



The Idaho Association of Assessment Personnel

Promoting Education • Communication • Excellence

From the President

I hope that this spring newsletter finds you all doing well; having survived another Idaho winter and heading into our typical busiest time of the year. I would like to take the opportunity of having this “bully pulpit” to speak about the current situation our country, and to a lesser degree our state, is going through economically.

My family and I moved to Idaho in the late summer of 1988, after having lived my life in Wyoming and working in the oil industry. In the spring of 1983 we purchased a new home located in Casper, Wyoming. Our property taxes were a bit less than \$300 per year. Thank goodness for the oil, gas, and mining industry that paid a very large portion of local and state taxes in the state of Wyoming.

During the next five years I watched the oil, gas, and mining industry decline. This was the result of several issues: environmental, high cost of production in the Rocky Mountains, and so on. Guess what, this had a couple of direct effects on property taxes. First, the oil, gas, and mining industry were doing less business. As a result, the amount

of taxes that they paid toward local and state budgets decreased. This shifted more of the tax burden on to the individual property owner. Secondly, the oil, gas, and mining industry were employing fewer people, many of whom left the state looking for employment elsewhere. Not as many individuals were paying into the property tax pool. As this economic situation continued, the value of properties declined; slowly at first and then more rapidly as the economic situation worsened.

The situation in the late 1980's in Wyoming was a microcosm of what is going on today, nationwide. Various industries are shutting down; increasing unemployment, which leads to lower property values. But, as we all know, this does not necessarily translate to lower property taxes. In my case, my \$80,000 house eventually sold for \$24,000, while my property taxes went from under \$300 per year to over \$800 per year. Bottom line to my sad, but true, story... lower values do not necessarily equate to lower taxes.

Jerry Coleman
IAAP President

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Spring 2009 Edition

News

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IAAP Annual Meeting

Mark your calendars; IAAP will be having our annual meeting at summer school this year on Tuesday, July 28 at the Holiday Inn Boise Airport. It will be a luncheon meeting, lunch provided by IAAP, and will have a guest speaker from IAAO. More details next issue.

Thank you

My thanks to all that contribute articles to this newsletter. Last issue I failed to thank Mike McDowell from Kootenai County. He wrote a great article and it certainly was informative for the topic we were attempting to cover. Thanks Mike. - Jerry Coleman

IAAP Dues

If you haven't paid your IAAP dues yet, please get those to:
Alan Smith, IAAP Treasurer
190 E Front St. Suite 107,
Boise, ID 83702

Happy Anniversary IAAO!

This year, 2009, marks 75 years of IAAO. IAAO would like you to help them document the history of IAAO. They are looking for your stories, anecdotes, and memories of your experiences with the organization. The link below will take you to a form to help you get started. <https://www.iaao.org/sitePages.cfm?Page=149> The first 100 members to provide historical perspectives will receive a special 75th anniversary commemorative gift! IAAP is a proud sponsor of the IAAO 75th anniversary.

For you pin collectors, IAAO has a limited edition of lapel pins that you can order from the website: <http://iaao.org/> Hurry and order yours today!

Do you find you generally have more questions than answers? I've told you before about AssessorNet. But, there is always something new at IAAO. And a new wonderful feature offered from the IAAO library is the LibraryLink. LibraryLink is an online catalogue and periodical database allowing assessors to conduct research. Listed below are some of the wonderful features to help with your research:

- Easy access to Fair & Equitable articles and IAAO Journal articles.
- Conference proceedings with several search options.
- Search options allow ability to save search results, bookmark favorite materials in "my catalog", search results can be sorted chronologically or alphabetically, and filtered by date and material type.
- Relational linking between journal issues, subjects, authors, etc.

I am sure there are more wonderful enhancements than those I have listed. Go to the web site and check it out. Public assess is available for nonmembers, but nonmembers cannot access full-text articles or documents. They can however request them for a fee.

Not a member of IAAO? I can offer you first year membership for half price. In these budget tight times, half price sounds good. An application is available on the next page. Just print it, complete it, and submit it with your membership dues.

Susan Ripley
sripley@latah.id.us
208-892-4569

Have something to say?

