

# MASS APPRAISAL SUMMARY REPORT

## ERATH COUNTY APPRAISAL DISTRICT 2018

# TABLE OF CONTENTS

<b>Introduction</b>	<b>3</b>
<b>Assumptions and Limiting Conditions</b>	<b>4</b>
<b>USPAP</b>	<b>5</b>
<b>Valuation Approach</b>	<b>6</b>
Market Value	
<b>Area Analysis</b>	<b>6</b>
Overview of types of Properties Appraised	<b>7</b>
Highest and Best Use Analysis	<b>8</b>
Market Analysis	<b>8</b>
<b>Data Collection and Validation</b>	<b>9</b>
Data Collection and Sources	<b>9</b>
Valuation Analysis	<b>10</b>
Residential Schedules	<b>11</b>
Commercial Schedules	<b>12</b>
Personal Property Schedules	<b>14</b>
Statistical Analysis	<b>18</b>
Individual Value Review Procedures	<b>18</b>
Performance Tests	<b>19</b>
<b>Certification Statement</b>	<b>21</b>

## INTRODUCTION

The purpose of this summary report is to aid taxpaying public in better understanding the methods and techniques utilized by the Erath County Appraisal District (ECAD) in the valuation and revaluation of taxable property within Erath County. This report attempts to comply with Standard 6 of the Uniform Standards Professional Appraisal Practice (USPAP), effective January 1, 2015. Erath CAD maintains detailed appraisal manuals for appraisal use.

Erath CAD is a Central Appraisal District formed by the Texas Legislature in 1979 and is charged with the appraisal of all taxable property within the District's boundaries. Covering 1,090 square miles, Erath CAD consists of 19 Taxing Entities named below:

- Erath County
- Erath Road & Bridge
- City of Stephenville
- City of Dublin
- Middle Trinity Water District
- Three Way ISD
- Dublin ISD
- Stephenville ISD
- Bluff Dale ISD
- Huckabay ISD
- Lingleville ISD
- Morgan Mill ISD
- DeLeon ISD
- Santo ISD
- Gordon ISD
- Lipan ISD
- Iredell ISD
- Hico ISD
- Hico EMS

Current state law, set out in Section §6.02 (a) of the Texas Property Tax Code, mandates that appraisal district boundaries are the same as the county's boundaries.

### **Assumption and Limiting Conditions**

Erath CAD has taken reasonable steps to secure adequate funding, however fiscal restraints do impact the mass appraisal process. Limited resources and personnel are available to perform the appraisals; therefore, it is not possible to physically inspect every property included on the appraisal roll. When physical inspections were conducted on real property, they were generally performed with exterior review only. It is assumed that the interior conditions are consistent with the exterior condition. When physical inspections were made for the valuation of personal property, inspections were made of the entire facility if allowed by the owner or management of the business.

This mass appraisal has been made under the following additional assumptions and limiting conditions:

- It is assumed that the title to the properties is good and merchantable.
- No liability is assumed for matters of a legal nature.
- Assumptions made in the report are based on the best knowledge and judgment of the appraiser and are believed to be typical of the market.
- All properties are appraised as if free and clear of any or all liens or encumbrances, unless otherwise stated.
- Existence of hazardous materials or other adverse environmental conditions are not considered, unless otherwise indicated.
- Any drawings, photographs, plan, or plats are assumed to be correct and are included solely to assist in visualizing the property.
- It is assumed that there is full compliance with all applicable federal, state, and local regulations and laws, unless otherwise noted.
- No responsibility is assumed for hidden or unapparent conditions in the property that may affect its value.
- It is assumed that all required licenses, certificates of occupancy, consents or other administrative authority from local, state or federal governments can be obtained or renewed for any use on which the value estimate contained in this report is based.
- A specific survey and analysis of properties to determine compliance with the provisions of the Americans with Disabilities Act has not been performed and possible non-compliance has not been considered in valuing these properties.
- While it is believed all information included in the appraisal is correct and accurate; the appraiser does not guarantee such.

This report may not be used for any purpose or by any person other than the party to which it is addressed without the written permission of the Erath County Appraisal District.

## USPAP

The Chief Appraiser is the Chief Administrative and Executive Officer of the Appraisal District. The Chief Appraiser employs and directs the District's staff, oversees all aspects of the Appraisal District's operations and performs either directly or through the district staff a variety of operations.

The Chief Appraiser's Appraisal responsibilities include:

- (1) Discover, list and appraise all property within the CAD along with his/her Appraisal Staff.
- (2) Determine exemptions and special use requests
- (3) Organize periodic reappraisals
- (4) Notify taxpayers, taxing units and the public about matters that affect property values

Erath CAD's office consists of the Chief Appraiser, Senior Chief Appraiser, Systems Administrator, GIS Administrator, 4 Clerical Employees and 5 Appraisers.

