

BEFORE THE IDAHO BOARD OF TAX APPEALS

JOSEPH AND SHARON HARKRADER,)	
)	
Appellants,)	APPEAL NOS. 21-A-1047 and
)	21-A-1048
v.)	
)	FINAL DECISION AND ORDER
BONNER COUNTY,)	
)	
Respondent.)	
)	
)	
_____)	

RESIDENTIAL PROPERTY APPEAL

These appeals are taken from two (2) decisions of the Bonner County Board of Equalization modifying the valuations for taxing purposes of property described by Parcel Nos. RP0004400A0070A and RP0004400A0080A. The appeals concern the 2021 tax year.

These matters came on for telephonic hearing November 16, 2021, before Board Member Leland Heinrich. Appellants Joseph and Sharon Harkrader were self-represented. Bonner County Assessor Donna Gow represented Respondent.

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

The issues on appeal concern the market values of two (2) residential properties.

The decisions of the Bonner County Board of Equalization are modified.

FINDINGS OF FACT

Parcel No. RP0004400A0070A (Appeal 21-A-1047)

The assessed land value is \$471,552, and the improvements' value is \$140,535, totaling \$612,087. Appellants agree with the value of the improvements, but contend the correct land value is \$192,118, for a total valuation of \$368,481.

This subject property is a .39 acre waterfront parcel with 62 front feet along the southwestern shores of Lake Pend Oreille. The property is located a couple miles east of Bayview, Idaho, in the gated Cape Horn Estates subdivision, near the border with Kootenai County. The property is improved with a 1,676 square foot multi-level residence constructed in 1975 and a wooden boat dock. For purposes of this decision this subject parcel will be referred to as Lot 7.

Parcel No. RP0004400A0080A (Appeal 21-A-1048)

The assessed land value of this vacant parcel is \$457,230. Appellants contend the correct land value is \$190,508.

This subject property is a .37 acre unimproved waterfront parcel with 66.2 feet on the lake. This parcel is adjacent to the above improved subject property (Lot 7), and for purposes of this decision it will be referred to as Lot 8.

Appellants first pointed out a mathematical error in the application of the adjustment ordered by the Bonner County Board of Equalization (BOE) with respect to Lot 7. Appellants, as well as other waterfront owners in subject's subdivision, appealed the 2021 assessments of their properties to the BOE. Owners were concerned with the sharp increase in land values. Lot 7's land value roughly tripled, from \$192,118 in 2020, to \$586,190 in 2021. The BOE ultimately concluded an adjustment to land values was appropriate so ordered a blanket 25% downward adjustment to waterfront land values throughout the subdivision. However, when calculating subject's new land value, a 20% adjustment was applied instead of the 25% adjustment ordered by the BOE. Rather than a total valuation of \$612,087 as reflected on the decision notice, the total valuation should have been \$583,428.

Appellants were concerned with the valuation model Respondent used to set initial assessed values in the neighborhood. In particular, Appellants highlighted it was developed using only a single sale which was argued to be a deficient number of data points upon which to build a reliable statistical model. The sale in question was the October 2020 purchase of the adjacent Lot 9 property for \$1,100,000. Prior to sale, the Lot 9 property had been extensively remodeled and updated. In addition to a new detached three (3) car air-conditioned garage with shop space in the loft, the prior owners had thoroughly renovated the interior and exterior of the residence. Some of the updating work included relocating the kitchen and installing new high-end appliances; installing a new metal roof with added skylights; rebuilding upper deck frames and replacement of deck, steps, and dock with composite decking; new windows and doors; upgrading the plumbing, bathrooms, and light fixtures; installing a new split HVAC system; and replacing the siding with fibrous cement siding. Appellants pointed to the 2021 assessed value of the improvements for Lot 9 of \$358,913 and argued Respondent attributed too little value to the newly-renovated improvements, resulting in an inflated residual value for the land of \$604,680, or roughly \$9,500 per front foot. Subject's initial land value equated to nearly \$9,200 per front foot, which Appellants contended far exceeded recent sales activity in the area.

