



# Walker County Appraisal District

## Proposed Reappraisal Plan Tax Years 2015-2016

August 14, 2014

Approved and Adopted by:

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## **Notice to the Public**

For tax years 2015 and 2016, the Walker County Appraisal District (WCAD) will conduct its appraisal activities on an annual basis. This means property values will be reviewed each year, and may fluctuate up or down depending on market conditions.

### **EXECUTIVE SUMMARY**

The national economy has experienced a slight decrease in the number of homes sold in the residential housing market. However, contrary to the decrease in the number of sales, the average selling price both locally and state wide has continued to increase.

Commercial property growth in Walker County is on the rise with construction of new retail stores, grocery stores, fast food restaurants, hotels, and new apartment complexes. Part of the new development can be attributed to the growth of Sam Houston State University, with the majority of the remaining growth resulting from the an influx of residents relocating to the Walker County area.

Tax Code Sec. 6.05(i), which requires the adoption of this plan, uses “reappraisal” in a broad sense to mean the activities that the district undertakes every year – inspecting property, updating models and appraising the property. Under this section, a property is reappraised when these activities are done, even if its value does not change.

## PROPOSED REAPPRAISAL PLAN

### TAX CODE REQUIREMENT

Sec. 6.05(i), Tax Code, requires each appraisal district to adopt a written reappraisal plan every two years. Sec. 25.18, Tax Code, requires the district to implement the plan. Sec. 6.05(i) provides:

- (i) To ensure adherence with generally accepted appraisal practices, the board of directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10<sup>th</sup> day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. Not later than September 15 of each even numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

### **Implementation**

Subsections (a) and (b), Section 25.18, Tax Code, provide as follows:

- (a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:
  - (1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches;
  - (2) Identifying and updating relevant characteristics of each property in the appraisal records;
  - (3) Defining market areas in the district;
  - (4) Identifying property characteristics that affect property value in each market area, including:
    - (A) The location and market area of the property;
    - (B) Physical attributes of property, such as size, age, and condition;
    - (C) Legal and economic attributes; and

- (D) Easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
- (5) Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;
- (6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- (7) Reviewing the appraisal results to determine value.

#### REVALUATION POLICY (REAPPRAISAL CYCLE)

In each year covered by the plan, WCAD will conduct a mass appraisal of all real residential, commercial, personal, business personal, minerals, industrial BPP, and utility properties within Walker County in compliance with Uniform Standards of Professional Appraisal Practices (*USPAP*), and will update property values as necessary. The chief appraiser will provide a notice of appraisal for each property in compliance with Section 25.19, Tax Code. The activities involved in the appraisal processes are described below.

#### ANNUAL ACTIVITIES

1. Performance Analysis – the certified values from the previous Tax Year will be analyzed with ratio studies to determine the appraisal accuracy and appraisal uniformity overall and by market area within property reporting categories. Ratio studies will be conducted in compliance with the International Association of Assessing Officers (IAAO) current *Standard on Ratio Studies*.
2. Analysis of Available Resources – staffing and budget requirements for Tax Year 2015 are detailed in the 2014-2015 budget, as adopted by the board of directors. Generally recognized appraisal practices will be identified and methods and techniques utilized to keep these practices current will be specified.
3. Planning and Organization – a calendar of key events with critical completion dates will be prepared. This calendar identifies all key events for appraisal, clerical, and administrative staff. A calendar is prepared for Tax Year's 2015 and 2016. Production standards for field activities will be established and incorporated in the planning and scheduling process.
4. Data Collection Requirements – field and office procedures will be reviewed and revised as required for accurate data collection or verification of property characteristics. Activities scheduled for each Tax Year include the listing of new construction, demolition, remodeling, re-inspection of problematic market areas, re-inspection of the universe of properties on a specific cycle (three years), and field or office verification of sales data and property characteristics. Re-inspection of properties will be completed using physical inspection or by other reliable means of

identification, including deeds or other legal documentation, aerial and oblique imagery, street-level photography, surveys, maps, and property sketches.

5. Pilot study by Tax Year – new and revised mass appraisal models will be tested each Tax Year. Ratio studies, by market area, will be conducted on proposed values each Tax Year. Proposed values on each category will be tested for accuracy and reliability in randomly selected market areas. Pilot modeling and ratio studies will be conducted in accordance with IAAO standards and the *Uniform Standards of Professional Appraisal Practices (USPAP)*.
6. Valuation by Tax Year – using market analysis of comparable sales, locally tested cost data, and income analysis, valuation models will be specified and calibrated in compliance with supplemental standards from the IAAO and *USPAP*. The calculated values will be tested for accuracy and uniformity using ratio studies.
7. The Mass Appraisal Report – in compliance with *USPAP* Standards Rule 6-8, for each Tax Year in the plan, a mass appraisal report will be prepared and certified by the chief appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15<sup>th</sup>). The signed certification by the chief appraiser is compliant with *USPAP* Standards Rule 6–9. This reappraisal plan is referenced in the mass appraisal report.
8. Value Defense – evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal meetings and formal appraisal review board hearings will be developed and made available at the CAD offices and through the district’s website via the online appeals module, which provides electronic access for the public to file a protest. Additionally, within the *online appeals module* system, residential homestead property owners are provided the option to have their protest reviewed electronically through the *online appeals module*. The district hopes this process will provide a benefit to the property owner as well as cost-cutting efficiencies to the district.

