FOSTER, PEPPER & RIVIERA

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LOUSH FEFFER PS BELLEVLE OFFICE

110 110TH AVENUE NE SUITE 500 BELLEVUE MASHINGTON 98004 (205: 455 5900

1111 THIRD AVENUE SEATTLE WASHINGTON 98101 (206) 447-4400

> TELECOPER 1206: 447 9700 TELES 32 8024 ANSBE FOSTER LAN SEA

WILLIAM C EMPLEBEN DOUGLAS & STRANDBERG

425 G STREET ANCHORAGE ALASKA 99501 1907/ 276 2201 W TIED ALASHA BAR ONLY

DAVID UTEVSKY

September 16, 1986

Gary M. Olson County Auditor Skamania County Courthouse Second Street Stevenson, Washington 98648

Dear Mr. Olson:

Union Pacific Railroad Co. v. Department of Revenue, et al.

This firm has been retained to represent Union Pacific in the above-referenced action. In addition, Eugene A. Ritti and Richard G. Smith of Hawley Troxell Ennis & Hawley, Boise, Idaho have been retained by Union Pacific. The complaint alleges overvaluation by the Washington Department of Revenue of Union Pacific's operating property for the tax year 1984.

Although the Rules of Civil Procedure provide that an answer or other responsive pleading should be filed by you, please be advised that until the jurisdictional issue of whether this type of lawsuit can be brought in federal court has been fully resolved. Union Pacific will take no further action to prosecute this lawsuit at this particular time. Therefore, if you so desire, you need not file an answer or other responsive pleading until you hear further from me.

If you have any questions, please feel free to call Gene Ritti, Rick Mr. Ritti and Mr. Smith may be Smith or me at your convenience. reached at (208) 344-6000.

Very truly yours,

FOSTER, PEPPER & RIVIERA

David Utevsky

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COUNTY,

Superior Court Clerk (CLERK'S DATE STAMP)

86-2-11802-1

SUMMONS

SUPERIOR COURT OF WASHINGTON FOR KING COUNTY

UNION PACIFIC RAILROAD COMPANY;) OREGON-WASHINGTON RAILROAD AND NAVIGATION COMPANY; and CAMAS PRAIRIE RAILROAD COMPANY,

Plaintiffs,

٧s.

DEPARTMENT OF REVENUE OF THE STATE OF WASHINGTON; THE BOARD OF TAX APPEALS OF THE STATE OF WASHINGTON; ADAMS COUNTY; BENTON COUNTY; CLARK COUNTY; COLUMBIA COUNTY; COWLITZ COUNTY; FRANKLIN COUNTY; GARFIELD COUNTY; GRAYS HARBOR COUNTY; KING COUNTY; KLICKITAT COUNTY; LEWIS COUNTY; LINCOLN COUNTY; PIERCE COUNTY; SKAMANIA) COUNTY; SPOKANE COUNTY; THURSTON) COUNTY; WALLA WALLA COUNTY;

Defendants.

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Defendants above named. TO:

WHITMAN COUNTY; and YAKIMA

A lawsuit has been started against you in the above entitled court by plaintiffs, Union Pacific Railroad Company; Oregon-Washington Railroad and Navigation Company; and Camas Prairie Railroad Company. Plaintiffs' claim is stated in the written complaint, a copy of which is served upon you with this summons.

In order to defend against this lawsuit, you must respond to the complaint by stating your defense in writing, and serve a copy upon the undersigned attorneys for the plaintiffs within 25°

> FOSTER, PEPPER & RIVIERA AVENUE BUILDING (206) 447-4400

Summons - 1

20 days after the service of this summons, excluding the date of service, or a default judgment may be entered against you without notice. A default judgment is one where plaintiff is entitled to what he asks for because you have not responded. If you serve a notice of appearance on the undersigned attorney, you are entitled to notice before a default judgment may be entered.