Erath CAD contracts with Pritchard & Abbott, Inc., an appraisal firm, to appraise minerals within the boundaries of the Appraisal District.

The District uses computer software provided by SouthWest Data Solutions for the data processing of all appraisal records, records management system, and maintenance of the digitized mapping system and Pictometry for our aerial images.

As of July 2018, the appraisal roll for Erath County Appraisal District indicates a total of 37,514 parcels. The breakdown of these parcels is as follows:

(a) Category A	(Residential) -	8375
(b) Category B	(Multi-Family Residential) -	319
(c) Category C	(Vacant Lots) -	2092
(d) Category D	(Qualified Open Space Land)	10,245
(e) Category E	Non-Qualified Open Space Land & Improvements -	5833
(f) Category F	(Commercial/Industrial) -	1250
(g) Category G	(Minerals)	4244
(h) Category J	(Industrial/Utilities) -	558
(i) Category L	(Personal Property) -	1873
(j) Category M	(Mobile Homes)-	1305
(k) Category O	(Other)-	137
(l) Category S	(Special Inventory) -	33
(m) Category X	(Exempt Parcels) -	1247
TOTAL PARCELS		37,514

## **VALUATION APPROACH**

### **MARKET VALUE**

Market value for purpose of this Mass Appraisal is defined by the Texas Property Tax Code, §1.04(7) which states:

“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.

In regards to inventory held as part of a business, §23.12(a) of the Texas Property Tax Code further provides, in part; “the market value of an inventory is the price of which it would sell as a unit to a purchaser who would continue the business.”

The effective date of appraisals is January 1, with the exception of inventory, which may be appraised at its market value as of September 1. To receive the September 1 appraisal date, a taxpayer must file an application by July 31.

The purpose of and intended use of the appraisals performed by the Erath County Appraisal District is to estimate market value for Ad Valorem tax purposes for the Taxing Entities located within the boundaries of Erath CAD. It is the goal of the staff of the Erath CAD to provide the best possible service to the tax paying public and the taxing entities. The Erath CAD staff promotes and adheres to the professional standards and ethics as set forth by the Texas Department of Licensing and Regulation, Texas Association of Appraisal Districts, Texas Association of Assessing Officers, and the International Association of Assessing Officers (IAAO).

### **AREA ANALYSIS**

#### **Overview of Types of Properties Appraised**

There are four (4) major categories of property appraised by the Erath CAD. These categories are:

- (1) Real: Residential (both single family and multi-family)  
Commercial/Industrial  
Vacant Lots (both residential and commercial)  
Vacant rural land and improvements on rural land
- (2) Personal: Income producing business personal property

- Industrial personal properties
- (3) Utilities: Telephone companies  
 Cable companies  
 Electrical companies  
 Railroads  
 Pipelines  
 Misc/Other Utilities
- (4) Minerals: Oil and Gas

The Property Tax Assistance Division of the State Comptroller's Office requires properties to be identified by type using a standard identification code. The codes currently used by the Erath CAD are as follows:

### **PROPERTY CATEGORY CODES**

Cat Code	Description	Cat Code	Description
A1	Single Family Residential	J4	Telephone Companies
A2	Mobile Homes w/ Land (Designated as Real Estate)	J4A	Telephone Company Other PP
A3	Storage Bldg on Vacant Land	J5	Railroads
B1	Multi-Family Residential (Apartments)	J6	Pipelines
C1	Vacant Lot Residential	J6A	Pipelines Other PP
C2	Vacant Lot Commercial	J7	Cable Companies
C3	Vacant Lot Rural	J8	Compressors
D1F	Farmland w/Ag Exemption	J8B	Salt Water Disposal Wells – Utility
D1O	Orchards w/out Ag Exemption	J9	Rolling Stock
D1R	Grassland w/Ag Exemption	L1	Business Personal Property
D2O	Orchards w/out Ag Exemption	L1K	Commercial Heavy Equipment
D2R	Grassland w/out Ag Exemption	L1M	Commercial Vehicles, to 1 Ton
D4	Hudspeth Overlapping	L2	Industrial Personal Property
E	Rural Improvements	L2A	Industrial- Vehicles, 1 Ton & over
E1	Rural Houses w/ Homestead	L2C	Industrial- Inventory & Materials
E2	Rural Mobile Homes w/Homestead	L2D	Trailers
F1	Commercial Real Estate	L2G	Industrial- Machinery & Equipment
F2	Industrial Real Estate	L2H	Industrial - Leased Equipment
G	Minerals	L2J	Industrial – Furniture & Fixtures
G1	Oil, Gas & Mineral Reserves	L2K	Industrial–Heavy Const. Equipment
G2B	Mineral-Producing Sulphur	L2M	Industrial-Vehicles, to 1 Ton
G2D	Mineral-Producing Clay	L2P	Radio Towers
G3A	Mineral-Non-Producing Oil & Gas	L2Q	Radio Tower Equipment
G4A	Lease Hold Equipment	M1	Mobile Homes (Personal Property)
H1	Tangible Personal Vehicles	M2	Tangible Personal Bldg Leased Land
J1	Water Systems	O	Residential Inventory
J2	Gas Distribution	X	Totally Exempt Property
J3	Electric Companies		

