



KING COUNTY AUDITOR'S OFFICE

Property Tax Appeals: Improved Practices Could Increase Transparency and Consistency



King County

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EXECUTIVE SUMMARY:

The property tax appeal process is an important part of fair and accurate property valuation and taxation. The Department of Assessments and the Board of Equalization have each taken steps in the last few years to improve the efficiency of tax appeals processes. However, each could further improve communication, training, and data collection practices that affect equity and transparency. We make recommendations for improvement in these areas.

Property Tax Appeals: Improved Practices Could Increase Transparency and Consistency

REPORT HIGHLIGHTS

What We Found

The Department of Assessments (DOA) and the Board of Equalization (BOE) have opportunities to improve their communication and coordination in order to ensure a fair and efficient property tax appeals process. For example, the DOA does not always communicate with property owners who file appeals. This may result in DOA and BOE spending time on appeals that could be resolved without a hearing. Additionally, agents and experienced appellants may have more direct communication with the DOA about their appeal than inexperienced appellants.

The BOE does not have the structure in place to set its strategic direction and ensure the long-term skills of its members. While the BOE meets state-mandated training requirements, it does not have many opportunities to learn about complex appraisal topics, which could lead to inconsistency in board decisions.

Finally, BOE and DOA efforts to improve administrative coordination related to appeals have been inconsistent. This hinders the transparency of the appeals system for them and for appellants. Better information sharing and more regular administrative coordination between the BOE and DOA would help make sure that both agencies can continue to improve their processes and make the best use of limited general fund resources.

What We Recommend

We make ten recommendations to improve the transparency and consistency of the appeals process. These include recommendations to improve communication with appellants, codify skills and experience standards for members of the BOE, increase the amount of information shared about appeal decisions, and clarify how decisions on the acceptance of late evidence are made.

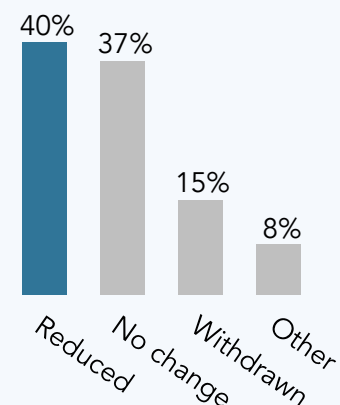
Why This Audit Is Important

Property taxes are a major source of revenue for King County and for many local governments and taxing districts within its borders. King County makes property valuation and tax exemption decisions that impact property taxes for over 700,000 properties, and property owners can dispute those decisions.

More than 5,000 commercial and residential property owners appeal their property tax valuation every year. King County anticipates that the number of appeals will increase in the next few years, in part due to increases in property taxes.

Across all appeals from 2012-2017, around 40 percent of people who filed an appeal received a reduction in their property valuation and tax bill.

40% of appeals result in a reduced property valuation



Source: King County Auditor's Office analysis of Department of Assessments data

Property Tax Appeals: Improved Practices Could Increase Transparency and Consistency

TABLE OF CONTENTS

- 1 Property Tax Appeal Basics
- 4 Department of Assessments Processes
- 7 Board of Equalization Processes
- 10 Interagency Communication

APPENDICES

- 14 Appendix 1: Frequently Appealed Properties
- 16 Executive Response: Department of Assessments
- 21 Executive Response: Board of Equalization
- 26 Statement of Compliance, Scope, Objective & Methodology
- 28 List of Recommendations & Implementation Schedule



Property Tax Appeal Basics

SECTION SUMMARY

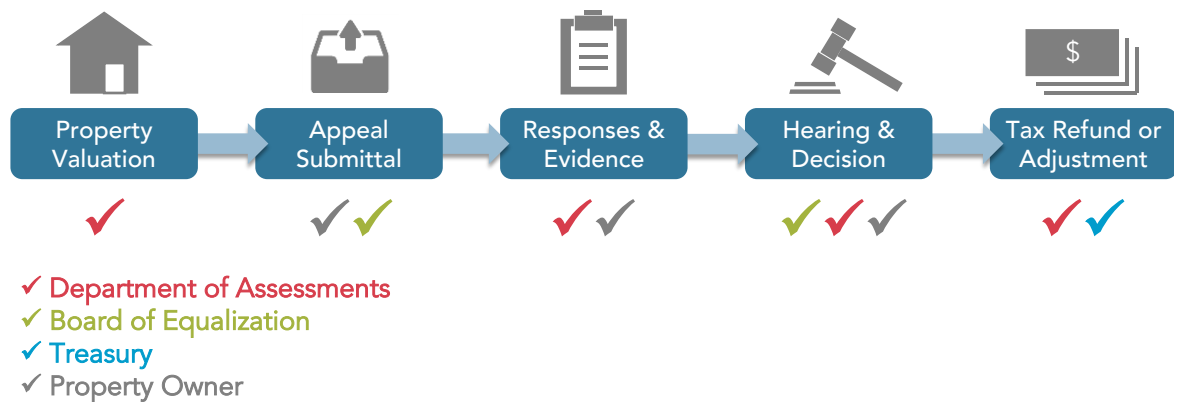
The property tax appeal system allows people to dispute the King County Department of Assessment's valuation of their property. The Department of Assessments (DOA) responds to the appeal, and the Board of Equalization (BOE) decides whether the DOA's valuation should be upheld or adjusted. A change in a property's valuation impacts the owner's tax bill as well as the tax bills of other properties in the same tax district. If one property's tax bill decreases, that tax burden will be redistributed to other properties in the tax district. The values of less than one percent of properties in King County are appealed each year, and owners of high-value properties are more likely to file appeals. For the County, appeals often require several hours of response and hearing deliberation time.

What is a property tax appeal?

A property tax appeal is a way that a property owner can dispute the value that the Department of Assessments has assigned to their property. This in turn affects the owner's property tax bill, since property taxes are determined based on the DOA's valuation of the property.¹ DOA staff (called appraisers) use a model to value each property in King County. When a property owner feels that the DOA's valuation of their property is too high, they can file an appeal. This appeal should include information to show why the property owner believes the DOA's valuation is inaccurate. (Under state law, the Assessor's valuation is presumed correct unless the appellant presents sufficient evidence.) After a property owner files an appeal, the DOA provides a response to the appeal that includes information about its reasoning for the valuation. Appeals are heard by the BOE, an independent citizen board with seven members. The property owner and the DOA take part in a hearing where selected BOE members or hearing examiners listen to each party and review the evidence provided. After the hearing, the members who are assigned to the hearing make a recommendation and a quorum of the board decides whether to reduce the value of the property. If the appeal results in a change to the property value, the Finance and Business Operations Division (FBOD) adjusts the tax bill or issues a refund for the property. The full process from filing an appeal to receiving a refund can take months and involves several county agencies (see Exhibit A, below).