If you wish to seek the advice of an attorney in this matter, you should do so promptly so that your written response, if any, may be served on time.

THIS SUMMONS is issued pursuant to Rule 4 of the Superior Court Civil Rules of the State of Washington.

DATED this 27th day of June, 1986.

FOSTER, PEPPER & RIVIERA

David Utevsky

Attorneys for Plaintiffs

Summons - 2

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FOSTER, PEPPER & RIVIERA
1111 THIRD AVENUE BUILDING
SEATTLE, WASHINGTON 98101
(206) 447-4400

RECEIVED in King Co. Cycle.

COMPLAINT

JUN 27 1986

NO.86-2-11802-1

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SUPERIOR COURT OF WASHINGTON FOR KING COUNTY

UNION PACIFIC RAILROAD COMPANY; OREGON-WASHINGTON RAILROAD AND NAVIGATION COMPANY; and CAMAS PRAIRIE RAILROAD COMPANY,

(COPY RECEIPT)

Plaintiffs,

DEPARTMENT OF REVENUE OF THE STATE OF WASHINGTON; THE BOARD

OF TAX APPEALS OF THE STATE OF WASHINGTON; ADAMS COUNTY;

BENTON COUNTY; CLARK COUNTY; COLUMBIA COUNTY; COWLITZ

COUNTY; FRANKLIN COUNTY; GARFIELD COUNTY; GRAYS HARBOR

COUNTY; KING COUNTY; KLICKITAT COUNTY; LEWIS COUNTY; "LINCOLN COUNTY; PIERCE COUNTY; SKAMANIA

COUNTY; SPOKANE COUNTY; THURSTON COUNTY; WALLA WALLA COUNTY;

WHITMAN COUNTY; and YAKIMA COUNTY,

Defendants.

Plaintiffs Union Pacific Railroad Company, Oregon-Washington

Railroad and Navigation Company and Camas Prairie Railroad Company (collectively "UPRR"), for their claim against the Defen-

dants, allege as follows:

Complaint - 1

FOSTER, PEPPER & RIVIERA 1111 THIRD AVENUE BUILDING SEATTLE WASHINGTON 95101 (206) 447-4400

Plaintiff Union Facific Railroad Company is a Utah corporation with its principal place of business in the State of Nebraska. Plaintiff Oregon-Washington Railroad and Navigation Company is an Oregon corporation with its principal place of business in the State of Nebraska. Plaintiff Camas Prairie Railroad Company is an Oregon corporation with its principal place of business in the State of Idaho. UPRR is duly qualified to do business in the State of Washington, operates in nineteen counties, and has paid all required fees.

II.

Defendant Department of Revenue of the State of Washington ("DOR") is a subdivision of the State of Washington. Pursuant to RCW 84.12.200, et seg., the DOR annually values the operating property of UPRR and supervises the assessment and collection of ad valorem taxes in Washington.

III

Defendant Board of Tax Appeals of the State of Washington ("BTA") is a subdivision of the State of Washington. Pursuant to RCW 82.03.130, taxpayers such as UPRR may appeal to the BTA from operating property valuations and assessments made by the DOR.

Complaint - 2

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Defendants Adams County, Benton County, Clark County, Columbia County, Cowlitz County, Franklin County, Garfield County, Grays Harbor County, King County, Klickitat County, Lewis County, Lincoln County, Pierce County, Skamania County, Spokane County, Thurston County, Walla Walla County, Whitman County and Yakima County (collectively the "County Defendants") are political subdivisions of the State of Washington.

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Pursuant to RCW 84.12.200, et seq., Union Pacific Railroad System is valued for assessment purposes by the DOR. Union Pacific Railroad System's operating property is to be valued for ad valorem tax purposes at one hundred percent (100%) of its correct actual cash value. A portion of this value is then allocated to the State of Washington. UPRR's Washington value is then apportioned among the counties in which UPRR's operating property is located. The DOR determines the equalized value of the property apportioned to each county and certifies the equalized value to the county assessors for placement on the tax rolls. Taxes are payable by UPRR to the counties in equal payments on April 30 and October 31 of the year following the date of assessment.

