HOW YOUR PROPERTY IS APPRAISED IN MARION COUNTY

Procedures for Developing a Mass Appraisal

Mass Appraisal

What is Mass Appraisal?
Mass appraisal is the process of valuing a universe (a large number) of properties as of a given date, using standardized procedures, in a manner that allows for statistical testing.

As of a Given Date:
The Texas Constitution and the Texas Property Tax Code require that taxable property be appraised at its market value on January 1 of a given tax year, even though the physical examination of the property may be done on an earlier or later date.

Using Standardized Procedures:
The law requires the appraiser to use recognized appraisal techniques, and to use the same or similar techniques in appraising the same or similar properties.

Allows for Statistical Testing:
Statistical testing techniques are widely used in mass appraisal. They help produce better and more consistent value estimates. They allow the appraisal district and the taxpayer to evaluate the results of the mass appraisal.

Summary:
To summarize, in a mass appraisal system the appraisal district first collects detailed descriptions of each taxable property in the district. It then classifies properties according to a variety of factors, such as size, use and construction types. Using data from recent property sales and construction costs to replace the improvements at the same level of utility. With the help of modifiers that compensate for minor differences between individual properties, such as differences in age or location, the appraisal uses typical properties as benchmarks, or reference points, to appraise all the properties in each classification. Lastly, the computer is used in mass appraisal to make the process more efficient and the results more uniform. Accuracy and uniformity are insured with error reports included in the CAMA system, for both Real Estate and Business Personal Property. These reports analyze for specific errors, common and uncommon, that are then corrected before notification. In addition, both the Appraisal Supervisor and the Chief Appraiser randomly sample the work product of all the staff. Errors in application and judgment are identified and corrected in a timely fashion. Marion CAD routinely provides training to staff to reinforce proper identification and coding to avoid errors.

Overview & Sales Data Collection

In order to evaluate the accuracy of the schedule values, property sales information is collected throughout the year. Each property buyer receives a sales letter along with any other necessary forms as soon as the CAD office updates the ownership in the appraisal records. When the sales letter is returned, the sale amount and any other pertinent information are recorded within that parcel's sales records. Information is gathered also from real estate offices, other appraisers, other appraisal districts, and state reviewers. All credible information is included in the sales records and confirmation is attempted through additional sales letters (to buyers and sellers as necessary) or other personal contact. Given that the State of Texas is a non-disclosure state, and that the information needed by the Appraisal District is often confidential in nature, the market analysis performed is limited (USPAP Rule 6-8) by the availability of pertinent and complete data, including sales prices, sales conditions and circumstances, income and expense data, etc. As discussed hereafter, each sale is initially considered (assumed) to be a market transaction unless otherwise proved. The resulting conclusions from the market analysis are therefore limited by those assumptions. The Mass Appraisal conducted yearly by the Marion CAD also can claim the Jurisdiction Exemption (USPAP) due to the limited scope and purpose of the appraisal, and considering the guidelines of the Texas Property Tax Code.

Each sale is analyzed to determine the conditions of the sale. All sales included in the study must be a "market value" transaction, as defined in the Texas Property Tax Code, Section 1.04(7), and quoted earlier in this manual. Any sale determined to not be an "arms length" transaction is then omitted from the final study. Several criteria are also considered when determining if each sales price needs any adjustment including, but not limited to: date of sale (in comparison to date of appraisal), special or unusual financing terms, inclusion of personal property, inclusion of intangible value, and significant variances between the market value and the sale price due to physical changes to the property that cannot be accounted for due to the January 1 target date. If adjustments can be made to the sales price to show a current, "arms length" value (including time and financing adjustments), the adjusted value is used in the ratio study. Any adjustments to reported sales prices must be discussed, debated, and approved by the appraisal supervisor and the Chief Appraiser.

Sales used to determine real estate value should not include value that can be attributed to personal property or intangible value. For example, if a home sells, and the transaction included personal property (vehicles, boats, furniture, free-standing appliances, tools, etc.), the value associated with that personal property should be deducted from the reported sales price. The resulting, adjusted sales price is then used in the ratio study. Likewise, commercial property transactions often include both personal property and intangible value. For example, if a motel sells and the buyer purchased the motel franchise along with the real estate, the value of the franchise (being intangible) should be deducted from the sales price before being used in any market study. Determining the value of any intangibles in any transactions can be problematic and will require research into the industry and the local and similar markets. Although suspected by the appraisal staff, and often reported by buyers, adjustment for intangibles requires confirmation from outside sources and the seller. In order to quantify the intangible value in any sale, you must first determine the value of the tangible property. Land value must be determined by comparable sales. Improvement and Personal Property value can be determined by either cost or market approaches. Income Approach can also be used to determine the total value of the property. Great care must be taken in each of these valuation procedures to be as accurate as possible and to use the most comparable similar properties. Once all pertinent values have been determined, the calculation of Intangible Value follows this formula:

Sales Price of Subject Property Less Market
Value of Land
Less Market Value of Improvements <u>Less Market</u>
<u>Value of Personal Property</u>
Any positive remainder *can* be attributed to Intangible Value.

