

RESIDENTIAL PROPERTY VALUATION PROCESS

Introduction

Rains County is comprised of approximately 259 square miles of area. Rains County Appraisal District (RCAD) is responsible for the appraisal of the approximately 14,190 taxable properties within Rains County.

Texas law establishes which properties are taxable and the process local officials must follow in the valuation of these taxable properties, as well as the setting of tax rates and the collection of the tax monies generated.

The State of Texas does not have an income tax. Property taxes provide the largest source of funding to local governments in Texas. Property tax funds are used to pay for police and fire protection, operation of schools and local governments, construction and maintenance of streets and roads, infrastructure costs and many other public services as directed by local voters.

The Appraisal Process Most property owners are familiar with a fee appraisal which uses the current sales of similar sold properties to arrive at a value for one subject property.

In order to meet the State's requirements of appraising a large and diverse number of properties at 100% market value, in a uniform and equal manner, as of a specific date, the Rains County Appraisal District develops appraisal "models" for different property types and uses these models in a "Mass Appraisal" system. "Mass Appraisal" is a systematic appraisal of a group of properties as of a given date (January 1) using a set of standardized procedures and statistical testing.

Basic Data Collection

The Rains Appraisal District has established procedures for collecting and maintaining property data that is essential for this process. The collection and maintenance of data are the most labor-intensive activities related to a mass appraisal system. Considerations for the collection of data: What data must be collected in regard to each property type being appraised, what data is required for each appraisal method, (market sales, income approach or cost approach), how to collect the data in the most efficient and uniform manner, how to store the data in the most uniform manner, how to test the quality & uniformity of the collected data and test the work of the data collectors themselves.

Property Inspection

Inspection of residential property typically falls into one of the following categories:

- Building Permits
- Sales Verification
- Miscellaneous Inspections
- “Rechecks”

Building Permits, etc.

RCAD uses permit and report information from the entities, various utility companies & other publications as discovery tools. Reports include building permits, mechanic liens, septic permits, fire reports, demolition reports, utility connection reports, etc.

Sales

Each time a real property transfer occurs, (deed filing,) a sales letter is mailed to both the buyer and seller of the property. Information requested includes sales price, financing and any special circumstances of the sale. A field inspection is also conducted as part of the sales verification process to determine if each sale was an arms-length transaction and if the sold property is representative of others in the neighborhood.

Drive Outs

Each year around January 1st, developing subdivisions and all rural areas are inspected. Appraisers are assigned areas to check for new improvements, partially completed improvements, burned or damaged improvements, changes in land use, or any other condition, which could possibly affect market value as of January 1st, the State’s specified appraisal date.

Split-outs

When a deed is filed dividing a tract of land, the property is reviewed in the field for land class, pricing and new or existing improvements.

Rechecks To maintain current information, RCAD makes field inspection of all residential properties on a three-year schedule. Appraisers undertake neighborhood reviews on a systematic basis to check that all physical characteristics are accurate. Geographical Information System (GIS) maps and aerial photography are also reviewed.

Data Collection

Characteristics Data

This is the data that is relevant to the valuation of the property. Aside from general methods to collect new information, appraisers must constantly monitor existing data on properties to ensure that it is current.

Improvement Data - Characteristics that are recorded on the field card for the purpose of valuing and describing improvements. Typical characteristics: Improvement type, size (measured from exterior), quality class, number of bed rooms and baths, year built, condition, exterior wall construction, wall height, foundation type, AC/heat, fireplace, roof materials and roof type. Since properties must be valued as of January 1st, of the year, any partially complete properties are coded for field check as of January 1st,

Land Data - Characteristics recorded to value and describe the land. Typical characteristics: Lot size, shape, topography, availability of utilities, site improvements.

Location Data – Often provides information as to external market forces. Typical information gathered: Neighborhood, site amenities, external nuisances, roads/access.

Identification Data This data is not used in developing the valuation models but is required for proper notification of property owners, computing actual assessed value, and to generate tax bills. The data includes: property ownership information, legal description, mailing address, exemptions granted, historical value and appeals information. Some of the sources for this data are: deed filings, plat information, applications received for exemptions, renditions and communications during the notice & protest period.

Approaches to Value

All three approaches to value – the cost approach, the sales comparison approach, and the income approach are modeled for use in RCAD’s mass appraisal of properties. The relationship between value and variables representing factors of supply and demand create these models.

Cost Approach

This approach uses the combination of land value and the depreciated value of the building and associated improvements. The land must be valued at its “highest and best” use. Vacant land ratios, land to property ratios and abstraction methods are used to arrive at the market value of the land portion of the property. The improvement valuation consists of pricing by the square foot based on quality and construction materials then adjusting for loss or gain of value through depreciation due to age, physical, functional and/or economic conditions.

Rains Appraisal District has developed cost schedules with the use of Marshall/Swift Valuation Services. The schedules are built using the specifications of each class and using cost and local modifiers. These are tested against local cost information as well. The Cost Approach is used most often in the appraisal of new or unique properties.

Sales Comparison Approach

This method uses the comparison of similar property's sales to arrive at a value estimate. This information also is used to test value uniformity among sold and unsold properties.

Market sales are collected through various means, such as sales letters that are sent to both the buyer and seller of all properties, (residential, commercial & vacant land). These letters request information concerning the sale amount, financing and terms of sale, and other useful information. Sales information also is gathered from realtors, other appraisers and publication services.

Sales are field checked to determine sale validity and possible market trend analysis. If the sale meets the test of a "market value" transaction, (see below), and is representative of the other properties within the neighborhood it will be used as a "benchmark" property.