¹A property owner can also appeal a DOA tax exemption decision, such as a senior exemption. We did not include more information about exemptions as it is a smaller proportion of the county's workload.

EXHIBIT A: Several county agencies and the property owner are involved throughout the appeal process



Source: King County Auditor's Office depiction of appeal process

The Department of Assessments can also propose to reduce property valuations without a Board of Equalization hearing, which is known as a stipulation. The DOA can offer proposals to reduce the value of a property to appellants if the DOA agrees that the original valuation was incorrect. For example, if an appellant demonstrates that part of their land is unbuildable, the DOA appraiser can propose a reduced valuation that reflects this new information. In this case, the appellant may choose to accept the stipulated value or, if they believe the proposed new value is still too high, continue to the BOE hearing. Stipulations are not a bargaining process in which the appraiser and appellant make a deal or meet in the middle. Instead, the appraiser must be convinced that the original valuation was inaccurate.

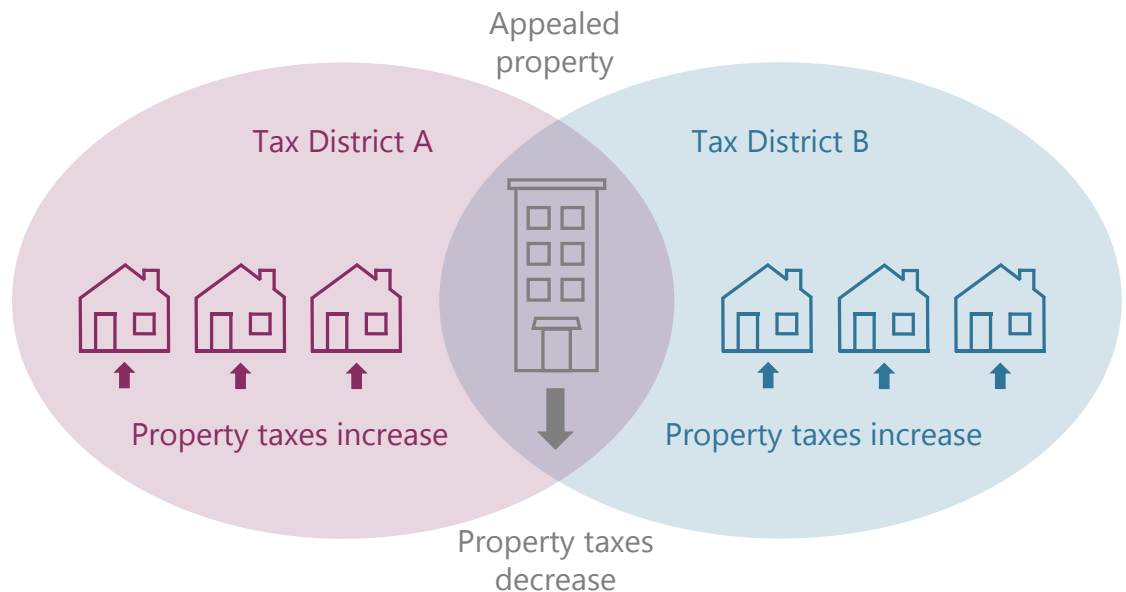
What happens when an appeal is successful?

When an appeal is successful, the property owner receives a reduced tax bill and other property owners in the tax district will receive an increased tax bill the following year. That is because the County still has to collect the total amount of the taxes levied that year under Washington state law (see Exhibit B). From 2015 to 2017, the County redistributed about \$6.5 million in tax burden each year to other taxpayers to recover refunded taxes.² How a tax bill reduction is redistributed to other properties depends on what tax district the property is located in. In addition to state, county, and city property taxes, different jurisdictions within the county (school districts, fire districts, etc.) have their own specific tax levies. Each tax district receives less from the appealed property, so the other properties in each district must make up the difference.

² This represents a conservative estimate of the tax burden being redistributed because the \$6.5 million does not include tax bills reduced prior to payment. Additionally, depending on when in the five-year appraisal cycle a value is reduced, a reduction will carry forward until the next site visit by DOA.

EXHIBIT B:

Property taxes reduced by successful appeals are still collected from other taxpayers in the corresponding tax districts in subsequent years

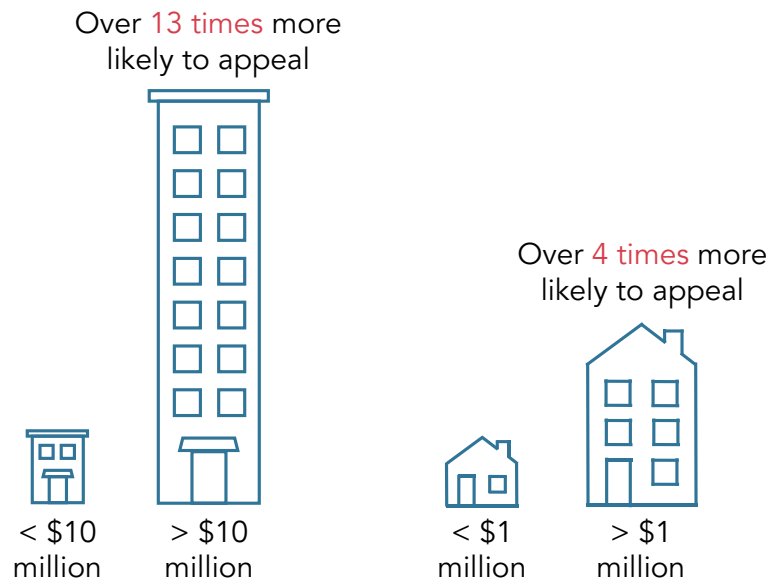


Source: King County Auditor's Office simplified depiction of tax redistribution

How many appeals does King County process?

The number of appeals in King County fluctuated between 5,000 and 7,500 appeals per year from 2012 to 2017. A large number of appeals come from high-value properties and repeatedly-appealed properties. Less than one percent of residential property owners appeal their valuation each year. Commercial property owners appeal at greater rates than residential property owners and owners of high-value properties are the most likely to appeal. In 2017, owners of residential properties valued above \$1 million were over four times more likely to appeal than owners of other residential properties. Owners of commercial properties valued above \$10 million were over 13 times more likely to appeal than owners of other commercial properties (see Exhibit C).

EXHIBIT C: Owners of high value commercial and residential properties are more likely to appeal



Source: King County Auditor's Office analysis of Department of Assessments data

A subset of commercial property owners appeal frequently and make up almost a quarter of all appeals each year.³ These properties are generally higher in value than other commercial properties and consist of properties owned by companies like supermarket chains and large apartment complexes (see Appendix 1 for more details about frequently appealed commercial properties).

