Colorado County Central
Appraisal District

APPRAISAL PROCESS

OVERVIEW

a. **Definition of Property Tax** – A tax that is measured by the value of property that a taxpayer owns. Property taxes are also called ad valorem taxes. Ad valorem is a Latin phrase that means "according to value".

b. **Sources of Law**
   i. **Civil Statutes –** Laws passed by the State Legislature
   ii. **The Property Tax Code –** The primary source of law regarding operation of the Texas Property Tax System.
   iii. **Case Law –** Laws created by decisions from the appeals court and Supreme Court.
   iv. **Attorney General's Opinions –** Written opinions that often carry the force of law for appraisal districts.
   v. **State Agency Rules –** Governmental entities treat such rules as law.

c. **Tax Calendar**
   i. **Appraisal Phase –** (October 1 through May 15)
      1. Rendition submission
      2. Exemption application
      3. Discovery and appraisal of new property
      4. Reappraisal of existing property
      5. Send appraisal notices
   ii. **Equalization and Review Phase –** (May 15 through July 20)
      1. Appraisal Review Board reviews appraisal records
      2. ARB hears taxing unit challenges and taxpayer protest
      3. ARB sends final orders
      4. ARB approves the appraisal records
      5. Chief Appraiser certifies the appraisal roll to the TAX UNITS
   iii. **Assessment Phase –** (July 25 through October 1)
      1. Assessor receives the appraisal roll
      2. Assessor calculates the effective and rollback rates
      3. Taxing unit publishes required publications
      4. Taxing unit governing body adopts a tax rate
      5. Taxes are calculated and Tax bills mailed
   iv. **Collection Phase –** (October 1 throughout the year)
      1. Collection of current and delinquent taxes
      2. Mailing of required delinquent notices
      3. Legal action taken to secure payment of taxes

APPRAISAL

a. **Definition of Market Value** – The price at which a property would transfer for cash or its equivalent under prevailing market conditions if:
   i. Exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
   ii. Both the seller and 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;
   iii. Both the seller and the purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

b. Steps in Developing the Appraisal Records

i. **Discovery** – Determine the property type (real or personal) and general classification (commercial, residential, inventory, agricultural….). Appraisers should be alert to clues that indicate the presence of taxable value. Information sources that may be helpful include deed records, subdivision plats, zoning records, building permits, telephone listings, newspaper advertising, exemption applications, real estate brokers, developers, and civic organizations. Renditions also serve as a good source for the discovery of taxable property.

ii. **Listing** – The property is classed and assigned an identification number. Information included in the records may contain account number, taxing units, land description and value, improvement description and value, inventory and/or fixtures description and value, exemptions, and improvement sketches. Listings are maintained in digital data files and may be produced in the form of appraisal cards and/or listings.

iii. **Appraisal** – Law requires that property be reappraised at least once every three years. It is this districts policy, that under current market conditions, that all property be reappraised each year. Property is valued at its market value as of January 1. However, inventory owners may have their property appraised as of September 1 of the preceding year if a written request is filed by July 31st of the prior year. Property is appraised according to full market value unless the property is qualifies for special appraisal. Even then, the market value remains on the property records along with the special use value. Appraisers must use generally accepted appraisal methods to find market value. These methods include the market approach, the income approach, and the cost approach. Appraisers must use similar techniques to appraise similar properties. When mass appraisal methods the appraiser must comply with the uniform standards of professional appraiser practice (USPAP). Mass appraisal means valuing a large number of similar properties by applying value schedules for typical properties to data about specific properties.

iv. **Situs and Jurisdiction to Tax** – Jurisdiction to tax refers to the power of the state to tax real and personal property. Finding the correct location of property for tax purposes is "determining situs". In general, a taxing unit has authority to tax property with situs within its boundaries on January 1. Personal property, due to its nature, is given four rules to determine situs by The Property Tax Code:

1. Located in the unit on January 1 and is there for more than a temporary period.
2. Normally resides in a taxing unit but is temporarily outside the unit on January 1.
3. Usually returns to a place in the taxing unit between uses outside the unit and is not located in other place for more than a temporary period.
4. The owner lives in or his or her principle place of business is in the taxing unit, and the property is not taxed by another unit.

v. **Exemptions** – Under the Texas Constitution, all real and tangible personal property that the state has jurisdiction to tax is taxable unless exempted by law. The Texas Constitution directly exempts some properties. Legislative statutes exempt others. An exemption is an exclusion of all or part of a property's value from taxation. The qualifications and administration of exemptions is a detailed and complex process. The Property Tax Code should be utilized to ensure that all rules and regulations are followed. Most exemptions are listed in Section 11 to include the following: Residence Homestead, School Tax Ceilings, Homestead Caps, Public Property, Religious Organizations, Private Schools, Veterans, Historical Sites, Freeport, Solar and Wind Powered Energy Devices, Tax Abatements, Nonprofit Water Supply, Pollution Control, Low Income Housing.

