

# **THE APPRAISAL PROCESS**

## **Market Value**

KCAD is required to appraise all property at Market Value as of January 1 of every tax year

## **Texas Property Tax Code Section 1.04 defines Market Value**

Market Value means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- a. exposed for sale in open market place with a reasonable time for seller to find a purchaser
- b. both the seller and purchaser know all the uses and purposes to which the property is adapted and for which it is capable of being used and the enforceable restrictions on its use; and
- c. both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

## **The Process**

The valuation process performed by the King County Appraisal District typically falls into the following categories.

- Miscellaneous Inspections
- Reappraisal

**Miscellaneous Inspections** can be done throughout the field cycle time frame and most often conducted after Renditions have been submitted by property owners. March-April

**Reappraisals** are typically done from November 1 – February 1

An important factor in appraising property is to have accurate property descriptions. This is achieved through actual field inspections performed by the Chief Appraiser and Pritchard & Abbott, Inc.

## **Reappraisal**

- Mass appraisal is the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing.
- Texas Property Tax Code requires appraisal districts assign a January 1 value to all property.
- Mass appraisal provides the ability to accomplish such a large task.
- Annual reappraisal effort is where the mass appraisal process occurs.

## **Market Areas**

King County has 3 Market Areas.

- Market Area 1 is all the rural property North of Guthrie Townsite including the community of Dumont and the overlapping Crowell ISD property.
- Market Area 2 is the Guthrie Townsite
- Market Area 3 is all the rural property South of Guthrie Townsite

## **Residential Appraisal Processes**

### **Residential Approaches to Value**

Three approaches to value

- Cost Approach
- Sales Approach
- Income Approach

### **Residential Cost Approach**

- Cost Approach of Value for all Residential Properties
- Calculate Replacement Cost New (RCN) of house.
- Deduct appropriate amount of Depreciation.
- Depreciation determined by effective age and condition/desirability//utility (CDU) rating.
- Land Value added to Replacement Cost New Less Depreciation (RCNLD) to arrive at estimated market value via the Cost Approach.
- Cost Approach is the primary value approach used during reappraisal effort.
- Cost Approach is modified based on recent sales information by building class.
- Equity achieved by using the same location factor for all similar classed properties.
- Cost Approach is the preferred method for unique properties or lack of sale comparables.

### **Residential Sales Approach**

- Comparable property being appraised to similar properties that have recently sold.
- Adjustments are made to sale comparables when compared to the subject property
- If sold property had an attached garage but subject property doesn't than an adjustment would be warranted.
- Sales Approach can be used to value land only accounts.
- Sales Approach is typically used during the informal meeting with taxpayers and at the formal Appraisal Review Board hearings.

### **Residential Income Approach**

- Used in limited instances for Residential properties
- Preferred method for income producing Commercial Properties

## **Classifications & Cost Schedules**

King CAD has 24 Residential Building Classifications. Detailed information on different classifications is included in the King County Appraisal District Appraisal Manual.

The same model is applied to all same classed properties within a specific neighborhood. This insures more accurate and equitable market values.

Sales Analysis compares sale prices to current appraised values. The goal is to appraise all properties at 100% of market value. KCAD studies the ratios several times a year. When a sales ratio is less than 95% or greater than 105% of market value, more attention is given to our cost schedules. King CAD typically sees very little sale activity; therefore we frequently use Cost Schedules to determine our models.

### **During the Residential Reappraisal**

All properties are physically inspected at least once every three years.

- All appraisal cards for property in the reappraisal Market Area are printed.
- Cards are checked for typographical accuracy. Information is cross referenced with 911 addresses, Homestead Exemption Applications, and Agricultural Use Applications.
- If any property is lacking exemption applications or Agricultural Use Applications, they are mailed to owners.
- Properties are then located on the KCAD maps.
- Properties are physically inspected by appraiser. Appraiser compares appraisal card information with actual property. Any changes to the property are noted. New or remodeled improvements are measured and classified.
- Aerial photography is reviewed for properties that are not accessible.
- Field Data is entered into the CAMA system.