The DOA attributes changes in the number of appeals each year to general economic conditions and other outside factors, such as tax increases. For example, the DOA anticipates that the number of appeals will rise in 2018 due to the state property tax increases from the McCleary Plan.⁴

³ We define frequently appealed properties as property accounts that filed at least three times more than the property was sold between bill years 2012 and 2017. Bill year refers to the year that the property owner was billed, which is based on the assessment from the prior year (the assessment year).

⁴ The McCleary Plan is an increase to a state property tax passed by the Washington State Legislature to increase education funding after the state Supreme Court ruled that the state must make new investments into public education. As a result of the McCleary Plan, property taxes are increasing for many property owners across Washington State.

What resources are required to respond to appeals?

Unless resolved early in the process, each appeal requires time from the Department of Assessments to research and write an official response, which can take several hours. The DOA estimates that appeals are about 25 percent of an appraiser's overall workload, depending on the number of appeals in a given year. During periods with high numbers of appeals, appraisers may spend less time appraising new construction or conducting site visits. Additionally, the DOA administrative staff digitizes any paper-based appeal submissions or documentation and provides technical support to the BOE by maintaining the appeals databases. Resolving an appeal before the DOA develops a response can reduce the time spent by the DOA and the BOE. We discuss these potential time savings later in this report. Even if an appellant withdraws their petition—as occurred in nearly 20 percent of 2017 appeals—the appeal may still require BOE and DOA resources. The DOA appraiser may have already written their official response by the time of the withdrawal. In addition, BOE staff spend time rescheduling other hearings in response to withdrawals.



Department of Assessments Processes

SECTION SUMMARY

The Department of Assessments reports that it has improved the efficiency of the appeal process, but could further increase efficiency and equity by communicating with appellants to resolve issues earlier. For example, we found that DOA appraisers do not have a consistent approach to communicating with appellants before hearings, and first-time appellants may not know they can directly contact the appraiser assigned to their appeal. This means less-experienced appellants may have fewer opportunities than experienced appellants to resolve issues without going through the full appeal process, which can take several months or more.

The DOA reports improved appeals efficiency

The Department of Assessments has taken steps to increase the efficiency of the appeals process for appellants. Most notably, the department collaborated with King County Information Technology and the BOE to implement a system for filing appeals online, called eAppeals. This allows property owners to search for comparable property sales and submit appeal evidence electronically. The DOA can review and respond to electronic appeals faster than paper appeals. In 2017, about two-thirds of appellants filed through eAppeals. The DOA has also developed a pilot Fast Track appeals program, which separates out simple, straight-forward appeals for a quick response so that appraisers can spend more of their time on more complicated or high-value appeals. In addition, the DOA has started organizing its data to make it easier to view and analyze. This may help the DOA assess the effectiveness of its appeal and overall evaluation strategies over time. The recommendations we make in this section can help the DOA build on the improvements it has already begun.

Appraisers do not have a consistent approach to how they communicate with appellants

Department of Assessments appraisers do not always have a consistent approach for communicating with appellants or their representatives before hearings, which may result in missed opportunities to increase efficiency through early resolution of issues. DOA appraisers work on appeals for residential and commercial properties. We conducted structured interviews with 20 of these appraisers about their communication with appellants.⁵ More than half of the appraisers we interviewed stated that early communication with appellants can be helpful for both DOA and appellants. For instance, conversations can give DOA more information about the property, allowing DOA to propose an adjustment to its valuation without progressing to an appeal hearing. Appraisers noted that this communication can be helpful for appellants as well—if appellants have the opportunity to clarify their concerns and learn more about the valuation process, the appellant may withdraw the

⁵ For more information about these interviews, see the Scope, Objective, and Methodology section at the end of this report.

appeal or agree to an adjusted value rather than proceeding to the hearing.⁶ Since nearly 20 percent of 2017 appeals were eventually withdrawn before a hearing, earlier communication could result in earlier withdrawals, requiring less time of DOA appraisers and BOE schedulers.

Despite the benefits of pre-hearing communication, the DOA does not give its appraisers general guidelines for communicating with appellants or potential appellants.⁷ Some appraisers report proactively contacting appellants for questions or clarification, while others report responding to appellant inquiries but do not initiate contact. Appraisers and department leaders noted that different communication approaches may be beneficial for different types of appellants. Appraisers could benefit from understanding management expectations about the range of potential communication options and when to use them. This aligns with industry best practices, which state that departments should make sure there is an opportunity for property owners to engage in informal communication and potentially resolve their concerns in a simple, low-cost manner before a formal appeal.

Recommendation 1

The Department of Assessments should develop, document, and disseminate guidance to appraisers on pre-hearing communication with appellants and their agents.

Inexperienced appellants may have inequitable access to appraisers

Experienced appellants and agents often contact the Department of Assessments appraisers directly prior to a hearing, but inexperienced appellants may not have the same access to information. We reviewed the DOA website and written communications provided to appellants prior to hearings and found that while there is information on how to contact the DOA through the general service line, appellants do not receive the name of the specific appraiser or supervisor working on their appeal until after the DOA's response has been submitted to the BOE, and the general service line does not have clear criteria for when to transfer a caller to their relevant appraiser. This creates potential equity issues for property owners, because tax agents, who frequently work with the department, often know which agent they can directly contact to resolve issues. Appraisers we interviewed reported that they do receive direct calls from tax agents and some property owners who frequently file appeals. This means the issues of some appellants may be resolved more quickly than others. In contrast, average residential or non-represented commercial owners may not know who to contact and so their appeals may not be resolved as quickly.

⁶These adjustments are referred to as stipulations. A stipulated value is a reduced value provided by the DOA when the appraiser finds, based on the evidence, that a reduced value is warranted prior to a hearing.

⁷ Department managers noted that guidance is given for communication in some circumstances, such as when an appeal is more complicated.

This lack of access may also miss opportunities to more efficiently resolve issues before a hearing. At this point in the process, appraisers estimate they have already spent up to five hours on the typical appeal response. If appellants can contact their appraisers to explain property characteristics or ask clarifying questions, it may improve valuation accuracy or the appellant's understanding of the valuation process. This could increase the number of appeals that are concluded through stipulations or withdrawals before a hearing.

Recommendation 2

The Department of Assessments should develop and implement a plan to ensure that all appellants have equitable opportunities to have informal communication before a hearing.



Board of Equalization Processes

SECTION SUMMARY

While the current board clerk and leadership have made efforts to improve Board of Equalization processes, the Board of Equalization does not have formal structures in place to set its strategic direction and ensure the skills of its members long-term. The BOE meets mandated training requirements and conducts some strategic planning work, but board members need more time for professional and organizational development to ensure continued fairness and consistency in appeals decisions. Additionally, while the current BOE recruitment notices suggest applicants have relevant skills or experience, skills or experience are not required in county code and could be deprioritized in future recruiting efforts. This could reduce the effectiveness of the process if future members are less familiar with technical issues involved in property appraisal, exemptions, and valuation.