Appellants provided information on three (3) vacant lot sales: one (1) from subject's subdivision and two (2) from neighboring Kootenai County. The sale from the subdivision was Appellants' January 2020 purchase of subject Lot 8 for \$200,000, or approximately \$3,000 per front foot. Of the vacant lot sales from Kootenai County, the first transaction included two (2) adjacent lots with a combined shoreline measurement of 137 feet. These

lots sold in August 2020 for \$227,500, or \$1,661 per front foot. The remaining vacant lot sale concerned a 1.29 acre waterfront parcel with 100 feet on the lake. This property sold in October 2020 for \$310,000, or \$3,100 per front foot. In Appellants' view, the land values of subject Lot 7 and Lot 8 should more closely approximate the rates reflected by the sales.

Respondent questioned whether Appellants' purchase of Lot 8 was an arm's-length transaction because it was a private sale negotiated by attorneys representing the respective parties. Appellants explained Lot 8 had been previously purchased in December 2018 for \$190,000. The purchaser's development plans were subsequently denied by the subdivision's Home Owner's Association. Rather than amend the building plans to secure the necessary approval, the owner elected to sell the property. And instead of listing the property on the Multiple Listing Service, the owner decided to sell Lot 8 to Appellants after months of negotiations between the parties' attorneys. Appellants stressed the purchase price was \$10,000 more than the previous owner paid for the property approximately thirteen (13) months prior and was consistent with prices paid for the other vacant waterfront lots in the area.

Respondent agreed the land values of both subject parcels were too high, which conclusion was reached after further study of the sales following the BOE appeal process. Respondent explained its original waterfront valuation model for the subdivision was based on the sale of Lot 9 for \$1,100,000 because that was the only waterfront sale from the neighborhood Respondent had knowledge of at the time assessments were generated. After analyzing the new sales data provided by Appellants and other waterfront owners, Respondent concluded its valuation model needed to be revised. In

particular, Respondent determined land values needed to be reduced to better align with the vacant lot sales described by Appellants above. Respondent's analysis further indicated improvement values needed to be increased throughout the neighborhood. Respondent petitioned the land values for both subject parcels revert back to the 2020 valuations of \$192,118 for Lot 7 and \$190,508 for Lot 8, but requested the value of the improvements on Lot 7 be increased by 75%. Appellants agreed with Respondent's proposed land values but opposed the recommended increase in the value of the improvements on Lot 7.

Respondent additionally developed two (2) sales comparison models, one (1) in support of the value of subject's residence and one (1) in support of the total valuation. The first model included three (3) sales improved with residences similar in age to the subject residence and with the same construction quality and condition ratings. The sales were non-waterfront properties located in other parts of the county and were smaller than subject's residence, ranging in gross living area from 908 to 1,431 square feet. Subject's residence has 1,676 finished square feet spread over three levels. Sale prices ranged from \$265,000 to \$335,000. As this analysis was focused on the value of subject's residence, Respondent removed assessed land values from the respective sale prices, as well as values attributable to any other improvements, resulting in residual price indications for the sale residences from \$108,729 to \$204,214. The sale prices were then adjusted for differences in square footage compared to subject, which yielded adjusted prices ranging from \$165,997 to \$232,780. Respondent's proposed valuation for subject's residence is \$216,136.

Respondent's final sales model included three (3) improved waterfront sales from subject's area. One (1) of the sale properties was the \$1,100,000 sale of adjacent Lot 9. The others were two (2) improved waterfront sales located a couple miles west of the subject property, in Kootenai County, both of which sold for \$995,000 during mid-2020. The first sale property was a .75 acre gently sloping parcel with 100 feet of relatively level shoreline. The parcel was improved with a 3,177 square foot recently remodeled residence and a large, detached shop with RV parking and space for four (4) vehicles. The property was further improved with a dock and a covered boat lift. The second sale property concerned a freshly updated 2,052 square foot residence with an attached two (2) car garage situated on a .43 acre parcel with 100 front feet on the lake. The property was also improved with a boat dock. The sale properties were compared to subject, and adjustments were made for differences in key property characteristics such as gross living area, construction quality, age, condition, front feet, and other improvements. Respondent calculated adjusted sale prices of \$582,576 and \$783,305 for the two (2) Kootenai County sale properties and \$818,015 for Lot 9 from subject's subdivision. Respondent's proposed valuation for the subject property is \$438,055, which was noted to be somewhat lower than the value suggested by the sales model.

