Merrill, Hannah

Subject: RE: Ad Valorem Tax Dilemma?

From: pearl hewett [[redacted]]
Sent: Sunday, October 06, 2013 12:13 PM
To: Van De Wege, Rep. Kevin; steve.tharinger@leg.wa.gov; Hargrove,Jim
Cc: connie beauvias; info@justwateralliance.org; Karl Spees; marv chastain; Randy Dutton; Brian and Brooke; Delane Hewett; Tristin Hewett; judymiller[redacted]; Sandy Rains; Vi; Don; Windy Boulden; Misty Rains; zSMP; notac@olypen.com; Jo Anne Estes; robert crittendend; Miller, Sheila Roark; McEntire, Jim; Steve Gray; Rick Forschler -; Frank M Penwell; Jim Boyer; Lois Perry; Sue Forde; marg[redacted]; randy simmins; Ed B; Keith Olson; Sandy Collins; harry bell; Jay Petersen; Dick Pilling
Subject: Ad Valorem Tax Dilemma?

Ad Valorem Tax Dilemma?

Posted on October 6, 2013 10:19 am by Pearl Rains Hewett *Comment*

IN CLALLAM COUNTY, INDEED AD VALOREM TAX is a situation in which PAM RUSHTON, our county assessor, must choose one of two or more UNSATISFACTORY alternatives.

AN AD VALOREM TAX (Latin for "according to value") IS A TAX BASED ON THE VALUE OF REAL ESTATE or personal property.

An ad valorem tax is typically imposed at the time of a transaction(s) (a sales tax or value-added tax (VAT)), BUT IT MAY BE IMPOSED ON AN ANNUAL BASIS (real or personal property tax) or in connection with another significant event (inheritance tax)

The VALUE OF REAL ESTATE WITH NO WATER is an extremely taxing DILEMMA IN CLALLAM and SKAGIT COUNTY, and in fact for all tax assessors in WA State.

How much is 20 acres of ZONED farm land worth with WATER?

How much is 20 acres of ZONED farm land worth with "ZERO" WATER?

How much is 20 acres of ZONED farm land worth with ONLY 150 GALLONS OF INDOOR WATER USE A DAY?

IN CLALLAM COUNTY, INDEED IT IS a situation in which PAM RUSHTON, our county assessor, must choose one of two or more UNSATISFACTORY alternatives.

1. DEVALUATE THE REAL ESTATE WITH NO WATER

2. RAISE THE VALUATION OF REAL ESTATE WITH WATER

3. CHOOSING BOTH #1 one AND #2 two UNSATISFACTORY alternatives

4. NOW WITH THE WA STATE SUPREME COURT RULING AGAINST WA STATE AND FOR THE TRIBES?

5. more DILEMMA, LEGAL ARGUMENTS LEADING TO more UNDESIRABLE CHOICES, in logic, a form of reasoning that, , though valid,

6. Leads AGAIN to ONE? TWO? OR more? undesirable alternatives.

The Bottom line

The VALUE OF REAL ESTATE WITH NO WATER is an extremely taxing DILEMMA IN CLALLAM and SKAGIT COUNTY, and in fact for all tax assessors in WA State.

Highest and best use

Main article: Highest and best use

Highest and Best Use (HBU) is foundational to the appraisal process. It is a process to determine what use produces the highest value for the property. This exercise must usually be done twice: once, under the assumption that the property is vacant; and secondly, as the property is currently improved.

There are four steps to the process. First, the appraiser determines

1. All uses which are legally permissible for the property, of the uses

2. Which are legally permissible?

3. Which ones are physically possible? Of those,

4. Which ones are financially feasible?

(sometimes referred to as economically supported).

Of those uses which are feasible, which use is maximally productive for the site. The outcome of this process is the highest and best use for the site.

A market value appraisal implicitly assumes that a buyer intends to use the property in its highest and best use. This use, therefore, drives the value equation.

AND, To say nothing of the MAN MADE ECONOMIC DISASTERS for Clallam and Skagit County and the private property owners in those counties?

THE DOE WATER RULES, SETTING THE INSTREAM FLOW, THE DUNGENESS WATER RULE AND THE WA WATER TRUST.