BOE training may not be sufficient for complex King County issues

The Board of Equalization clerk returns about 15 percent of all adjusted board decisions to the board members for further review, indicating that board members may benefit from ongoing training. As part of its quality control process, the board has the board clerk review all preliminary board decisions. The current clerk—who is a certified general appraiser—then returns to board members any decisions that need further clarification or that may not comply with law or appraisal standards. This step provides important quality control. However, the percentage of decisions being returned for further review indicates that more training for board members may be warranted.

According to the BOE, all seven board members meet the minimum requirements of receiving annual training from the Washington State Department of Revenue, but BOE leadership explained that these state-level trainings, while helpful, are not specific to complex valuation issues in King County. For example, BOE leadership identified affordable housing as a specific issue affecting county properties for which more training could be valuable for members, as the Department of Revenue has separate guidance on how affordable housing status affects valuation practices. Board leadership believes more training could help members better understand new or complex topics, maintain the accuracy of hearing outcomes, and increase the efficiency of the appeals process and BOE support staff. Board members do not receive more training because it is not included in the BOE budget. Since board members are paid a per diem for each day they spend working, more funding would be needed to bring in all members to conduct more training.

Recommendation 3

The Board of Equalization should develop a training plan and implementation proposal that is specific to the complex issues board members must consider in King County.

BOE strategic planning may not be sufficient

While the Board of Equalization has taken advantage of opportunities to do some strategic planning, it has not yet formalized its plan. This makes it more difficult for the Board of Equalization to improve processes to ensure a fair and efficient appeals process. Board members report the clerk and new board leadership have made a lot of effort to improve board practices and processes in 2017 and 2018. However, the BOE stated that it does not have enough time to review its processes for potential improvements to ensure that hearing outcomes align with board and county goals for fair appeal decisions and efficient services. For example, board leadership stated that this planning would help board members be ready to handle specific, complex issues and participate in BOE process improvements, contributing to higher quality experiences for residents and more efficient appeals.

The BOE has taken advantage of opportunities to discuss strategic planning, such as during hearing cancellations or during monthly meetings. However, these planning meetings do not have all members present and are not a sufficient substitute for broader strategic planning. The board has also experimented with creating technical committees with a subset of board members to address certain issues, but does not have an overall plan for its committees.

Recommendation 4

The Board of Equalization should develop, document, and implement a strategic plan.

Relevant
experience is
not required
for BOE
members

King County Code does not specify or require skills or experience for the Board of Equalization members, which could reduce the effectiveness of the Board of Equalization in making fair decisions. According to the current board clerk and chair, BOE recruitment efforts in 2017 sought board members with specific expertise in appraisal, commercial real estate, or finance. However, this practice is at the discretion of board leadership and may not continue in the future as board leadership changes. If future members recruited to the BOE are less familiar with the technical issues involved in property appraisal, exemptions, and valuation, particularly if board member training is limited, this could reduce the effectiveness of the BOE to provide fair appeal decisions. For example, the BOE hears cases for properties valued for hundreds of millions of dollars—the largest value appealed in 2017 was more than \$825 million. Appeals can include questions of how multiple factors affect the valuation process such as improvements and development potential, which can get complicated as the property gets larger or higher in value. In a survey of board members, nearly all board members agreed that a code requirement for specific skills or experience would be helpful to ensuring the future effectiveness of the board.

In addition, code does not specify or require skills or experience for the BOE clerk. The current clerk is a certified appraiser with a tax agent background. Since one of the clerk's potential responsibilities is providing quality control over board decisions, an understanding of appraisal concepts is essential. The clerk also provides some training for board members.

Recommendation 5

The Board of Equalization should work with the County Council to amend code language to include requirements for skills and experience relevant to the duties of the clerk and board members.



Interagency Communication

SECTION SUMMARY

Board of Equalization and Department of Assessments efforts to improve administrative coordination have been inconsistent, impeding additional improvements and reducing the fairness and transparency of the appeals system.

The two agencies have implemented strategies to improve efficiency, but these approaches sometimes negatively impact either the other agency or the fairness of the system as a whole. The BOE saves time by writing minimal explanations of the board's decision reasoning, but this prevents the DOA and appellants from fully understanding why they won or lost the appeal. The BOE also accepts late evidence from appellants and the DOA, but this disadvantages parties who cannot attend the hearing and cannot respond. Improved transparency about late evidence and more regular administrative coordination between the BOE and DOA would help make sure that both agencies can understand each other's challenges and improve the effectiveness of the overall process.

BOE reasoning for its decisions is not specific, reducing transparency

To save time, the Board of Equalization often uses generic, prewritten language to explain the reasoning behind its appeal decisions. This is an efficient approach, but reduces transparency as stakeholders have less information to understand the appeal decision and take further action as needed. After reaching a hearing decision, the BOE issues a board order that states the outcome of the hearing and the reasoning behind the board's decision. The BOE mostly uses stock responses to explain its reasoning, but sometimes includes more sentences with details or context specific to the appeal. According to our analysis of all appeal decisions from 2016 and 2017, less than 10% of reasons behind appeal decisions contained details specific to the appeal. Without additional detail about BOE reasoning, appellants and the DOA may have difficulty understanding why the BOE made their decision and what elements of the two arguments were most persuasive. As a result, appellants and the DOA have less information on which to base future decisions, such as whether the decision should be appealed to the state-level board or if the property information in the DOA system needs to be updated. See Exhibit D, below, for a comparison of prewritten reasons with these more detailed examples from the appeals database.

EXHIBIT D: More detailed board reasoning includes specific references to compelling evidence

Standardized BOE Reasoning	Detailed BOE Reasoning
<div>Provides reason only</div> <p>"The board finds the comparable sales adjusted for market timing and property differences support the above listed value determination"</p>	<p>"After reviewing the Appellant's comparable sales, the Board concludes Appellant sale numbers 1 and 2 are inferior due to having no views, Appellant sale number 4 is considered to be a poor indicator of value due to its lack of market exposure."</p> <div>Provides reason</div> <div>References specific sales</div> <div>Includes why sales are not compelling</div>

Source: King County Auditor’s Office representation of the Department of Assessments appeals data

Department of Assessments leadership and staff stated that greater detail in board decisions could help the agency make improvements, but also did not have a unified vision or plan for how that added information could be used. Appraisers we interviewed stated that greater detail in BOE decisions would help them to make more informed decisions about whether to appeal to the state-level board or whether the property information in the DOA system needs to be updated. DOA leaders and appraisers also stated that greater detail could help with long-term improvements to the DOA valuation process. However, the DOA does not have a unified vision of how it would use this added information if the BOE did gather it. A plan would help the DOA use this information strategically to improve its practices, increasing the effectiveness of the appeals process.