Get involved! All IAAP members are encouraged to submit articles for the quarterly IAAP News publication. Did you have an interesting or unusual property to assess? Email a brief description of the property and how you appraised it, along with several photos that illustrate the distinctiveness of the property. Do you have an opinion on a current issue or problem facing Idaho's assessment personnel? Is there an event, meeting or educational opportunity occurring in your area that may be of interest to fellow IAAP members? Let us know! Send all submissions to Jerry Coleman: jcoleman@latah.id.us



IAAO MEMBERSHIPS

Regular Membership

is available to: all officers, officials, and employees of a governmental authority or jurisdiction who have any or all of their duties related to property valuation, property tax administration, or property tax policy; all persons engaged as individuals, or employees of an organization, who exclusively spend their time to provide professional services to governmental officers, officials, or offices of a governmental authority or jurisdiction in support of the property valuation, property tax administration, or property tax policy functions. Professional services do not include the providing of hardware, software, equipment or the sale of either goods or services to governmental agencies.

Associate Membership

is available to: all officers, officials or employees of governmental agencies who do not have any duties directly involved in property valuation, property tax administration, or property tax policy; all officers, administrators, employees and enrolled students of educational institutions; individuals involved in or interested in property valuation, property tax administration, or property tax policy; any member of any organization, group, or association, whether local, regional, national, or international, interested in property valuation, property tax administration or property tax policy.

Affiliate Membership

is open to groups or associations of public officials, employees or citizens interested in property valuation for property tax purposes, property tax administration and property tax policy. (For application and information please contact: membership@iaao.org)

Dues are payable in advance.

Please complete this application and return with payment of dues: If paying by credit card, please provide the information requested below and fax to 816/701-8149.

TOTAL MEMBERSHIP DUES \$ _____

For information about an accredited membership designation, go to www.iaao.org.

VISA _____ Cardholder Name (Print)
 MasterCard _____
 AMEX _____ Card Number _____ Expiration Date _____

If paying by check, please make check payable to IAAO in U.S. Funds and mail to: IAAO, P.O. Box 504183, St. Louis, MO 63150-4183 (The returned check charge is \$25.00)



INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS MEMBERSHIP APPLICATION

Half-price referral application

Join IAAO and register for seminars at the reduced member rate!

Name _____ Title _____
 Jurisdiction/Firm _____
 Office Street Address _____
 Office City _____ Office State/Province/Country _____ Office ZIP/Postal Code _____
 Office Phone _____ Office Fax _____ Office E-mail _____
 Home Street Address _____
 Home City _____ Home State/Province/Country _____ Home ZIP/Postal Code _____
 Home Phone _____ Home Fax _____ Home E-mail _____

Send mail to: Office Home Check here if you do not have an e-mail address or do not wish to provide an e-mail address. *E-mail is a vital link between IAAO and its members. It is IAAO policy not to sell, rent, or distribute e-mail addresses.*

Susan Ripley

Person referring applicant (if anyone) _____ Check here if you are an elected official.

I hereby apply for membership in the International Association of Assessing Officers and agree to comply with the requirements of the IAAO Code of Ethics and Standards of Professional Conduct. If accepted for membership, I will abide by the IAAO Constitution, pay the established dues, and comply with the Code and Standards.

Signature

Date

Please indicate if you have been convicted of a felony or crime of office which may reflect on your ability to abide by the IAAO Code of Ethics and Standards of Professional Conduct. Yes No

Prices are quoted in US dollars and are subject to change. Prices are guaranteed through 12.31.09

Office use only:

H91RZ

Proration schedule

Date Application Received	January - March	April - June	July - September	October - December
Regular Member	\$87.50	\$65.63	\$43.75	\$87.50
Associate Member	\$90.00	\$67.50	\$45.00	\$90.00

****Join in the 4th quarter and don't pay again until Jan. 1, 2011. Enjoy as much as 3 months free**

Councils and Sections Interest Areas

(you may join more than one at no additional charge)

- Public Utility Section Mapping and GIS Section
 Computer Assisted Appraisal Section Personal Property Section
 State and Provincial Council Tax Collection Council
 Metropolitan Jurisdiction Council

IAAP to Sponsor Excel Class in Moscow

April 16 and 17, 2009

Market Analysis for Appraisers

This Excel based market analysis seminar is geared toward specific appraisal tasks in the mass appraisal process. Students will receive hands on training in the following appraisal related spreadsheet tasks:

- Excel as a Database – Students will work with a sales database developed for market analysis purposes. This will include discussion of data sources, queries, and pertinent data to be included.
- Data Sorting & Filters – Students will learn to sort and use filters to manage the sales database.
- Charts – Students will work with charts throughout the seminar to better understand data relationships, determine time adjustments, develop land value models, create depreciation schedules, calibrate value models, and eliminate value biases.
- Array Formulas – Students will learn the basics of Excel array formulas used to perform regression analysis including measures of confidence and for the calculation of statistics on subsets of data within the sales database.
- Lookup Formulas – Students will create lookup formulas based on database fields to apply table information to the value model.