1. **Application –** A person must apply in writing to receive an exemption. Usually, once the exemption is granted, the person does not need to reapply unless the chief appraiser requires a new application. Applications must be turned in before May 1 of the tax year. The chief may extend the deadline for taxpayers who submit written request prior to the filing deadline.
2. **Actions on Applications** – The chief appraiser may approve the application. The chief appraiser may allow a modified exemption and notify the taxpayer within five days; or the chief appraiser may disapprove the application and request more information. The chief appraiser may deny

the exemption and notify the taxpayer in writing within five days after the denial. Exemptions determinations may be protested to the ARB.

An Appraisal manual is designed to assist in the mass appraisal of Improvements to real property. It is a mass-appraisal tool based on a classification system by which improvements are grouped and then valued according to a schedule drawn from sales and/or costs.

The basic steps in using this manual for appraising real and personal property are as follows:

1. Determine the exact location of the subject property, using an ownership map. This should be verified at the time of the site visit.
2. Visit the subject property, record all information required by the appraisal card.
3. Determine in which use-type category the subject property belongs.
4. Assign the subject property to a quality/class within its use-type category on the basis of the information recorded on the appraisal card.
5. Modify the value by the appraiser's estimate of depreciation and any changes in modifications of the improvements.
6. Make adjustments for the additives that are at variance with the standard specifications or typical features of the subject property's class.
7. Finally, assign a local modifier if needed to adjust the value of the subject property.

The steps outlined are discussed in greater detail below.

INSPECTION

The appraisal of improvements involves an on-site inspection of each property by the appraiser. The pertinent data obtained through the inspection should be recorded on the appraisal card.

During the inspection, the appraiser should measure and diagram the building. Internal walls and their measurements only need to be shown when they represent a change in use or construction type or a change in quality of construction from one area of the building to another. Each floor level should be shown on the diagram. Separation of the basic structure from such appurtenant structures as porches and garages should be shown on the diagram. A separate appraisal card should be used for each major structure on a parcel of land, but such minor structures as tool sheds can be included on the appraisal card with a major structure.

The appraisal card should accommodate the recording of such general construction features as those shown in the basic specifications for the classes in the classification system. A detailed step by step process for a proper field inspection is in the Field Appraiser's Guide.

CLASSIFICATION

Incorporated in the appraisal manual is a classification system based on the most common use-type improvements in the area. A quality/class code is assigned to each typical improvement in the classification system. The appraiser should use the system for guidance in classifying each property.

There are two district divisions in the classification system: use-type and quality/class. Both divisions of the system are used in determining the classification of any particular structure.

USE-TYPE

Use-type classification separates structures according to their usage. For example, a residence is one use-type and a store is another. Use-type classification should be based on the actual use of each structure. Listed below are the use-types used in the manual and their codes.

CODE	USE-TYPE
A	Residence, Single-Family
C	Vacant
D	Rural Land
E	Rural Buildings on Ag land
M	Mobile Homes
B	Multi-Family
F	Commercial/Industrial
J	Utility
L	Personal Property
X	Exempt

The Class/Quality separate structures according to their type of construction, quality of construction and in some cases specific classes of structures within the broader use-type classification. Class/Quality classification is indicated by an alphabetical code.

F=Frame, V=Veneer/Brick, followed by a quality rating:

SP- Special
E- Excellent
VG- Very Good
G- Good
A- Average
F- Fair
L- Low

Photographs of typical buildings are shown with each set of specifications to assist the appraiser in finding a building comparable to his subject. This is available in the Field Appraiser's Guide.

SPECIAL BUILDINGS

Some structures, due to their unusual types of construction, do not correspond to any category in the classification system. These include nineteenth-century houses, mansions and such novelty houses as underground houses or other houses or other structures of highly unusual shape or design. Such structures are not generally suitable for mass-appraisal techniques and usually must be appraised on a case by case basis. The appraiser should realize that the unusual nature of these properties means less information is available for appraising them, and thus the estimate of value will be less reliable than estimates for other properties.