Recommendation 6

The Board of Equalization should increase the level of detail about decision reasoning in board orders so that the Department of Assessments and appellants can understand what evidence was most persuasive.

Recommendation 7

The Department of Assessments should create a plan to use the detailed reasoning in board orders from the Board of Equalization and, once the Board of Equalization has implemented Recommendation 6, the Department of Assessments should implement its plan.

BOE does not have transparent criteria for accepting late evidence

The Board of Equalization can accept late evidence as long as the opposing party does not object, but does not share the criteria for how it decides whether to accept evidence, which could lead to inconsistency in decision-making and lack of fairness to the Department of Assessments or the appellant. Evidence is considered late when it is submitted past the required deadline of 21 days before the hearing, but state law allows for an appeals board to decide whether to accept that late evidence. The BOE regularly accepts late evidence in the interest of obtaining complete information. This practice may be helpful for appellants, particularly those inexperienced with the appeals system. However, experienced appellants and their representatives can take advantage of this practice by strategically submitting evidence late, including on the day of the hearing. In addition, the DOA has been providing some late evidence as well since the deadline changed to 21 days.⁸ Late submissions make it more difficult for the opposing party to respond to the late evidence and provide context. Appraisers we interviewed cited late evidence as a significant barrier to effectively responding to appeals—they do not always have time to respond to late evidence before the hearing. Appellants are also at a disadvantage if they do not have sufficient time to review and understand the DOA's evidence. This challenge is greater for residential appraisers. The DOA has decided not to attend residential appeals because it prioritizes other responsibilities and tasks for the appraisers' time. As a result, the DOA is unable to object to the submission of late evidence in residential cases and does not have an opportunity to respond or rebut the new evidence that is presented on the day of the hearing. Without information about the board's criteria for accepting late evidence, both parties may have an incentive to submit evidence late, which may negatively impact the fairness of the appeals process.

Recommendation 8

The Board of Equalization should make its criteria for accepting late evidence public.

⁸ WAC 458-14-066(3-4) previously stated that assessors had to submit evidence at least 14 days prior to a hearing and appellants had to submit evidence at least seven days before a hearing. As of June 7, 2018, both parties have to submit at least 21 days prior to a hearing.

The BOE and DOA do not track late evidence in the appeals database

The Board of Equalization and the Department of Assessments do not track data about late evidence in the appeals database, which means the county cannot understand the effect of late evidence on decision-making to continue ensuring a fair appeals process. While the BOE documents late evidence through a paper-based form, this information is not tracked in the appeals database, which is populated by the BOE and managed by the DOA. As noted earlier in this section, board notes also often do not include much detail about what evidence board members find compelling. This means there is no way to know definitively whether late evidence is having an effect on appeals decision-making over time, particularly whether it gives an unfair advantage to parties that submit late. Although board leadership expressed that late evidence rarely influences the outcome of hearings, it does not have the data to demonstrate this. Also, a survey of board members found that most members consider whether evidence could be compelling as a reason for accepting it past the deadline. This lack of information on the effect of late evidence on appeal outcomes prevents the BOE from making continuous improvements to its practices around late evidence and creates potential issues of fairness for the DOA and appellants.

Recommendation 9

The Board of Equalization should work with the Department of Assessments to include data about evidence submitted past the 21 day deadline and whether it was important to final decisions, and this data should be used to inform agency decision-making.

The BOE and DOA do not communicate formally on a regular basis

While the Board of Equalization and the Department of Assessments have worked together on administrative improvements to the appeals process, they do not have regular formal communications. This hinders their ability to continue improving the efficiency of the appeals process. Due to necessary restrictions on inter-agency communication to ensure the independence of the appeals process, the BOE and DOA limit communication between the two agencies to administrative concerns. For example, the DOA and BOE reported that administrative communication can help ensure efficiencies in scheduling. More regular communication could help the agencies continue to identify administrative concerns in order to improve the efficiency of county processes.

Recommendation 10

The Board of Equalization and the Department of Assessments should communicate about administrative improvements on a regular basis.

Appendix 1

Frequently Appealed Properties





WHAT ARE FREQUENTLY APPEALED PROPERTIES?

We defined frequently appealed properties as commercial property accounts that filed an appeal at least three times more than it was sold between bill years 2012 and 2017. “Bill year” refers to the year that the property owner was billed for property taxes, which is based on the assessment from the prior year (the assessment year). A little under 1,500 frequently filed properties are appealed each year. Frequently appealed properties include condominium buildings, large supermarket chains, retailers and banks, among others.

HOW DO FREQUENTLY APPEALED PROPERTIES COMPARE TO OTHER COMMERCIAL PROPERTIES?

Between 2012 and 2017, frequently appealed and other commercial properties made up similar proportions of the property tax appeals workload and both categories received a reduced value in appeals about 40 percent of the time. Frequently appealed properties are higher in value and receive a larger reduction on average than other commercial properties. On average, frequently appealed properties are worth 78 percent more than other properties and receive average value reductions of 14 percent, compared to 10 percent for other properties.

FIGURE 1: Frequently appealed properties are higher in value and receive a larger reduction on average than other commercial properties

		Frequently Appealed Commercial Properties	Other Commercial Properties
Percent of Commercial Appeals		54%	56%
Appeal Success Rate		34%	34%
Average Property Value		\$10.5 Million	\$5.9 Million
Average Value Reduction		14%	10%

Note: Appeal success rate is defined as receiving a value adjustment through the county’s appeal process

Source: King County Auditor’s Office analysis of Department of Assessments data for 2012-2017 bill years

WHY DO FREQUENTLY APPEALED PROPERTIES MATTER?

Frequently appealed properties matter because it means the same commercial property owners make up a consistent proportion of the county's workload every year. The total amount of value reduced per year is higher for frequently appealed properties than the rest of commercial properties, which likely means more tax burden that needs to be redistributed. Also, since these commercial properties tend to be of higher value than other commercial properties, the appraisers stated this can add to the amount of time it takes them to put together an appeal response, which can be anywhere from two to sixteen hours of work. Lastly, we found that frequently appealed properties are appealed to the Washington State Board of Tax Appeals (BTA) nearly twice as often as non-frequently filed properties. The Department of Assessments (DOA) stated that appraisers always attend BTA appeals, creating an additional workload while the DOA prepares a response.

To respond to these workload issues, the DOA included its analysis of a graduated commercial filing fee in its 2015-16 and 2017-18 budget documents. This filing fee would apply to all commercial properties and according to the 2017-18 estimate, generate about \$2 million in revenue annually. While the filing fee would allow the county to generate revenue for agencies involved in the appeal process, implementing the fee would require a change to state law. King County Assessor did not support moving forward with the commercial filing fee at the time of the audit.