Complaint - 3

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The DOR alleged the 1984 true and correct actual cash value of UPRR's Washington operating property to be \$78,600,000. That valuation was timely appealed by UPRR to the BTA. During the hearing before the BTA, the DOR reduced what it claimed to be UPRR's true and correct actual cash value to \$78,300,000, which the BTA affirmed.

VII.

The valuation set by the DOR and BTA on UPRR's Washington operating property is substantially in excess of the true and correct actual cash value of UPRR's Washington operating property. The true and correct actual cash value of UPRR's Washington operating property for 1984 is not in excess of \$60,000,000.

VIII.

The methods of the DOR and BTA in valuing UPRR's operating property were based upon numerous errors, inconsistencies and distortions in the development and arbitrary manipulation of three indicators of value referred to as the "income approach," the "stock and debt approach" and the "cost approach," and were based upon an improper weighting of these approaches.

The errors, inconsistencies and distortions in the "income approach" utilized by the Defendants, include, but are not limited to, the following:

Complaint - 4

- (1) The Defendants improperly used depreciation accounting rather than replacement-retirement-betterment accounting;
- (2) The Defendants improperly increased the income stream to be capitalized while simultaneously making inadequate additions to the capitalization rate;
- (3) The Defendants improperly added to the income stream depreciation and improperly treated current and deferred federal income taxes in order to arrive at net income to capitalize;
- (4) The Defendants improperly utilized a limited life model to value UPRR; and
- (5) The Defendants improperly added a value for land reversion to value UPRR.

The errors, inconsistencies and distortions in the "stock and debt approach" utilized by the Defendants include, but are not limited to, the following:

- (1) The Defendants improperly used an income influence method and a property influence method to value UPRR; and
- (2) The Defendants undervalued the non-rail properties of Union Pacific Corporation, and thereby overvalued the operating property of UPRR.

The Defendants assigned an inordinate weight to the cost approach to value and improperly failed to recognize obsolescence.

Based upon the erroneous and unlawful valuation established by the DOR and BTA for UPRR's operating property and the resulting erroneous and unlawful assessment determined by the DOR and BTA, an erroneous and unlawful assessment has been transmitted to the County Defendants in which UPRR's operating property is located, and has been entered on said counties' tax rolls. The total taxes based upon said erroneous and unlawful values were collected by said County Defendants.

WHEREFORE, plaintiffs pray for judgment against the defendants, and each of them, as follows:

- Reversing and setting aside the decisions of the DOR and BTA;
- 2. Finding UPRR's 1984 Washington value to be no more than \$60,000,000;
- 3. Requiring the defendants to refund to UPRR any taxes unlawfully collected from UPRR based upon the excessive valuation by the DOR and BTA, together with interest from the date of collection until the date of judgment;
- 4. Awarding plaintiffs their lawful costs and disbursements herein, including but not limited to their reasonable attorneys' fees, as provided by the laws of the State of Washington; and

Awarding plaintiffs such other and further relief as the 5. 1 Court may deem just and equitable. 2 DATED this 26th day of June, 1986. 3 FOSTER, PEPPER & RIVIERA Б David Utersky 6 1111 Third Avenue 8 Suite 3400 Seattle, Washington (206) 447-4400 9 HAWLEY TROXELL ENNIS & HAWLEY 10 11 Eugene A. Ritti by D.U.
Richard C. 12 Richard G. Smith 13 14 Seventh Floor One Capital Center **1**5 P.O. Box 1617 Boise, Idaho 83701 (208) 344-6000 16 Attorneys for Plaintiffs 17 18 19 20 21 **2**2 23 24

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Complaint - 7

AFFIDAVIT OF RICHARD G.