And then, there is the "SHORELINE MANAGEMENT UPDATE" devaluation of property value that shall also have to be considered.

---

continue reading for

AD VALOREM TO AD NAUSEAM ....

(is a latin term for something unpleasurable that has continued “to [the point of] nausea”.)

AD VALOREM

(tax (latin for “according to value”) is a tax based on the value of real estate or personal property.)

Property tax

Main article: Property tax
A property tax, millage tax is an ad valorem tax that an owner of real estate or other property pays on the value of the property being taxed. There are three species or types of property: Land, Improvements to Land (immovable man made things), and Personal (movable man made things). REAL ESTATE, REAL PROPERTY OR REALTY ARE ALL TERMS FOR THE COMBINATION OF LAND AND IMPROVEMENTS. The taxing authority requires and/or performs an appraisal of the monetary value of the property, and tax is assessed in proportion to that value. Forms of property tax used vary between countries and jurisdictions.

Real estate appraisal

Real estate appraisal, property valuation or land valuation is the process of valuing real property. The value usually sought is the property’s market value. Appraisals are needed because compared to, say, corporate stock, real estate transactions occur very infrequently. Not only that, but every property is different from the next, a factor that doesn’t affect assets like corporate stock.

Furthermore, all properties differ from each other in their location – which is an important factor in their value. So a centralized Walrasian auction setting can’t exist for the trading of property assets, such as exists to trade corporate stock (i.e. a stock market/exchange).

This product differentiation and lack of frequent trading, unlike stocks, means that specialist qualified appraisers are needed to advise on the value of a property.

The appraiser usually provides a written report on this value to his or her client. These reports are used as the basis for mortgage loans, for settling estates and divorces, for tax matters, and so on. Sometimes the appraisal report is used by both parties to set the sale price of the property appraised.

In some areas, an appraiser doesn’t need a license or any certification to appraise property. Usually, however, most countries or regions require that appraisals be done by a licensed or certified appraiser (in many countries known as a Property Valuer or Land Valuer and in British English as a “valuation surveyor”).

If the appraiser’s opinion is based on Market Value, then it must also be based on the Highest and Best Use of the real property.

For mortgage valuations of improved residential property in the US, the appraisal is most often reported on a standardized form, such as the Uniform Residential Appraisal Report.[1] Appraisals of more complex property (e.g. — income producing, raw land) are usually reported in a narrative appraisal report.

Types of value

There are several types and definitions of value sought by a real estate appraisal. Some of the most common are:

•**Market value** – The price at which an asset would trade in a competitive Walrasian auction setting.

Market value is usually interchangeable with open market value or fair value. International Valuation Standards (IVS) define:
Market value – the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

•**Value-in-use, or use value**[3] – The net present value (NPV)[4] of a cash flow that an asset generates for a specific owner under a specific use. Value-in-use is the value to one particular user, and may be above or below the market value of a property.

•Investment value – is the value to one particular investor, and may or may not be higher than the market value of a property. Differences between the investment value of an asset and its market value provide the motivation for buyers or sellers to enter the marketplace.

International Valuation Standards (IVS) define:
Investment value – the value of an asset to the owner or a prospective owner for individual investment or operational objectives.

•Insurable value – is the value of real property covered by an insurance policy. Generally it does not include the site value.

•Liquidation value – may be analyzed as either a forced liquidation or an orderly liquidation and is a commonly sought standard of value in bankruptcy proceedings. It assumes a seller who is compelled to sell after an exposure period which is less than the market-normal time-frame.

Price versus value

There can be differences between what the property is really worth (market value) and what it cost to buy it (price).

A price paid might not represent that property's market value. Sometimes, special considerations may have been present, such as a special relationship between the buyer and the seller where one party had control or significant influence over the other party.
In other cases, the transaction may have been just one of several properties sold or traded between two parties. In such cases, the price paid for any particular piece isn't its market 'value' (with the idea usually being, though, that all the pieces and prices add up to market value of all the parts) but rather its market 'price'.

At other times, a buyer may willingly pay a premium price, above the generally-accepted market value, if his subjective valuation of the property (its investment value for him) was higher than the market value. One specific example of this is an owner of a neighboring property who, by combining his own property with the subject property, could obtain economies-of-scale.

