BEFORE THE IDAHO BOARD OF TAX APPEALS

IN THE MATTER OF THE APPEALS OF SELCO SENECA CONSOLIDATED from decisions of the Twin Falls County Board of Equalization for the tax year 2013.	)))))	APPEAL NOS. 13-A-1179, 13-A-1180, 13-A-1181, and 13-A-1182 FINAL DECISION AND ORDER

INDUSTRIAL PROPERTY APPEALS

THESE MATTERS came on for consolidated hearing November 22, 2013 in Twin Falls, Idaho. Presiding was Hearing Officer Cindy Pollock. Board Member David Kinghorn was also present at hearing. Board Members David Kinghorn, Linda Pike and Leland Heinrich participated in this decision. Attorney Robert Burns, Plant Manager Robert Severa, Controller Lori Jenkins, and Appraisers Tim Landolt, Stephen Olson and Steve Letman appeared at hearing for Appellant. Twin Falls Deputy Prosecutor Melissa Kippes, Assessor Gerry Bowden and Appraiser Scott Erwin appeared for Respondent Twin Falls County. These appeals were taken from decisions of the Twin Falls County Board of Equalization denying the protests of valuation for taxing purposes of properties described by Parcel Nos. PPB7246031510AA, PPB72460315100A, PP000192750000A and LRB72460315250A.

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

The decisions of the Twin Falls County Board of Equalization are modified.

FINDINGS OF FACT

Parcel No. PPB7246031510AA (Appeal No. 13-A-1179)

The assessed value of this personal property parcel is $7,102,220. Appellant requests the value be reduced to $4,332,354.

Parcel No. PPB72460315100A (Appeal No. 13-A-1180)

The assessed value of this personal property parcel totals $5,464,598, which includes

$3,365 of furniture and fixtures, and $5,461,233 in equipment. Appellant requests the total value be reduced to $3,299,300, before application of the $100,000 personal property exemption.

Parcel No. PP000192750000A (Appeal No. 13-A-1181)

The assessed value of this personal property parcel is $980,355. Appellant requests the value be reduced to $598,016.

Parcel No. LRB72460315250A (Appeal No. 13-A-1182)

The assessed improvements value on this parcel is $7,249,409. Appellant requests the value be reduced to $4,422,140.

The subject properties comprise four (4) of six (6) associated parcels which operate together as a frozen vegetable processing facility (hereinafter “Plant”) in Buhl, Idaho. Only the four (4) above-described parcels were appealed, however, information related to the outstanding two (2) parcels was provided at hearing and included in some of the parties’ respective value conclusions. While the non-appealed parcels were discussed, the Board’s decision here applies to the appealed parcels.

Appellant detailed the history of the Plant, which commenced operations roughly 70 years ago. The Plant was originally designed for mostly corn and sugar snap peas canning. In 1995, Appellant purchased the Plant and continued the canning operation. The decision was made in 2010 to discontinue the canning and instead to focus on frozen vegetable processing, as well as some packaging services for third-party vegetable processors. To this end, frozen vegetable processing equipment was installed and a new frozen warehouse was added, totaling 104,860 square feet. The new property was put into production in 2011.

In discussing its operations, Appellant revealed the Plant is a cost center for the company's larger business enterprise. No revenues are recognized at the Plant because sales of the Plant's products occur at the higher corporate level. As such, only cost information is tracked at the Plant. A detailed list of costs and production data for fiscal year 2013, which ended March 31, 2013, was provided.

In support of reducing subjects' values, Appellant submitted an independent, retrospective market value appraisal. The effective date of valuation was January 1, 2013. The appraisal developed value indicators using the sales comparison, cost, and income approaches. Each approach considered the subject property as part of a single economic unit. Accordingly, the value conclusions in each approach reflected the total Plant, not just the parcels appealed here.

The appraisal did not provide an allocation of total value among the individual parcels. According to the appraisal, a typical buyer for a facility like the subject Plant is purchasing its production at a fixed cost structure, not the individual components on a stand-alone basis. Stated differently, because the Plant is an integrated frozen vegetable processing facility, in which it would be impractical to sell its individual components, the appraisal valued the Plant's various real and personal property parcels as a single unit.

