

BEFORE THE IDAHO BOARD OF TAX APPEALS

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| IDAHO MIGRANT COUNCIL, INC., |) | |
| |) | |
| Appellant, |) | APPEAL NO. 25-A-1005 |
| |) | |
| v. |) | FINAL DECISION AND ORDER |
| |) | |
| POWER COUNTY, |) | |
| |) | |
| Respondent. |) | |
| |) | |
| _____ |) | |

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Power County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. RPA1357-03. The appeal concerns the 2025 tax year.

This matter came on for hearing September 30, 2025, in American Falls, Idaho, before Hearing Officer Travis VanLith. Management Agent Dianne Hunt appeared at hearing for Appellant. Power County Assessor Laura Porath represented Respondent.

Board Members Leland Heinrich, Kenneth Nuhn, and Doug Wallis join in issuing this decision.

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

The decision of the Power County Board of Equalization is reversed.

FINDINGS OF FACT

The assessed land value is \$226,000, and the improvements' value is \$920,000, totaling \$1,146,000. Appellant contends the correct total value is \$539,131.

The subject property is a twenty-four (24) unit restricted apartment complex located in American Falls, Idaho. The development consists of three (3) 6-plex buildings,

one (1) 4-plex building, and one (1) office/duplex building. The subject property is a Section 514/516 USDA Farm Labor Housing (FLH) development through a program operated by the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs office, which places certain restrictions on how the property can be used. Appellant, currently operating as Community Council of Idaho, is a nonprofit organization that, in addition to owning four (4) Section 514/516 housing developments in southern Idaho, is also involved in many other initiatives in Idaho, including medical clinics and various youth and employment programs.

In simple terms, the Section 514/516 FLH programs provide housing to domestic farm laborers, including retired and disabled farm workers. Loans with 33-year terms at 1% interest are made to farmers, family farm corporations, Native American tribes, public agencies, or, in this case, a nonprofit organization for construction of the housing development. In addition to being a farm worker, an eligible tenant must also satisfy an income requirement, which is less than 50% of the area's median income. Rents are capped at 30% of an eligible tenant's income. Rent subsidies are used to bridge the difference between the tenant's rent amount and the full rental rate of the unit, which rental rate is reviewed and approved annually by the USDA. Citing 7 CFR Part 3560, Appellant explained subject's rents must be based on the operating, management and maintenance expenses, and other costs related to the housing project, including loan payments. Appellant estimated roughly 80% to 85% of the subject property's income is in the form of rent subsidies.

In highlighting the increase in subject's assessed value from roughly \$587,000 last year to \$1,146,000 for the current year, Appellant questioned whether Respondent's

valuation methodology considered the restrictions on the subject property as an FLH development. Appellant stressed Idaho requires a property to be assessed according to its actual and functional use. To this end, Appellant developed an income approach model based on subject's actual income and expense data from fiscal year 2024, which was from July 1, 2023, through June 30, 2024. Applying Respondent's 7.25% capitalization rate to the roughly \$39,000 net operating income, Appellant calculated a value of approximately \$540,000 for the subject property. Appellant also offered an income model using subject's fiscal year 2025 figures, which yielded a rounded value indication of \$515,000.

In addition to the above income models, Appellant shared a recent conversation with an appraiser who specializes in affordable housing properties who suggested a value of \$35,000 per unit would be a reasonable sale price for a 40-year-old property like subject. Though no details or other data were offered to support the \$35,000 per unit estimate, Appellant explained the figure reflected the expectation that the purchaser would likely utilize tax credits to improve the property and continue to operate it as a low-income housing development.

In support of subject's current assessed value, Respondent developed value indications using the cost approach, the income approach, and the sales comparison approach. Respondent's cost approach evaluated subject's improvements as 33-year-old Class D – Low-Cost structures in "fair" condition, though at hearing Respondent suggested the condition should be "poor" due to the repair needs of the property. Respondent determined a replacement cost figure of \$149 per square foot, or roughly \$3,680,000. To this, Respondent applied a 75% physical depreciation factor, resulting in

a value indication of \$920,001 for subject's improvements. After adding a \$226,000 land value, Respondent concluded a total value of \$1,146,001 for the property.

Due to the absence of sales of FLH developments in the county, Respondent's sales comparison approach utilized five (5) sales of Section 42 Low-Income Housing projects from across Idaho, all of which transpired in 2019. The sale properties, constructed from 1993 to 2004, varied in unit count from nineteen (19) to eighty (80) units. Sale prices ranged from \$1,500,000 to \$5,150,000, or from roughly \$44,000 to \$98,000 per unit. Applying the median sale price of approximately \$71,000 per unit to subject's twenty-four (24) units, yielded a value indication of \$1,716,667.

For the income approach, Respondent offered several different models. The first utilized subject's actual income, but not expenses. In Respondent's view, subject's nearly 81% expense ratio was unreasonable and atypical so should not be relied on. Instead, Respondent used a 5% vacancy rate, a 5% management expense, and a roughly 33% operating expense rate. The result was a net operating income figure of approximately \$105,000, to which Respondent applied a 7.25% capitalization rate derived from the above-referenced sales of Section 42 housing developments. Respondent concluded a value of \$1,679,800 under this income model.