## **2015 & 2016 REAPPRAISAL PLAN DETAIL**

### **APPRAISAL ANALYSIS & DELIVERY OF NOTICES**

In each Tax Year covered by the plan, WCAD will conduct a mass appraisal of all properties in the district and will update property values as necessary. The chief appraiser will provide a notice of appraisal when required, for each property in compliance with Section 25.19, Tax Code. The activities involved in the appraisal analysis are described below.

### **PERFORMANCE ANALYSIS**

For each Tax Year, the previous year’s certified values will be analyzed with ratio studies to determine appraisal accuracy and uniformity overall and, by market area within state property

reporting categories. Ratio studies will be conducted in compliance with the IAAO current *Standard on Ratio Studies*. Descriptive statistics, such as mean, median, and weighted mean ratios will be calculated for properties in each reporting category to measure the level of appraisal accuracy and the coefficient of dispersion (COD) will be calculated to measure appraisal uniformity by property reporting category. This analysis will be used to develop the basis for establishing the accuracy and uniformity of appraisal performance.

### **ANALYSIS OF AVAILABLE RESOURCES**

Staffing and budgetary requirements for Tax Year 2015 are detailed in the district's 2014-2015 budget, as adopted by the board of directors and attached to the written biennial plan by reference. This reappraisal plan is adjusted to reflect the available staffing in Tax Year 2015 and the anticipated staffing for Tax Year 2016. Staffing will impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2015–2016 time period.

Computer generated forms will be reviewed for revisions based on year and reappraisal status. Legislative changes will be scheduled for timely completion and testing. Existing maps and data requirements will be specified and updates put in production as needed.

### **PLANNING AND ORGANIZATION**

For each year, a calendar of key events with critical completion dates will be prepared. This calendar identifies all key events for appraisal, clerical, and administrative staff. Production standards for field and office activities will be established and incorporated in the planning and scheduling process. The scope of work, available time frame, staffing resources, and any budgetary constraints have been considered in the development of the reappraisal plan. To the extent that circumstances require revision to this plan, amendments to the plan will be submitted to the board of directors for approval.

### **MASS APPRAISAL SYSTEM**

Legislative mandates will be addressed and implemented into the necessary system applications. All computer generated forms, letters, notices and orders will be reviewed annually and revised as required. The following details the appraisal procedures as they relate to the 2015 and 2016 Tax Years.

#### **REAL PROPERTY VALUATION**

Revisions to cost models, income models, and market models will be specified, updated and tested each Tax Year. In each year, cost schedules will be tested with market data to insure that the appraisal district is in compliance with Section 23.011 of the Tax Code. Replacement cost new tables and depreciation tables will be tested for accuracy and uniformity through ratio studies and comparison with cost data from *Marshall & Swift Services*, which is a nationally recognized cost service.

Income, expense, and occupancy data will be updated in the income models for each market area and cap rate studies will be completed using current sales data. The resulting models will be

tested using ratio studies.

Land tables will be updated using current market data and then tested with ratio studies. Restrictions, covenants, and other factors influencing value will be identified and analyzed. Value modifiers will be developed for property categories by market area as required, and tested with ratio studies.

#### BUSINESS PERSONAL PROPERTY VALUATION

Replacement cost new data and depreciation tables are reviewed for accuracy and uniformity. Density and quality schedules for furniture, fixtures, and equipment (FFE) and inventory are based historically on the Comptroller's latest business personal property valuation guide as well as data received from renditions and other sources. Valuation procedures are reviewed and modified as needed and tested.

#### APPRAISAL NOTICES

Appraisal notices will be reviewed for legal sufficiency and correctness. Enclosures will be updated, including the latest version of the comptroller's *Property Taxpayers Remedies*. Real property notices will generally be mailed between April and May. Personal property notices will generally be mailed in June.

#### HEARING PROCESS

Appraisal will conduct staff meetings in early May of each Tax Year to ensure preparedness for informal meetings and formal hearings, which generally begin late June or early July of each Tax Year. Revisions and enhancements to existing hearing scheduling procedures will be reviewed and updated to ensure efficiency and timely certification of the appraisal roll. Standards of documentation and the appraisal district hearing evidence will be reviewed and updated to reflect the current valuation methods and practices. Production of documentation will be tested and compliance with Tax Code requirements will be ensured.

### **IDENTIFYING & UPDATING RELEVANT PROPERTY CHARACTERISTICS**

Field and office procedures will be reviewed and revised as required for data collection and verification of value-related and descriptive property characteristics for each property. Activities scheduled for each Tax Year include inspection of new construction, demolition, and remodeling, re-inspection of problematic market areas, and re-inspection of the universe of properties and verification of sales information on a three-year cycle.