Students will receive hands on training in the following market analysis tasks:

- Time Adjustments – Students will develop and apply time adjustments to the sales data.
- Outliers – Students will learn to recognize outlier data points and discuss trimming criteria.
- Table Development – Students will develop land value tables, LCM (Grade Adjustment) tables, and depreciation (percent good) tables.
- Interpolation – Students will develop an interpolation process for the application of land table factors.
- Model Calibration – Students will test the value model for characteristic based biases and learn methods for adjusting the model

Prerequisites:

- Students must be knowledgeable in basic and intermediate Excel formulas, formatting, and spreadsheet navigation.
- Students must be knowledgeable in basic and intermediate ratio study statistic formulas for level and uniformity.

Credit hours will be given and the cost will be \$7 per hour for IAAP members. To sign up contact Jerry Coleman at (208) 892-4570 or jcoleman@latah.id.us

Geospatial Data Analysis: Eye on the Future of Appraisal Technology

by Alan Smith
Ada County Assessor's Office

The trend of rapidly expanding integration of technological implements is not leaving the appraisal industry untouched. At nearly all appraisal conferences, the talk is about new technology; particularly the integration of Geographic Information Systems (GIS) and Computer Aided Mass Appraisal (CAMA) systems. Of the many tools this integration would provide, one that is of primary interest to me is geographic data analysis through geospatial data array. Geospatial data array, in literal terms, means arraying data on a map, geographically. Developing tools for displaying valuation, characteristic, and market information geographically would represent a

quantum leap in data analysis tools for appraisers. From the conferences I have attended and communications that I have had with other assessor's offices, this technology is merely at the pioneering stage of development and usage.

Nevertheless, recent advancements in technology have allowed for practical enhancements to GIS systems to allow for usage of this technology by appraisers. Software implements utilized for geospatial analysis range greatly, from desktop applications like ArcView and ArcMap to web-based applications with database integration. In our office we utilize both ArcMap, as well as a web-based application utilizing an integration of ArcIMS, ArcSDE, and GeoCortex. Over the last several years there have

been several advancements in the usage of GIS, however, in the last couple of years we have been working on the integration of market, characteristic, and valuation information from our CAMA program into our GIS system. Tools built into the GIS system allow appraiser's to view, query, and filter for market and characteristic information with just a few keystrokes.

I limited sold properties within this view-extent to between .20 and .25 acres, where upon execution highlights in yellow all sold parcels fitting this description. Other characteristics could be queried and highlighted as well, including parcel valuation and site characteristics. The idea is to tie relevant improvement and site characteristic data to mapping layers, so that this data can be queried for, filtered, and highlighted for data analysis. For instance, if an appraiser were to be viewing a neighborhood with parcels that have varying degrees of view, you could query for parcels that have sold with a particular degree of view, and a home within a given characteristic range, such as square footage. As one can imagine, this is a great tool for finding comparable properties for appeals, but also provides for an enhanced market analysis tool. By allowing for additional stratification of data along with the ability to view this information geospatially, provides appraisers with a powerful analysis tool.

