

COLORADO COUNTY APPRAISAL DISTRICT

Uniform Standards of Professional Appraisal Practices

2018

Scope

The COLORADO COUNTY APPRAISAL DISTRICT (CCAD) is responsible for the appraisal of all classes of taxable property located within its jurisdictional boundaries. The boundaries include all property located in COLORADO County. Further, CCAD is responsible for the appraisal of all property located within the boundaries of the Columbus and Weimar Independent School Districts.

In mass appraising property for the purpose of ad valorem taxation, CCAD subscribes to the *Standards* established by the International Association of Assessing Officers. In addition, CCAD is guided by the principles set forth in *The Appraisal Foundation's "Uniform Standards of Professional Appraisal Practice"*. In appraising property for ad valorem tax purposes, the District employs recognized appraisal methods and techniques. Our appraisers conduct mass appraisal utilizing the three approaches to value: cost, market, and income approach.

CCAD employs an outside appraisal firm, Capitol Appraisal Group, Inc., to appraise minerals, oil and gas, utilities, and various other complex properties. Capitol Appraisal Group, Inc. is guided by the principles set forth in the USPAP.

Legal Requirements

The Texas Constitution contains the laws that form the foundation for the "Texas Property Tax Code." The Tax Code provides an annotated and cross-referenced version of the tax laws that govern property tax administration in Texas. The provisions contained in the Texas Constitution, the Texas Property Tax Code, related case law and Attorney General's opinions, serve as the primary sources of law that govern the activities of the COLORADO COUNTY APPRAISAL DISTRICT. Further, in Texas, ad valorem tax administration is subject to all of the various state, county, and municipal laws.

Personnel Resources

Chief Appraiser Bill Mitchell is primarily responsible for the overall planning, organizing, staffing, coordinating, and controlling of district resources. This includes organizing, directing, and controlling the business support functions related to tax collections, human resources, budget, finance, records management, purchasing, fixed assets, facilities, and postal services. The district's appraisal section under the supervision of Chief Appraiser Richard Moring and Director of Operations Carmen Rodriguez is responsible for the valuation of all real and personal property accounts. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Board of Tax Professional Examiners.

Information Systems

The district maintains in-house data processing capabilities, software applications supported by HarrisGovern (True Automation), Internet website, and a geographical information system (Arcview/ESRI). A Dell Poweredge 2600 serves as the district's mainframe hardware. NT Servers host the LAN, Internet, document imaging, and the geographic information system (GIS). The user base is served by general purpose Desktop and Server PC's along with terminal emulation to mainframe windows.

GIS maintains cadastral maps and various layers of data including aerial photography. The district's website makes a broad range of information available for public access.

Market Analysis

Market analysis is performed throughout the year. Both, general and specific data is collected and analyzed. There are a number of economic principles that relate to the market value of property. The principle of supply and demand is an important economic principle that must be considered by appraisers. There are a number of others. Economic trends, national, regional, and local trends affect the value of properties located in our various tax jurisdictions. An awareness of physical, economic, governmental, and social forces is essential in understanding, analyzing, and identifying local trends that affect the real estate market.

Highest and Best Use Analysis

In considering the fair market value of taxable property, the COLORADO COUNTY APPRAISAL DISTRICT employs the principle of *highest and best use analysis*. Highest and best use analysis is the first step in the District appraisers' economic analysis.

Highest and best use is defined as the most profitable use at a specific time. For the purpose of ad valorem property taxation in Texas, the specific time is January 1 of each calendar year. The highest and best use must be legal, physically possible, and financially feasible. COLORADO COUNTY APPRAISAL DISTRICT appraisers generally consider that the current use of the property is most likely its highest and best use. In certain types of property, highest and best use is often determined by local zoning requirements and deed restrictions. However, in areas of transition, it may be necessary for the appraiser to more carefully consider the concept of highest and best use. Decisions concerning changes for highest and best use determination are generally discussed by the chief appraiser, appraisal supervisor and senior appraiser. Highest and best use may not be the present use of the property when the agents of production are not in alignment (i.e. land, labor, capital, and management), then highest and best use of the property may not currently exist.

Data Collection

COLORADO COUNTY APPRAISAL DISTRICT maintains a variety of programs designed to discover changes that may occur to properties. Property inspections occur as the result of information revealed during various forms of analysis. Building permits, M&M liens, septic permits, field review, renditions, local news publications, and the public are but a few of the sources of information considered by staff during the discovery phase of the appraisal process.

Data collection in the field requires preparation of maps, computer generated appraisal cards, and coordination of appropriate staff members to begin the process. Properties are grouped by location prior to the start of the fieldwork. This process requires coordination and supervision during all phases. Fieldwork is distributed to appraisers based on property location. The appraisers are trained in the techniques of listing, measuring, classifying, and appraising of property. Depreciation is also considered during the field inspection phase of the appraisal process.

The COLORADO COUNTY APPRAISAL DISTRICT depreciation tables will be based on an extended life theory, which encompasses a remaining life and effective age approach. The extended life expectancy theory explains that the increased life expectancy due to seasoning and proven ability to exist will in fact increase the total life expectancy the longer it continues to exist.