#### NEW CONSTRUCTION/ PARTIAL COMPLETE /DEMOLITION

Field and office review procedures for inspection of new construction will be reviewed and revised as required. Field production standards will be established and quality review will be conducted to verify accuracy of data. Building permits will be received from the cities and the County electronically, and in paper form. CAMA system uploads and manual data entry will both be used to input the data into the permits module of the CAD database. The process of verifying and updating prior year partial completed improvements and/or demolition of improvements will be specified.

### RE-INSPECTION OF PROBLEMATIC MARKET AREAS

Real property market areas, stratified by property classification, will be tested for low or high protest volumes; low or high sales ratios; and high coefficients of dispersion. Market areas that fail any or all of these tests will be determined to be problematic. Field reviews will be scheduled to verify and correct property characteristics data. Additional sales data will be researched and verified in order to assess whether the market area is correctly delineated. In the absence of adequate market data, neighborhood boundary lines may need to be redrawn and neighborhood clusters, representative of the overall market area will be established.

### MARKET AREA DELINEATION

Market areas are defined by the physical, economic, governmental, and social forces that influence property values. The effects of these forces were used to identify, classify, and stratify or delineate similarly situated properties into smaller, more comparable and manageable subsets for valuation purposes. Delineation can involve the physical drawing of neighborhood boundary lines on a map or, it can also involve statistical separation or stratification based on attribute analysis. These homogeneous properties have been delineated into valuation neighborhoods for residential property or economic class for commercial property, but because there are discernible patterns of growth that characterize a neighborhood or market segment, analyst staff will annually evaluate the neighborhood boundaries or market segments to ensure homogeneity of property characteristics.

The market areas of Walker CAD are currently defined by ISD boundary lines; specifically, New Waverly ISD, Huntsville ISD, Richards ISD, and Trinity ISD. Within each ISD the need of further delineation may be established if sufficient sales data indicates pocket market areas are prevalent.

### RE-INSPECTION OF THE UNIVERSE OF PROPERTIES

The Texas Property Tax Code, Section 25.18 (b) requires the re-inspection of the universe of properties at least once every three years. Real property re-inspection for the 2015 and 2016 Tax Years will be completed using a combination of field inspections and office review. Office review of property will include; 1) the examination of aerial photography using the latest oblique and orthographic imagery available, which allows for digital verification of building measurements and visual inspection of external economic influences; and 2) existing property sketches and property characteristics.

### FIELD OR OFFICE VERIFICATION OF SALES DATA AND PROPERTY CHARACTERISTICS

Sales information must be verified and property characteristics data contemporaneous with the date of sale must be captured. This is particularly necessary when the property was involved in a foreclosure proceeding. Frequently, foreclosed property has been abandoned or neglected leaving the property in a less than desirable condition. The sales ratio tools require that the property that sold must equal the property appraised in order that statistical analysis results will be valid.

## LEGAL ATTRIBUTES AFFECTING VALUE

The district will maintain an active program, conducted by the appraisal clerical staff, to identify and describe elements of recorded conveyances that will affect the use or value of the property, such as easements, covenants, reservations, and declarations. Where leases and other possessory interests are of a nature and duration that they affect value, they will be considered in the individual valuation of the property to which they apply.

## **PILOT STUDY**

New or revised mass appraisal models will be tested on randomly selected market areas. Sales ratio studies will be used to test the models. Predictive results will be compared against anticipated results and those models not performing satisfactorily will be refined and retested. The procedures used for model specification and model calibration will comply with *USPAP* Standards Rules 6, for the applicable year.

## **VALUATION METHODS BY PROPERTY TYPE**

For each Tax Year, valuation models will be specified and calibrated in compliance with the supplemental standards from IAAO and *USPAP*. The calculated values will be tested for accuracy and uniformity using ratio studies. Performance standards will be those as established by the IAAO current *Standard on Ratio Studies*. Property values in all market areas will be analyzed and updated each reappraisal year as required for level and uniformity of value.

### RESIDENTIAL REAL PROPERTY

Ratio studies will be conducted on approximately 20 to 30 residential valuation neighborhoods in the district to judge the two primary aspects of mass appraisal --accuracy and uniformity of value. The valuation process for residential property typically begins by mid-August. Land analysis, sales outlier review, neighborhood sales analysis, and finalization of proposed estimates of value will likely occur from March to May.

#### Valuation Methods Used:

##### *Cost Approach*

The district will use a market trended cost approach when valuing single-family and multi-family residential properties. The comparative unit method will be used to develop the "base" cost of a structure. Adjustments will then be made for differences from base specifications using the unit-in-place method. Table-driven cost factors, taken from *Marshall & Swift*, a nationally recognized cost estimator, will be adjusted for local or regional differences in construction and labor costs. Neighborhood or location adjustment factors will be developed from appraisal statistics provided by ratio studies to ensure that estimated values reflect both the supply and demand side of the market. The following equation denotes the market trended cost model used:

$$MV = MA [RCN - D] + LV$$

The market value (MV) equals the market adjustment factor (MA) applied to the replacement cost new less depreciation (RCNLD), plus the land value (LV). Market adjustments will be applied uniformly within neighborhoods to account for location variances between market areas or across a jurisdiction.