No. 86-2-11802-1

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SUPERIOR COURT OF WASHINGTON FOR KING COUNTY

UNION PACIFIC RAILROAD COMPANY; OREGON-WASHINGTON RAILROAD AND NAVIGATION COMPANY; and CAMAS PRAIRIE RAILROAD COMPANY,

Plaintiffs,

Plaintill

DEPARTMENT OF REVENUE OF THE

STATE OF WASHINGTON; THE BOARD

OF TAX APPEALS OF THE STATE OF

WASHINGTON; ADAMS COUNTY; BENTON

COUNTY; CLARK COUNTY; COLUMBIA

COUNTY; COWLITZ COUNTY; FRANKLIN

COUNTY: GARFIELD COUNTY; GRAYS

COUNTY; GARFIELD COUNTY; GRAYS
HARBOR COUNTY; KING COUNTY;
KLICKITAT COUNTY; LEWIS COUNTY;
LINCOLN COUNTY; PIERCE COUNTY;
SKAMANIA COUNTY; SPOKANE COUNTY;
THURSTON COUNTY; WALLA WALLA
COUNTY; WHITMAN COUNTY; and

Defendants.

YAKIMA COUNTY,

RICHARD G. SMITH, being first duly sworn upon oath, deposes and says:

1. I am an attorney licensed to practice law in the State of Idaho and I am a member in good standing of the bars of the Idaho Supreme Court and the U.S. District Court for the District

Affidavit of of Richard G. Smith - 1

FOSTER, PEPPER & RIVIERA
1111 THIRD AVENUE BUILDING
SEATTLE, WASHINGTON 98101
(206) 447-4400

- 2. I am a member of the firm of Hawley Troxell Ennis & Hawley, which has been retained by Plaintiffs to represent them in this action, now pending before the Superior Court of Washington for King County.
- 3. I am not a resident of the State of Washington and my law firm does not maintain an office in the State of Washington.
- 4. Plaintiffs have retained the law firm of Foster,
 Pepper & Riviera, which maintains offices in the State of
 Washington, and David Utevsky of that firm, an active member of
 the Washington State Bar Association, to act as their lawyers of
 record herein. Pursuant to APR 8(b)(ii), if my application for
 admission is granted, I will appear in association with that
 firm; and one or more attorneys in that firm will be responsible
 for the conduct of the action, and will be present at all
 proceedings.
- 5. I am familiar with the pleadings filed with the Superior Court in the above-entitled action. I am also familiar with the work papers of the Department of Revenue in connection with the underlying dispute, as well as Plaintiffs' positions on the issues raised by the Complaint.

Affidavit of cf Richard G. Smith - 2

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6. In view of the foregoing, I respectfully request that this Honorable Court permit me to appear and participate in the above-entitled action.

Richard G. Smith
HAWLEY TROXELL ENNIS & HAWLEY
One Capital Center
Suite 701
Boise, Idaho 83701
(206) 344-6000

SUBSCRIBED AND SWORN to before me this 22nd day of

1986.

Notary Public in and for the State of Idaho, residing at

5)

My appointment expires 91391

057J

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Affidavit of of Richard G. Smith - 3

SEATTLE: WASHINGTON 98101 (206) 447-4400

- 2. I am a member of the firm of Hawley Troxell Ennis & Hawley, which has been retained by Plaintiffs to represent them in this action, now pending before the Superior Court of Washington for King County.
- 3. I am not a resident of the State of Washington and my law firm does not maintain an office in the State of Washington.
- 4. Plaintiffs have retained the law firm of Foster,
 Pepper & Riviera, which maintains offices in the State of
 Washington, and David Utevsky of that firm, an active member of
 the Washington State Bar Association, to act as their lawyers of
 record herein. Pursuant to APR 8(b)(ii), if my application for
 admission is granted, I will appear in association with that
 firm; and one or more attorneys in that firm will be responsible
 for the conduct of the action, and will be present at all
 proceedings.
- 5. I am familiar with the pleadings filed with the Superior Court in the above-entitled action. I am also familiar with the work papers of the Department of Revenue in connection with the underlying dispute, as well as Plaintiffs' positions on the issues raised by the Complaint.