Market value is defined by the Texas Property Tax Code as:

- 1) the price at which a property would transfer for cash or its equivalent under prevailing market conditions if exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- 2) 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
- 3) 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.

Current value schedules are tested against this information to determine market changes from the previous year. The newly developed schedule is tested against current, arm's length market sales to determine if any additional modifiers are required. The sales comparison approach also indicates any necessary land value adjustments.

RCAD has all properties within the district coded by neighborhood. Sales information is generated and field checked by neighborhood. This allows market trends to be analyzed for each individual neighborhood. The final valuation and review of properties includes adjustments applied to the individual neighborhoods.

Income Approach

The Income Approach uses capitalization of net income to produce an indication of market value. This is the least used approach in residential property valuation. This approach is used to analyze value of duplexes and many commercial income producing properties.

Statistical Review

The data collected on properties is used in analysis that provide patterns important to valuation efforts. Analysis can indicate groups, neighborhoods, or strata of properties which require physical review during each appraisal cycle, it also indicates market trends that the appraiser must be aware of.

Analysis in the form of ratio studies is done at critical times during each year's appraisal cycle, and also as a part of the final testing prior to implementation of RCAD's annual value schedules. After implementation of the new years' schedules, ratio reports are run again to test by strata, neighborhood, class, age, etc. to assure that the values are uniform and within the designated confidence interval required by the State of Texas.

Key Events Calendar

The following is a calendar of key events as related to annual activities for the appraisal year. The day to day activities of all departments in the district are contained in the "RCAD Work Calendar".

August

- Post certification ratio reports
- Update annual work documentation
- Plan annual goals/objectives & special projects for appraisal activities
- Begin field work for annual recheck properties, various coded properties and utility reports
- Begin working January - July building permits & mechanic's liens September
- September 1 inspections
- Submission of reappraisal plan to RCAD Board of Directors (bi-annual)
- Field work for annual recheck properties, various coded properties, mechanics liens & building permits
- Initial buyer/seller letters mailing post certification

October

- Begin sales verification field work
- Begin working August/September building permits & mechanic's liens
- Field work for annual recheck properties, various coded properties, mechanics liens & building permits

November

- Field work for annual recheck properties, various coded properties, mechanics liens & building permits
- Continue sales verification fieldwork

December

- Field work for annual recheck properties, various coded properties mechanics & building permits
- Mid cycle ratio reports
- Continue sales verification fieldwork
- Begin miscellaneous January 1 property inspections, (incomplete property construction, shopping center occupancy, office building occupancy, mall, airports, etc.)
- Begin drive outs (residential-all non-city limit area roads in county, commercial & BPP-all main CBD's & business areas of county)
 - Annual application mail outs: abatements, pollution control, recreational use, CHODO, homestead renewals, etc.
- Mobile home park properties January 1 occupancy mail out

January

- Continue miscellaneous January 1 property inspections
- Complete drive outs & new construction inspections to set % complete
- Fieldwork for new & developing subdivisions
- Mail commercial income/rental /expense surveys,
- Mail BPP letters to pipe yards, warehouses, trucking companies, craft malls, office buildings, airports, etc.
 - "Need to Measure" letters (sent out prior to estimating unobtainable information on properties)
- Final building permits - November & December
 - Continue field work for annual recheck properties, various coded properties, mechanics liens & building permits
 - Mail out ag/timber reapply letters
- Continue sales verification fieldwork
- Update sales and income databases
- Begin rendition period of Business Personal Property
- Begin rural land sales analysis • Run mid-cycle proofing lists

- Re-evaluate goals/objectives activities

February

- Mail second requests on application mail outs
- Begin personal property rendition processing
- Finalize rural land valuation schedules, vacant lots and builder inventory lots/new subdivision absorption rates
 - Final sales verification for current year value schedules
 - Run residential ratio reports and begin schedule work
 - Mobile home park field inspections
 - Update mobile home cost & depreciation tables
 - Begin update, calibration & testing of commercial income models
 - Update commercial cost & depreciation tables

March

- Complete fieldwork all appraisal departments (excluding ag/timber application fieldwork)
- Final test ratio & completion of residential cost & depreciation schedules
- Update Business Personal Property cost & depreciation schedules
- Complete ag/timber productivity schedules
 - Finalize expense & cap rates
 - Implement and test all finalized schedules
 - Update annual property evaluation reports
- Prepare Mass Appraisal report

April

- Continue ag/timber application fieldwork & processing
- Continue personal property rendition processing
- Run proofing lists
 - Update appraisal manuals
- Staff informal & formal ARB orientation
- Mail residential property appraisal notices
- Rendition deadline
 - Prepare estimates for entities
- Begin informal hearings with property owners
- Mail exemption & ag/timber denial letters

May

- Completion of ag/timber application fieldwork & processing
- Continue personal property rendition processing
- Continue informal hearings with property owners
- Submission of appraisal rolls to Appraisal Review Board
- Extension deadline for Business Personal Property Renditions
- Mail balance of appraisal notices
- Mail business personal property non-compliance notices

June

- Continue informal hearings with property owners
- Submit preliminary budget to Board of Directors and entities
- Continue personal property rendition processing
- Begin Appraisal Review Board Hearings

July

- Continue & complete Appraisal Review Board Hearings
- Appraisal Review Board approval of appraisal records
- Load P&A certified values
- Proof list work
- Submit and balance to state on certification information
- Certify values to the entities
- Begin planning work for upcoming appraisal cycle