Residential land values will be estimated using the base lot method, which establishes the value of the standard, or "base" parcel within each stratum or delineated neighborhood through sales comparison analysis. The analysis assumes that the major factors causing variations among land values within a neighborhood are view, traffic, and size. In areas where insufficient vacant land sales exist, the abstraction method, also known as the land residual method and the allocation method, known as the land ratio method will be used to establish base lot values within a neighborhood. A computerized land table stores the land information required to consistently value individual parcels within neighborhoods. Land adjustments will be applied on individual properties, where necessary, to adjust for such influences as view, shape, access, and topography, among others.

If a neighborhood is to be updated, the analyst will run a cost ratio study that compares recent sales prices of properties appropriately adjusted for the effects of time and stratified geographically by neighborhood with the property's cost value. The calculated ratio derived from the sum of the sold properties' cost value divided by the sum of the sales prices indicates the neighborhood level of value based on the unadjusted cost value for the sold properties. This cost-to-sale ratio will be compared to the appraisal-to-sale ratio to determine the market adjustment factor for each neighborhood. This market adjustment factor is needed to trend the values obtained through the cost approach closer to the actual market evidenced by recent sales prices within a given neighborhood. The sales used to determine the market adjustment factor will reflect the market influences and conditions only for the specified neighborhood, thus producing more representative and supportable values. The market adjustment factor calculated for each update neighborhood will be applied uniformly to all properties within a neighborhood and a second set of ratio studies will be generated that compares recent sale prices with the proposed market values for these sold properties. From this set of ratio studies, the analyst will judge the appraisal level and uniformity in both update and non-update neighborhoods, and finally, for the school district as a whole.

An extensive review and revision of the residential cost schedules and depreciation table will be performed annually. Samples of newly constructed sold properties of varying construction quality in Walker County will be reviewed. The property characteristics of these sampled properties will be verified and photographs will be taken. WCAD dwelling costs will be compared against current *Marshall & Swift Residential Estimator* costs. This process includes correlation of quality of construction factors from WCAD and *Marshall & Swift*. The results of this comparison will be analyzed using several measures, including stratification by quality and review of estimated building costs, as well as land value to sales prices.

### *Sales Comparison Approach*

As indicated in *Property Appraisal and Assessment Administration* (IAAO, 1990), in the absence of a sale of the subject, sales prices of comparable properties are usually considered the best evidence of market value. The sales comparison approach models the behavior of the market by comparing the properties being appraised with comparable properties that have recently sold or

for which offers to purchase have been made. Their sales prices are then adjusted for differences from the subject and a market value for the subject is estimated from the adjusted sales prices of comparable properties.

### *Income Approach*

The income approach is based on the principle that the value of an investment property reflects the quality and quantity of the income it is expected to generate over its life. In other words, value is the estimated present value of future benefits, namely income and proceeds from the sale of the property. The appraiser must estimate income from a property and capitalize the income into an estimate of current value.

The model used to estimate the present value of income expected in the future is represented by the following formulas known as IRV.

$$\text{Value} = \text{Income}/\text{Rate or, } \text{Income} = \text{Rate} \times \text{Value or, } \text{Rate} = \text{Income}/\text{Value}$$

The income approach is most suitable for types of properties frequently purchased and held for the purpose of producing income, such as apartments, commercial buildings, and office buildings. It is not conducive to the valuation of single-family residential properties that are seldom rented, or where market demand factors such as personal preferences or location unduly influence the market.

### INVENTORY RESIDENTIAL PROPERTY

Residential improved and vacant property is appraised in compliance with the Texas Property Tax Code, Section 23.12 (a).

In general, the district uses its own land value estimates and the actual itemized construction, labor, and material costs, plus other soft or indirect costs to estimate market value as of the assessment date. The market values of improved inventory will be reviewed annually and inventory consideration will be eliminated when ownership transfers to the property owner.

Vacant residential inventory will be valued using a discounted cash flow formula (when data is provided by the developer) that considers value relative to the income or cash flow, the interest or discount rate, and the number of years the property is likely to be held. As with improved inventory, full market value will be applied once the vacant land is absorbed and ownership transfers for the purpose of residential construction.

### COMMERCIAL REAL PROPERTY

The valuation process will typically begin in mid-August. For the 2015-2016 tax years, preliminary ratio studies will be performed to identify problem areas in level and uniformity of appraisal for each property type. Once proposed values are finalized, a ratio study will be performed again to test the level and uniformity of appraisal within property use and among various classes.

Apartments with over 25 or more units will be valued using the income approach. Apartments with less than 25 units, retail, warehouses, office buildings will be valued by the cost approach or the income approach, as deemed most appropriate pursuant to Section 23.0101, Tax Code.