Before finalizing any determination of Intangible Value, one must be absolutely confident in the data gathered and the calculations made to determine the Market value of the subject. Several issues arise and questions must be answered prior to any adjustment to the reported sales price of the subject.

1. Comparable sales must be recent and very similar to the subject.
2. Depreciation used in the Cost Approach must be accurate and appropriate and verified within the market.
3. Market Rents and Expenses must be accurate and appropriate for comparison.

Without recent, overwhelming data for accurate comparison, any remainder in the calculation above can arguably be attributed to other causes, which would negate any need for adjustment. Some other causes to be considered include:

1. A general increase in value across the market.
2. Unresolved Financing Adjustments.
3. Overstated depreciation in the Cost Approach, especially in Functional and Economic Depreciation.
4. Buyer's intent as to the acquired Personal Property.
5. Economic Principle of Supply and Demand, especially in a limited market.
6. Fluctuations in the Capitalization Rate and the future intent of the buyer.
7. Bad business and/or financing decisions of the buyer.

If and when Intangible Value can be proven to have affected a sale, the calculated value of that Intangible Value must be subtracted from the sales price of the property.

Financing adjustments occur rarely. Typically, prudent buyers will strive to acquire the most reasonable financing available, and then purchase the property of their choice using that same financing. Atypical financial arrangements usually accompany transactions that would not be considered "arms length" and would therefore be omitted from the ratio study.

Time adjustments are adjustments to the reported sales price of the property that are made when and if it can be proven that the general market trend in an area is changing over a given time period. While relatively simple to calculate in the abstract, time adjustments are extremely difficult to quantify without substantial data, especially in small, rural markets. If a typical property transfers more than one time in a given time period (ideally no more than 1 year), each time being an arms-length transaction, with typical financing, and without physical changes to the property, the difference in the sales prices can be attributed to the general market. This difference, expressed as a positive or negative percentage per month, can then be applied to other property's sales prices to adjust the price to a standard date, usually January 1st of the appraisal year. For example, a residence may sell for $50,000 on June 1st and then sell again October 1st (5 months later) for $55,000. The difference of $5,000 (or 10% of the original sales price) is allocated as a market increase of 2% per month. A market Decrease is calculated in the same way. If this was an arms-length transaction of a typical property, that same percentage of increase or decrease can be used on other sales to adjust their sales prices to the January 1 target date.

A statistical analysis of each class of property is conducted using the available, credible, and adjusted sales information. Within each class of property, the appraisal district looks for not only an acceptable median value, but also a reasonable COD. Each of these values is considered when determining whether to adjust a class schedule, and by how much. The sample size of each class analysis is also a major consideration. Classes that exhibit little or slow activity are allowed a larger variance due to the fact that minimal data sets (small samples) may tend to give incomplete analysis or biased results for an entire statistical population.

Once a median value indicates that a particular property type or class needs adjustment, and the COD value reflects a consistent result, schedule values are recalculated to produce a revised analysis. The resulting median ratio should indicate that the adjusted appraised values of property more closely matches the current market value, as tested by the sales used in the analysis. The appraised values of all properties, sold and unsold, within that type or class are then recalculated, using the increase or decrease indicated by the ratio study, and submitted for notification.

A similar process is used to determine whether any neighborhood factors are needed by analyzing sales within a specific area (market segments) in comparison to the overall general market. These areas could be neighborhoods, cities, school districts or any other definable area within the appraisal district that displays market trends or values differing from the trends or values derived from the market as a whole. Any significant and quantifiable differences then need to be addressed with economic adjustments to the properties within the pertinent area.

Ratio Study Procedures

1. Collect and Post Sales Data
    - A. Solicit sales information from all new property owners through sales letters and/or personal contact
    - B. Collect sales information from outside appraisers and from fee appraisals presented
    - C. Utilize sales information from Comptroller's office.
    - D. Post sales information to the sales database
        1. Record actual sale price
        2. Note unusual financing
        3. Note non-arm length participants
        4. Adjust sales price for inclusion of personal property or intangible value
        5. Initiate frozen characteristics/partial sale codes if necessary
            - a) Imminent construction/renovation can bias any later analysis by including values not part of the original transaction
            - b) Sale including only a portion of the property described can also produce skewed results
2. Preliminary Analysis
    - A. Run sales analysis (by type, group, or class) which includes any and all sales collected to date
    - B. Note median result and COD
    - C. Examine each sale included

1. Compare sale ratio to median result

2. Ratios substantially higher or lower than the median result (outliers) are singled out for further, in-depth analysis

a) Note seller-financial institutions, known real estate opportunists, probates, known persons who finance their own transactions

b) Note buyer-financial institutions, known real estate opportunists, and re-location companies

c) Examine deed records to confirm "arms length" violations not evident from examination of buyer and seller

1) Contract for deed

2) Assumption of previous note iii) atypical financing

d) Re-inspect properties to rule out any physical differences from the current property records

e) Outlier sales that cannot be excluded or adjusted due to the reasons given above are nonetheless included in the subsequent analysis