Similar situations sometimes happen in corporate finance. For example, this can occur when a merger or acquisition happens at a price which is higher than the value represented by the price of the underlying stock. The usual explanation for these types of mergers and acquisitions is that 'the sum is greater than its parts', since full ownership of a company provides full control of it. This is something that purchasers will sometimes pay a high price for. This situation can happen in real estate purchases too.

But the most common reason for value differing from price is that either the buyer or the seller is uninformed as to what a property's market value is but nevertheless agrees on a contract at a certain price which is either too expensive or too cheap. This is unfortunate for one of the two parties. It is the obligation of a Real Property Appraiser to estimate the true market value of a property and not its market price.

Market value definitions in the USA

In the US, appraisals are for a certain type of value (e.g., foreclosure value, fair market value, distressed sale value, investment value). The most commonly used definition of value is Market Value. While Uniform Standards of Professional Appraisal Practice (USPAP) does not define Market Value, it provides general guidance for how Market Value should be defined:

a type of value, stated as an opinion, that presumes the transfer or sale of a property as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.

Thus, the definition of value used in an appraisal or CMA (Current Market Analysis) analysis and report is a set of assumptions about the market in which the subject property may transact. It affects the choice of comparable data for use in the analysis. It can also affect the method used to value the property. For example, tree value can contribute up to 27% of property value.[5][6]

Three approaches to value

There are three traditional groups of methodologies for determining value. These are usually referred to as the “three approaches to value” which are generally independent of each other:

•The cost approach (the buyer will not pay more for a property than it would cost to purchase an equivalent).

•The sales comparison approach (comparing a property’s characteristics with those of comparable properties that have recently sold in similar transactions).

•The income approach (similar to the methods used for financial valuation, securities analysis or bond pricing).

However, the recent trend of the business tends to be toward the use of a scientific methodology of appraisal which relies on the foundation of quantitative-data,[7] risk, and geographical based approaches.[8][9] Pagourtzi et al. have provided a review on the methods used in the industry by comparison between conventional approaches and advanced ones.[10]

As mentioned before, an appraiser can generally choose from three approaches to determine value. One or two of these approaches will usually be most applicable, with the other approach or approaches usually being less useful. The appraiser has to think about the “scope of work”, the type of value, the property itself, and the quality and quantity of data available for each approach. No overarching statement can be made that one approach or another is always better than one of the other approaches.

The appraiser has to think about the way that most buyers usually buy a given type of property. What appraisal method do most buyers use for the type of property being valued? This generally guides the appraiser’s thinking on the best valuation method, in conjunction with the available data. For instance, appraisals of properties that are typically purchased by investors (e.g., skyscrapers, office buildings) may give greater weight to the Income Approach. Buyers interested in purchasing single family residential property would rather compare price, in this case the Sales Comparison Approach (market analysis approach) would be more applicable. The third and final approach to value is the Cost Approach to value. The Cost Approach to value is most useful in determining insurable value, and cost to construct a new structure or building.

For example, single apartment buildings of a given quality tend to sell at a particular price per apartment. In many of those cases, the sales comparison approach may be more applicable. On the other hand, a multiple-building apartment complex would usually be valued by the income approach, as that would follow how most buyers would value it. As another example, single-family houses are most commonly valued with greatest weighting to the sales comparison approach. However, if a single-family dwelling is in a neighborhood where all or most of the dwellings are rental units, then some variant of the income approach may be more useful. So the choice of valuation method can change depending upon the circumstances, even if the property being valued doesn’t change much.