## Valuation Methods Used:

### *Cost Approach*

The cost approach to value will be applied using the comparative unit method. This methodology involves the use of national cost data reporting services as well as actual cost information on comparable properties whenever possible. Cost models are typically developed based on *Marshall & Swift, Inc.* Cost models include the use of replacement cost new (RCN) of all improvements. The replacement cost will be used because it values the cost of a property that is a utility equivalent of the property being appraised using current construction methods and materials. This method is an alternative to using the reproduction cost, which is the cost to construct an exact replica of the property being appraised. These costs include comparative base rates, per unit adjustments and lump sum adjustments. This approach also employs an alternative valuation method for the underlying land. Time and location modifiers will be necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period of time. Because a national cost service is used as a basis for our cost models, local modifiers will be applied to adjust the base costs specifically for the Walker County area. Depreciation schedules will be developed based on what is typical for each property type of a specific age. Depreciation schedules have been implemented for what is typical of each major class of commercial property by economic life categories. Schedules have been developed for improvements with 15, 20, 25, 30, 35, 40, 45, 50, 55, 60 & 70 year expected economic life. These schedules will be tested every other year to ensure they will be reflective of current market conditions. The actual and effective ages of improvements will be noted in the CAMA software. Effective age estimates will be based on the utility of the improvements relative to the improvement's total economic life and its competitive position in the marketplace.

Market adjustment factors such as physical, functional, and economic obsolescence will be applied, if warranted. A depreciation calculation override will be applied if the condition or effective age of a property varies from the norm. This override is indicated by appropriately noting the physical condition, functional utility, and economic ratings on the property data

characteristics. These adjustments will typically be applied to a specific property type or location and will be developed through ratio studies or other market analyses. Accuracy in the development of the cost schedules, condition ratings, and depreciation schedules usually minimize the necessity of this type of an adjustment factor.

### *Sales Comparison Approach*

Although all three of the approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach is utilized not only as a primary method for estimating land value, but also in comparing sales of similarly improved properties to each parcel on the appraisal roll. Pertinent data from actual sales of properties, both vacant and improved, will be obtained throughout the year in order to analyze relevant information, which is then used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules 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 analyst an excellent

means of judging the present level and uniformity of the appraised values. It is anticipated that estimates of value developed using the sales comparison approach will be done concurrently with values generated through the income or cost approaches to value in the two years covered by this plan. The decision as to what primary valuation method would be applied in a given tax year will be determined by reconciliation of the three approaches to value.

Based on the market data analysis and review discussed in the cost, income and sales approaches, the cost and income models will be calibrated annually. The calibration results will be keyed to the schedules for utilization on all commercial properties in the district.

### *Income Approach*

The income approach to value will be applied to those real properties that are typically viewed by market participants as "income producing", which are bought and sold based on the property's ability to produce income, and for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to the estimation of market rent. This is derived primarily from actual rent data furnished by property owners and from local market study publications. This per unit rental rate multiplied by the number of units results in the estimate of potential gross rent.

A vacancy and collection loss allowance is the next item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and on local market publications. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an effective gross rent. A secondary income or service income is calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, escalations, reimbursements, and other miscellaneous income generated by the operations of real property. The secondary income estimate is derived from actual data collected and available market information. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income or EGI.

Allowable expenses and expense ratio estimates will be based on a study of the local market, with the assumption of "prudent management". An allowance for non-recoverable expenses such as leasing costs and tenant improvements will be included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Different expense ratios will be developed for different types of commercial property based on use. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for his pro-rata share of taxes, insurance and common area maintenance. In comparison, a general office building is most often leased on a base year expense stop. This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. However, any amount in excess of the total per unit expenditure in the first year is the responsibility of the tenant. Under this scenario, the total operating expense in year one establishes the base rate. Any increase in expense over the base rate throughout the remainder of the lease term would be the responsibility of the tenant. As a result, expense ratios will be implemented based on the type of commercial property.

Another form of allowable expense is the replacement of short-lived items, such as roof or floor

coverings, air conditioning or major mechanical equipment, or appliances requiring expenditures of large lump sums. When these capital expenditures are analyzed for consistency and adjusted, they may be applied on an annualized basis as stabilized expenses. When performed according to local market practices by commercial property type, these expenses when annualized are known as replacement reserves. Subtracting the allowable expenses (inclusive of non-recoverable expenses and replacement reserves) from the effective gross income yields an estimate of net operating income.

Rates and multipliers will be used to convert income into an estimate of market value. These include 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 must be based on a thorough analysis of the market. Walker County Appraisal District has incorporated Room Rate Multipliers in the valuation of all Hotel and Motel properties as an example of utilizing multipliers to convert income to market value.

Capitalization analysis will be used in the income approach models. This methodology involves the capitalization of net operating income as an indication of market value for a specific property. Capitalization rates, both overall (going-in) cap rates for the direct capitalization method and terminal cap rates for discounted cash flow analyses will be derived from the market. Sales of improved properties from which actual income and expense data are obtained provide a very good indication of what a specific market participant is requiring from an investment at a specific point in time. Additionally, overall capitalization rates can be derived from the built-up method, band-of-investment, debt coverage ratio, and published sources for similar properties, as well as results from verified sales. The capitalization rates relate to satisfying the market return requirements of both the debt and equity positions of a real estate investment. This information is obtained from real estate and financial publications, as well as cap rate studies conducted by the district using verified sales and income information for that specific property. Rent loss concessions will be made on specific properties with known vacancy problems. A rent loss concession accounts for the impact of lost rental income while the building is moving toward stabilized occupancy. The rent loss will be calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy. Build-out allowances for (first generation space or retrofit second generation space) and leasing expenses will be added to the rent loss estimate. A leasing expense necessary to bring the property to a stabilized level is also included in this adjustment. The total adjusted loss from these real property operations will be discounted using an acceptable risk rate. The discounted value, inclusive of rent loss due to extraordinary vacancy, build out allowances and leasing commissions, becomes the rent loss concession, and will be deducted from the value estimate of the property at stabilized occupancy. A variation of this technique allows that for every year that the property's actual occupancy is less than stabilized occupancy a rent loss deduction may be estimated. Conversely, if a property were above the stabilized occupancy level as of the appraisal date, the market would pay a premium for this situation. In this instance, the present value of the excess income over the stabilized level will be added to the value of the property.