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). The sales comparison approach is commonly used in the valuation of a residential property. In general terms, the approach examines recent sales of similar property and considers differences in the property characteristics between subject and the sale properties.

As subject Lot 8 is vacant, and the parties both agree the value should revert back to the 2020 valuation of \$190,508, the Board will reduce the assessed value of Lot 8 accordingly. In similar fashion, the Board will also reduce the land value of Lot 7 to its 2020 valuation of \$192,118, which includes Respondent’s standard \$13,000 rate for onsite improvements. These are the land values for which the parties petitioned and are well-supported by the available vacant waterfront sales from the neighborhood.

What remains is the value of the improvements on subject Lot 7. Respondent contended improvement values throughout the subdivision’s waterfront needed to be increased 75% to reflect current market levels. Though Respondent may be correct improvement values need to be broadly increased across the neighborhood, the Board

was not convinced Respondent's revised valuation model performed particularly well with respect to the subject property. Respondent's conclusion was reached by applying the vacant lot sales data to three (3) improved sales, all with sale prices of roughly \$1,000,000, whereas Respondent's proposed valuation for Lot 7 is less than one-half ($\frac{1}{2}$) the sale prices used to develop the valuation model. All three (3) sale residences were thoroughly remodeled and updated prior to sale, and all were noticeably superior to subject in many key aspects, including quality and condition. Admittedly, Respondent was constrained to the sales data available and was put in the difficult position of trying to develop a neighborhood valuation model based on that limited pool of information. It was evident to the Board Respondent made a good faith effort to value subject's neighborhood using the data available. And Respondent did make adjustments to the sale properties for purposes of comparison with subject, but with net adjustments ranging from 21% to 41%, it was apparent the sale properties bore little resemblance to the subject property. The Board struggled to correlate Respondent's proposed valuation for Lot 7 and the sales analysis. As such, the Board was hesitant to place much emphasis on the value conclusions reached.

Idaho Code § 63-511 places the burden on Appellants to establish subject's valuation is erroneous by a preponderance of the evidence. Based on the record in this matter, the Board found the burden of proof satisfied. The Board will revert the land values for the subject lots back to their respective 2020 valuations, as agreed by the parties and supported by the vacant land sales. Due to the underlying questions concerning the reliability of Respondent's valuation model to accurately estimate the value an older residence like subject's, which was constructed in 1975 and has not been updated since,

the Board was disinclined to increase the value of subject's improvements beyond the original 2021 valuation.

In consideration of the above, the decisions of the Bonner County Board of Equalization are modified.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decisions of the Bonner County Board of Equalization concerning the subject parcels be, and the same hereby are, MODIFIED as follows:

Appeal No. 21-A-1047 – Parcel No. RP0004400A0070A (Lot 7)

Land	\$192,118 (includes \$13,000 for onsite improvements)
<u>Improvements</u>	<u>\$140,535</u>
Total	\$332,653

Appeal No. 21-A-1048 – Parcel No. RP0004400A080A (Lot 8)

Land	\$190,508
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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.

DATED this 7th day of March, 2022.

NOTICE OF APPEAL PRIVILEGES

Enclosed is a Final Decision and Order of the Idaho State Board of Tax Appeals concerning two (2) appeals.

Motion for reconsideration of the hearing record or motion for rehearing the appeal (with good cause detailed) may be made by filing such motion with the Clerk of the Board within ten (10) days of mailing of the Final Decision and Order, with a copy of the motion being sent to all other parties to the proceeding before the Board.

According to Idaho Code § 63-3812, either party can appeal to the district court from this decision. Pursuant to Idaho Code § 63-3812, the appeal shall be taken and perfected in accordance with Rule 84 of the Idaho Rules of Civil Procedure.

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