

BEFORE THE IDAHO BOARD OF TAX APPEALS

SANTORINI, LLC,	)	
	)	
Appellant,	)	APPEAL NOS. 21-A-1063 and
	)	21-A-1064
v.	)	
	)	FINAL DECISION AND ORDER
BONNER COUNTY,	)	
	)	
Respondent.	)	
	)	
	)	
	)	

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**RESIDENTIAL PROPERTY APPEAL**

These appeals are taken from two (2) decisions of the Bonner County Board of Equalization modifying appeals of the valuation for taxing purposes on properties described by Parcel Nos. RP0004400A0110A and RP0004400A0100A. The appeals concern the 2021 tax year.

These matters came on for telephonic hearing November 18, 2021, before Hearing Officer Travis VanLith. President Donna Schau appeared at hearing for Appellant. 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 values of two (2) residential properties.**

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

FINDINGS OF FACT

Parcel No. RP0004400A0110A (Appeal 21-A-1063)

The assessed land value of this vacant parcel is \$496,517. Appellant contends the correct land value is \$238,868.

This subject property is a .32 acre unimproved waterfront parcel with 72 feet of shoreline on the southwestern side of Lake Pend Oreille. The parcel is located a couple miles east of Bayview, Idaho, in the gated Cape Horn Estates subdivision situated next to the border with neighboring Kootenai County. For purposes of this decision, this subject property will be referred to as Lot 11A.

Parcel No. RP0004400A0100A (Appeal 21-A-1064)

The assessed land value of this parcel is \$500,890, and the improvements' value is \$241,765, totaling \$742,655. Appellant agrees with the value of the improvements, but contends the correct land value is \$248,725, for a total value of \$490,490.

This subject property is located adjacent to the above vacant parcel and will be referred to as Lot 10A. This .30 acre waterfront parcel enjoys 74 front feet on the lake. The property is improved with a 2,336 square foot multi-level residence constructed in 1992. Other improvements include three (3) small utility sheds and a boat dock which is accessible by a series of stairs down the steep hillside.

With respect to vacant Lot 11A, Appellant explained the lot suffers from soil instability issues and recently experienced a landslide. Appellant has done some remediation work since the slide but reported such efforts have only minimally improved the situation. In Appellant's estimation, there is an insufficient amount of stable ground on the parcel to support a residence, and it argued some consideration should be given for the stability issues. Respondent commented subject's stability issues had not been raised until the hearing, so Respondent was unaware of any problems. That being said, Respondent argued Lot 11A was buildable because it is wider than many of the other developed parcels in the neighborhood, and therefore no adjustment was warranted.

Appellant's initial concerns stemmed from the 2021 assessment notices for the subject properties which showed the land values had more than tripled from the prior year's values. Appellant learned all waterfront properties in the subdivision received similar increases in land value and further discovered the increase was due to a single sale from the subdivision: the October 2020 purchase of the neighboring Lot 9A property for \$1,100,000. Respondent utilized this sale to develop a valuation model for waterfront parcels in the subdivision, which resulted in sharp increase in land values. Appellant was critical of Respondent's reliance on just one (1) sale and was particularly concerned with how the sale price was allocated between the land and improvements. Appellant detailed extensive upgrades and additions made to the Lot 9A property prior to its sale. Specifically, the prior owner replaced the roof and added skylights; replaced the exterior siding; rebuilt the upper decks and replaced the decking on both decks, the steps, and the dock with composite decking material; replaced the doors and windows; added a new split-duct HVAC system; replaced the septic tank and pump; relocated the kitchen and added new cabinets and high-end appliances; installed new tile flooring; upgraded plumbing and light fixtures; and updated the bathrooms and bedrooms. The prior owner additionally constructed a detached three (3) car air-conditioned garage with shop space in the loft. Appellant pointed out the total 2021 assessed value of the improvements on Lot 9A was roughly \$360,000, which Appellant viewed as inadequate given the level of upgrades made to the property.

Disagreeing with subjects' initial valuations, Appellant timely appealed to the Bonner County Board of Equalization (BOE), as did a number of other waterfront owners from the subdivision. It was during the BOE process Respondent first learned of some

additional sales information from the subdivision and neighboring Kootenai County which suggested waterfront land values in the subject's neighborhood were too high. Ultimately, the BOE reduced all waterfront land values in the subdivision by 25%, with some parcels suffering from unique detriments receiving additional adjustments. Though the 25% reduction ordered for both subject parcels was appreciated, it was insufficient in Appellant's view to reflect an accurate representation of subjects' market values.