The cost approach

The cost approach was once called the summation approach. The theory is that the value of a property can be estimated by summing the land value and the depreciated value of any improvements. The value of the improvements is often referred to by the abbreviation RCNLD (reproduction cost new less depreciation or replacement cost new less depreciation). Reproduction refers to reproducing an exact replica. Replacement cost refers to the cost of building a house or other improvement which has the same utility, but using modern design, workmanship and materials. In practice, appraisers almost always use replacement cost and then deduct a factor for any functional dis-utility associated with the age of the subject property. An exception to the general rule of using the replacement cost, is for some insurance value

appraisals. In those cases, reproduction of the exact asset after the destructive event (fire, etc.) is the goal.
In most instances when the cost approach is involved, the overall methodology is a hybrid of the cost and sales comparison approaches (representing both the suppliers' costs and the prices that customers are seeking). For example, the replacement cost to construct a building can be determined by adding the labor, material, and other costs. On the other hand, land values and depreciation must be derived from an analysis of comparable sales data.
The cost approach is considered most reliable when used on newer structures, but the method tends to become less reliable for older properties. The cost approach is often the only reliable approach when dealing with special use properties (e.g., public assembly, marinas).

The sales comparison approach

The sales comparison approach is based primarily on the principle of substitution. This approach assumes a prudent (or rational) individual will pay no more for a property than it would cost to purchase a comparable substitute property. The approach recognizes that a typical buyer will compare asking prices and seek to purchase the property that meets his or her wants and needs for the lowest cost. In developing the sales comparison approach, the appraiser attempts to interpret and measure the actions of parties involved in the marketplace, including buyers, sellers, and investors.
Data collection methods and valuation process Data is collected on recent sales of properties similar to the subject being valued, called "comparables". Only SOLD properties may be used in an appraisal and determination of a property's value, as they represent amounts actually paid or agreed upon for properties. Sources of comparable data include real estate publications, public records, buyers, sellers, real estate brokers and/or agents, appraisers, and so on. Important details of each comparable sale are described in the appraisal report. Since comparable sales aren't identical to the subject property, adjustments may be made for date of sale, location, style, amenities, square footage, site size, etc. The main idea is to simulate the price that would have been paid if each comparable sale were identical to the subject property. If the comparable is superior to the subject in a factor or aspect, then a downward adjustment is needed for that factor.[clarification needed] Likewise, if the comparable is inferior to the subject in an aspect, then an upward adjustment for that aspect is needed.[clarification needed] The adjustment is somewhat subjective and relies on the Appraiser's training and experience. From the analysis of the group of adjusted sales prices of the comparable sales, the appraiser selects an indicator of value that is representative of the subject property. It is possible for various Appraisers to chose different indicator of value which ultimately will provide different property value.

Steps in the sales comparison approach 1. Research the market to obtain information pertaining to sales, and pending sales that are similar to the subject property. 2. Investigate the market data to determine whether they are factually correct and accurate. 3. Determine relevant units of comparison (e.g., sales price per square foot), and develop a comparative analysis for each. 4. Compare the subject and comparable sales according to the elements of comparison and adjust as appropriate. 5. Reconcile the multiple value indications that result from the adjustment (upward or downward) of the comparable sales into a single value indication.
The income capitalization approach
Main article: Income approach
The income capitalization approach (often referred to simply as the "income approach") is used to value commercial and investment properties. Because it is intended to directly reflect or model the expectations and behaviors of typical market participants, this approach is generally considered the most applicable valuation technique for income-producing properties, where sufficient market data exists.
In a commercial income-producing property this approach capitalizes an income stream into a value indication. This can be done using revenue multipliers or capitalization rates applied to a Net Operating Income (NOI). Usually, an NOI has been stabilized so as not to place too much weight on a very recent event. An example of this is an unleased building which, technically, has no NOI. A stabilized NOI would assume that the building is leased at a normal rate, and to usual occupancy levels. The Net Operating Income (NOI) is gross potential income (GPI), less vacancy and collection loss (= Effective Gross Income) less operating expenses (but excluding debt service, income taxes, and/or depreciation charges applied by accountants).
Alternatively, multiple years of net operating income can be valued by a discounted cash flow analysis (DCF) model. The DCF model is widely used to value larger and more expensive income-producing properties, such as large office towers or major shopping centres. This technique applies market-supported yields (or discount rates) to projected future cash flows (such as annual income figures and typically a lump reversion from the eventual sale of the property) to arrive at a present value indication.

Scope of work
While USPAP has always required appraisers to identify the scope of work needed to produce credible results, it became clear in recent years that appraisers did not fully understand the process for developing this adequately. In formulating the scope of work for a credible appraisal, the concept of a limited versus complete appraisal and the use of the Departure Rule caused confusion to clients, appraisers, and appraisal reviewers. In order to deal with this, USPAP was updated in 2006 with what came to be known as the Scope of Work project.