The best way to appraise such property is by comparing recent sales of similar property. This can be especially true of nineteenth-century structures. Many older towns have several of these, and there may be an active market for them. The appraiser should attempt to discover the features that have the greatest influence on the sales price. The greatest influence on the sales price of a nineteenth-century structure may be the amount of irreplaceable gingerbread trim or the date of the most recent renovation. The appraiser may discover that the total square footage is of less importance to the buyer than it is in more conventional structures. Discussion with buyers, sellers, brokers, and loan officers should be helpful in discovering the factors influencing sales prices.

On modern but unconventional structures, the appraiser may be able to use the cost approach if sales data are not available. In using the cost approach, the appraiser should deal with reproduction-cost new rather than replacement-cost new because most special types of structures can be replaced with less expensive materials to build conventional structures that have equal utility. The use of reproduction-cost new ensures that the more costly special features of the structures' construction are included in the value estimate.

The most difficult step in the cost approach on special structures is the estimation of value lost through depreciation. The loss of value due to physical depreciation and economic depreciation is estimated just as it would be for any other structure. Functional obsolescence presents the greatest difficulty. A structure of unique constructions of design may be functionally obsolete on the day it is built if it is not in harmony with current tastes and norms. On the other hand, a unique structure may have special features that give it greater functional utility than that of conventional structures. The example of an underground house illustrates this point. Because significant savings on energy costs can be realized through the use of an underground house, it gains functional utility. If, however, the appearance and design of the house make it unappealing to potential buyers, the house suffers for functional obsolescence.

There is no easy or standard method for measuring either functional obsolescence or increased functional utility in structures for which there is not an active market. The appraiser must simply use his judgment and try to gather as much information as necessary for the builders, sellers, brokers, and financers of such structures.

INCOMPLETE STRUCTURES

Incomplete structures-Because our statues require that only property in existence as of the assessment date be taxed for a specific year, it is necessary that buildings under construction as of that date be taxed for only what existed on the property as that time. This is accomplished by visiting the property on or near the assessment date and establishing a percent of completion accordingly. As a guideline for establishing percent of completion, the following table has been prepared. The appraiser may have a more detailed breakdown at the property site. See the Field Appraiser's Guide

10-30%	Foundation	Includes all work from beginning up to, but not including, raising the exterior walls
30-40%	Open Frame	Includes all framing work in the exterior walls, ceiling, roof, and interior bearing walls.
40-50%	Boxed In	Includes all roof and exterior wall covering or sheathing and primer coat of paint if required.
50-60%	Weather-Proof	Includes installing all openings and primer coat of paint if required and a dried-in roof.
60-70%	Interior Wall	Includes raising interior walls and interior wall ceiling covering.
70-80%	Trim	Includes all mill work and cabinets
80-90%	Paint	Includes all painting, sanding, and finishing.
90-100%	Finish	Includes all clean-up, hardware, and floor finish.

DEPRECIATION

Depreciation is loss in value due to any cause. It is the difference between the value of a structural improvement or piece of equipment and its reproduction or replacement cost as of the date of valuation.

Physical depreciation is loss in value due to physical deterioration. Functional obsolescence is loss in value due to lack of utility or desirability of part or all the property, inherent to the improvement or equipment. Thus a new structure or piece may suffer depreciation when built.

Economic obsolescence is loss in value due to causes outside the property and independent of it, and not included in the tables.

The effective age of a property is its age as compared with other properties performing like functions. It is the actual ageless the age which has been taken off by face-lifting, structural reconstruction, removal of functional inadequacies, modernization of equipment, etc. It is an age which reflects a true remaining life for the property, taking into account the typical life expectancy of buildings or equipment of its class and usage. It is a matter of judgment, taking all factors into consideration.

Extended life expectancy is the increased life expectancy due to seasoning and proven ability to exist. Just as a person will have a total normal life expectancy at birth which increases as he grows older, so it is with structures and equipment.

Remaining life is the normal remaining life expectation. It is the length of time the structure may be expected to continue to perform its function economically.

Percent good equals 100% less the percentage of cost represented by depreciation. It is the present value of the structure or equipment at the time of appraisal, divided by its replacement cost.

See Depreciation guide in the Field Appraiser's Guide to proper inspections.

