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United Airlines, Inc. v. King County

Court of Appeals of Washington, Division 1 - June 6, 2016 - P.3d - 2016 WL 3190515

Prior to 2006, the County and State employed an imputed return approach to valuing possessory interests in airline leaseholds at SeaTac Airport. The value was computed using a discounted cash-flow model that capitalized the net annual lease payments assuming a seven-year remaining life.

In 2006, the department decided to change to a variation of what is known as a residual approach for valuing possessory interests. The residual approach first computes the present value of the leasehold by capitalizing the net amount of lease payments for a single year using a capitalization rate determined from a review of rate studies. The second step is to consider the present value of the government-owned reversionary interest and to subtract it if it has any material value. Using the residual approach, the department "looked for evidence suggesting that the lease would not be renewed at the end of its express term." Where the evidence suggested that the lease would continue to be renewed into the foreseeable future, the port's reversionary interest "was considered to be minimal." According to the department, a significant difference is that the residual approach used a direct capitalization method, whereas the imputed return approach used limited-life yield capitalization.

The residual approach resulted in valuations that were significantly higher than the valuations calculated under the imputed return approach.5 Using the residual approach, the department, at least in some cases, calculated the value of the government-owned reversionary interest at "nil" or "zero."

After receiving objections from airline companies, and after internal study and discussion, the department agreed to change from the residual approach to a modified version of the earlier imputed return approach. This methodology used the actual lease term rather than a hypothetical perpetual lease.

United requested an administrative refund of taxes paid to King County from 2009 through 2011. For each year, the department had valued United's possessory interest by using the residual approach and assuming a hypothetical perpetual lease. The county denied the request.

United brought this action in superior court. The superior court granted the department's motion for summary judgment and United appealed.

The Court of Appeals affirmed, holding that an administrative refund of taxes under chapter 84.69 RCW is not available as an avenue for challenging an alleged error in determining the valuation of property. To challenge a tax as unlawful or excessive, a taxpayer must pay the tax under written protest and then file suit under RCW 84.68.020.

Because United attempted to use the administrative refund process to challenge the appraisal method by which appellant's property interest was valued, the trial court properly dismissed the action on summary judgment.

“In summary, the use of an appraisal method that assigned a nil value to the port’s reversionary interest after consideration of all the circumstances cannot be characterized as the manifest error of assessing property exempted by law from taxation.”

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