Following this, USPAP eliminated both the Departure Rule and the concept of a limited appraisal, and a new Scope of Work rule was created. In this, appraisers were to identify six key parts of the appraisal problem at the beginning of each assignment:
• Client and other intended users
• Intended use of the appraisal and appraisal report
• Definition of value (e.g., market, foreclosure, investment)
• Any hypothetical conditions or extraordinary assumptions
• The effective date of the appraisal analysis
• The salient features of the subject property
Based on these factors, the appraiser must identify the scope of work needed, including the methodologies to be used, the extent of investigation, and the applicable approaches to value.

Currently, minimum standards for scope of work are:
• **Expectations of the client and other users**
• The actions of the appraiser's peers who carry out similar assignments
The Scope of Work is the first step in any appraisal process. Without a strictly defined Scope of Work an appraisal's conclusions may not be viable. By defining the Scope of Work, an appraiser can properly develop a **value for a given property for the intended user**, and for the intended use of the appraisal. The whole idea of "Scope of Work" is to provide clear expectations and guidelines for all parties as to what the appraisal report does, and doesn't, cover; and how much work has gone into it.

Highest and best use
Main article: Highest and best use
Highest and Best Use (HBU) is foundational to the appraisal process. It is a process to determine what use produces the highest value for the property. This exercise must usually be done twice: once, under the assumption that the property is vacant; and secondly, as the property is currently improved.

There are four steps to the process. First, the appraiser determines all uses which are legally permissible for the property. Second, of the uses which are legally permissible, which ones are physically possible. Of those, which ones are financially feasible (sometimes referred to as economically supported).

Of those uses which are feasible, which use is maximally productive for the site. The outcome of this process is the highest and best use for the site.

A market value appraisal implicitly assumes that a buyer intends to use the property in its highest and best use. This use, therefore, drives the value equation.

In more complex appraisal assignments (e.g., contract disputes, litigation, brownfield or contaminated property valuation), the determination of highest and best use may be much more complex, and may need to take into account the various intermediate or temporary uses of the site, the contamination remediation process, and the timing of various legal issues.[12]

HISTORY
The VAT was invented by a French economist in 1954. Maurice Lauré, joint director of the French tax authority, the Direction générale des impôts, as taxe sur la valeur ajoutée (TVA in French) was first to introduce VAT with effect from 10 April 1954 for large businesses, and extended over time to all business sectors. IN FRANCE, IT IS THE MOST IMPORTANT SOURCE OF STATE FINANCE, ACCOUNTING FOR APPROXIMATELY 45% OF STATE REVENUES.

http://en.wikipedia.org/wiki/Ad_valorem_tax

The Bottom line

The VALUE OF REAL ESTATE WITH NO WATER is an extremely taxing DILEMMA IN CLALLAM and SKAGIT COUNTY, and in fact for all tax assessors in WA State.

Highest and best use

Main article: Highest and best use

Highest and Best Use (HBU) is foundational to the appraisal process. It is a process to determine what use produces the highest value for the property. This exercise must usually be done twice: once, under the assumption that the property is vacant; and secondly, as the property is currently improved.

There are four steps to the process. First, the appraiser determines all uses which are legally permissible for the property. Second, of the uses which are legally permissible, which ones are physically possible. Of those, which ones are financially feasible (sometimes referred to as economically supported).

Of those uses which are feasible, which use is maximally productive for the site. The outcome of this process is the highest and best use for the site.

A market value appraisal implicitly assumes that a buyer intends to use the property in its highest and best use. This use, therefore, drives the value equation.

AND, To say nothing of the MAN MADE ECONOMIC DISASTER for Clallam and Skagit County and the private property owners in those counties?

THE DOE WATER RULES, SETTING THE INSTREAM FLOW, THE DUNGENESS WATER RULE AND THE WA WATER TRUST

This entry was posted in Dungeness Water Rule, Economic Impact, Politically Motivated, Public Servants, Uncategorized, WA State Dept. of Ecology.