BEFORE THE IDAHO BOARD OF TAX APPEALS

IN THE MATTER OF THE APPEAL OF BHC INTERMOUNTAIN HOSPITAL, INC. from the decision of the Ada County Board of Equalization for tax year 2013.	))))	APPEAL NO. 13-A-1097 FINAL DECISION AND ORDER

COMMERCIAL PROPERTY APPEAL

THIS MATTER came on for hearing November 26, 2013 in Boise, Idaho before Hearing Officer Travis VanLith. Board Members David Kinghorn, Linda Pike and Leland Heinrich participated in this decision. Attorney Robert Burns and witness Neil Salzgeber appeared at hearing for Appellant. Prosecuting Attorney Ray Chacko and County Appraiser Craig Church appeared for Respondent Ada County. This appeal is taken from the decision of the Ada County Board of Equalization denying the protest of valuation for taxing purposes of property described by Parcel No. S1007346902.

The issue on appeal is the market value of a behavioral healthcare hospital facility.

The decision of the Ada County Board of Equalization is affirmed.

FINDINGS OF FACT

The assessed land value is $1,610,600, and the improvements' valuation is $10,090,400, totaling $11,701,000. Appellant requests the land value be reduced to $1,600,000, and the improvements' value be reduced to $6,390,000, totaling $7,990,000.

The subject property is a 155-bed licensed behavioral healthcare facility. Subject totals approximately 82,600 square feet which is spread across eight (8) buildings making up the campus. The buildings were built in stages between 1980 and 2006. The property is situated on 8.7 acres and located in Boise.

Appellant provided an independent fee appraisal with an effective valuation date of January 1, 2013. The early portions of the appraisal report discuss the healthcare market, as well as the regional and local demographics and real estate market.

In the appraisal's cost approach, land value was derived from two (2) land sales and two (2) active listings. Using these market comparables a land value of $1,610,000 was concluded. Appellant used a Class D (average) type construction and an effective life of 50 years for the buildings. Contrasting this, Respondent used a "good" grade versus "average". Appellant estimated the cost new for the improvements at $12.7 million. A deprecation allowance of $5,786,857 was deducted from the $12.7 million. When land value and the value of ancillary buildings were added to the improvements value, the total cost approach value was $9,600,000. The cost approach was given secondary weight in the reconciliation process, in the real estate only analysis.

Respondent contended that Appellant's cost approach depreciated short-lived items at a higher rate than the long-lived items. Further, Respondent had issue with the application of large depreciation rates without actually examining the roof, flooring, and other short-lived items. Short-lived items were depreciated between 71% and 80%.

Looking at the sales comparison approach, Appellant noted real estate-only psychiatric facility sales were scarce, and therefore long-term acute hospital sales were also examined. A 15% downward adjustment was made for these facilities as they were deemed superior to psychiatric facilities. Five (5) out-of-state sales were examined. A location adjustment was derived from Marshall & Swift cost information. Using the sales comparison approach, a value conclusion of $9.1 million was reached. It was noted the improved sales reflected current market conditions and the properties were deemed comparable to subject. Appellant placed significant weight on the sales approach in reconciliation.

Respondent argued Appellant's sale information lacked specific details with which to reliably determine the degree of comparability. Specifically there were no income and expense details, no property use information, nor any details surrounding the financing of the sales. Also lacking was information detailing the building space devoted to each aspect of the compared care centers. The gross adjustments on the sale properties were noted to range between 66% and 111%. Respondent contended with such large adjustments the sales were not comparable. Further, it was noted the price per square foot figures ranged widely between \$69 and \$137. It claimed this variance was too wide for the sales to be considered comparable.

For Appellant's income approach, most of the rents examined were from long term acute care or rehabilitation facilities. Appellant used a \$11.58 per square foot lease rate and a 10% capitalization rate. Using this approach a \$9.5 million value conclusion was reached. Significant weight was also placed on this approach. Respondent noted the rental data used in Appellant's income approach also required significant adjustments. With the exception of one being adjusted 47%, the gross adjustments were between 90% and 111%. Given the large adjustments, Respondent argued the rental conclusions were not credible as evidence.