#### INDUSTRIAL REAL PROPERTY

Industrial properties will typically be valued on a cost approach basis since these properties have a low frequency of being bought and sold in the open market compared to commercial and

residential properties. In addition, since these properties are almost always owner occupied, the income approach to value will rarely be applicable to industrial properties.

### Valuation Methods Used:

#### *Cost Approach*

The cost approach is most applicable to the valuation of industrial properties. The values will be appropriately adjusted for age and condition and, if warranted, additional adjustment will be made for facility utilization. For example, two facilities making the same or similar products will not necessarily have values close together because one facility may have better efficiencies, which makes that facility worth more in the market. The market's estimation of the worth of a facility will be taken into account since there will rarely be any similar properties available for comparison under the sales or income approaches to value.

Cost schedules will be tested with market data to ensure that the appraisal district is in compliance with Texas Property Tax Code, Section 23.011. Replacement cost new tables and depreciation tables will be tested for accuracy and uniformity using ratio studies compared with cost data from *Marshall & Swift*.

#### *Sales Comparison Approach*

As previously stated, industrial real property does not have a history of being bought and sold with any regularity in the open market. In fact, most industrial facilities remain just as they are for many years, or decades, without changing ownership. The few sales of industrial facilities that do occur are not typically used because the sales are usually part of a merger or acquisition and other assets and intangible considerations are part of the sales price, and are not disclosed. There will usually not be enough verifiable sales of stand-alone industrial properties to have a representative sample of properties of which to compare when valuing other industrial properties.

#### *Income Approach*

Industrial facilities are rarely valued by the income approach to value since they are usually owner occupied. These facilities are usually general commercial structures built out to meet an industrial owners needs over a certain period of time. In other words, an industrial facility is built for that owner's needs and not built to turn around and lease out the facility to another industrial user. There are not enough industrial facilities built by industrial users that are leased out to other industrial users to be a meaningful universe of properties for valuation purposes, if they can be found at all.

Industrial real property valuations are determined by considering all three approaches to value to see which approach is most applicable to the property being valued. Usually, the cost approach is most applicable for the reasons previously given, but if there are any commercial properties that are closely similar to the industrial property being valued, then the approach to value for the commercial property is reviewed to see if its method is suitable for the industrial property being examined.

## UTILITY PROPERTY & INDUSTRIAL TANGIBLE PERSONAL PROPERTY

WCAD contracts with an engineering appraisal firm to provide estimates of value for real and personal property utilities. Generally, these values will be provided to the district in mid to late May of each Tax Year.

### Valuation Methods Used:

#### *Income Approach*

The income approach is the most valid approach to use in valuing utility properties because the unit as a whole is being valued and the result apportioned to the pieces of the whole. The worth of this income stream can be compared to other investment opportunities to select the proper capitalization rate to apply to the income stream to estimate the value of the system. The worth of a utility is the income stream the system will generate compared to alternative investments that may have less risk in the market. The capitalization rate that is used to estimate the value of the income stream from the utility will always have a risk component in the capitalization rate. The usual forms of depreciation will be applied to the valuation and any additional consideration for economic issues will be applied. These factors will usually be reflected in the risk portion of the capitalization rate.

#### *Cost Approach*

The cost approach to value is not conducive to the valuation of utilities because the cost to build a utility facility is very high in today's market; the primary reason being that there is not enough available land in proximity to population density to make the construction worth doing. Also, the pollution control permitting process, which will take months if not years due to objections to the construction in proximity to a population density renders this approach invalid. Few new utilities have been built in recent years that will be of sufficient magnitude to serve a large population, therefore, sufficient cost data is not available to use for valuation comparison purposes.

#### *Sales Comparison Approach*

The sales comparison approach is not an appropriate method of valuation for this property type. Utility properties, such as electric generation, electric transmission, telephone, and cable systems will rarely be sold in the open market on a stand-alone basis. When a utility sells, it sells as an entire company, not piecemeal assets.

The appraisal firm's valuation methodology is in-compliance with Section 23.175 (a) of the Tax Code.