## **Highest and Best Use Analysis**

The highest and best use of real estate is defined as the most reasonable and probable use of land that will generate the highest return to the property over a period of time. This use must be legal, physically possible, economically feasible and the most profitable of the potential uses. The Chief Appraiser's identification of property's highest and best use is always a statement of opinion, never a statement of fact.

In order to complete the highest and best use analysis of a property, the Chief Appraiser must estimate the highest and best use as if the land were vacant. This estimate ignores the value of and the restrictions created by existing improvements. It is the highest value the land could have if it were available for any legal, physically possible and economically feasible kind of development.

In determining the highest and best use, preliminary judgments are made in the field by Appraisers. The Chief Appraiser is normally aware of zoning regulations within physical boundaries of each city.

Erath CAD property appraisal cards contain information regarding lot size and frontage that allow the Chief Appraiser to make judgments on the highest and best use of sites in the field. Economically feasible and most profitable uses are determined by observing surrounding property. However, changes in property use require a more detailed and technical highest and best use analysis. These studies are performed in the office.

## **Market Analysis**

National, regional, and local trends affect the universe of properties appraised in Erath County. An awareness of social, economic, governmental and environmental conditions is essential in understanding, analyzing, and identifying local trends that affect the real estate market.

Market analysis is performed throughout the year. Both general and specific data is collected and analyzed. An in-house ratio study is conducted at least once a year.

Examples of sources of general data include "*Trends*" issued by The Real Estate Center at Texas A&M University, "*The Appraiser*" published by the Texas Association of Appraisal Districts, and the "*Texas Assessor's News*" published by the Texas Association of Assessing Officers. When possible, local sources such as lending institutions, local realtors, the Chamber of Commerce, and articles published in the local and area newspapers are used to obtain financing information, market trends and information, demographics and labor statistics.

Sales information is received from various sources. Sales confirmation letters are mailed to each buyer when a property changes hands. In addition, sales information is obtained from local realtors, fee appraisers, and lending institutions.



County deed records are regularly checked for new real estate transactions. Erath CAD uses County deed records to generate sales confirmation letters for each buyer and seller to obtain detailed information on the sale. Because full sales disclosure is not mandatory in the State of Texas only a small percentage of letters are returned with useful information. This is a serious problem in that there is usually inadequate sales data to perform as thorough an analysis of sales data as USPAP would require. However, every effort is made to use what data is available. The Property Tax Assistance Division also sends out sales letters and that data is made available to the Appraisal District at least once a year.

Erath CAD currently does reappraisals on a three-year basis. The reappraisal includes the inspection of properties and the updating of all information on the properties. Sales and market analysis are performed each year on residential properties, as information is available. Each year new properties are inspected, measured and added to the roll. In addition, building permits issued by the City of Stephenville and The City of Dublin are obtained and changes to property records are made accordingly.

Individual properties are also reappraised with changes to the condition as the property warrants; for example, fire, remodeling, or an addition or demolition of a portion of the improvement. Refer to the Erath County Appraisal District Re-Appraisal Plan for Years 2016-2017 for further information on reappraisal requirements.

When performing field work, the Appraiser carries property record cards that contain specific information regarding the property being appraised. These cards contain brief legal descriptions, ownership interests, property use codes, property addresses, land size, sketches of improvements as well as any available detailed information of the improvements. A copy of a property record card may be obtained at the Appraisal office.

Field inspections require the Appraiser to check all information on the property record cards and to update if necessary. If physical inspection of the property indicates changes to improvements, the Appraiser notes these changes in the field. Examples of types of changes may be condition or effective age of the improvements as well as additions to the improvements. The classification of residential properties is also reviewed during the revaluation process. New improvements are also added at this time.