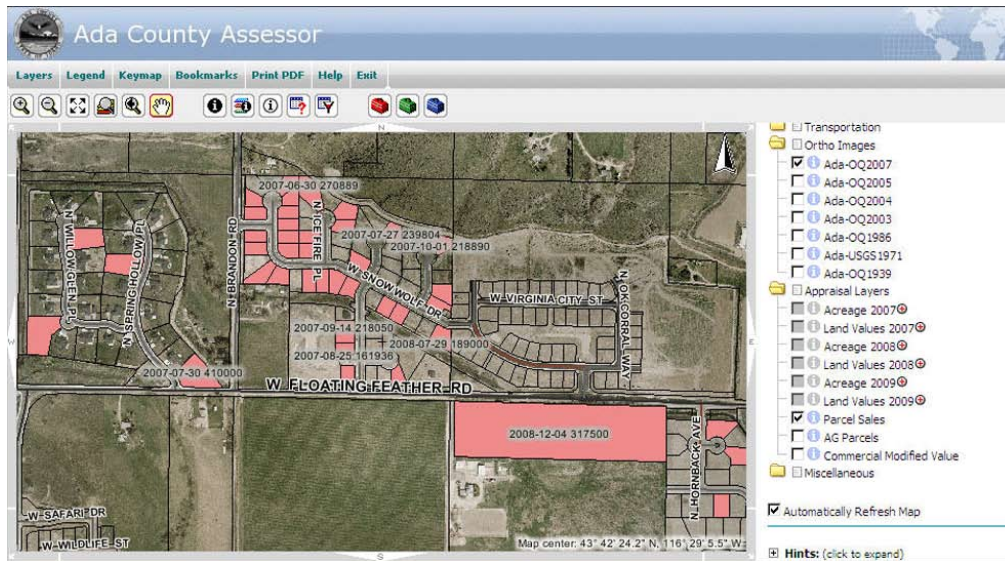


Figure 1. GIS Highlight of Sold Properties.

Illustrated in Figure 1 above is an example of this system's capability to display data via mapping layers. In this case, an aerial photo is displayed and overlaid with parcel lot lines and sales information. This tool allows appraisers to quickly view proximate sales within an area by just adding a layer to the mapping application. By linking this tool to a CAMA system, appraisers can type in a parcel number from this system and, with the touch of a button, view the selected parcel and possess tools to view location, market, or valuation information on a property. Another enhancement tool built into this system, that is particularly useful for analytical purposes, is the query and filter tool.

As I stated earlier in this article, we are merely at the beginning stages of implementation of this technology for analytical purposes. However, as costs come down on aerial photography, pictometry, and other GIS technologies, we will inevitably see more and more usage of these systems by assessor's offices for appraisal. Geospatial analysis is a very exciting and powerful tool and, in my opinion, one that we will be seeing a lot more of in the years to come.

Query tools come in several forms; this one is SQL based, but contains a Green User Interface allowing for user-friendly drop down menus and selection tools, as detailed in Figure 2. The application of this query tool allows for additional highlight of the sold properties from Figure 1. For this example,

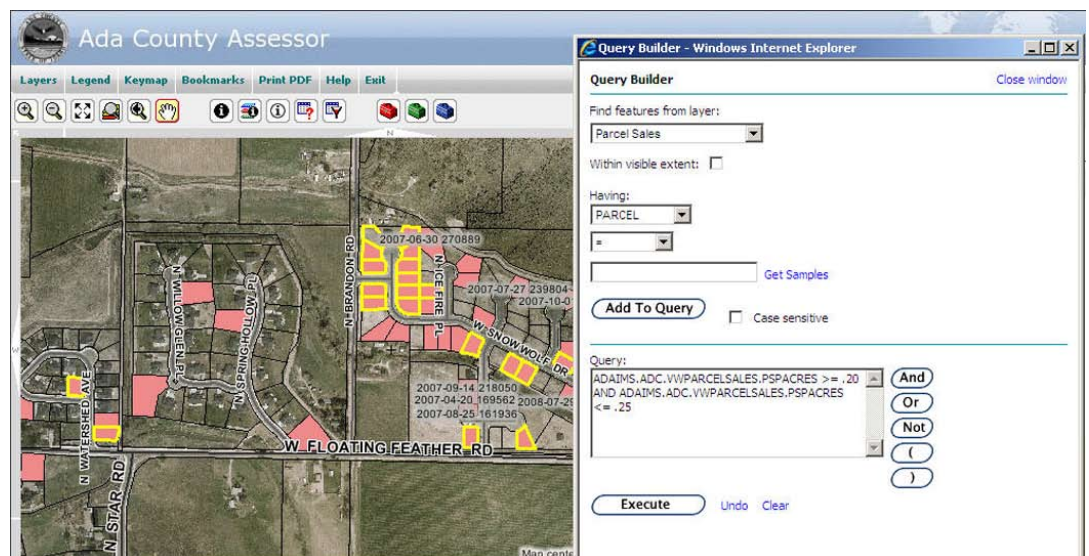


Figure 2. Query and Filter of Parcel Sales Information.

Personal Property Tax Exemption Revisited

by Alan S. Dornfest, AAS
Property Tax Policy Supervisor
County Support Division
Idaho State Tax Commission

Let's talk about personal property. Yes, we do have a personal property tax exemption. Or, rather, we will have one if and when the economy picks up enough to raise fiscal year state general fund tax collections to at least 5% over fiscal year 2008 receipts. Oh, and then we won't really have a comprehensive personal property tax exemption, but one that exempts the first \$100,000 in value per taxpayer per county. And don't ask me what personal property is (look to the rules or the definitions found in section 63-201, Idaho Code) as that would take two newsletters and we still wouldn't know.

