BEFORE THE IDAHO BOARD OF TAX APPEALS

MOTIVEPOWER, INC., Appellant, v. ADA COUNTY, Respondent.	)))))))))))	APPEAL NO. 14-A-1115 FINAL DECISION AND ORDER

INDUSTRIAL PROPERTY APPEAL

This appeal is taken from a decision of the Ada County Board of Equalization denying the protest of valuation for taxing purposes of property described by Parcel No. S1036212550. The appeal concerns the 2014 tax year.

This matter came on for hearing November 6, 2014 in Boise, Idaho before Hearing Officer Cindy Pollock. Attorney Terri Pickens represented Appellant. Deputy Prosecutor Catherine Freeman represented Respondent.

Board Members David Kinghorn, Linda Pike and Leland Heinrich participated in this decision.

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

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

FINDINGS OF FACT

The assessed land value is $2,416,300, and the combined improvements' valuation is $9,731,900, totaling $12,148,200. Appellant contends the total value is $9,000,000.

The subject property is a heavy industrial property located in Boise, Idaho. The 48.34 acre parcel is improved with sixteen (16) buildings of varying sizes. The buildings are dedicated to different uses ranging from general administrative offices to fabrication. Most of the buildings were constructed in the 1970s and 1980s, though two (2) were constructed in the 1990s. The total gross area of all the building improvements is 232,295 square feet. The site is additionally improved with a large paved parking lot, roughly 12,000 linear feet of medium weight railway tracks, one (1) 40,000 and one (1) 60,000 gallon collection tank, a concrete wash pit, a 200,000 gallon above-ground cistern, and a sunken concrete loading dock. The subject property is operated as a locomotive manufacturing and repair business.

Appellant submitted an independent fee appraisal report prepared by a local MAI appraiser. The effective valuation date of the retrospective appraisal was January 1, 2014. The appraisal described subject as a unique property type specially suited for manufacturing diesel-electric locomotives. The appraisal explored the three (3) primary approaches to value. The income approach was ultimately considered inapplicable due to subject's existing special use improvements. The appraisal concluded it was unlikely a purchaser would acquire the property with the intent of leasing the improvements. Further, given its current use there was no local rental data for such a facility by which to process an income approach. As such, an income approach analysis was deemed inapplicable.

The appraisal first sought to develop a value opinion for subject's land using a sales comparison approach. The analysis considered five (5) industrial land sales and six (6) active listings. Ranging from 5.17 to 16.287 acres, the sale lots were somewhat smaller than subject's 48.34 acre site. Sale prices were between $147,000 and $1,350,000, or between $0.47 and $1.90 per square foot. After making quantitative adjustments to the sales, adjusted sale prices ranged from $0.50 to $1.66 per square foot. The active listings concerned land tracts between 22.61 and 93.71 acres in size. This information was used to gauge the upper end of potential value for the subject site. Asking prices ranged from $1.05 to $2.50 per square foot. Based on the sales and listing information, the appraisal concluded a land value rate for subject of $1.00 per square foot, or $2,105,690.

In processing the cost approach the appraisal considered each subject building individually. The base valuation rates used for each building were sourced from the Marshall Valuation Service (MVS). The base rates were adjusted using local, perimeter, and current multipliers. Due to the varying effective ages, a depreciation factor was developed for each subject building. Rather than using MVS depreciation tables, the appraisal employed a straight-line depreciation method. The appraisal concluded a total depreciated value of $7,903,633 for subject's improvements. Adding the land value from above resulted in a total value estimate of $10,010,000 under the cost approach.

The appraisal's sales comparison approach weighed ten (10) improved industrial sales. Two (2) of the sales closed in 2006 and the remaining sales occurred between 2009 and 2013. Half of the sales were located in Boise and the other half were situated in neighboring Canyon County. Land values were removed from the sale prices to determine residual improvement values. It was noted removing land values effectively eliminated the need for location adjustments, which in turn allowed for consideration of sales from a wider geographical area. Adjusted prices for the sale improvements ranged from $9.42 to $34.56 per square foot. Though rates for the individual subject buildings varied, the appraisal concluded overall average rate of $25.73 per square foot, or $5,976,690, for the improvements. The land value was then added, resulting in a total sales comparison approach value estimate of $8,082,380.