### **Data Collection and Validation**

Erath County Appraisal District cost and value schedules include land and residential improvements. Residential schedules are built and maintained using current market (sales) data. Commercial schedules are developed by using information from Marshall & Swift Valuation Services and local factor adjustments. Personal property schedules reflect information obtained from national valuation publications, such as Marshall & Swift, business personal property renditions and on-site inspections. Marshall & Swift Valuation Service is a nationally recognized source for residential, commercial and personal property cost schedules. Cost manuals are based on cost per square foot and also the unit in place method. The unit in place method involves estimating cost by using actual building components. Marshall & Swift provides the base price of buildings as per classification with modifications for equipment and additional items. The

schedule is then modified for time and location. Business Personal Property Renditions are confidential sources of information filed by business owners, however, data from renditions may be compared with data from cost manuals and used to test for accuracy.

Data on individual properties is also collected from the field, compiled and analyzed. Buildings and other improvements are inspected in the field, measured and classified. The Appraiser estimates the age and determines the condition of the improvements. This data is used to compile depreciation (loss of value) tables, and any notes pertaining to the improvements are made at this time.

Currently, single family dwellings are classified for quality and type of construction, whether frame or brick veneer. The classifications range from a Class 1 to Class 5 and Class 12 to Class 15 on frame dwelling and class from a Class 6 to Class 11 on a brick veneer dwelling.

Class A is the most basic of structures using the poorest quality materials and lowest workmanship while a Class C+ structure is of highest possible quality using only the best of materials and the highest and best quality workmanship available. For any dwelling that exceeds the general description of the top-most classification, a special class is assigned.

Age of building is used to estimate depreciation and based on effective age of the improvements. Effective age is the age the property appears to be due to maintenance and upkeep. Effective age for a house that is properly maintained may be its actual or chronological age. However, if a structure suffers from deferred maintenance due to neglect, its effective age may be older than the actual age. In contrast, if a house is an older structure and has been remodeled or updated, its effective age may be less than its actual age.

Depreciation is also estimated by condition of the improvements. Condition ranges from unsound to excellent. Appraisals are based on exterior observations, however, if the taxpayer requests, an interior inspection may be made.

Foundation failure may occur in varying degrees and may also result in loss of value. The Appraiser makes allowances for foundation problems on a case by case basis determined by the cost to repair.

Additional depreciation may be estimated for a variety of reasons including Functional Obsolescence resulting from bad floor plans or out of date construction methods. Economic Obsolescence results from a loss of value to a property due to adverse influences from outside the physical boundaries of the property.

Examples on Economic Obsolescence may be proximity to correctional facilities, location of residences outside city limits with no access to city amenities, residences located on farm and ranch land, etc.

### **Valuation Analysis**

Erath CAD valuation schedules are divided into three main classifications: Residential, Commercial, and Personal Property. These schedules are based on the most current market and cost data available. Miscellaneous special categories such as mobile homes, special inventory, and agricultural land are appraised using different techniques, which are addressed later in this

report. Depreciation tables/schedules are also included within these schedules. These tables are calibrated from costs as well as sales data and updated as needed. These tables and schedules are included in Erath CAD's Appraisal Manuals.

### **Residential Schedules**

Residential valuation schedules are cost based tables modified by actual sales data from the County. That is, the cost reflects actual replacement cost new of the subject property. Market research indicates that the common unit of comparison for new residential construction as well as sales of existing housing is the price paid per square foot. The value of extra items is based on their contributory value to the property. This value may be estimated by the price per square foot or a value of the item as a whole. This data is extracted from the market by paired sales analysis and conversations with local Chief Appraisers and Brokers.

The Residential schedule is based on the size, age, and condition of structure, quality of construction, contributory value of extra items and land value. Each of these variables has a direct impact on the cost as well as the property. The following is an example of each of the variables and how they affect market value:

1. Quality of construction: Residential construction may vary greatly in quality of construction. The type of construction affects the quality and cost of material used, the quality of the workmanship as well as the attention paid to detail. The cost and value of Residential property will vary greatly depending on the quality of the construction. Erath CAD's Residential schedules currently class houses based on quality of construction from A to C+.
2. Size of structure: The size of a structure also has a direct impact on its cost as well as value. The larger the structure, the less the cost per square foot. Erath CAD's schedules are generally graduated in 100 square foot increments, depending on market conditions.
3. Condition of improvements: Erath CAD captures the condition of real improvements via its classification codes A through C+ with A being the poor and C+ representing excellent or superior condition. Properties that in the opinion of the Chief Appraiser are unavailable may be taken off the schedule and given a salvage value.
4. Age of structure: Age is the primary factor when determining residential depreciation. Effective age and chronological age may be the same or different depending on the condition of the structure.
5. Extra items: As stated above, extra items are valued according to their contributory value to the whole. Examples of extra items include storage buildings, swimming pools, fireplaces, outdoor kitchens, etc.
6. Land value: Erath CAD values land based on market data. Other recognized methods of land valuation may be used when market data is limited. The two (2) most common methods are the land residual method and the land ratio method. Land schedules are available at the Appraisal District office.