Affidavit of Eugene A. Ritti - 2

6. In view of the foregoing, I respectfully request that this Honorable Court permit me to appear and participate in the above-entitled action.

Eugene A. Ritti
HAWLEY TROXELL ENNIS & HAWLEY
One Capital Center
Suite 701
Boise, Idaho 83701
(208) 344-6000

SUBSCRIBED AND SWORN to before me this 22nd day of

, 1986.

Notar Public in and for the State of Idaho, residing at Doise, ID

My appointment expires July 17, 1990

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Affidavit of Eugene A. Ritti - 3

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SUPERIOR COURT OF WASHINGTON COUNTY OF KING

UNION PACIFIC RAILROAD COMPANY, et al.,

Plaintiffs,

<u>Defendants</u>

٧.

DEPARTMENT OF REVENUE OF THE STATE OF WASHINGTON, et al.,

NO. 86-2-11802-1

NOTE FOR CIVIL MOTION CALENDAR (Clerk's Action Required)

TO: THE CLERK OF THE COURT; and to all parties named below:

PLEASE TAKE NOTICE that an issue of law in this case will be heard on the date below and the Clerk is directed to note this issue on the Civil Motion Calendar.

October 15, 1986 (Calendar Date) Wednesday (Day of Week) DATE OF HEARING: 11 [] 1:30 p.m. 12 [X] 9:30 a.m. TIME OF HEARING: [] Supplemental Proceedings] Summary Judgments 13 X Civil Motions King County Courthouse - Civil Motions Judge 14 PLACE OF HEARING: Application for Admission Pro Hac Vice 15 NATURE OF MOTION: 16 DATED: September 17, 1986 David Utevsky Typed Name 17 OF: Foster, Pepper & Riviera 18 Attorney For: plaintiffs 447-4400 19 OTHER PARTIES REQUIRING NOTICE: Phone: Fill In & Check Box If Backside Is Used [] 20 See Attached Sheet Name: Name: 21 Address: Address: 22 23 Phone: Phone: 24 Attorney For: Attorney For: 25

26

AEES NOTE FOR CIVIL MOTION CALENDAR
12/84

FOSTER, PEPPER & RIVIERA
1111 THIRD AVENUE BUILDING
SEATTLE, WASHINGTON 98101
(206) 467-4400

Attorney General of the State of Washington

Kenneth Eikenberry Temple of Justice M/S AV-21 Olympia, Wa. 98504 753-2550

Adams County:

Jon Kim Yerza County Auditor:

659-0090

210 W. Broadway

Ritzville, Wa. 99169

Benton County:

Verner Miller County Auditor:

786-2262

Benton County Courthouse

Dudley Avenue (P.O. Box 470) Prosser, Wa. 99350

Clark County:

David Michener County Auditor:

699-2241

Clark County Courthouse

1200 Franklin (P.O. Box 5000)

Vancouver, Wa. 98668

Columbia County:

County Auditor: Lois M. Becken

382-4541

341 E. Main Street Dayton, Wa. 99328

Cowlitz County:

County Auditor:

577-3002

Helen Waddle 207 - 4th Ave. N. Kelso, Wa. 98626 98626 Franklin County:

County Auditor: Neva Corkrum

545-3536

1016 N. 4th Ave. Pasco, Wa. 98301

Garfield County:

John Carlson County Auditor:

843-1411

Garfield County Courthouse

Pomeroy, Wa. 99347

Grays Harbor County:

County Auditor: Phyllis E. Piercey

249-4232

Grays Harbor County Courthouse 100 W. Broadway (P.O. Box 751) Montesano, Wa. 98563

King County

County Auditor:

