produce an accurate estimate of its market value. It is difficult for the Board to accept that the 2021 assessed value of \$502,831, which was the result of an in-depth examination of the subject residence and consultations between Appellant and the assessor's office, was "off the mark" by 75%, as is implied by Respondent's argument to increase the value by 75%. The Board is satisfied the 2021 assessed value of the residence is the better reflection of market value and so will accept that value.

Idaho Code § 63-511 places the burden of demonstrating error in subject's valuation by a preponderance of the evidence on Appellant. Given the record in this matter, the Board found the burden of proof satisfied and will therefore reduce subject's current assessed value.

Based on the above, the decision of the Bonner County Board of Equalization is modified to reflect a decrease in subject's 2021 valuation to \$737,711.

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 valuation to \$737,711, with \$234,880 attributable to the land and \$502,831 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 8th day of February, 2022.