What we can talk about, and what is new and exciting, is the affidavit in lieu of the personal property declaration. This is a new document that we have yet to craft that will be permitted to be filed by the taxpayer once the exemption is triggered (probably not until 2011 or 2012, so don't sweat it yet). What's this affidavit you ask? Well, check out House Bill 83, which passed the legislature unanimously, has just been signed into law. This bill provides an affidavit option to the taxpayer who owns personal property and would otherwise have been required to continue to file declarations of such property annually, even after the exemption takes effect.

Perhaps a little background is necessary. First of all, while taxpayers will end up with a reduction in their personal property tax equal to the tax rate applied to up to \$100,000 in value of eligible property, the exempt property will remain on the tax rolls for computing levy rates. To keep the taxing districts whole, counties annually will prepare tax reduction rolls, similar to what is done now for the circuit breaker program, will report the current market value of eligible property, and will receive reimbursement from the State Tax Commission for taxes on this eligible personal property. To enable this calculation to be accurate, we promulgated rules stating that the taxpayer's annual declaration would be required and would be considered as an application

for the exemption. Legislators, to whom these rules were presented, felt that this imposed an "...onerous task of performing an annual inventory of personal property and submitting it to the County Assessor, when it is obvious that the \$100,000 exemption will apply and the business owes no personal property tax...." (See the Statement of Purpose attached to HB 83.)

Now, back to the affidavit. Once the exemption is triggered, the taxpayer may continue to file the annual declaration of personal property or may file an affidavit attesting that their total otherwise taxable value of personal property is \$100,000 or less. This leads to many

HB 83 includes a provision for a seven year period during which taxes based on improperly claimed exemptions may be recovered.

questions about determining the exact amount of the exemption and calculating replacement monies. Although I have more questions than answers, we are currently working on rules that will require the taxpayer filing the affidavit to indicate the value of their otherwise taxable personal property. If they don't indicate a value, the county would use whatever information is obtainable, value the property, and consider the personal property taxable – the taxpayer could still be granted the exemption on appeal provided the missing information is supplied. What if the taxpayer owns transient personal property as well? What if the combination pushes them over the \$100,000 limit? What if they provide cost instead of value? And, perhaps the most thorny question, should the assessor send out the prior year's declaration showing property listed by the taxpayer the year after the exemption goes into effect or the year after the first affidavit is received? Lest you fret over potential misuse of the affidavit provision, HB 83 includes a provision for a seven year period during which taxes based on improperly claimed exemptions may be recovered.

Stay tuned and contact me if you would like a copy of the current draft of the proposed rules.

Is “Mark-to-Funding” the Answer?

Fair Value Definition Needs Examination

by Dwayne Hines II

Want to start a fight in the financial world? Then try to pin the blame on someone or something for the current financial crisis. With debt markets locked up tight and equity bashed to very low levels, everyone is understandably trying to duck any blame. One place where a great deal of blame is being placed is on the mark-to-market style of accounting currently required by the Financial Accounting Standards Board (FASB). Mark-to-market accounting means valuing an asset at its current price, regardless of other quantifying and qualifying elements; see SFAS 157, “Fair Value Measurements” (FASB 2006). This new rule became effective in November 2007, about the same time things started going south in the banking world.

Former FDIC (Federal Deposit Insurance Corporation) Chairman William Isaac puts the blame for the credit crisis squarely on the use of mark-to-market accounting during a downturn as one of the major reasons markets have blown up. So do Steve Forbes and a number of others in the financial world. The American Bankers Association wrote to Secretary Henry Paulson, urging reform of the

The mark-to-funding approach to valuing assets takes a similar long-term view that helps aim beyond short-term volatility.

mark-to-market approach (King 2009). An article in Forbes magazine points out,

What many people do not realize is that mark-to-market accounting existed in the Great Depression and, according to Milton Friedman, was an important reason behind many bank failures. In 1938, Franklin Delano Roosevelt called on a commission to study the problem and the rule was finally suspended. (Stein and Westbury 2009).