344-3451

Roland M. Malan Room 402 King County Courthouse Seattle, Wa. 98104

Klickitat County:

Nancy J. Evans County Auditor:

773-4001

Klickitat County Courthouse

205 S. Columbus Avenue Goldendale, Wa. 98620

Lewis County:

Gary E. Zandell County Auditor:

748-9121

Lewis County Courthouse

351 N.W. North Street (P.O. Box 29)

Chehalis, Wa. 98532

Lincoln County:

County Auditor:

Larry Lindbloom

725-4971

Lincoln County Courthouse 450 Logan Street (P.O. Box 366)

Davenport, Wa. 99122

Pierce County:

County Auditor:

Richard A. Greco

591-7427

2401 South 35th Tacoma, Wa. 98409

Skamania County

County Auditor: Gary M. Olson

(427-5141)

Skamania County Courthouse

Second Street

Stevenson, Wa. 98648

Spokane County

County Auditor:

William E. Donahue

456-2262

West 1116 Broadway Spokane, Wa. 99260

Thurston County

County Auditor: San

Sam S. Reed

786-5400

2000 Lakeridge Drive S.W. Olympia, Wa. 98502

Walla Walla County

County Auditor: C. Lynn Smith

527-3204

County Courthouse 315 W. Main Street Walla Walla, Wa. 99362

Whitman County

County Auditor:

James Repp

397-4601

County Courthouse 404 N. Main Street Colfax, Wa. 99111

Yakima County

575-4078

County Auditor:

Bettie Ingham

116 County Courthouse

North 2nd & East B. Streets

Yakima, Wa. 98901

1 (COPY RECEIPT) 3 SUPERIOR COURT OF WASHINGTON FOR KING COUNTY UNION PACIFIC RAILROAD COMPANY; OREGON-WASHINGTON RAILROAD AND 5 NAVIGATION COMPANY; and CAMAS PRAIRIE RAILROAD COMPANY, 6 NO. 86-2-11802-1 7 Plaintiffs, APPLICATION FOR ADMISSION 8 vs. PRO HAC VICE 9 DEPARTMENT OF REVENUE OF THE STATE OF WASHINGTON; THE BOARD 10 OF TAX APPEALS OF THE STATE OF WASHINGTON; ADAMS COUNTY; 11 BENTON COUNTY; CLARK COUNTY; COLUMIBIA COUNTY; COWLITZ 12 COUNTY; FRANKLIN COUNTY GARFIELD COUNTY; GRAYS HARBOR 13 COUNTY; KING COUNTY; KLICKITAT COUNTY; LEWIS COUNTY; LINCOLN COUNTY; PIERCE COUNTY; SKAMANIA COUNTY; SPOKANE COUNTY; THURSTON COUNTY; WALLA WALLA COUNTY; WHITMAN COUNTY; and YAKIMA 16 COUNTY, 17 Defendants. 18 EUGENE A. RITTI and RICHARD G. SMITH, attorneys for Plain-19 20 tiffs herein, pursuant to APR 8(b), hereby apply to the Court for 21 an Order permitting them to appear as lawyers for the Plaintiffs 22 in the above-entitled action, in association with the law firm of

HAWLEY TROXELL ENNIS & HAWLEY

ONE CAPITAL CENTER

(208) 344-6000

BOISE, IDAHO 83701

23 Foster, Pepper & Riviera of Seattle, Washington.

25 Application for Admission

Pro Hac Vice - 1

24

This Application is based on the files and records herein, and on the Affidavits of Eugene A. Ritti and Richard G. Smith, filed herewith. DATED this 22NA day of HAWLEY TROXELL ENNIS & HAWLEY

> Richard G. Smith Attorneys for Plaintiffs

25 Application for Admission Pro Hav Vice - 2

HAWLEY TROXELL ENNIS & HAWLEY ONE CAPITAL CENTER BOISE, IDAHO 83701 (208) 344-6000