Executive Response: Department of Assessments



King County

John Wilson
King County Assessor

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Seattle, WA 98104
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KING COUNTY AUDITOR

9/5/2018

RECEIVED

September 5, 2018

King County Auditor Kymber Waltnunson
King County Courthouse
516 Third Avenue, Room W-1033
Seattle, WA 98104

Dear Auditor Waltnunson:

It is my pleasure to forward to you the Department of Assessments response to the "Property Tax Appeals Audit" recently completed by your office. We very much appreciate the level of hard work and analysis that went into this audit, and we value the collaborative nature of the auditors that work on your staff. We are strong supporters of performance audits, and believe they make our agency and King County government in general more efficient and effective.

Enclosed you will find: 1) our completed version of your office's document titled "DOA Response to Recommendations;" 2) our written responses to the recommendations in the audit pertaining to our department; and 3) the outline and details of a pilot project we will use to test whether the core recommendation for DOA from the audit will improve operations and customer service for appellants.

We are in agreement with the recommendations contained in the audit and are looking forward to working with the Board of Equalization on an action-oriented plan of response.

Sincerely,

John Wilson
King County Assessor

Enclosures

Recommendation 1

The Department of Assessments should develop, document, and disseminate guidance to appraisers on pre-hearing communication with appellants and their agents.

Agency Response

Concurrence **Concur**

Implementation date September, 2018

Responsible agency DOA

Comment Guidance will be added to the Appraisers Reference Manual
In the third quarter of 2018, the Department will re-evaluate its tools and materials for appraisers to determine what new materials and procedures can be incorporated to address gaps and provide clear direction on how to communicate with property owners and their agents. This project will result in written guidance that will be added to the Appraisal Reference Manual.

Currently the Department disseminates training materials to the appraisal staff to guide them in evaluating appeal submissions and contacting taxpayers where necessary to address appellant questions and concerns. The Department makes use of SharePoint as a central focus and repository of its department-wide training materials. In addition, Appeal process and procedure information can be found in the existing video training library.

Recommendation 2

The Department of Assessments should develop and implement a plan to ensure that all appellants have equitable opportunities to have informal communication before a hearing.

Agency Response

Concurrence **Concur**

Implementation date September, 2018

Responsible agency **DOA, Residential Division, Northwest District**

Comment

Lean event to test potential approach will begin in September, 2018. Results will be available by December 2019.

The Department recognizes that there may be additional opportunities to further enhance information dissemination to property owners and provide additional tools to fit the public's needs. In the third quarter of 2018, the department will launch a pilot project to test methods for doing so. The plan for the pilot is attached to the department's response to this audit.

With over 700,000 parcels in King County, the Department of Assessments, like other King County government agencies, is challenged to reach all citizens on their timeline and address all perceived needs. The department does have a mechanism in place that encourages property owners to reach out to the Department for their information needs. Change of Values notices and the Assessor's award-winning website provide contact information. The Assessor's web site identifies the Public Information team as the entry point for inquiries for basic appraisal and assessment information. The Public Information team also has assigned an appraisal supervisor with an extensive appraisal background to answer complex appraisal questions. In addition, the Appeals Support Team is skilled at disseminating information to the public about the appeals process. The Public Information Team has the ability to schedule onsite follow-up inspections with property owners when incorrect property characteristics are identified by the property owner.

When a property owner files an appeal, appraisers are trained to identify issues or concerns that have not been taken into consideration for the annual revaluation. During this review process appraisers, residential or commercial, will often contact the appellant directly to clarify needed information. The Department also has informational tools available on its website that address how properties are valued and provides individual steps in the assessment process.

Recommendation 7

The Department of Assessments should create a plan to use the detailed reasoning in board orders from the Board of Equalization and, once the Board of Equalization has implemented Recommendation 6, the Department of Assessments should implement its plan.

Agency Response

Concurrence	Concur
Implementation date	Unknown at this time
Responsible agency	DOA

Comment	<p>Will set implementation date once we have action from BOE</p> <p>The Department of Assessments will formalize and update its existing review, analysis, and policy implementation/change process associated with BOE Board Orders so it can better use detailed reasoning in board orders from the BOE. Currently, Assessment staff review and analyze hearing orders issued by the BOE. For orders that might cause a significant policy impact/shift, or facilitate a business process change, the Chief Appraiser, Assistant Chief Appraiser, and/or Division Directors will meet with Senior appraisers and/or teams to review BOE orders and share information whether procedures and assessment practices should be altered or remain the same.</p> <p>The process will be formalized whereby results of the reviews will be published to SharePoint for internal documentation. An annual briefing will be made to the Assessor for identification of issues for review and discussion with the BOE at the annual meeting of DOA and BOE.</p>
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Recommendation 9

The Board of Equalization should work with the Department of Assessments to include data about evidence submitted past the 21 day deadline and whether it was important to final decisions, and this data should be used to inform agency decision-making.

Agency Response

Concurrence	Concur
Implementation date	Unknown
Responsible agency	BOE
Comment	<p>DOA will contact BOE to discuss</p> <p>The Department of Assessments stands ready to work with the BOE on Recommendation 9.</p>

Recommendation 10

The Board of Equalization and the Department of Assessments should communicate about administrative improvements on a regular basis.

Agency Response

Concurrence	Concur
Implementation date	September, 2018
Responsible agency	DOA/BOE

Comment

Quarterly meetings between DOA and BOE have been established. First meeting to occur in September, 2018.

The Department of Assessments will address this recommendation by holding quarterly meetings with the Board of Equalization to advance communications and create a framework for collaboration on development of: (1) strategies for promoting equity and transparency; (2) addressing technical issues and technology enhancements, and; (3) development of business process improvements. Meetings have been scheduled through the end of 2019 with the first meeting scheduled for September 25, 2018 (3rd Quarter) between the Secretary of the Board, the Assessor IT Team, and the Chief Appraiser to initiate a platform for improvement. Appointed Board members participation will be limited to the Chair of the Board and one meeting a year to minimize the appearance of “ex parte” contact.

Quarterly Meetings have been scheduled for the following dates:

- September 25, 2018
- December 13, 2018
- March 26, 2019
- June 25, 2019
- September 24, 2019
- December 17, 2019

**Recommendations 3, 4, 5, 6, 8, 9, and 10 sent to Board of Equalization for response.*

Executive Response: Board of Equalization



King County Board of Equalization

Ronald Bosi (Chair)
Kay Slonim (Vice Chair)
Robert Radford (Secretary)

500 Fourth Ave. Suite 510
Seattle, Washington 98104-2306
206-296-3496 (TDD: 296-1024)

Aaron DeCollibus
Anthony Ogilvie
Elaine I. Ko
Sri Thornton

KING COUNTY AUDITOR

9/5/2018
RECEIVED

September 5, 2018

Kymber Waltmunson
King County Auditor
516 Third Avenue, Room W-1033
Seattle, WA 9814

RE: Response to the Auditor's Final Report on the Property Tax Appeal Process

Dear Ms. Waltmunson,

Thank you for the opportunity to comment on the 2018 audit report regarding the property tax appeal process in King County. Overall we find that the audit report recommendations are well aligned with the work the Board of Equalization has recently undertaken to improve the processes within our agency.