In support of a further reduction in subjects' land values, Appellant offered information on three (3) vacant waterfront sales from 2020. The first was a .37 acre parcel located in subject's subdivision with 66 front feet on the lake which sold in January 2020 for \$200,000, or \$3,030 per front foot. The remaining two (2) sales were located in Kootenai County a couple miles distant from the subject properties. The first sale involved two (2) adjacent waterfront lots purchased together with a combined shoreline measurement of 137 feet. The lots sold for \$227,500, or \$1,661 per front foot, in August 2020. The final vacant lot sale concerned a 1.25 acre parcel with 100 waterfront feet and a November 2020 sale price of \$310,000, or \$3,100 per front foot. By contrast, subject Lot 11A is assessed at \$496,517, or roughly \$6,700 per front foot, and the land value of subject Lot 10A is \$500,890, or nearly \$7,000 per front foot. Appellant argued subjects' respective land values should better align with the price rates of the vacant lot sales.

Appellant additionally provided information concerning a number of improved sales from the Bayview area. Five (5) of the sales transpired during 2019, and three (3) transpired during 2020. One (1) of the 2019 sales was located inside subject's subdivision, and the others were located in neighboring Kootenai County. The 2019 sale prices ranged from \$466,000 to \$849,000. The 2020 sales concerned two (2) properties

from Kootenai County, each of which sold for \$995,000, plus the Lot 9A sale from subject's subdivision for \$1,100,000. Appellant contended the three (3) 2019 sale properties with purchase prices in the \$500,000 range were more representative of subject than the roughly \$1,000,000 sales from 2020.

Appellant also offered some assessment data concerning a variety of residences. The referenced residences, constructed between 1978 and 2019, ranged in size from 1,160 to 6,963 square feet. Assessed values stretched from roughly \$74 to \$141 per square foot. Appellant highlighted three (3) residences with the same "average" condition rating as subject's residence but higher construction quality ratings of "average+" and "good." Assessment rates ranged from roughly \$82 to \$90 per square foot. Subject's residence has a construction quality rating of "average" and is assessed at roughly \$86 per square foot. With subject's rating being lower than those of the referenced residences, Appellant reasoned the valuation rate should likewise be lower.

Based on the above sales and assessment information, Appellant contended the improvements' valuation for subject Lot 10A should remain unchanged at \$241,765, and the land value should be decreased to \$248,725, which represents a 15% increase over the 2020 valuation and is the same level of increase Kootenai County applied to Bayview lakefront land values on its side of the county line.

With respect to Lot 11A, Appellant argued the land grade should be reduced from "average" to "fair" due to its difficult topography, and an additional 25% downward adjustment should be applied for the soil stability issues. With these adjustments, Appellant calculated a land value of \$155,783 and petitioned the Board to reduce Lot 11A's valuation accordingly.

Respondent explained its initial valuation model for subject's waterfront neighborhood was developed using a single sale, because that was the only sale from the subdivision reported to the assessor's office since 2016. After analyzing the new sales information brought forth by property owners during the BOE appeal process, Respondent concluded adjustments needed to be made to its model. Instead of increasing waterfront land values, the new analysis indicated the value adjustments needed to be applied to the improvements. In the end, Respondent contended subjects' land values needed to return to their respective 2020 valuations, and the improvements on Lot 10A needed to be increased by 75%.

To support its new value recommendations, Respondent developed two (2) sales comparison approach models: one (1) for subjects' land values and one (1) in support of the total valuation of subject Lot 10A. The land value model utilized the same three (3) vacant waterfront lot sales outlined by Appellant above. The first was the January 2020 sale of Lot 8 from the subdivision with 66.23 waterfront feet for \$200,000, or roughly \$3,030 per front foot. The remaining two (2) sales were located in Kootenai County. The sale properties had 137 and 100 front feet on the lake and respective sale prices of \$227,500 and \$310,000, or \$1,660 and \$3,100 per front foot. Respondent adjusted the respective sale prices for difference in shoreline measurement compared to subject, resulting in adjusted sale price rates from \$1,522 to \$3,445 per front foot. Based on the indicated value range, Respondent concluded the land value of subject Lot 10A should be reduced to \$203,283, or \$2,823 per front foot, and the value of Lot 11A should be reduced to \$207,711, or \$2,807 per front foot.