## COMMERCIAL AND MULTIFAMILY REAL PROPERTY

### Cost Approach

The Cost Approach to value will be applied using the comparative unit, or square foot method of cost estimating. The following is the basic model that the District utilizes when employing the Cost Approach.

$$MV = RCNLD + LV$$

This methodology involves the use of national sources of cost data as well as actual cost information gathered from the local market whenever possible. Cost models utilized by the District are based on the data obtained by the Marshall Valuation Service also known as *Marshall & Swift*. These costs include comparative base rates, per unit adjustments, and lump sum adjustments as appropriate and necessary to account for the specific factors affecting value. Time and location modifiers will be applied as necessary to adjust cost data to reflect conditions in a specific market as well as changes in costs over a period of time. A cost estimate will be generated by the Appraisal staff based upon the cost schedules as they are applied to the specific characteristics of the subject property of the appraisal.

Depreciation schedules have been implemented for economic lives and condition that is typical of each major class of commercial property-by-property use. The schedules utilized by the District are developed using recognized sources and mirror *Marshall & Swift*. These schedules will be tested annually to ensure they will be reflective of current market conditions in Culberson County. The actual and effective ages of improvements are judged by the appraiser and noted in the improvement records contained within each property record. Effective age estimates will be based on the utility of the improvements relative to the improvement's total economic life, condition, and its competitive position in the marketplace. These adjustments are generally determined during field operations.

Certain adjustment factors such as External and or Functional Obsolescence will be applied to properties as applicable based upon market data. These adjustments will typically be applied to a specific property type or location and will be developed through ratio studies or other market analysis. Accuracy in the development of the cost schedules, condition ratings, and depreciation schedules usually minimize the necessity of this type of an adjustment factor. The sum total of depreciation, also expressed as the loss in value from all causes, is subtracted from the replacement cost new of the structure to arrive at a replacement cost new less depreciation (RCNLD).

The Cost Approach requires the District to value the land utilizing one of the four (4) accepted methods of land valuation: the Sales Comparison Approach, allocation by abstraction, allocation by ratio, or the capitalization of ground rent. Once the land is valued by the method deemed most appropriate in terms of the data available, the resulting land value is added to the RCNLD of the improvements to yield an estimate of market value by the Cost Approach. Any estimate of value completed by the Cost Approach will be made in accordance with Section §23.011 of the Texas Property Tax Code.

**Sales Comparison Approach**

Pertinent data from actual sales of properties will be obtained throughout the year and the Appraisal staff will analyze the relevant information. This data will be utilized in all aspects of the appraisal process. Sales of similarly improved properties will provide a basis for the test of depreciation schedules used in the Cost Approach, rates and multipliers used in the Income Approach, and as a direct comparison in the Sales Comparison Approach. Improved sales will also be used in ratio studies, which afford the Appraiser and means of judging the present level and uniformity of the appraised values. The ratio studies used are in compliance with the current IAAO *Standard on Ration Studies*.

Based on the market data gathered and analyzed by the Appraisal staff, the cost and income models will be calibrated annually. The calibration results will be added to the schedules and models in the CAMA system to apply to all commercial properties in the District as appropriate. Any estimate of value completed by the Sales Comparison Approach will be made in accordance with Section§23.011 of the Texas Property Tax Code.

**Income Approach**

The Income Approach to value will be applied to those real properties that are typically viewed by market participants as income producing. Income producing properties are those that are bought and sold based on the property’s ability to produce an income; therefore, the price paid for a property is directly related to the amount of income the property is capable of producing. The Appraisal staff utilizes income and expense data furnished by the property owners; data collected by staff and information from local market study publications. Income models by property use and neighborhood/ market area are developed and deployed for use in valuation.

The following model is the basis for commercial property valuation by the Income Approach:

$$\begin{array}{r}
 \text{PGR} \\
 \underline{-\text{V\&C}} \\
 \text{EGR} \\
 \underline{+\text{SI}} \\
 \text{EGI} \\
 \text{-Allowable EXP} \\
 \underline{-\text{Reserves for Replacement}} \\
 \text{NOI} \\
 \\
 \text{Value= NOI/CAP Rate}
 \end{array}$$

This income model reflects the normalization of an income stream from Potential Gross Rent at 100% occupancy to an indication of Net Operating Income. The process involves estimating the rental producing capacity of the subject property under prudent management (PGR). Market derived vacancy and collections (V&C) losses are subtracted from the potential gross rent to arrive at effective gross rent (EGR). Any net income from secondary property uses (vending income or parking income, etc.) (SI) are added to the effective gross rent to yield an estimate of effective gross income (EGI).