The following values were specified in Appellant's appraisal:

Cost Approach	\$9,600,000
Income Approach	\$9,500,000
Sales Comparison Approach	\$9,400,000
Market Value Conclusion	**\$9,500,000**

Respondent submitted a narrative appraisal focusing on the cost approach to value. The cost approach was used due to the lack of good comparable sales. It was reported for 2009, that subject was appraised and assessed on the basis of a Marshall & Swift cost approach. In

2012, subject's assessed value was determined by trending the 2009 value determination.

Respondent reported that as a test of reasonableness, and after subject's current assessment was appealed, an updated 2013 Marshall & Swift analysis was prepared. It was claimed the updated cost approach indicated the current assessed value was conservative. In its 2013 appraisal, Respondent looked to each individual building, in particular looking at use, square footage and effective age, in order to apply the appropriate depreciation allowance. Respondent's appraiser testified using the cost approach provided the most accurate depiction of value, and by using the Marshall & Swift method of deprecation, it yielded the most accurate results.

From the indicated 2009 cost approach value, Respondent "backed into a rental rate to use in the Income Approach." The value was trended for 2013 based on what was happening in the market regarding rents, capitalization rates and sales. It was explained that this was done to make the trending of values easier.

Respondent considered the rental rates and sale prices of other medical use properties to determine the reasonableness of its assessed value under the cost approach. It was concluded when comparing subject's rental rate of $12.83 per square foot with rentals of medical office or hospital space, subject's rent was lower than all the others. Respondent's value conclusions follow:

Cost Approach	$10,152,780
Income Approach	$11,701,000
Total Value Conclusion	**$11,701,000**

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, or as applicable exempt status. This Board, giving full opportunity for all arguments and having considered all testimony and documentary evidence submitted by the parties in support of their respective positions, hereby enters the following.

Idaho requires all non-exempt property be assessed annually at market value on January 1 of the applicable tax year; January 1, 2013 in the present case. See Idaho Code § 63-205. 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.

There are three (3) generally accepted methods for determining market value; the sales comparison approach, the income approach, and the cost approach. See *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979).

On appeal both parties explained their considerations of each approach to value. Appellant gave considerable weight to the sales comparison approach. The Board agreed with Respondent, in that, the supporting detail regarding the presented sales was limited. The thin or missing data included income and expense information, and the actual use of the sale properties. The gross adjustments made to Appellant's sales were deemed to be too high to be reliable. In the record, the Board found the evidence of good comparable sales was thin. Consequently we hold more weight and reliance should be given to the cost and income approaches.

In estimating subject's cost new, Appellant used a Class D "average" construction rating in the cost approach. Respondent used a "good" type construction rating. In this case, where

Respondent's appraiser relied on actual property details, about each building in the campus, we judge the "good" rating to be more reliable. The Board was also reluctant to rely on Appellant's cost approach where short-lived items were depreciated 71% and 80% without benefit of a physical examination of the items. In our opinion, the large adjustments were problematic.

Appellant's income approach examined the rents from other long term acute care or rehabilitation facilities. Again, the conclusion was premised on large adjustments in arriving at the $9.5 million value conclusion. The Board viewed this evidence with caution and did not find it to be persuasive evidence of an accurate value indicator.

Respondent reportedly considered all three (3) valuation approaches, but preferred the cost approach due to lack of comparable sales. Respondent's analysis specially considered each individual building associated with the larger campus. Under the circumstances here, the Board found this approach to be warranted and beneficial given the different buildings and ages. In its income approach, Respondent used income and expense data obtained from the market. Respondent applied an 8% capitalization rate. The value conclusion was $11,701,000. On the whole, the Board found subject's assessed value was supported.

Appellant bears the burden of proving error in subject's assessed value by a preponderance of the evidence. See Idaho Code § 63-511. Appellant presented a different appraisal consideration than that offered by Respondent. However, the different appraisal was not found to prove over-assessment, or to prove another error in the County's 2013 assessment. Appellant did not meet its burden of proof. Accordingly, the Decision of the Ada County Board of Equalization will be affirmed.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Ada County Board of Equalization concerning the subject parcel be, and the same hereby is, AFFIRMED.

DATED this 29th day of April, 2014.