The European-based International Accounting Standards Board (IASB) states that bottom-feeding prices should not be relied on as market prices for the intent of valuing assets. On the flip side of the coin, FASB and many others

believe that mark-to-market accounting is just fine. Mary Schapiro, the new head of the Securities and Exchange Commission (SEC, the agency that oversees FASB), noted in a Congressional forum that

while there are a lot of different views on whether mark-to-market accounting contributed to this crisis, my personal view is that it was not a significant factor. As Chair, I will read the recent SEC report on this matter fully, talk with other regulators, and get their view as we move forward. (<http://levin.senate.gov/newsroom/supporting/2009/PSI.SchapiroResponses.012209.pdf>)

The IASB’s caution on looking at market prices as bottom-feeding prices is somewhat echoed by the SEC and FASB, but they take no firm stand on granting companies real freedom to take a solid step away from the current mark-to-market sinkhole.

Who is right on the mark-to-market issue? Those calling for its demise? Or the regulators who think it is just fine? Perhaps there is an alternative to both, a truly viable third path? It turns out there is an excellent alternative. This

is the potential direction that is arising in Europe, the concept of mark-to-funding. This innovative approach, presented by Avinash Persaud at IMF/World Bank meetings in October 2008, allows a

company to choose between marking assets to market or valuing them according to their prospective value if held for a longer time frame (Persaud 2008a). The opportunity to do this is not a fantasy—under the IASB, it is available in some circumstances when a company declares its intention to hold an asset for a significant time period (Persaud 2008a).

Persaud points out why the mark-to-funding alternative has become necessary:

In the Liquidity Black Hole of 2007/8 credit risk instruments were priced, not in terms of the probabilities of default, but in terms of default they would fetch if they had to

be sold tomorrow in a massive clearance sale, to the diminishing number of buyers who do not require credit to purchase assets and do not care about mark-to-market volatility. Consequently, prices have plummeted far below any measure determined by the risk of default. These prices represent liquidity-risk, not credit-risk. (Persaud 2008b)

How did we get here?

Alfred King, Vice Chairman of Marshall & Stevens, points out that a major issue is a new definition of fair value that has had unintended consequences. For over a century the business community singularly used the fair market definition. With the change to fair value, which is basically a non-going concern, exit price is vastly different from the old fair market value definition. The result is that the FASB rule, SFAS 157, is now fundamentally flawed. And the problem is one that appraisers have long bumped into—the definition of value. King notes that the definition of fair value

currently enshrined in GAAP, underlines the Board's lack of understanding of how appraisers actually do their work. The problems now facing the government, investors and financial intuitions have been wildly exacerbated by SFAS 157. (King 2009)

According to King, to assert that financial reporting should be based on a bankruptcy model in which everything is for sale (coming from the fair value approach, instead of the fair market approach) surely would destroy the real underlying value of any going concern. King believes that a change in the definition of fair value needs to occur, and that auditors need to be willing to accept the professional judgment of appraisers as soon as possible (King 2009).

As nasty as these events have been, Persaud does not think it necessary to totally abandon the mark-to-market approach. His idea of mark-to-funding is more of an alternative than a wholesale replacement. How does this play out? He notes,

the valuation 'window' and the duration of risk management should be linked directly to the maturity of funding. . . 'mark-to-funding' would provide scope for banks and other institutions to create (risk absorbing) pools of capita—funded by long-term liabilities—that could buy assets that are at a distressed price today, without being held back by short-term price volatility. (Persaud 2008b)

If there is solid funding behind an asset and the owner

is planning on holding the asset for awhile, there is no reason that the owner should be penalized for a short-term drop in the current market.

The mark-to-funding approach makes a great deal of sense because most assets are being sold with the idea of being held for considerable lengths of time. It smoothes out the ups and downs that come from incessantly (or at least quarterly) marking everything to market. The concept of mark-to-funding seems to be an excellent approach, particularly when an asset is going to be held for the long term. Imagine how tough it would be to have to sell all your stocks at their lowest point instead of being able to hold on to them until they reach their true potential down the road. The entire buy-and-hold concept for investing assumes some rough spots but looks toward a longer time period for realizing eventual gains. The mark-to-funding approach to valuing assets takes a similar long-term view that helps aim beyond short-term volatility.

Persaud's concept of using mark-to-funding is one of the best out there and deserves significant consideration. In addition, if the definition of value is changed from fair value to fair market value, some real answers may emerge. What do you think?

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Dwayne Hines II is a Senior Utility Appraiser for the Idaho State Tax Commission. He writes for a variety of publications and currently has several books on the market, including the upcoming *Growth Zone*.