

BEFORE THE IDAHO BOARD OF TAX APPEALS

RCF ENTERPRISES, LLC,	)	
	)	
Appellant,	)	APPEAL NO. 23-A-1255
	)	
v.	)	FINAL DECISION AND ORDER
	)	
BANNOCK COUNTY,	)	
	)	
Respondent.	)	
	)	
	)	
	)	

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Bannock County Board of Equalization modifying the valuation for taxing purposes on property described by Parcel No. RPRPTRI001400. The appeal concerns the 2023 tax year.

This matter came on for hearing October 30, 2023, in Pocatello, Idaho, before Board Member Doug Wallis. Manager Robert Fakrell appeared at hearing for Appellant. Bannock County Assessor Anita Hymas 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 Bannock County Board of Equalization is modified.

FINDINGS OF FACT

The original assessed land value was \$68,600, and the improvements' value was \$773,064, totaling \$841,664. The Bannock County Board of Equalization (BOE) reduced the total valuation to \$760,706, with \$692,106 attributable to the improvements and \$68,600 to the land. Appellant contends the correct total value is \$200,000.

The subject property is a .13 acre commercial parcel located in Pocatello, Idaho. The property is improved with a 5,680 square foot building, with 4,551 square feet on the main floor operating as a dental office and 1,129 square feet in the basement.

Construction of the subject building was finished in August 2013. Over the ensuing two (2) weeks, the property experienced substantial flooding twice. The basement was entirely flooded out, and the water depth on the main floor reached a couple feet. Appellant shared it took roughly eighteen (18) months and a total cost of nearly \$525,000 to repair the damage caused by the flooding. Appellant explained flooding occurs at the property nearly each year, though not to the extent of the 2013 floods. During these lesser flooding events, the fire department attempts to pump water away from the subject building, but the availability of such assistance is not guaranteed. Appellant described the subject property as uniquely prone to flooding, with nearby properties not experiencing similar water issues.

According to Appellant, the City of Pocatello has acknowledged inadequacies with the storm drain system and is exploring options to remedy the issue, but nothing has yet been done. Appellant also attempted to obtain flood insurance for the subject property, but one (1) quote was denied outright, and the other quote was contingent on there being at least two (2) adjacent buildings being affected by a water event before it would be considered a flood. In other words, because subject is uniquely impacted by the regular flooding where other adjacent properties are not, flood insurance is not available, which means Appellant bears the risk if another major flood occurs. In Appellant's view, a reasonable buyer would not pay full value for a property prone to flooding for which flood

insurance is not available, as the financial risks are too great. Appellant argued subject's valuation should be heavily discounted until the storm drain issue is resolved.

Respondent was aware the basement flooded in 2013 and that there is a potential issue related to the storm drainage system in subject's area. Due to the basement flooding, Respondent proposed assigning \$0 value to subject's basement, which proposal was adopted by the BOE, resulting in the reduction of the assessed value to \$760,706. It was not until the hearing before this Board that Respondent first learned subject's main floor was also flooded with a couple feet of water during the 2013 floods. Respondent maintained however, no reduction was warranted for the main floor because the flood damage was remediated years ago, and Appellant's dental practice has been able to operate.

In support of subject's assessed value, Respondent offered limited details on two (2) recent sales of professional office buildings. Sale No. 1 concerned a building with a total of 13,022 square feet spread evenly between the main floor and basement which sold for \$3,755,800, or \$288 per square foot in March 2021. Sale No. 2 was a 22,000 square foot single-level building with a January 2022 purchase price of \$3,081,800, or \$140 per square foot. No other details regarding the sale properties were shared. Respondent regarded subject's assessed value of roughly \$760,000, or \$167 per square foot, reasonable compared to the sales.

Respondent additionally provided limited assessment data concerning four (4) dental offices in the city. All the buildings were single-story designs over basements, with main floors ranging in size from 3,990 to 5,008 square feet and basements from 1,000 to 3,990 square feet. Using main floor size figures, Respondent calculated assessment rates

ranging from \$205 to \$244 per square foot, which was noted to exceed subject's assessed valuation rate of \$167 per square foot.

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, 2023, 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 market value. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Commercial property is typically valued using the income approach or the sales comparison approach.

The core issue in this appeal centers around whether subject's current assessed value accurately reflects the increased risk associated with the flooding issues that uniquely impact the property. According to Appellant, the city has acknowledged inadequacies with the storm drain system, but has yet to remedy the issue, so the subject

property continues to experience flooding events regularly. The Board of Equalization gave some consideration for the flood risk by removing the assessed value of the basement. Respondent contended no further adjustment should be applied to the main floor because the flood damage was repaired, and Appellant's dental practice has been operating.

While the Board acknowledges the damage from the 2013 floods has been remedied, the flood risks associated with subject's particular location have not been. And as evidenced by the photographs and Appellant's testimony, some degree of flooding occurs nearly every year. In other words, there is a level of uncertainty and risk associated with subject's location which is not shared by other similar commercial properties. Appellant has been unable to obtain flood insurance for the property so must bear the financial burden when the next major flood occurs. Given the increased risk, not only to the building itself but also to the business continuity and potential lost profits in the event of a major flooding event, it is difficult for the Board to accept that a prospective buyer would not insist on a steep discount to the purchase price. Admittedly, without sales of similarly affected properties, any adjustment for subject's unique flooding problem would be subjective. However, where the flooding issue is as pervasive as demonstrated in this particular instance and with no remediation efforts under way, it is clear to the Board the flooding issues will likely persist; In the Board's view this warrants further adjustment to subject's assessed value.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of proving error in subject's valuation by a preponderance of the evidence. Under the circumstances presented here, the Board found the burden of proof satisfied, though did not find support

for the value petitioned by Appellant. Due to the persistent flooding issues and related risks, the Board will reduce subject's total valuation to \$500,000. The decision of the Bannock County Board of Equalization is modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bannock County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in total valuation to \$500,000, with \$431,400 attributable to the improvements and \$68,600 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 20th day of February, 2024.