The appraisal provided in-depth details about the frozen vegetable processing industry from different perspectives. It was explained that corn and peas are more similar to a commodity than a product, which means producers in this industry are forced to compete not just at the local or national level, but globally. The appraisal further noted a market trend away from frozen vegetables to fresh produce. Additionally, the appraisal reported a number of plant closures and consolidations over the past ten (10) years, which has further economically pressured frozen vegetable producers. Overall, the appraisal painted a difficult and highlycompetitive frozen vegetable processing market in which the subject Plant competes.

In its sales comparison approach, a location map depicting the locations of all frozen vegetable processing facilities in the United States was offered. There were roughly 50. Nearly all the facilities are clustered either in the Pacific Northwest, the Midwest, the Mid-Atlantic, or the New England regions. The map showed only two (2) facilities in Georgia and two (2) in California. The subject Plant was conspicuously isolated in Idaho. This was viewed as a notable disadvantage because the Plant is forced to be completely self-reliant, whereas the clustered facilities enjoy the benefit of sharing freezer space, as well as other asset sharing. Such pooling of resources reduces costs, which in turn contributes to increased profitability.

The appraisal discussed frozen vegetable processing facilities which have sold since 2003. The sales comparison approach focused on four (4) of the recent sales and one (1) listing from 2012 for comparison with subject. The appraisal thoroughly detailed the physical characteristics of the compared facilities, as well as, production capacity and the terms of sale. The appraisal's unit of comparison was price per pound of fresh pack production. Numerous quantitative and qualitative adjustments were made to the sale facilities for comparison with subject. After adjustments, a value range between $0.030 and $0.108 per pound of fresh pack production was indicated. The appraisal concluded a value of $0.10 per pound of fresh pack production for the subject Plant, which equated to an overall value for the facility of $8,079,350. After adding a land value of $231,325, the final value indication under the sales comparison approach was $8,310,675.

The appraisal next developed a cost approach using a market extraction method to estimate accrued depreciation. The concept in this technique is to study the relationship between the replacement cost new (RCN) of a facility and the sale price of said facility. By dividing the sale price by the cost new for the same facility, a sale price-to-RCN ratio can be calculated. “The ratio represents the accumulated depreciation or percent good attributable to that specific facility given the conditions of sale.” (Appellant’s Exhibit 14, p. 73).

In considering the subject Plant, the appraisal focused on the 20 most comparable frozen vegetable processing plants. The lower end of the value bracket for subject was determined by Sale Nos. 1 and 4 in the above sales comparison approach. The percent-good conclusions were 9.8% and 13%, respectively. The upper bound of value was developed from two (2) sales situated in Washington State. These sales suggested percent-good figures of 24.6% and 24.1%. A percent-good factor of 20%, or 80% depreciation, was used for the subject Plant. This factor was applied to the estimated RCN of $40,000,000, which was concluded using the calculator method wherein the cost of subject’s buildings, structures, and yard improvements were derived from the Marshall Valuation Service. This cost approach model yielded a value indication of $8,000,000, to which subject’s $231,325 land value was added.

Lastly, the appraisal offered an income approach analysis. Because subject is a cost center, an estimated revenue allocation to the Plant was provided from the corporate office. Another difficulty with developing the income approach for subject was that the facility had only recently changed its operations from canning to frozen bulk product. This change occurred for the 2012-2013 production year. As such, only revenues and costs during this period were used to forecast future cash flow. The present value of subject’s projected cash flow was discounted at 14.2%. The discount rate resulted from a weighted average cost of capital model. After a deduction of 10% for working capital, the approach concluded a total value of $8,178,000.

In reconciliation, the appraisal afforded greater weight to the income and sales comparison approaches. Lesser weight was assigned to the cost approach due to the inherent difficulty of accurately capturing depreciation for a facility like subject. After reconciliation, the total indicated value of the Plant was $8,300,000, which excluded the inventory value.