The Board of Equalization firmly believes that all parties involved in the appeal process have a common goal of finding the true and fair market value for every property to ensure that each property owner is taxed no more and no less than the amount prescribed by law. It is the Board's utmost priority to be impartial in this process and to encourage a collaborative environment where all parties work together in achieving this common goal.

It is our intent to implement the recommendations provided in the report, as stated in the enclosed response form, in a manner consistent with the Board's priorities; however, the Board notes that the budget provided for the 2017-2018 biennium was inadequate to maintain our current level of operations thus a budgetary deficit is forecasted for the biennium. In order to completely implement the recommendations within the timeframe provided in our implementation schedule additional budgetary funding will be needed.

Regards,



Ronald Bosi, Chairman of the Board



Michelle Geiger, Manager/ Clerk of the Board

Enclosures

Recommendation 3

The Board of Equalization should develop a training plan and implementation proposal that is specific to the complex issues board members must consider in King County.

Agency Response

Concurrence **Concur**

Implementation date January 1, 2019

Responsible agency **BOE**

Comment The BOE will develop a training plan and implementation proposal. These items will be sent to the Auditor and the Executive by November 1, 2018.

The BOE's ability to meet the above specified implementation date will be dependent on the approval of the additional budget amount to be specified in the implementation proposal. The BOE will work with council staff in order to address budgetary concerns.

Recommendation 4

The Board of Equalization should develop, document, and implement a strategic plan.

Agency Response

Concurrence **Concur**

Implementation date January 1, 2019

Responsible agency **BOE**

Comment The purpose of the BOE is set forth by RCW 84.48.010. A one-page strategic plan will be developed to elaborate on this purpose and to set forth the BOE's priorities when carrying out this work. This will serve as an accompaniment to the Board's Practice and Procedure document which details the Board's operational structure and provides specific rules for appeals filed with the BOE.

Recommendation 5

The Board of Equalization should work with the County Council to amend code language to include requirements for skills and experience relevant to the duties of the clerk and board members.

Agency Response

Concurrence **Concur**

Implementation date April 1, 2020

Responsible agency **BOE (with assistance from PAO and the Clerk of the Council)**

Comment The BOE will determine a qualification criteria for the clerk of the BOE and BOE members. The BOE will work with the Prosecuting Attorney's Office (PAO) and the Clerk of the Council to have the qualifications codified.

The BOE will provide updated language to PAO and the Clerk of the Council by December 31, 2019. The BOE's ability to meet the above specified implementation date will be dependent on the corresponding ordinance being passed by Council and approved by the Executive.

Recommendation 6

The Board of Equalization should increase the level of detail about decision reasoning in board orders so that the Department of Assessments and appellants can understand what evidence was most persuasive.

Agency Response

Concurrence **Concur**

Implementation date July 1, 2019

Responsible agency **BOE**

Comment While the BOE has already taken steps to increase the level of detail in board orders, this recommendation will be discussed with all members and examiners at the BOE's annual convening meeting in early November of 2018 to ensure all members and examiners are aware of the level of detail that needs to be documented. Orders issued for hearings that occur subsequent to the November meeting will contain increased detail regarding the BOE's decision.

It should be noted, by statute, the Assessor has the presumption of correctness, thus only the taxpayer has the burden of proof to "persuade" the Board. Accordingly, when the burden of proof is met and the Board is persuaded to adjust the value, the Board will provide a detailed explanation regarding "what was persuasive" as stated in this recommendation (audit recommendation no. 6).

For appeals where the Assessor's value is upheld by the Board, particularly those appeals where the Taxpayer does not participate in the hearing and provides little to no evidence for their appeal, the Board will continue to utilize "stock responses", unless the member or examiner reviewing the case recommends providing additional reasoning beyond the "stock response" in the order. As discussed below, writing detailed responses will result in an increase in labor time. Thus, without an evident business need (i.e. benefit commensurate to the increased labor cost), the Board is disinclined to standardize the format of all orders to include detailed decisions.

Based on an average of 5,000 appeals filed annually with the BOE approximately 30% typically get withdrawn/ resolved with the Assessor, leaving 70% (or 3,500) to be heard by the BOE. On average the BOE adjusts approximately 40% (or 1,400) of these cases. The clerk estimates it will take five to 10 minutes (7.5 min average) to draft a "detailed response" in comparison to one minute with a "stock" response. This results in approximately three hours of additional labor time for the clerk each week. While ambitious, the clerk feels this can be accomplished; however, if a "detailed response" is desired for all orders, regardless of a value change, staffing changes will be needed.

Recommendation 8

The Board of Equalization should make its criteria for accepting late evidence public.

Agency Response

Concurrence	Concur
Implementation date	July 1, 2019
Responsible agency	BOE
Comment	The BOE will incorporate the guidelines used for late evidence into the Board's Practices and Procedures document and make it available on the BOE's website.

The BOE notes that the purpose of establishing an evidence due date is to provide a date that will allow the opposing party adequate time to prepare a rebuttal to present at the hearing. The rebuttal due dates set forth by the BOE in its late evidence acceptance guidelines reflect the timeframes the BOE has deemed to be adequate for the recipient of the late evidence to prepare a rebuttal to present at the hearing.

Recommendation 9

The Board of Equalization should work with the Department of Assessments to include data about evidence submitted past the 21 day deadline and whether it was important to final decisions, and this data should be used to inform agency decision-making.

Agency Response

Concurrence	Concur
Implementation date	April 1, 2020
Responsible agency	BOE/ DOA
Comment	The BOE's reliance on late evidence for their decision is implicitly documented in the board's order (i.e. if the board order indicates the adjusted value is based on a cost-to-cure estimate, and the cost-to-cure estimate was submitted as late evidence, then clearly it was relied upon). In order to capture this information in a manner that can be queried for statistical analysis, the BOE's database (i.e. Petition.exe) will need to be modified by the DOA's IT staff so the BOE can input this information.

The BOE's ability to meet the above specified implementation date will be dependent on the DOA IT staff completing the database modification before the above specified implementation date.

Recommendation 10

The Board of Equalization and the Department of Assessments should communicate about administrative improvements on a regular basis.

Agency Response

Concurrence	Concur
Implementation date	October 1, 2018 (Q3 2018)
Responsible agency	BOE/ DOA
Comment	The BOE supports regular communication with the DOA regarding administrative improvements; however, the BOE notes that the "appearance of fairness" doctrine applies to this quasi-judicial board and ex-parte contact communications with the BOE members are not permitted by law. Consequently, the communications that occur under this recommendation and related interactions must be limited to BOE administrative staff and not include the BOE members or hearing examiners. Furthermore, discussions should only be limited to administrative matters.