D. Adjust original data set

1. Omit sales that are not arms length

2. Adjust sales values for time or financing if necessary and possible

3. Adjust appraisal values for physical differences if applicable

3. Secondary Analysis

A. Run sales analysis (by type, group, or class) utilizing information from preliminary analysis

B. Note median result and COD

1. Median value may or may not change significantly

2. COD value should improve

C. Note sample size

1. Compare number of sales within the class to the perceived number of total properties within the class

2. From experience and discussion among the appraisal staff, determine whether any median result different from 1.00 is significant

D. Attempt to increase sample size-if necessary

1. Utilize time adjustments if determinable

2. Keep in mind marketing time for local market and any trends

3. Be careful to not include more sales just for sales sake

4. Changing markets and trends cannot be reflected in sales that are too old without accurate time adjustments.

E. Apply results of analysis to current records

1. Any class whose median value is NOT SIGNIFICANTLY different from 1.00 does not require adjustment.

2. Any class whose median value indicates that an adjustment is necessary should be analyzed

a) Look at typical depreciation (age/condition) for that class as reflected in the sales analysis

b) Calculate increase necessary to raise the individual ratios to produce a median result of 1.00 (keeping in mind that because of depreciation, the percentage increase required is going to be necessarily larger than the difference in percentage points needed to reach a 1.00 result)

c) Apply the calculated increase to the database

3. Repeat procedure for all classes determined to need adjustment

F. Run analysis again to test results

4. Examine results to identify neighborhoods that need adjustment

A. As individual sales are examined, note any areas/neighborhoods/sub-divisions that consistently show ratios significantly different from the median result

B. Run analysis excluding the area in question

C. Run analysis including only the neighborhood in question

D. Check for <u>significant</u> variance between the two results

E. Apply neighborhood factor to correct variance

<u>Value Defense</u>

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is contained within the Mass Appraisal Report for the current appraisal year. Specifically, appraisal cards, sales ratio studies and results, and individual sales records make up the foundation of any value defense. Other information, such as maps, photographs, and specific property comparisons can be produced depending on the specific concerns of the taxpayer. Any and all evidence supporting the value position of the CAD is available for review by the taxpayer or their agent. Taxpayers have the option to present their concerns and evidence informally to the chief appraiser or staff. Should an understanding not be reached informally, the taxpayer may present their arguments to the Appraisal Review board as a formal appeal. The appraisal staff provided by Pritchard & Abbott Inc. defends the position of the chief appraiser before the ARB. The Appraisal District has the burden of proof for the value as notified. Evidence for further consideration by the CAD or the ARB should be presented by the taxpayer.

Informal Meetings: Any informal meeting with a taxpayer should be utilized as an opportunity for civil discussion and education for both the taxpayer and the CAD staff. After careful consideration of the taxpayer's concerns, the appraiser must explain the methods, procedures, and information used to arrive at the taxable value of the property in question. Appraisal cards, inspection results, schedules, sales ratio studies, and individual sales results, used by the CAD in determining the appraised value are available for review and reproduction at the owner or agent's request. An outline follows.

1. The taxpayer presents their questions, concerns, or disagreements with the action of the CAD.
2. The appraiser responds with an explanation of the property card, market analysis, and/or situation that produced the taxable value.
3. The appraiser fully considers any additional evidence presented by the taxpayer that may have a bearing on the taxable value. If testimony is given of pertinent details, not

accounted for in the current value, an inspection of the property is suggested to verify and quantify the suggested problem.

4. After careful and complete consideration of the evidence presented and verified testimony, a revised taxable value may be suggested to the taxpayer. As a general rule, the appraisal supervisor or Chief Appraiser must approve any suggested changes that result from the following.
   A. A change in Building Class of more than one grade (+ and - steps included).
   B. A change in Effective Year of more than 10 years.
   C. A change in Condition Rating of more than one grade.
   D. Any Functional Depreciation adjustment of more than 5%.
   E. Any inclusion of Economic Obsolescence.
   F. Any change in Exemption or Special Valuation Status.
5. Once an adjusted value is agreed upon, the appraiser or CAD staff must retain any evidence supporting the change and/or note the results of any inspection in the appraisal records.

Formal ARB Hearings: Formal ARB hearings are scheduled and held when no informal meeting is requested, or after no informal agreement can be reached. Following the posted ARB Procedures, the Chief Appraiser (or their designee) presents the justification of the current taxable value. The CAD develops a protest packet or record for each individual owner's property or properties, containing the evidence to be used to justify the actions under protest. Upon written request by the property owner or agent, the contents of the packet will be reproduced and supplied to the owner or agent prior to the scheduled hearing as required by and in accordance with the Property Tax Code. An outline of the Formal Hearing procedure follows.

1. The taxpayer presents their questions, concerns, or disagreements with the action of the CAD to the ARB.
2. Addressing the specific concerns protested by the taxpayer and noted on the protest form, the Chief Appraiser (or their designee) responds with an explanation of the property card, market analysis, and/or situation that produced the taxable value.
3. An in depth analysis of the market and how the subject property fits into the market analysis is prepared and presented to the ARB.
4. The taxpayer may respond and present their evidence.
5. Once the ARB rules, any changes in value are recorded in the appraisal records and noted as an ARB decision.

If you have any further questions please contact us.