While the appraisal presented a total Plant value of $8,300,000, Appellant noted its requested values were notably higher. In total, Appellant requested a value of $12,651,810 for the appealed parcels, which excludes the roughly $4,300,000 combined assessed value of the two (2) parcels not appealed. The reason for the higher requested values was based on an argument of consistency. Respondent applied an obsolescence factor of 39% to the two (2) parcels not appealed. Appellant contended the adjustment should have likewise been applied to the parcels appealed here, even though they represent property recently built or installed. It was reasoned the same obsolescence should be applied to the entire Plant because the individual parcels comprise a single operating unit.

Respondent explained the 39% obsolescence factor applied only to the Plant's older buildings, not the equipment. The adjustment factor was noted to have been derived from the Plant's historical production data, which data had not been provided by Appellant for several years. Respondent recognized there was likely some obsolescence which should be included in the final value conclusion. However it was remarked that without more information at the time of assessment, an accurate estimate of the obsolescence was not possible.

Respondent first discussed how the personal property parcel (Appeal No. 13-A-1181) was assessed. A list of 23 items related to the freezer tunnel operation was provided by Appellant. Using the valuation schedules provided by the Idaho State Tax Commission, each item was individually valued. In all, the equipment associated with this parcel was valued at $980,355.

Also toward demonstrating how the remaining appealed parcels were assessed, Respondent submitted a trended investment cost method report for each parcel. This approach examines the original cost of an individual component and trends it forward into a current estimate of RCN. A percent-good factor was then determined and applied to each component, which yielded a depreciated replacement cost new (DRCN) estimate. To this, an obsolescence factor was applied to arrive at the final value, which represents the assessed values in this case.

At hearing, Respondent provided an appraisal report which considered the value of the Plant's buildings excluding one (1) older warehouse building. Respondent was unable to find recent sales of facilities like the subject Plant, so instead it focused on recent sales of industrial shell buildings. Seven (7) such sales, located in Idaho and Utah, were examined. The sale properties ranged in year built from 1972 to 2009, and in size from 14,856 to 423,395 square feet. Respondent used an effective age of 1998 for the subject Plant and a size estimate of 465,211 square feet. After removing land values from the compared sale properties, the building residual prices ranged from $384,550 to $23,875,000, or from $20.74 to $53.46 per square foot.

By making comparisons within the sale properties set, Respondent determined per-square-foot adjustment rates for location, size, and condition. Applying these adjustments to the sale prices, a narrower price range was calculated, between $26.33 and $46.60 per square foot. Using the indicated median rate of $29.89 per square foot, Respondent determined a value of $13,905,156 for the Plant's buildings.

Appellant contested the comparability of the sales offered by Respondent. It was noted that with the exception of Sale No. 1, none of the sale properties approximated the subject Plant in terms of square footage. Of more concern to Appellant was that none of the sale properties shared a use similar to that of the subject Plant. Some of the sales were also noted to be multi-tenant buildings, which Appellant contended was not comparable to the single-tenant subject Plant.

Respondent's appraisal report next looked to develop values for the Plant's main processing facility, the freezer tunnel, and the frozen warehouse using a trended investment cost approach similar to that described earlier. For the main processing portion of the Plant, Respondent listed each individual improvement and personal property component and calculated a DRCN for each. To this an obsolescence factor of 76% was applied, which yielded a total value of $8,914,978 for the main processing facility. A similar analysis was performed for the freezer tunnel equipment and the frozen warehouse parcels. As these components were built or installed in 2011, no obsolescence factor was applied. The analysis indicated final values of $7,249,409 for the frozen warehouse and $7,102,220 for the freezer tunnel equipment. The preceding cost analyses totaled approximately $23,267,000.

Appellant challenged the validity of Respondent's trended investment technique with respect to how it was applied to the main processing facility. Citing excerpts from an appraisal manual published by the American Society of Appraisers, Appellant argued Respondent's model was improper. Specifically, "[t]rending should not be applied to anything other than a historical cost, that is, the cost of a property when it was first placed into service by its first owner . . . [t]rending the costs of used equipment is improper because costs of used equipment are generally not impacted over time at the same rate as new costs." (Appellant's Exhibit 17, p. 3.) Appellant noted Respondent used 1995, the date Appellant purchased the Plant, as the starting point for assessing the equipment. Because the equipment was not new at the time of the Plant's purchase, Appellant contended Respondent's trended investment cost model was inappropriate and should be disregarded.