For the total valuation of subject Lot 10A, Respondent likewise developed a valuation model using three (3) recent improved waterfront sales. Sale No. 1, located in Kootenai County, concerned a waterfront parcel with 100 front feet on the lake improved with a 3,177 square foot recently remodeled residence with an effective age of six (6) years. Though details were not shared, Respondent reported the property also included nearly \$130,000 in other improvements. This property sold in June 2020 for \$995,000. Sale No. 2 was the sale of the much-discussed adjacent Lot 9A for \$1,100,000 in October 2020. Sale No. 3 concerned a 2,052 square foot residence situated on a waterfront parcel with 100 feet of shoreline. Due to the updates to the residence prior to sale, Respondent estimated the effective age at six (6) years. This Kootenai County property sold in August 2020 for \$995,000. Respondent directly compared each sale property to subject Lot 10A and made adjustments for differences in property characteristics such as shoreline length, construction quality, condition, age, gross living area, garage size, and other improvements. The analysis yielded adjusted sale prices from \$577,210 to \$966,973. Respondent concluded a value of \$639,372 for Lot 10A, which was noted to fall 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 market value in fee simple interest or, as applicable, a property's exempt status. This Board, giving full opportunity for all arguments and having considered all the testimony and documentary evidence submitted by the parties, 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. Idaho Code § 63-201 provides the following definition,

“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 the market value of real property. *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 various appraisal adjustments for differences in property characteristics.

Both parties offered numerous sales and corresponding analyses, which efforts were appreciated by the Board. There are two (2) primary issues in these appeals: one (1) concerning the land values of the respective subject parcels and one (1) related to the total valuation of subject Lot 10A. With respect to the land values of the subject lots, both parties agreed the values should be reduced to the 2020 valuations. The Board concurs. Subjects' 2020 land values better align with the price rates of the vacant waterfront lot sales, and therefore the Board will reduce subjects' respective land values accordingly.

That being said, the 2021 valuation of Lot 11A did not include any consideration for the soil stability issues which recently caused a land slide on the lot. Appellant has completed some of the initial remediation work to improve the stability of the steep hillside,



but from the photographs provided, it is evident further efforts are needed to remedy the issue. Appellant did not offer any estimates on the cost to suitably stabilize the lot, but it is reasonable to conclude a potential buyer would consider the remediation costs in a purchase decision. Without a full understanding of the severity of the issue, nor any cost to cure estimates from Appellant, the Board will apply a modest 5% downward adjustment to the value of Lot 11A, resulting in a valuation of \$197,325.

Regarding the total valuation of subject Lot 10A, Respondent contended the value of the improvements should be increased by 75%. Respondent reached this conclusion based on an analysis of the new sales information provided by property owners in subject's subdivision. While the Board favorably viewed Respondent's efforts to re-work its valuation model using the new sales data, there were questions concerning how well the model performed with respect to subject Lot 10A. The biggest concern was Respondent's revised model was developed using three (3) roughly \$1,000,000 sales. Subject's subdivision is an eclectic mix of properties, ranging from minimally improved lots with just a dock to fully developed parcels with expansive residences and other associated amenities and improvements. With a model based exclusively on higher-end properties, there were naturally some questions regarding the reliability of the model in estimating the market value of a less developed property with a notably older residence like subject Lot 10A.

To illustrate the Board's concerns, one needs only to look at the residences associated with the 2020 sales versus subject's residence. The subject residence was constructed in 1992 and has not been updated since. The quality of construction was rated "average" by Respondent, and the condition rating was also "average." The sale

residences, by contrast, all had superior construction quality ratings, and each had been extensively remodeled prior to sale. Two (2) of the sale residences also had superior condition ratings, with only the adjacent Lot 9A property having the same “average” condition rating as subject. From a visual perspective alone, the subject residence bears little resemblance to any of the sale residences. The dissimilarity was further apparent in the net adjustments Respondent applied to the respective sale prices for purposes of comparison with subject, which ranged from 12% to 42%. Gross adjustments were even larger. Such high levels of adjustment suggest a notable degree of dissimilarity with the subject property and weaken the reliability of the resulting value conclusion. The Board understands Respondent was tasked with developing a valuation model based on a limited number of sales and so does not fault Respondent’s good faith attempt to make the model fit the neighborhood. Ultimately, however, there were too many questions with how the model performed on lesser-developed properties, like subject Lot 10A, for the Board to place primary emphasis on the analysis.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of demonstrating error in subjects’ valuations by a preponderance of the evidence. Given the record in this matter, the Board found the burden of proof satisfied and will reduce subjects’ respective 2021 valuations.

The decisions of the Bonner County Board of Equalization are modified as detailed in the below Final Order.

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-1063 (Lot 11A) - Parcel No. RP0004400A0110A

Land Value: \$197,325

Appeal No. 21-A-1064 (Lot 10A) – Parcel No. RP0004400A0100A

Land Value: \$216,283 (includes \$13,000 for onsite improvements)

Improvement Value: \$241,765

Total Value: \$458,048

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 that under certain circumstances the above ordered value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 8<sup>th</sup> day of March, 2022.

IDAHO BOARD OF TAX APPEALS