APPRAISAL REVIEW BOARD

INTRODUCTION

The Appraisal Review Board (ARB) is a time period between May1st, and July 20th, of every year. Appraisal notices are mailed out every year around May 1st. At this time the taxpayers are able to protest their property value, denial of an exemption, being taxed by the wrong entity(s), and/or not receiving an appraisal notice. Appraisers are given the opportunity to speak with the taxpayers concerning any issues that the taxpayer may have. The taxpayer is also given the opportunity to present their case in front of the Appraisal Review Board.

APPRAISAL REVIEW BOARD PROCESS

1. **What is an Appraisal Notice**
    - **a.** **Appraisal Notice** – A notice is a written document that is sent to a property owner to advise the owner of a matter related to property taxes. The property owner's right to notice of actions affecting a property's value is one of the cornerstones of the property tax system. A "Notice of Appraised Value" is a notice that informs the property owner of the proposed value on his property. The chief appraiser sends notices of appraised value before submitting the appraisal records to the ARB.
    - **b.** Section 25.19 of The Property Tax Code requires a notice if:
        1. The property owner renders a lower value than that placed on the Property.
        2. The property value has increased since the prior year.
        3. The property was not on the appraisal roll last year.
        4. The property is reappraised
        5. The property has changed ownership.
        6. The property owner requests a notice.
    - **c.** Items included on the notice include:
        1. Separate appraisals of land and improvements.
        2. List of taxing units which the property is taxable.
        3. Appraised value of the property in proceeding year.

4. Assessed and taxable value in the preceding year for each taxing unit.
5. Appraised value of the property for the current year and the type and amount of each exemption.
6. Prior year's tax rate for each unit
7. Estimated tax due for current year
8. Explanation of the time and procedure for protesting value
9. Protest form with mailing instructions
10. Date and place of ARB hearings

2. What is a protest?

Taxpayers may file a notice of protest before June 1 or 30 days after the Appraised Value Notices are mailed, whichever is later. An ARB correction or omitted property notice must be protested within 30 days. Normally it is the property owner that files the notice; however there are some occasions that others may file a notice. Some examples are; a person who rents the property, a previous or future property owner, and/or a tax agent. A tax agent may represent the property owner with an Affidavit.

a. Taxpayers have the right to protest the following issues at and ARB hearing;

1. The appraised value of property if the taxpayer believes is over appraised;
2. Unequal appraisal of property in comparison to the median appraisal level of other property in the district;
3. Inclusion of property on appraisal rolls;
4. Denial of partial or whole exemptions;
5. A determination that property does not qualify for special-use appraisal;
6. A determination that a change of use has occurred on previously qualified agricultural or timber land;
7. Identification of the taxing units in which the property is taxable;
8. Determination of ownership;
9. Failure of the ARB or chief appraiser to send required notices; and
10. Any other appraisal district action that applies to a property owner and adversely affects the owner.

b. The ARB may only make decisions based on the above circumstances. It will not hear cases about the tax rates, payment policies, exemption adoption, and other issues that are the responsibility of the taxing units.

c. The property owner also has the right to speak to their property appraiser, and/or the deputy/chief appraiser. This is also known as an informal hearing. At this time, the appraiser may make any changes they feel necessary, or they may also explain the appraisal process. The appraiser will also need to show evidence that explains the reasoning for the judgment based on the property. The taxpayer may also provide evidence that may affect judgment on the property.

HOW TO PROCESS A PROTEST

1. Once the appraisal notices are mailed, the protests will begin to return. The protest will need to be entered into the system.
2. The protests are filed in the order that they were entered into the system, and filed in file boxes.
3. At this time the appraisers may contact the taxpayers and set an informal meeting with them to discuss the issues that were protested. At this time evidence is provided by either the property owner or appraiser to support their opinion of value. If a decision is not met, or if the taxpayer does not agree with the appraiser, they may request to be heard in front of the ARB. If a decision is met, then the taxpayer may sign a withdrawal or settlement and waiver.
4. A Notice of Protest Hearing is sent 15 days prior to the hearing date. This will allow the taxpayer and the appraiser to gather their evidence that will support their opinion.
5. Once the case is heard in front of the ARB, the board determines judgment. After this another letter is sent, either a Final Order No Change, or Final Order Change.

IMPORTANT THINGS TO KNOW

1. All paperwork received concerning protest must be filed and kept with the original protest.
2. A copy of all supporting evidence that is sent from the taxpayer or tax agent must be provided to the assigned appraiser.
3. Copies of all correspondence must be kept with the original protest, and filed.