Respondent's second income analysis relied on subject's actual income and expense data. Using the same 7.25% capitalization rate, Respondent calculated a value of \$554,800 under this model.

Respondent's third income model again utilized subject's actual income, but restricted the expenses to \$5,000 per unit, or an overall expense ratio of roughly 58%, as

Respondent said is done with Section 42 housing projects. This model yielded a value indication of \$1,186,866 for the subject property.

In the final reconciliation of values, Respondent did not place any weight on the sales comparison and cost approaches, even though the latter approach was used to determine subject's assessed value. In Respondent's opinion, the third income approach model, which concluded a value of \$1,186,866, was the best indicator of subject's value in this case.

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, 2025, 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 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).

Both parties developed value opinions utilizing recognized appraisal approaches, which efforts were appreciated by the Board. That being said, there were some notable differences in the respective approaches taken. At the core, the biggest source of divergence between the parties' methodologies was in the recognition of the subject property as an FLH development, which is a very specific and highly unique property type. According to Appellant, there are only six (6) currently active FLH projects in Idaho, four (4) of which are owned by Appellant.

Unlike other low-income housing programs, such as a Section 42 development, the FLH program restricts potential tenants to farm workers. Another key difference is in how rents are determined. Section 42 rents are determined by median area income, whereas rents at an FLH development are based on cash uses, or expenses, of the property. Pursuant to 7 CFR § 3560.202, "Rents and utility allowances for rental units in Agency-financed housing projects are set by the borrower and *must be based* on the operating, management and maintenance expenses and other costs related to the housing project including loan payment amounts due to the Agency." (Emphasis added.) Appellant explained the USDA annually reviews subject's financial reports and approves the rents for next fiscal year. There are additional differences between Section 42 and FLH properties, but the key takeaway is the two (2) property types are distinct and should not be valued similarly.

While the Board understands Respondent's use of Section 42 housing developments in its sales comparison approach was due to a lack of data regarding FLH projects, Section 42 properties are simply not comparable to FLH properties. In the Board's view, the lack of special consideration for subject's specific use restrictions and

unique place in the market was a fatal flaw in Respondent's sales comparison. In similar fashion, Respondent's income models relied on expense data from Section 42 housing projects which have vastly different operating structures and expense ratios than FLH properties. Respondent's income models also included a figure of \$15,749 for "tax credit value," though it was not apparent how that number was calculated or why it was included, as no tax credits are associated with the subject property. Given these concerns, the Board placed little weight on Respondent's income and sales comparison analyses.

The same lack of consideration for subject's restricted status was also present in Respondent's cost approach, where no external/economic obsolescence was included in the analysis. In basic terms, economic obsolescence is an impairment of a property due to detrimental influences outside the property and property owner's control. The strict FLH restrictions placed on the subject property represent a clear example of economic obsolescence, as they are detriments outside the control of the property, and those same restrictions would carry forward to any buyer of the property. Though Respondent's reliance on the cost approach was understandable under the circumstances, the cost approach is typically reserved for recently constructed improvements due to the difficulty in accurately estimating all forms of depreciation for older buildings. In all, the Board was not persuaded Respondent's cost approach represented the best indicator of subject's market value in this instance.

Better received by the Board was Appellant's income approach. First, the income approach is commonly used to estimate the market value of income-producing properties, because such properties are typically traded based on their income potential. Generally, inputs into the income approach, such as income and expenses, are based on typical

market rates. However, in the absence of data concerning typical market rates, such as a special-use property for which there are few, if any, comparable properties in the marketplace, it is appropriate to rely on the actual figures of the property being evaluated. In this case, there are simply no other FLH properties in the county, and only a handful of such properties in all of Idaho, so the only available data is subject's actual income and expense figures. This is consistent with Idaho Code § 63-208, which instructs the assessor to find the market value of all taxable property in the county according to recognized appraisal methods and techniques, "provided, that *the actual and functional use shall be a major consideration* when determining market value for assessment purposes." (Emphasis added.)

Given the relevant date of valuation in this appeal is January 1, 2025, the Board found it appropriate to rely on subject's fiscal year 2024 income and expense data, which ended June 30, 2024, rather than the fiscal year 2025 data, which includes data from after the valuation date.

Idaho Code § 63-511 places the burden on Appellant to establish subject's valuation is erroneous by a preponderance of the evidence. In short, the Board found the burden of proof satisfied. Under the circumstances presented here, the Board found Appellant's income model utilizing subject's income and expense data for fiscal year 2024, as it occurred prior to January 1, 2025, the best evidence of subject's current market value. The decision of the Power County Board of Equalization is reversed accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Power County Board of Equalization concerning the subject parcel be, and the

same hereby is, REVERSED, setting the total assessed value at \$540,000, with \$433,508 attributable to the improvements and \$106,492 to the land.

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 8th day of December, 2025.