The value indications from the cost and sales comparison approaches were equally weighted in the final reconciliation. A total value of $9,000,000 was concluded for the subject property.

Respondent questioned some aspects of the appraisal's cost and sales comparison approaches. Of particular concern regarding the cost approach was the appraisal's reliance on MVS for all input factors, except depreciation. Respondent contended the MVS depreciation tables should have been used instead of the straight-line method employed by the appraisal. Respondent re-worked the appraisal's cost approach model using MVS depreciation tables, which yielded an improvements' value of $11,843,186, and therefore a total value indication of $13,948,876. Appellant's appraiser testified the industry standard in private appraisal is to not rely on MVS depreciation tables.

Respondent also expressed concern with some of the sale properties used in the fee appraisal's sales comparison approach on the basis they were located in Canyon County. In Respondent's view, the appraisal should have restricted its geographical search parameters to sales located only in Ada County. Appellant countered the special-use nature of the subject property necessitated consideration of sales outside the immediate area because there was an insufficient number of more proximate comparable sales. Further, Appellant explained land values were removed from the respective sale prices, which served to minimize any locational influence. It was also noted the improved sales were used only to develop a value opinion for subjects' improvements. A separate land analysis, using different sales, was used to estimate subject's land value.

Respondent explained subject was last reappraised in 2010 using a cost approach analysis. The various input factors, including depreciation, were obtained from MVS. Market trending was used to value subject for subsequent assessment years, including 2014. It was noted Respondent did not perform an on-site inspection during the reappraisal effort in 2010, nor for the current assessment. Relying on industry publications, Respondent determined the local industrial real estate market appreciated somewhat during 2013. However, because subject's improvements also depreciated further during 2013, Respondent concluded no change in value for the 2014 assessment. The only difference in subject's current assessment, compared to the prior, was the result of a policy change regarding the valuation treatment of underground storage tanks. Previously, underground storage tanks were considered personal property items and included in personal property assessments. The new policy removed underground storage tanks from the personal property category and instead assessed them as improvements to real property. This change caused the total value of subject's improvements to increase by $12,200 for 2014.

Though not directly considered in determining subject's assessed value, Respondent provided information concerning three (3) groups of sales. The first group included four (4) vacant industrial land sales. The sales information was used to test the reasonableness of subject's assessed land value. The lots varied in size from 1.239 to 16.402 acres. Sale prices were between $131,149 and $1,500,000, or between $2.10 and $3.38 per square foot. Based on size Sale No. 3, which sold for $2.10 per square foot, was regarded as most comparable to subject. Subject's land value of $2,416,300 equates to a value rate of approximately $1.15 per square foot.

The next two (2) groups of sales were used to evaluate the reasonableness of some of the value conclusions reached in Appellant's appraisal. One (1) group included eight (8) warehouse sales from 2012 and 2013. Sizes of the sale warehouses ranged from 2,940 to

60,920 square feet and lot sizes were between .34 and 4.56 acres. Sale prices were between $130,288 and $2,335,000. In an effort to isolate improvement values Respondent removed land values from the respective sale prices. The result was a range of improvement values from $83,088 to $1,546,300, or from $25.38 to $53.50 per square foot. Based on this information, Respondent opined the $25.73 per square foot rate the appraisal concluded for subject's warehouse improvements was low.

The next sale group focused on subject's office improvements. Six (6) improved commercial office sales from 2011, 2012, and 2013 were included in the analysis. The sale lots ranged from .18 to 1.24 acres and the office buildings were between 2,370 and 24,900 square feet in size. Sale prices were between $230,000 and $2,800,000. Removing land values from the sale prices indicated residual improvement values between $164,800 and $1,972,356, or from $69.54 and $89.26 per square foot. Appellant's appraisal concluded a rate of $35 per square foot for subject's office improvements.

Appellant challenged the comparability of Respondent's sales to subject. Regarding the warehouse sales, Appellant highlighted they all were notably smaller than subject in terms of both lot and improvement size. Further noted was the warehouse sales were light manufacturing facilities, not heavy industrial operations like subject. Appellant likewise contested Respondent's office sales on the basis of their smaller size. Additionally, Appellant remarked the sale offices were superior to subject in construction quality and multi-use capability. Subject's office improvements were described as basic in quality, design, and function. Indeed, some of subject's office space is attached to, or housed in, the warehouse buildings. In Appellant's view, the restricted use options for subject's office space was a negative value influence.