Respondent also developed a value indication using the income approach. Due to the unavailability of income information related to the subject Plant, Respondent's income approach focused on the value of the Plant's buildings. As such, the analysis considered rental properties deemed most comparable to the Plant's buildings. Six (6) industrial properties located around Idaho were considered, five (5) of which were active listings. Sizes of the compared properties ranged from 10,540 to 82,528 square feet and lease rates varied between $1.80 and $6.00 per square foot. Asking prices were adjusted downward by 10%, which adjustment was derived from Respondent's sales comparison approach. The indicated capitalization rates were between 7.34% and 10.94%. Respondent applied a lease rate of $1.84 per square foot to the subject Plant's 465,211 square feet and capitalized the net annual rent at 8.43%. The result was a total value indication of $9,974,298 for Plant's buildings.

Appellant challenged the appropriateness of the properties included in Respondent's income approach because none were food processing facilities. Further noted was the size difference between the subject Plant and the compared properties. Appellant also expressed concern with Respondent's use of an 8.43% capitalization rate which was not developed using food processing plants.

In its final reconciliation, Respondent assigned 50% weight to the cost approach, 40% to the sales comparison approach, and 10% to the income approach. This weighting yielded a value of $8,426,551 for the Plant's buildings, excluding the older warehouse. Respondent attributed a value of $12,563,453 to the Plant's machinery and equipment, and $164,000 for the underlying land, resulting in a total Plant value of $21,154,004.

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.

For purposes of taxation, Idaho requires all taxable property be assessed annually at market value on January of the relevant tax year. 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 cost approach, the income approach and the sales comparison approach. *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Both parties developed value opinions using the above appraisal approaches, though the parties' respective value conclusions were widely divergent.

The Board recognizes subject is a unique property, as are many large industrial properties. Indeed, the subject Plant represents the only frozen vegetable processing facility in Idaho. There is a mix of old and new assets used together, and a recent shift to the new frozen vegetable processing operation. The difficulty of accurately estimating the value of the Plant was not lost on the Board. The valuation challenge, however, does not alter the statutory requirement that the Plant be appraised for tax purposes at full market value.

In determining the assessed values of the subject parcels, Respondent relied on the trended investment cost method. While the approach is a widely used and a long accepted appraisal method, the model developed by Respondent was found to contain a material weakness as related to the Plant's main processing area. As provided in the appraisal manual text submitted by Appellant, it is considered by some to be improper to trend used equipment prices in a trended investment technique. In regards to the newer Plant assets, Respondent's modeling was fairly sound, however lacked a measurement of any special obsolescence. This was mitigated somewhat by the relatively young age of this property and the fact that it was generally performing as planned.

On the older assets, Respondent used cost figures from 1995, the year Appellant purchased the Plant. Much of the existing equipment had been in service for many years at the time of acquisition. Consequently, the starting point of Respondent's cost approach model was found to be imprecise or at least problematic. The same issue was not present in the valuation of the freezer tunnel and frozen warehouse portions because those assets were put into use during 2011, which historical costs were the starting point used in Respondent's analysis.

On appeal, Respondent also developed a full appraisal wherein the Plant's value was considered using all three (3) approaches to value. While the Board appreciated the efforts in this regard, there were concerns identified in each approach. The most notable concern related to the sales and listings used in the income and sales comparison approaches. The compared properties bore little resemblance to the subject Plant. The size difference between the compared parcels and subject was noticeably large. Likewise, the types of properties represented in the analyses were not similar to the subject Plant, other than they fit under the general industrial property umbrella. The Board further found that support for key appraisal adjustments was thin. The cost approach, prepared on appeal, suffered from the same issues identified above in discussing Respondent's original cost analysis. In the Board's view, Respondent's appraisal did not adequately support the value conclusions contained therein.