## MINERALS

### Valuation Methods Used:

#### *Income Approach to Value*

The appraisal district contracts with an engineering appraisal firm to provide estimates of value to the district generally before the end of May of each Tax Year. The income approach will be used to value property in which a mineral interest is owned. This entails estimating the remaining future reserves of the property and the timing of how those reserves will be recovered. This estimation of future production along with the estimation of future pricing will generate an estimated yearly income that is discounted to current day dollars. Each succeeding year's income will be more heavily discounted than the previous, thus rendering less and less value contribution with each succeeding year. For example using a discount of 20%, a dollar (\$1.00) anticipated to be received in the 10th year of the productive life of an oil or gas lease would only contribute \$.18 (18 cents) of value in today's dollars, whereas, a dollar anticipated to be received in the first year would contribute \$.91 (91 cents) in today's dollars. Each year's value contribution will be added, and then a market adjustment factor will be applied. The estimated value will be determined from this total, based on the type of interest owned and the decimal interest owned in the lease.

The appraisal firm's valuation methodology is in-compliance with Section 23.175 (a) of the Tax Code.

#### BUSINESS PERSONAL PROPERTY

The plan calls for annual re-appraisal of rendered business personal property as well as a re-appraisal cycle for non-rendered accounts.

Identifying properties to be appraised: Business personal property assets are identified as part of the appraiser's physical inspection process each year, through renditions or other data filed by property owners or by other reliable public and private means of identification including, but not limited to the previous year's appraisal roll, vehicles listing services, and business directories.

Identifying and updating relevant characteristics of each property in the appraisal records: The appraiser identifies and updates relevant characteristics through the inspection process and through information provided by the owner in renditions or other reports. Subject property data is verified through previously existing records, public records, service provided records, and through information provided by other reliable sources.

Defining market areas in the district: Market areas for business personal property tend to be regional in scope; therefore, no separate market areas are established for this type of property in the district.

Identifying property characteristics that affect property: The appraiser identifies the location and physical attributes of the property such as age, condition, and use type.

Developing an appraisal approach that reflects the relationship among property characteristics affecting value and determines the contribution of individual property characteristics: The district's primary approach to value for business personal property uses a cost approach.

Applying the conclusions reflected in the model to the characteristics of the properties being appraised: After considering all three approaches to value (cost, sales comparison, and income) the cost approach is selected. The sales comparison approach and income approach are generally not used due to inadequate data.

Reviewing the appraisal results to determine value: Year to year property value changes for the subject property are examined. Reviews are conducted to determine if the level of appraisal and uniformity of appraisal is acceptable. Additionally, business personal property is reviewed by the Property Tax Division of the State Comptroller's Office through their bi-annual property value study

Valuation Methods Used:

*Cost Approach*

The primary approach to the valuation of business and industrial personal property will be the cost approach. Density and quality schedules for furniture, fixtures, and equipment (FFE) and inventory are based historically on the Comptroller's latest business personal property valuation guide as well as data received from renditions and other sources. When new data becomes available additions or revisions to existing cost schedules are made. Cost schedules are established in a price per square foot format, but some exception SIC's are in an alternate price per unit format; such as a per station for beauty salons.

Trending or Index factors are utilized by Walker CAD to determine current depreciated or market value when historical cost data is either known or provided.

The RCN is calculated as follows:

$$\text{RCN} = \text{HISTORICAL COST} \times \text{INDEX FACTOR}$$

The percent good depreciation factors will be based on the depreciation schedules for furniture, fixtures and equipment as historically published by the Comptroller of Public Accounts and maintained through annually annual updates. This mass appraisal percent good depreciation schedule with index factors is used to ensure that estimated values are uniform and consistent within the market. RCN and percent good depreciation factors will be utilized to develop value estimates using the following formula:

$$\text{MARKET VALUE ESTIMATE} = \text{RCN} \times \text{PERCENT GOOD FACTOR}$$

Leased and multi-location assets may be valued using original costs and the index factors and percent good depreciation schedules mentioned above.

*Sales Comparison Approach*

Business personal property is typically sold as part of the business as a whole and not by itself, which makes this approach unsuitable for valuing most personal property. This approach is only suitable for the valuation of certain types of vehicles and heavy equipment. Value estimates for vehicles will be provided by an outside vendor and are based on data furnished by National

Market Reports. There are not enough known sales of industrial personal property to have a meaningful population of sales for value comparison purposes. This category of personal property is inclusive of all types at a facility, such as furniture, computers, and machine. It is typical for personal property to be included in the sale of a facility, instead of being sold separately. There may be subsets of personal property that are sold, but that does not provide the sales of all personal property necessary to make value comparisons under the sales approach.

### *Income Approach*

The income approach has limited use in the appraisal of machinery, equipment, furniture, fixtures and leasehold improvements because of the difficulty in estimating future net benefits; except in the case of certain kinds of leased equipment. When reliable data on equipment leases is available, the income approach may be used to estimate fair market value of the equipment. The income approach is not suitable in the appraisal of industrial personal property because the industrial facility operator in the production of an end service or product is using the personal property. Industrial facilities are not in the business of leasing their personal property to another industrial facility for the production of an end service or product.

## **THE MASS APPRAISAL REPORT**

Each Tax Year, the mass appraisal report is prepared and certified by the chief appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15th). The mass appraisal report is completed in compliance with *USPAP* Standards Rule 6-8. The signed certification by the chief appraiser is compliant with *USPAP* Standards Rule 6-9.