Allowable expenses are the expenses that are recurring annual expenses necessary to operate the property sufficiently to achieve the projected level of effective gross income. These vary by property type and are researched by the commercial appraisal staff. Once identified or projected, the allowable expenses are subtracted from the effective gross income. Reserves for replacement are estimated by considering the amortized costs of replacing certain building components whose economic lives are shorter than total economic life of the improvement (carpets, roof cover, air conditioning, etc.). Generally, these are calculated by either dividing the replacement cost new of the item by its economic life, a flat reserve amount per unit justified by the market, or a percentage of EGI; whichever is deemed appropriate. Once all allowable expenses and reserves have been identified or calculated, these amounts are subtracted from the effective gross income to yield an estimate of net operating income (NOI).

Rates and multipliers will be used to convert the income stream into an estimate of market value. These include gross income multipliers, overall capitalization rates, and discount rates. Each of these is used in specific applications. Rates and multipliers also vary between property types, as well as by location, quality, condition, design, age, and other factors. Therefore, application of the various rates and multipliers will be based on a thorough analysis of the market.

Direct Capitalization will be used in the income approach models. This methodology involves dividing the net operating income by the appropriate capitalization rate to arrive at an indication of market value for a specific property. Capitalization rates utilized will be derived from the market as to estimate what a market participant would require from an investment as of the date of appraisal. Additionally, overall capitalization rates may be derived from the summation method, band-of –investment, debt coverage ratio, or obtained from published sources for similar properties. The capitalization rates utilized will relate directly to satisfying the market return requirements of both the debt and equity positions of a real estate investment.

In valuing property by the income approach, the District will consider the income characteristics of all properties, as they are available. Adjustments will be made as necessary and appropriate and the models, schedules, and value indications developed will be made pursuant the section §23.011 of the Texas Property Tax Code.

### **Personal Property Schedules**

The personal property schedules value business furniture, fixtures, and equipment as well as inventory that are taxable by law. Business vehicles located within the Appraisal District boundaries are also appraised for ad valorem tax purposes.

Business Personal Property values are derived from several sources. Business owners are required by Texas Law to render their income producing personal property each year. Rendered values are used on business personal property if the value is reasonable for the type of business when compared to similar

business renditions and personal property cost schedules. Value on all business personal property not rendered is established using cost schedules for the type of business being valued. Depreciation is determined by the age of the property and its expected life. Schedules are available in the Appraisal District office.

Business vehicles are valued based on the Kelly Blue Book Used Car Guide trade-in value for the particular make, model, and age of the vehicle. The trade-in value may also be obtained from “Car-Point” or other websites available on the internet. When adverse factors such as high mileage are known, then the appropriate adjustments are made to the value.

## **METHODS FOR DEVELOPING LAND VALUES**

Land values can be developed using any one of the following methods:

- Sales Comparison
- Allocation
- Abstraction
- Anticipated Use or Development
- Capitalization of Ground Rent
- Land Residual Capitalization

### **SALES COMPARISON**

The sales comparison approach to value is used to develop commercial land values. Typically the District relies on one of the following methods: the comparative unit method or the base-lot method.

The Comparative Unit Method is used in areas where tracts vary in size but are fairly similar in other aspects. The following steps are used to arrive at a price per unit (usually expressed in square feet or acres.)

- Determine typical value by calculating the median sales price per unit
- Stratify by market area and then by zoning or use types
- Review results and determine reliability of data

If the analysis shows that there is insufficient sample size, then the District may resort to one of more of the following:

- Combine sales from areas with similar strata
- Include colder sales which may need to be adjusted for time
- Include residual land values (this is calculated by subtracting appraised building value from the sales price)

The steps to arrive at a price per unit are then repeated. After the values have been established for each stratum, they are refined to the individual parcel.

The Base-Lot Method is used when the parcels have variations such as size, access and topography. The following steps are used to arrive at standard value for parcels.

- Determine the base or standard parcel for an area
- Adjust the sales to the base parcel (adjust for the variations)
- Calculate the median and mean value

If the analysis shows that there is insufficient data, then the District may need to include older sales.

## ALLOCATION

The Allocation approach to value is based on the principle of balance. It states that land should have a relationship to the total property value. Sales of improved properties are studied to determine the typical ratio of land to total property value. This method is not employed to develop land values for commercial properties.