** Recommendations 1, 2, 7, 9, and 10 sent to Department of Assessments for response.*



Statement of Compliance, Scope, Objective & Methodology

Statement of Compliance with Government Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope of Work on Internal Controls

We assessed internal controls relevant to the audit objectives. This included a review of selected state, county, and division policies, guidance, plans, and processes, including the Washington State Department of Revenue's requirements for property tax appeals. We also conducted interviews with knowledgeable staff within the Department of Assessments (DOA) and Board of Equalization (BOE). In performing our audit work, we identified concerns relating to strategic planning and training.

Scope

This performance audit examined the work of the DOA and the BOE relative to property tax appeals, focusing on appeals that occurred between 2012 and 2017.

Objectives

The objectives of this audit were:

1. How are the volume and complexity of property tax appeals changing, and to what extent are the DOA and the BOE able to effectively respond to any changes?
2. What strategies do the DOA and BOE use to improve property tax appeal practices, and how well are those strategies working to ensure an effective, efficient, and equitable process?

Methodology

To address the audit objectives, we worked with DOA and BOE leadership to understand the property tax appeal process and the related workload for the two agencies. We interviewed DOA management, the DOA communication lead, DOA exemption staff, BOE board leadership, and external tax agents about their responsibilities and challenges. We conducted twenty semi-structured interviews with a sample of commercial and residential appraisers, and interviewed supervisors from both sections. We surveyed DOA staff and BOE members to learn more about their concerns and suggestions for potential areas for improvement. We also worked with the Washington State Department of Revenue to understand the regulatory environment of the appeal process.

We supplemented this work with both quantitative and qualitative analysis of appeals data from 2012 - 2017. This included reviewing a sample of 20 complete board orders and decisions as well as excerpts from all board orders from 2016 and 2017 in order to analyze the level of detail provided. To better understand the profile and impact of commercial properties that are appealed frequently, we ran

comparative descriptive statistics for frequently appealed and other commercial properties. We also reviewed the DOA's proposal for a commercial filing fee in budget documentation. We analyzed data from King County Finance and Business Operations to determine the amount of tax refunds issued due to appeals.

In order understand the process for appellants, we interviewed Tax Advisor staff from the Ombudsman's Office, reviewed the online eAppeals system, and observed a BOE hearing.



List of Recommendations & Implementation Schedule

Recommendation 1

The Department of Assessments should develop, document, and disseminate guidance to appraisers on pre-hearing communication with appellants and their agents.

IMPLEMENTATION DATE: September 2018: DOA

ESTIMATE OF IMPACT: Providing this guidance will improve the consistency of appraiser communication so that appellants receive equitable service. Consistent communication also has the potential to improve efficiency by increasing the number of stipulation agreements or withdrawals when appropriate.

Recommendation 2

The Department of Assessments should develop and implement a plan to ensure that all appellants have equitable opportunities to have informal communication before a hearing.

IMPLEMENTATION DATE: September 2018: DOA

ESTIMATE OF IMPACT: Developing and implementing this plan will increase the fairness of the appeals process by ensuring that all appellants have an opportunity to present their concerns in a low-cost manner before a formal appeal.

Recommendation 3

The Board of Equalization should develop a training plan and implementation proposal that is specific to the complex issues board members must consider in King County.

IMPLEMENTATION DATE: January 1, 2019: BOE

ESTIMATE OF IMPACT: Providing additional training will improve the accuracy and consistency of board decisions across board members. This will help ensure effective and fair decisions for complex appeals.

Recommendation 4

The Board of Equalization should develop, document, and implement a strategic plan.

IMPLEMENTATION DATE: January 1, 2019: BOE

ESTIMATE OF IMPACT: Developing a strategic plan will help the board align their practices and decisions with larger goals to ensure quality and efficiency.

Recommendation 5

The Board of Equalization should work with the County Council to amend code language to include requirements for skills and experience relevant to the duties of the clerk and board members.

IMPLEMENTATION DATE: April 1, 2020: BOE

ESTIMATE OF IMPACT: Amending the code language will help ensure that the board continues to have the technical skills and expertise necessary to make accurate decisions.

Recommendation 6

The Board of Equalization should increase the level of detail about decision reasoning in board orders so that the Department of Assessments and appellants can understand what evidence was most persuasive.

IMPLEMENTATION DATE: July 1, 2019: BOE

ESTIMATE OF IMPACT: Increasing the detail in board reasoning will improve transparency and customer service for appellants and the DOA so that they can understand why a value was sustained or adjusted.

Recommendation 7

The Department of Assessments should create a plan to use the detailed reasoning in board orders from the Board of Equalization and, once the Board of Equalization has implemented Recommendation 6, the Department of Assessments should implement its plan.

IMPLEMENTATION DATE: Unknown: DOA

ESTIMATE OF IMPACT: Implementing this plan will help the DOA use the information from board decisions in order to improve their own practices and increases the effectiveness of future valuations and appeals.

Recommendation 8

The Board of Equalization should make its criteria for accepting late evidence public.

IMPLEMENTATION DATE: July 1, 2019: BOE

ESTIMATE OF IMPACT: Publicizing the criteria for accepting late evidence will help appellant understand how the rules are applied in practice, making the process fairer for inexperienced appellants.

Recommendation 9

The Board of Equalization should work with the Department of Assessments to include data about evidence submitted past the 21 day deadline and whether it was important to final decisions, and this data should be used to inform agency decision-making.

IMPLEMENTATION DATE: Unknown: DOA; April 1, 2020: BOE

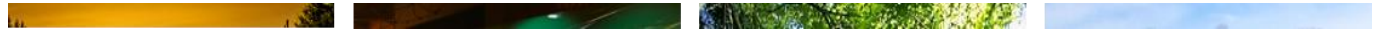
ESTIMATE OF IMPACT: Tracking data on late evidence will enable the DOA and BOE to make informed decisions that can improve the effectiveness and efficiency of the appeals process.

Recommendation 10

The Board of Equalization and the Department of Assessments should communicate about administrative improvements on a regular basis.

IMPLEMENTATION DATE: September 2018: DOA; October 1, 2018: BOE

ESTIMATE OF IMPACT: Communicating on a regular basis will allow the DOA and BOE to identify and improve inefficiencies in the appeals system.



KING COUNTY AUDITOR'S OFFICE

Advancing Performance & Accountability

KYMBER WALTMUNSON, KING COUNTY AUDITOR

MISSION Promote improved performance, accountability, and transparency in King County government through objective and independent audits and studies.

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This audit product conforms to the GAGAS standards for independence, objectivity, and quality.