## **VALUE DEFENSE**

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in informal meetings and formal appraisal review board hearings will be developed and provided to the property owner or agent in compliance with Section 41.67(d), Tax Code. After a protest is received and verified, hearing evidence will be generated and available at the CAD or through the district's online appeals module.

## **Addendum A**

### **Walker County Appraisal District**

#### **2015 Reappraisal Work Schedule**

Pursuant to Section 25.18 of the Texas Property Tax Code, the Walker County Appraisal District has established the following reappraisal plan for 2015 to provide for the reappraisal of all property within the district at least once every three (3) years. The Appraisal District will utilize methods such as aerial photography, site inspections, deeds, along with ratio studies to accomplish these goals.

Each year, all real residential, commercial, personal, business personal, minerals, industrial BPP, and utility properties within Walker County will be reappraised either by physically inspection, aerial photography, deeds, or by ratio studies conducted on an annual basis.

For the year 2015, the work schedule will include the following property types along with subdivision and abstracts to be completed in the 2015 year.

- a. All Apartment Complex's 25 units and above are annually reappraised by income approach.
- b. All Hotel/Motel properties are annually reappraised by income approach.
- c. All Rendered Business Personal Property accounts are annually reappraised and non-rendered accounts are on are on a 3 year rotational cycle.
- d. All Mobile Home parks are annually reappraised.
- e. All permitted properties for new properties and new improvements to existing properties.
- f. All partial complete properties are to be re-inspected to determined completion year to year.
- g. Process all Ag/Timber/Wildlife/Beekeeping resigns for 2015.

#### **Assigned Work Schedule of Subdivision/Abstracts-2015**

##### **Subdivisions**

Huntsville Townsite (Residential)

1696 Estates

Huntsville Country Estates

Green Rich Shores (all sections)

Sterling Island (all sections)

Newport Landing (all sections)

Newman's Sportsman Club

Rich Haven

Riverside Harbor (all sections)

Harmon Creek Ridge (all sections)

Old Cincinnati Ranch (all sections)

Carolina Cove (all sections)

Forest Creek

Wildwood (all sections)

Riverside Lakeland (all sections)

Dogwood (all sections)

Lake Livingston Height (all sections)

Shorewood Forest (all sections)

Pleasure Hill (all sections)

Deep River (all sections)

Bear Creek Estates

Frisby Landing

## Abstracts

Abstract-595  
Abstract-5

Abstract-453  
Abstract-16

In addition to the reappraisal areas identified in the 2015 work schedule stated above, ratio studies shall be performed annually to determine areas or categories of properties within the WCAD, which need to be reappraised within the current year based on sales ratios. Any areas or categories that appear to be deficient based on collected data or ratio shall be reappraised in the current year regardless of the area in which they are located.

\*\*The work schedule listed above is a goal of WCAD and is subject to change pending inclement weather conditions and resource availability to complete the task.

**Addendum B**

**Walker County Appraisal District**

**2016 Reappraisal Work Schedule**

Pursuant to Section 25.18 of the Texas Property Tax Code, the Walker County Appraisal District has established the following reappraisal plan for 2016 to provide for the reappraisal of all property within the district at least once every three (3) years. The Appraisal District will utilize methods such as aerial photography, site inspections, deeds, along with ratio studies to accomplish these goals.

Each year, all real residential, commercial, personal, business personal, minerals, industrial BPP, and utility properties within Walker County will be reappraised either by physically inspection, aerial photography, deeds, or by ratio studies conducted on an annual basis.

For the year 2016, the work schedule will include the following property types along with subdivision and abstracts to be completed in the 2016 year.

- a. All Apartment Complex's 25 units and above are annually reappraised by income approach.
- b. All Hotel/Motel properties are annually reappraised by income approach.
- c. All Rendered Business Personal Property accounts are annually reappraised and non-rendered accounts are on are on a 3 year rotational cycle.
- d. All Mobile Home parks are annually reappraised.
- e. All permitted properties for new properties and new improvements to existing properties.
- f. All partial complete properties are to be re-inspected to determined completion year to year.
- g. Process all Ag/Timber/Wildlife/Beekeeping resigns for 2016.

**Assigned Work Schedule of Subdivision/Abstracts-2016**

\*No subdivision is assigned in the 2016 work schedule.

**Abstracts**

Abstract-2  
Abstract-11  
Abstract-12  
Abstract-13  
Abstract-15  
Abstract-21  
Abstract-25  
Abstract-26

Abstract-41  
Abstract-42  
Abstract-46  
Abstract-64  
Abstract-70  
Abstract-71  
Abstract-79  
Abstract-81

Abstract-86  
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Abstract-737  
Abstract-740  
Abstract-746  
Abstract-752  
Abstract-756  
Abstract-780  
Abstract-783

In addition to the reappraisal areas identified in the 2016 work schedule stated above, ratio studies shall be performed annually to determine areas or categories of properties within the WCAD, which need to be reappraised within the current year based on sales ratios. Any areas or categories that appear to be deficient based on collected data or ratio shall be reappraised in the current year regardless of the area in which they are located.

\*\*The work schedule listed above is a goal of WCAD and is subject to change pending inclement weather conditions and resource availability to complete the task.