## ABSTRATION

This method extract land values from sales of improved properties by subtracting the appraised values of the improvements from the sale price. This method is used by the District to develop land values in combination with the sales comparison approach to value. It should not be used until other methods have been considered.

## ANTICIPATED USE

This is used primarily to value land that is in transition from agricultural to residential or commercial use. This requires subtracting development costs from the projected sales prices of developed lots to determine the land value. The District does not employ this method to calculate commercial land values.

## CAPITALIZATION OF GROUND RENT

This method employs the income approach to value. The rental data of parking lots or ground leases are capitalized to arrive at a value. The comparison are then made on a per square foot or per acre basis. This method of developing commercial land values is considered, but not always used. In many instances, there may be sufficient data to make any conclusive determination.

## LAND RESIDUAL CAPITALIZATION

The Land Residual Capitalization is used only for income producing properties for which an improvement value can be developed and supported. It should only be used when the following is true:

- there are no vacant land sales
- the building value is known
- the building is new
- the property represents highest and best use

The following information is needed in order to use this method:

- NOI
- Building value
- Discount Rate
- Recapture Rate
- Effective Tax Rate

This method requires the NOI to be calculated before taxes. Then the NOI attributed to the improvement (building value x the total of discount, recapture & effective rate) is subtracted from the total NOI. The remaining income is then capitalized to arrive t the land value. This method may be considered to determine commercial land values. The District, however, does not generally use it.

## LAND ADJUSTMENTS



Land adjustments are applied to properties when they do not conform to the standard (or typical lot) in a defined market area. These land adjustments are usually described by either their quality in comparison to the standard or by the degree of difference from the standard.

An adjustment may be applied by describing the difference of the subject property to the standard in terms of quality. How does the subject property compare to what is defined as typical for that market area? Is it superior or inferior? If the typical property is defined as Average, then an inferior lot could be defined as Fair.

The following range may be used to describe the property.

<u>Quality</u>	<u>Code</u>
Poor	P
Fair	F
Average	A
Good	G
Very Good	VG
Excellent	E

An adjustment may also be applied using a percentage to represent the degree of the either positive or negative influence. The influence is first identified by using one of the following description. Although this list does not include all of the influences to a property, it does include those most commonly used.

- Accessibility
- Corner
- Drainage easement
- Easement
- Flood plain
- Frontage
- Shape
- Topography

Once the type of land influence is identified, then the amount of necessary adjustments is applied using a percentage. If a property is superior to the typical commercial lot due to its corner location, then it may be given an upward adjustment of 110%.

## ABBREVIATIONS

The following is a list of commonly used terms and their respective abbreviations.

Accessibility	=access
Acre	=ac
Adjustment	=adj
Commercial	=comm
Condition	=cond or cdn
Drainage easement	=e-drn
Easement	=esmnt
Economic	=eco
Estimate	=est
Flood plain	=flood
Frontage	=frtg

Functional	=func
Inventory	=inv
Market	=mkt
Parking	=prkg
Residential	=res
Square foot	=sq ft
Topography	=topo

**Land schedules are determined by market activity (sales) and are updated once a year, as required by ECAD’s biennial reappraisal plan, or more often if dictated by the market. See the most recent reappraisal plan for additional information.**

### **Statistical Analysis**

Statistics are a way to analyze data and study characteristics of a collection of properties. In general, it is not feasible to study the entire population. Statistics are used to test representative samples of the population.

Erath CAD’s statistical analysis for real estate is based on measures of central tendency and measures of variability. The measure of central tendency determines the center of a distribution. The measures of central tendency utilized with aid of computer based programs are the mean, media, mode and the weighted mean.

Erath CAD measures variability by calculating a coefficient of dispersion (COD). The COD is used to indicate the spread from the measure of central tendency. Statistical bias is measured by the price related differential (PRD). The PRD indicates how high price properties are appraised in relation to low price properties.

These statistics are included in the district’s ration studies and may be obtained from the appraisal office.

### **Individual Value Review Procedures**

In order for comparable sales data to be considered reliable it must contain a sales date, sales price, financing information, tract size and details of the improvements. Sales data is gathered by sending sales letters the buyers and sellers of properties when deeds are filed with the county clerk. Commercial sales are confirmed from the direct parties involved whenever possible. Local realtors, fee appraisers and lending institution are also considered reliable sources for sales confirmation.

Sales data is compiled and the improved properties are physically inspected and photographed. All data listed on the property record card is verified and updated as needed including building classification, building size, and additions or new out buildings, condition of structures and any type of change in data or characteristics that would affect the value of property.