Three Approaches To Value

In appraisal, there are three basic approaches to value – cost, market, and income. The cost approach estimates the cost of replacing an improvement; the market approach focuses on the sale of comparable properties; and the income approach examines the income stream a property produces.

Most taxable properties in the COLORADO COUNTY APPRAISAL DISTRICT are valued using the COST APPROACH. Cost schedules are periodically modified to reflect the current CCAD market place. The cost schedules are tested against commonly accepted sources of building cost information, such as Marshall & Swift, to determine accuracy. Cost estimates are also compared to local market data to determine level of appraisal. The MARKET APPROACH is most often used in fee appraisals rather than mass appraisal because of the amount of detail required to determine adjustments to comparable properties. Lack of sales data also makes this approach to value impossible. The INCOME APPROACH is applicable only to income producing properties.

Cost Approach

- Estimate the value of the land as if vacant.
- Estimate the cost of replacing the improvements (using cost tables). [square footage x price per square foot] For linear measurements of one-half foot (6 inches) or less – round down, greater than one-half foot – round up. Example: 20 ft 6 inches = 20 ft and 20 ft 7 inches = 21 ft
- Estimate and subtract the value lost due to accrued depreciation to arrive at the indicated value of the existing improvements.
- Add the indicated improvement value to the land value for the TOTAL value of the property.

Market Approach

- Select comparable properties (recent sales that are similar to the subject).
- List differences between the comparables and the subject.
- Calculate adjustments and adjust comparables to the subject.
- Estimate the subject's value from the adjusted values of the comparables.

Income Approach

- Determine the subject property's annual net operating income (NOI).
- Determine the capitalization rate (cap rate).
- Divide the net operating income by the capitalization rate to arrive at the property value.

Sales Analysis

CCAD receives sales information from a variety of sources including, but not limited to, deeds, local realtors, sales questionnaires, ARB hearings, local builders, and sometimes from overlapping jurisdictions. Sales are reviewed for validity (see CCAD definition of market value).

The sales are field inspected for data accuracy. All sales are entered into our computerized sales system. The sales are classified to recognize their appropriate status, source, and confirmation codes.

Tax Code Definition of 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 the open market with a reasonable time for the seller to find a purchaser;
- (b) both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of 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.

Two Definitions of Market Value Implied by Supreme Court Rulings

Personal Property Market Value

is the price that dealers in the goods are willing to receive and purchasers are willing to pay when goods are bought and sold in the ordinary course of trade.

Real Property Market Value

is the amount of money that probably would be arrived at through fair negotiations between a willing seller and a willing buyer, taking into consideration the uses to which the property may be put.

*The Appraisal Institute's Definition of Market Value,
Disposition Value, and Liquidation Value*

Market Value

is based on the concept of an open and competitive market in which transactions are free of duress or forced liquidation. The report clarifies and rearranges the conditions set forth in the definition as follows.

Market value is the most probable price that a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale as of a specified date.
2. Open and competitive market for the property interest appraised.
3. Buyer and seller each acting prudently and knowledgeably.
4. Price not affected by undue stimulus.

5. Buyer and seller typically motivated.
6. Both parties acting in which they consider their best interests.
7. Adequate marketing efforts made and a reasonable time allowed for exposure in the open market.
8. Payment made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. Price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Disposition Value

is the most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale within a limited future marketing period specified by the client.
2. Current actual market conditions for the property interest appraised.
3. Buyer and seller each acting prudently and knowledgeably.
4. Seller under compulsion to sell.
5. Buyer typically motivated.
6. Both parties acting in what they consider their best interests.
7. Adequate marketing effort made for the limited time allowed for completion of a sale.
8. Payment made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. Price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Liquidation Value

is the most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale within a severely limited future marketing period specified by the client.
2. Current actual market conditions for the property interest appraised.
3. Buyer acting prudently and knowledgeably.

4. Seller under extreme compulsion to sell.
5. Buyer typically motivated.
6. Buyer acting in what he/she considers his/her best interests.
7. Limited marketing effort made and limited time allowed for completion of sale.
8. Payment made in cash in U. S. dollars or in terms of financial arrangements comparable thereto.
9. Price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

The following types of sales are general not considered "arm's-length" transactions:

1. Sales involving courts, or in which government agencies or public utilities are principals.
2. Sales in which charitable, religious, or educational institutions are principals.
3. Sales in which a financial institution is the buyer and a lien-holder or the seller of property taken through foreclosure.
4. Sales between relatives.
5. Sales between corporate affiliates.
6. Sales of convenience.
7. Sales settling an estate.
8. Forced sales.
9. Sales of doubtful title.
10. Auctions.
11. Foreclosure sales, condemnation sales, or other sales which the price was not representative of market.

Although the following are considered "arm's-length", open market sales, because they involve special circumstances, they should be either excluded from analysis or used with caution:

1. Trades.
2. Transactions involving partial interests.

3. Land contracts, contracts-for-deed, and other installment purchase agreements.
4. Incomplete improvements on property.