## **Business Personal Property Valuation Processes**

It is the responsibility of the Chief Appraiser and those contracted to discover, list, and value all Business Personal Property in King County for property tax purposes.

Business Personal Property (BPP) consists of moveable items used in the course of business not permanently affixed to, or part of, the real estate.

Examples of Business Personal Property are:

- Furniture
- Machinery and equipment
- Computers
- Vehicles
- Inventory
- Supplies

### **Discovery**

To insure that all business personal property that should legally be on the roll is properly listed and valued, it must first be located and identified.

To accomplish this task the appraiser starts with the previous year's appraisal roll. Appraisal cards are printed. Renditions are mailed to each business owner. It is the responsibility of the owner to complete and return renditions before April 15<sup>th</sup>.

The appraiser can physically inspect businesses to verify that existing businesses are still operating at the same location as the previous year. If a business has moved or ceased operations the information is noted and the account is corrected. If the appraiser identifies a new business a new account is created.

Industrial Business Personal Property is contracted to Pritchard & Abbott, Inc. All other accounts are handled by the King County Appraisal District Chief Appraiser. King County has few BPP accounts. KCAD visits with the Tax Assessor Collector in regards to trucking companies that have registered their vehicles in King County. KCAD reviews yellow pages and various governmental agencies' databases to locate businesses (ex: TABC licenses, FAA, Texas Comptroller).

### **Listing**

Property records will contain:

- Current Legal Owner
- The Business DBA
- Property Address of Business
- The KCAD account number
- Property Characteristics – After locating the property, the appraiser must accurately record and list all of the property's characteristics to properly value the business personal

property. This requires that the appraiser tour the business, determine the business type, and estimate the square footage of the facility. Once that is complete the appraiser makes general notes regarding the type and condition of the fixed assets at the location, and the inventory, if applicable.

## **Rendition**

- Renditions contain information provided by the property owner and per the Texas Property Tax Code, business owners are legally required to file a BPP rendition annually by April 15<sup>th</sup>. The deadline may be extended by written request.
- Renditions are mailed to business owners in January of each year. Not filing a rendition (or request for extension) by the annual April 15<sup>th</sup> deadline will result in a ten percent penalty being applied to the business personal property tax bill.
- The rendition request basic information about a business including cost and year acquired of assets, inventory values, consigned goods, leased equipment and the property owner's opinion of value.

## **Valuation**

Typically the cost approach is used to value business personal property, although all approaches are considered, the cost approach offers the most equitable and consistent method for mass appraisal of business personal property.

The appraiser will estimate the market value by comparing the subject business being appraised against similar types of businesses.

With the appraiser's information gathered in the field and a properly filed Business Personal Property Rendition form from the owner, the BPP appraiser has enough information to make an accurate and equitable business personal property market value appraisal for property tax purposes.

## **Commercial Appraisal Processes**

King County has a very limited number of commercial building accounts. Commercial accounts would include office buildings, multi-family properties, retail property, and industrial warehouse properties.

### **Commercial Reappraisal**

The reappraisal is undertaken from November 1- February 1 and inspections are conducted during the Residential Reappraisal.

### **Commercial Approaches to Value**

- Cost Approach
- Sales Approach
- Income Approach

King CAD has such few commercial properties that building income models and applying the income approach is not feasible. The Sales Approach is considered, but is not preferred unless there is an active sales market. The Commercial Cost Approach is the preferred method for special use properties, new construction, limited sales data, or limited income data. Therefore, the Cost Approach is most commonly used by King CAD.

### **Cost Approach**

- Calculates Replacement Cost New
- Deducts Depreciation
- Uses Age-Life Tables
- Uses National Publication Services
- Market Data
- Cost tables generate price per square foot
- Land value added to improvement value