Appellant's appraisal also employed all three (3) valuation approaches, the specifics of which need not be recounted here. Relatively speaking, each approach was thoroughly detailed and the support for many adjustments came from market data sources. Some of the adjustments appeared large on their face value, yet, with the exception of the cost approach, there was generally insufficient evidence or analysis in the record to demonstrate lower adjustments would be more appropriate. Overall, Appellant's appraisal was better received by the Board.

Appellant petitioned the subject parcels be assessed at a *higher* level than the value suggested by its appraisal. Appellant contended the 39% obsolescence factor Respondent applied to certain older portions of the subject Plant also be used on the remaining parcels. The argument advanced was that because the Plant is a single integrated unit, the entire facility effectively suffered from the same obsolescence. Respondent acknowledged some obsolescence may exist with the newer portions of the Plant, but remarked it lacked the information necessary to quantify an adjustment.

While certain portions of the Plant were put into service quite recently, these components were designed to work with the older sections of the Plant. Indeed, they are physically attached to the older portions. The Board understands the Plant is comprised of several tax parcels, however they do not function in an independent capacity. It is important to note the adjustment factor advocated for the newer components is not physical depreciation, but rather a measurement of functional and economic obsolescence that pertained more to the now discontinued canning operation.

Idaho Code § 63-208 provides in pertinent part, " . . . The rules promulgated by the state tax commission shall require each assessor to find market value for assessment purposes of all property . . . according to recognized appraisal methods and techniques as set forth by the state tax commission; provided, that *the actual and functional use shall be a major consideration* . . . ." (Emphasis added). The facts presented here demonstrably show the various parts of the Plant do not function independently, but instead as an integrated unit. However the Board did not find it prudent to measure and apply depreciation in a single step, or in an across-the-board fashion. The 39% obsolescence factor was shown to bear some relationship to the older assets, but it was not prepared to specifically measure extraordinary or external obsolescence which might exist with the newer frozen vegetable processing assets. The Board did not find where adjusting the other parcels' values by an additional 39% produced the best evidence of market value.

Ultimately the Board relied primarily on Appellant's appraisal evidence in deciding these appeals. We did find certain adjustments to the appraisal were warranted. Chief amongst these was placing a greater weight on the cost approach information. This consideration was deemed to be well supported where much of the subject property is almost new and where we only found marginal evidence to suggest a substantial extraordinary depreciation allowance. Though the effort to extract depreciation from the market was noble, the Board did not find the result produced a reliable estimate for the Plant; particularly as it pertained to the recently-acquired property.

In reviewing the reconciliation of different approaches, the Board found the cost approach should receive a roughly equal consideration to that afforded the income and market approaches. In the end, the Board favored a more balanced consideration of each approach. Some minor consideration was also given to the cost information offered in Respondent's case.

In appeals to this Board, Appellant bears the burden of proving error in subjects' assessed values by a preponderance of the evidence. Idaho Code § 63-511(4). Given the specific facts of this case, the Board is satisfied that burden was met.

The Board finds the Plant's total market value is properly reflected at $13,350,000, excluding exempt inventory. A specific weighting to each of the different value indicators was not made. This was a complex case and direct comparisons were at times impractical.

Appellant did not raise an issue of allocation, nor were all the Plant parcel assessments appealed. Deducting the combined assessed value of $4,507,752 for the two (2) parcels which were not appealed, leaves a remaining value of $8,842,248 to be allocated among the four (4) appealed parcels. Using the same proportion of total value that each parcel had in the original assessments, the Board determined the following final values by parcel.

Parcel No.	Value
PPB7246031510AA	$3,019,707
PPB72460315100A	$2,323,427[1]
PP000192750000A	$ 416,825
LRB72460315250A	$3,082,289

[1] This value is understood to be prior to application of the $100,000 personal property exemption, which currently exists on this parcel.

For the reasons expressed above, the decisions of the Twin Falls County Board of Equalization will be modified.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decisions of the Twin Falls County Board of Equalization concerning the subject parcels be, and the same hereby are, MODIFIED as detailed in the chart above.

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 21st day of April, 2014.