Individual sales are analyzed to meet the test market value. Erath CAD adheres to IAAO’s *Standard on Sales Verification* and only considers arms-length transactions as indicators of current market values.

Examples of sales typically not considered good indicators of market value are:

1. Properties acquired through forecloses or auction.
2. Properties sold between relatives.
3. The buyer or the seller is under duress and may be compelled to sell or purchase.
4. Financing may be non-typical or below or above prevailing market rates.
  
5. Outliers. Sales may be unusually high or low when compared with typical sales in the same market.
6. Property purchased through an estate.
7. Sales involving intangibles or personal property that cannot be verified.

Due to the population size and nature of Erath County, it is often difficult to obtain sufficient sales data to meet USPAP standards for analysis of sales and exception is taken to USPAP Standard 6 in this area.

### **Performance Tests**

Sales ratio studies are used to evaluate the district's mass appraisal performance. These studies not only provide a measure of performance but also are an excellent means of improving mass appraisal performance. Culberson CAD uses ration studies no only to aid in the revaluation of properties, but also to test the Comptroller's Property Tax Assistance Division property value study results.

Sales ratio studies are usually performed in the spring of the year to test cost schedules. They may also be performed at any other time deemed appropriate by the chief appraiser. Prior to running the ratio reports, individual properties which have sold are reviewed for appraisal accuracy. Property record cards indicating the results of the field inspection are used to further aid in the analysis and decision making.

Ratio studies are generally calculated countywide and by school district for each category of property having enough sales data. Residential sales are also analyzed by construction type and class. Culberson CAD's goal is to achieve appraisal accuracy between .95 and 1.05 percent of market value and adjusts its cost and value schedules accordingly. The coefficient of dispersion is also studied to indicate how tight the ratios are in relation to measures of central tendency. The median and coefficient of dispersion are good indicators of the types of changes, if any, that need to be made. If properties that fall outside of the common parameters (referred to as outliers) are held out of not included in the study, these properties shall be identified and explanations given for their exclusion from the ratio study.

### **QUALITY CONTROL**

It's a requirement of the appraisal district to have accurate records of all properties within its boundaries. To this end, Erath CAD adheres to IAAO's *Standard on Mass Appraisal of Real Property*, Sections 3.3.2.4 *Data Accuracy Standards* and 3.3.2.5 *Data Collection Quality Control*. In order for the district to do this it must employ a process where quality of work and services can be identified and evaluate. The results must show certain minimum levels of quality are being attained, identify those areas that do not meet the district's specified standards and lead to the correction of any issues identified.

Quality control as it relates to appraisers should be utilized as a learning tool by providing the opportunity for constructive feedback over the course of their development. An appraiser's work should be monitored for understanding of the process, uniformity of procedures followed, and accuracy of work turned in.

Quality control will help identify appraisers having difficulty with appraisal concepts, technical aspects of data collection, or amass appraisal techniques which may lead to retraining. End results of quality control should promote appraiser development and produce a more accurate final product.

Appraiser supervisor will provide frontline quality control and will be held responsible for the quality of work done by appraisers under their direct supervision. Quality control tasks should include going to the field with appraisers to ensure correct procedures are being followed and to witness interaction with property owners, random field checks of work turned in, and review of field data entered into the CAMA system.

## **PERFOMANCE STANDARDS**

### **Data Accuracy Standards**

The District expects all appraisers to contribute to the accuracy of property appraisals. Accuracy standards for data collection include:

Measurements for living area and wall heights: accurate within one foot (rounded to the nearest foot) or within 5% of actual area. If areas, dimensions or volumes must be estimated, the property record card must note the measurements are estimates.

Property characteristics must be 95% accurate. In other words, the coding for attributes or characteristics such as bathrooms, roof type, fireplaces, land attributes and location must be 95% correct.

Subjective characteristics such as quality grade, physical condition and architectural style must be coded correctly 90% of the time.

### **Data Collection Quality Control**

Immediately after data has been collected and entered into the CAMA system, supervisors and appraisers begin reviewing the data for accuracy and clerical errors. Every appraisal card submitted for data entry will be audited daily comparing the original appraisal card showing field notes and changes to the newly updated and recalculated appraisal card. Coding and clerical errors are noted by supervisors and appraisers and resubmitted for corrections.

### **Certification Statement**

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the properties that are the subject to this report, except for those properties that are personally owned, and I have no personal interest with respect to the parties involved.
- I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- My compensation is not contingent upon the reporting of a predetermined value or direction in stipulated result, or the occurrence of a subsequent event.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I may not have a personal inspection of each and every property subject of this report.

Jerry Lee, Chief Appraiser  
Erath County Appraisal District