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 Code § 63-205 requires taxable property be assessed at market value annually on January 1; January 1, 2014 in this case. 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. There are three (3) approaches to value, the sales comparison approach, the cost approach, and the income approach. *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Both parties presented a cost approach analysis, and Appellant additionally offered a sales comparison approach.

As characterized by the parties, subject is a unique special-use industrial property comprised of multiple buildings and other improvements used to manufacture and repair locomotives. Adding to the difficult appraisal is the fact the improvements were constructed at different times. As such, there is considerable variance in the effective ages of the improvements, which directly impacts the depreciation factors applied to each improvement. Indeed, the primary difference between the parties' respective cost approaches centered on depreciation. Respondent relied on the depreciation schedules provided by the Marshall

Valuation Service. Appellant contended a straight-line depreciation approach was appropriate and represented the "industry norm" in appraising properties like subject.

Admittedly, determining appropriate depreciation can be a subjective process, so variance in the parties' cost approach models is not surprising. That being said, proper appraisal requires support for the depreciation factor(s) used. A key part of determining depreciation is a careful consideration for the condition of the improvements on the effective date of valuation. Often this is accomplished through a physical onsite inspection of the improvements. Commonly, an inspection reveals important details about the improvements and allows an opportunity to observe unique conditions or features which would not otherwise be evident. For a special-use property like subject, with multiple improvements constructed over many years, the Board views an onsite inspection as particularly important in determining informed depreciation rates.

Respondent acknowledged an inspection of subject was not part of the current assessment. The same was true when subject was reappraised in 2010. Rather, Respondent observed subject from a nearby public street. And an overhead satellite image was used to determine the layout of the various improvements. Appellant's appraisal on the other hand, included a thorough onsite inspection of the subject facility including the interiors and exteriors of each building. Photographs were provided along with detailed notes describing the physical characteristics and varying conditions of the improvements. This high-level degree of personal knowledge regarding the subject improvements was found by the Board to provide persuasive support for the depreciation factors used in Appellant's fee appraisal. To be clear, the Board's finding on this issue is not a declaration that a straight-line depreciation model must be used instead of MVS depreciation tables. Rather, in this particular instance, support for the fee appraisal's depreciation methodology was superior to that offered for the method employed by Respondent.

In similar fashion, the Board found the fee appraisal's sales comparison approach reasonably developed and well-supported. Understandably there were some differences between subject and the sale properties due to subject's unique business operations and plant configuration. These differences however, were accounted for in the adjustment analysis, during which each sale property was directly compared to subject and individual adjustments to the sale prices were made. Again, thorough details about the sales and support for the adjustments in the comparison analysis were provided.

Respondent also provided some sales information, but did not perform a "traditional" sales comparison analysis. Instead, Respondent isolated different components of subject's facility and looked at sales of similar type improvements. This analysis was offered as a test of reasonableness for the value conclusions reached in Appellant's appraisal. While the Board appreciates Respondent's effort in this regard, the methodology is not consistent with a typical sales comparison analysis. Of particular concern is such a comparison fails to reflect the realities of the subject improvements' actual use; as an integrated industrial manufacturing operation. The sale properties considered by Respondent were stand-alone facilities designed and built specifically to accommodate the single use for which they were intended. They were not part of a larger integrated operation and in this regard not similar to subject's improvements.

In appeals to this Board, Appellant bears the burden of proving error in subject's assessment by a preponderance of the evidence. Idaho Code § 63-511. The burden of proof was satisfied in this instance. Appellant's value evidence was found to be better focused on subject's actual use and reasonable support for the various inputs and adjustments was offered. Overall, Appellant was found to present the superior valuation case.

Based on the above, the decision of the Ada County Board of Equalization is reversed to reflect a total value of $9,000,000 for the subject property.

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, REVERSED setting the assessed value at $9,000,000, with $2,105,690 attributable to subject's land, and $6,894,310 to the improvements.

IT IS FURTHER ORDERED that 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.

DATED this 26th day of March, 2015.