Schedules are printed prior to the ARB hearing dates. Copies will need to be made and distributed to all appraisers, person(s) at the sign in desk, all board members, and ARB Secretary

SALES ADMINISTRATION

INTRODUCTION

Acquiring sales and entering them into the system is a very important part of the appraisal process. A number of sales can give justification to property value increase or decreases, and/or what type of market that we may have.

Some of the items that may be of concern are, the selling price, square footage, additional improvements, or additions, increased land sizes, and or other items that may constitute for the appraiser to re-inspect the property.

The other items that sales may show are how the property sale is financed. There are several different ways that a property can be financed, this too can affect the way that a property is appraised. For instance a foreclosed property selling price will not have an affect like a home that is sold as a typical sale.

DISTRICT SALES LETTERS

District sales letters (DSL) are produced after a deed transfer of property is conducted. A DSL is printed out on every transfer except for Wills, probate, and/or divorce transfers. Every week DSL are mailed out to the property owners. The district does not require that the property owner return the DSL. The district receives the DSL daily. DSL need to be worked periodically throughout the week. Once they are worked, we filed them according to the filing dates.

<u>HOW TO ENTER A DISTRICT SALES LETTER</u>

- **a.** District sales letters can be worked weekly. They can be entered on a daily basis, however they are found to be easily entered as a group.
- **b.** There are questions on the DSL that can give vital information to the appraisers. Some of the information that would be vital is for personal property.
- **c.** Some DSL are produced on commercial transfers. These transfers can and do involve personal property. Personal property will affect the sales price that you will enter into the system. Personal property cannot be included in the sales price. An adjustment will need to be made in order to capture the true purchase price of the property. A copy of the DSL will need to also be provided to the Real Estate Appraiser and the Personal Property Appraiser.
- **d.** There is also a question on the DSL that will make you aware of whether or not the sale is typical or non-typical of the information that would be vital is for example, personal property.. It may or may not be either a relative or foreclosure sale. If it is either one of these, then the sale will need to be reviewed. In a market of foreclosures, the market area should be reviewed to see the impact in a neighborhood of foreclosures.
- **e.** After all of the DSL are entered, they will need to be filed. They will need to be filed in deed date order, by the month.

Appraisal

<u>Appraisal Methods</u>

The legislature authorizes appraisal districts to use a method called mass appraisal to calculate the value of a large number of properties. In a mass appraisal, the appraisal district classifies categories of properties according to a variety of factors.

Using data from recent property sales, the appraisal district determines the value of properties in each class. They consider differences such as age, location and use to appraise all the properties in each class. The market value of a residence homestead must be determined solely on the basis of its current use regardless of its "highest and best" use. This means that your homestead must be appraised as such, even if it is located where its best use might be as the site for an office building or a parking lot for a mall. In addition, individual characteristics of property must be considered in developing appraisal models and schedules, as well as adjusting values as a result of taxpayer protests.

The appraisal district may use three common methods to value property:

Market Data Comparison Approach: The market approach asks, "What are properties similar to this property selling for?" The market approach is most often used to appraise residential property.

Income Approach: The income approach asks, “What would an investor pay in anticipation of future income from the property?” The income approach is usually used to appraise types of properties that generate income, such as offices, hotels or retail centers.

Cost Approach: The cost approach asks, “How much would it cost to replace the property with one of equal utility?” This method is often used to appraise types of properties that are not frequently sold or properties under construction.

The value of property is an estimate of the price for which it would sell on Jan 1. The appraisal district compares your property to similar properties that have sold recently and determines its value. A sale cannot be considered as a comparable if it is made more than 24 months before the appraisal date, unless there are too few comparable sales within that time span to constitute a representative sample.

Comparable sales must be appropriately adjusted and must be similar in factors such as location, lot size, improvements, age condition, access, amenities, views, income, operating expenses and occupancy. The existence of easements, deed restrictions or other legal burdens affecting a property’s ability to be sold also must be considered.

In determining the market value of your residence, the chief appraiser must consider the value of other residential property in your neighborhood, even if the other property:

was sold at a foreclosure sale conducted in any of the three years preceding the tax year in which your residence is being appraised, if it was comparable at the time of sale with other residences in your neighborhood; or has a market value that has declined because of a declining economy.

In using the income approach, the chief appraiser may not separately appraise or account for personal property that is already included in the appraisal of real property.