Land Analysis

Land analysis is conducted to determine highest and best Use. Base lot square footage rates, acreage rates, primary and residual price rates, and hard code unit prices are established during this phase of the appraisal operation. Location, size, configuration, and topography are important elements. When possible, the sales comparison approach is used to assist in the development of unit prices. The land appraisal techniques of allocation by abstraction, and allocation by ratio are used to best reflect the value of the land as vacant in areas where build-out has occurred or in areas where vacant land sales are not available.

Commercial Property Valuation

The COLORADO COUNTY APPRAISAL DISTRICT employs all three approaches to value when possible in valuing income-producing property. The primary approach used to initiate the valuation process is the cost approach to value. Property characteristics and attributes are determined for each commercial property and an initial cost value is calculated. The depreciation is calculated and assigned during this process so that an RCNLD of the improvements may be derived and this is added to an estimate of the land value. Also, the income and expense data of these types of properties is gathered and evaluated. When appropriate, one or more forms of the income approach to value is used. Information from a variety of sources is obtained and detailed analysis is undertaken. When possible, appraisers use the technique of *direct capitalization* to derive the income approach value (See Income Approach, page 5). Further, during the establishment of the capitalization rate it is always important to estimate an appropriate amount of risk when building the capitalization rate. The commercial classification system used by CCAD was developed from the State Property Tax Board's *General Appraisal Manual*. Commercial cost tables were derived from information provided by Marshall and Swift Valuation Service, local construction costs, and local market data (sales). When available, appraisers also use the sales comparison approach to determine the fair market value of income-producing properties. In using the cost approach, however, it is sometimes necessary for the appraiser to utilize the unit in place, quantity survey, or historical cost method to derive accurate cost estimates.

Personal Property

All income-producing business personal property located within the Appraisal District's boundaries is subject to tax. Business use vehicles are also listed in the appraisal records and subject to ad valorem taxation. COLORADO COUNTY APPRAISAL DISTRICT uses personal property schedules to value business furniture, fixtures, equipment, and inventory. Additionally, personal property values are obtained by some other sources.

Business owners are required by Texas Law to render their business personal property each year. Rendered values are considered by the appraiser during the appropriate phase of valuation analysis. Rendered values are often used as the basis for the District value if the value rendered is reasonable for the type of business and within acceptable ranges when compared to the personal property schedules published by the Property Tax Division (PTD) of the Texas Comptroller's Office or Marshall & Swift Valuation Service.

Should the property owner choose not to render the property, or if the rendered amount does not fit acceptable ranges, then the PTD schedule or the Marshall & Swift schedule is used to value the property. Depreciation of the property is determined by the age of the property and its expected life. Valuation and depreciation schedules are available in the Appraisal District office.

Business vehicles are valued based on N.A.D.A. Used Car Guide trade-in value for the particular make, model, and age of the vehicle. When adverse factors, such as high mileage, are known, appropriate adjustments are made.

Ratio Studies

The COLORADO COUNTY APPRAISAL DISTRICT conducts an annual countywide ratio study in April and the results are used to build or modify cost schedules and land tables for the current appraisal year. Neighborhood ratio studies are performed throughout the year to monitor the level of market activity. Only verified and confirmed sales data is used in the ratio study. Very high or low ratios (outliers) are researched for validity. Categories tested are A, B, C, D, E, F1, and M. A minimum sample size of 5 is needed in each category. The following statistical measures are collected:

- Coefficient of dispersion
- Coefficient of variability
- Median, Mean, Mode, and Weighted Mean

STATEMENT OF LIMITING CONDITIONS

The appraisal value estimates provided by the district are subject to the following conditions:

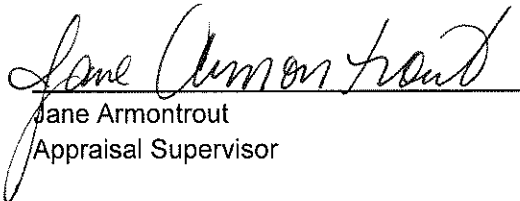
1. The appraisals were prepared exclusively for ad valorem tax purposes.
2. The property characteristic data upon which the appraisals are based is assumed to be correct. Exterior inspections of the property appraised were performed as staff resources and time allowed. Some interior inspections of the property appraised were performed at the request of the property owner and required by the district for clarification purposes and to correct property descriptions.
3. Validation of sales transactions was attempted through questionnaires to the buyer and seller, and field review. In the absence of such confirmation, residential sales data obtained from vendors and the public were considered reliable.

CERTIFICATION STATEMENT

"I, Bill Mitchell, Chief Appraiser for the Colorado County Appraisal District, solemnly swear that I have made or caused to be made diligent inquiry to ascertain all property in the district subject to appraisal by me, and that I have included in the records all property that I am aware of at an appraised value which, to the best of my knowledge and belief, was determined as required by law."



Bill Mitchell
Chief Appraiser



Jane Armontrout
Appraisal Supervisor