

WALLER COUNTY APPRAISAL DISTRICT

VALUATION PROCESS

The goals and objectives of this presentation are to provide Property Owner's an overview of WCAD's Appraisal Valuation Process for property in Waller County.

- Definition of Market Value
- Review Residential and Commercial Valuation Processes
 - A) Building Permit Process
 - B) Reappraisal Process
 - 1) Building Classification Concept
 - 2) Residential Neighborhood Concept
 - 3) Commercial Land Market Area and Improved Market Area Concept
 - 4) Reappraisal Process
 - 5) Approaches to Value (Cost, Sales/Market, Income Approaches)
- Review Business Personal Property Valuation Processes
 - A) Examples of Business Personal Property
 - B) Discovery and Listing Processes
 - C) Valuation Process
 - D) Rendition Process

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.

Appraisal Process

Market Value

Waller County Appraisal District is required to appraise all property at Market Value as of January 1 of every tax year.

The Texas Property Tax Code Section 1.04 defines Market Value.

Market Value means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- (A) Exposed for sale in open market place with a reasonable time for seller to find a purchaser
- (B) Both the seller and purchaser know of all uses and purposes to which the property is adapted and for which it is capable of being used and 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.

The discovery process performed by the Waller County Appraisal District typically falls into one of four categories.

- (A) Building Permits (Cities only if received)
- (B) Electrical Hookups/San Bernard Electric
- (C) Physical Inspections of district (driving)
- (D) Re-inspection

These four tasks are performed during the Field Cycle (August 1 – April 15).

Permit work is typically done from August 1 thru April 1.

Electrical hookups are typically done from August 1 thru April 1.

Physical Inspections can be done throughout the field cycle time frame.

Re-inspections are typically done from August 1 through January 15.

BUILDING PERMITS

A building permit is a document issued by a city which gives a property owner permission to build on or modify a piece of real property.

After a property owner makes an application for a building permit, and has been approved, a copy is given to the appraisal district.

The appraisal district uses these copies as a tool to discover new construction and/or alterations to existing structures.

The two main types of building permits are:

New Construction Permits – are newly constructed houses.

- a) The exterior perimeters of all new houses are measured and the sketch is accurately recorded.
- b) All physical characteristics such as building class, living area square footage, condition, and other physical characteristics are updated.

Miscellaneous Permits – are all building permits for items such as pools, room additions, garage enclosures, remodeling, repairs and demolitions.

- a) Exterior measurements are made when required.
- b) Adjustments to the improvement's physical characteristics are updated to the account.

Since the assessment date is January 1, all permit inspections are made from August 1 through April 1.

If during the initial inspection the appraiser finds the permit work to still be in process, then the appraiser will recheck again close to the January 1 assessment date.

If the property is still under construction towards the end of the year, or the work hasn't begun, the appraiser is required to determine the level of completion and flag the account for re-inspection the following appraisal year.

According to the Texas Property Tax Code, the appraisal district is required to appraise property, in its current state, as of January 1 of any given tax year. Therefore a 50% complete home gets appraised at 50%; a 75% complete swimming pool gets appraised at 75%, etc.

STEPS IN THE PERMIT AND ELECTRICAL PROCESS

Step 1: Receive copies of the permits and electrical hookups.

Step2: Match these permits to their corresponding Waller CAD accounts.

Step 3: Appraisers will print appraisal cards for the needed accounts for onsite inspections.

Step 4: Onsite field inspections are conducted.

Step 5: Completion of onsite inspection process and the data is brought back to the office and given to the data entry clerk to load into the PACS system.

Step 6: Value and make ready for appraisal notification in May.

REAPPRAISAL

Mass appraisal is the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing.

Texas Property Tax Code requires appraisal districts assign a January 1 value to all property.

Mass appraisal provides the ability to accomplish such a large task.

Annual reappraisal effort is where the mass appraisal process occurs.

RESIDENTIAL NEIGHBORHOOD CONCEPT

Residential accounts are assigned to a specific Neighborhood.

A Residential Neighborhood is a defined market area.

Neighborhoods vary in size.

Insures a more accurate and equitable market values.

RESIDENTIAL BUILDING CLASSIFICATION

Waller CAD has 14 Residential Building Classifications and 3 Specialty Class Homes.

Do a market study by classification countywide and adjust cost schedules accordingly.

Same building schedules are applied to all same classed properties according to market data received.

Insures more accurate and equitable market values.

RESIDENTIAL NEIGHBORHOOD SALES RATIO ANALYSIS

Residential neighborhoods targeted for reappraisal based on neighborhood sales ratio analysis.

Sales Analysis compares neighborhood sale prices to current appraised values.

Goal is to appraise all properties at 100% of market value.

Reappraisal occurs in neighborhood sales ratio is less than 95% or greater than 105% of market value.

Residential neighborhood sales ratio analysis occurs in January thru March of every year for all residential neighborhoods.

RESIDENTIAL NEIGHBORHOOD AND BUILDING CLASSIFICATION

- 1) Determine the level of assessment at the neighborhood and building class level.

- 2) Apply a neighborhood building class location factor to the neighborhood building class for both the sold and unsold properties to predict what homes will sell for based on what has sold.
- 3) Undertake a neighborhood value review of the newly adjusted proposed market values.

RESIDENTIAL REAPPRAISAL

Sold properties are reviewed prior to neighborhood reappraisal.

Physical characteristics are reviewed for accuracy.

Appraiser undertakes a neighborhood value review to review all new proposed market values.

Neighborhood drive-out typically occurs.

Digital photographs, aerial photography (Pictometry) and Geographical Information System (GIS) maps are also reviewed.

RESIDENTIAL APPROACHES TO VALUE

Three approaches to value:

- Cost Approach
- Sales/Market Approach
- Income Approach

RESIDENTIAL COST APPROACH

The following procedure would be used if the district applied the Cost Approach of Value for all residential properties.

Calculate Replacement Cost New (RCN) of house.

Deduct appropriate amount of depreciation.

Depreciation determined by effective age and condition/desirability/utility (CDU) rating.

Land Value added to replacement Cost New Less Depreciation (RCNLD) to arrive at estimated market value via the Cost Approach.

Cost Approach primary value approach used during the reappraisal effort.

Cost Approach is modified based on recent sales information by building class by neighborhood.

Equity achieved by using the same location factor for all similar classed properties within a neighborhood.

Cost Approach preferred method for unique properties or lack of sale comparables.

RESIDENTIAL SALES/MARKET APPROACH

Compared property being appraised to similar properties that have recently sold.

Adjustments are made to sale comparables when compared to the subject property.

If sold property had a pool but subject property doesn't then an adjustment would be warranted.

Sales Approach can be used to value land only accounts.

Sales Approach is typically used during the informal meeting with taxpayers or authorized agents and at the formal Appraisal Review Board hearing.

RESIDENTIAL INCOME APPROACH

Used in limited instances for residential properties.

Preferred method for income producing commercial properties.

COMMERCIAL BUILDING CLASSIFICATION

- Office Buildings
- Multi-family Property (Apartments)
- Retail Property (Shopping Centers)
- Industrial Property (Warehouses/Manufacturing)
- Properties on Commercial zoned land
- All Commercial Buildings

COMMERCIAL REAPPRAISAL

Undertaken between January 15 thru April 15th.

Income proformas developed annually for most improved properties

Market data analyzed

- Income and expense statements
- Rent rolls
- Data received during Appraisal Review Board (ARB) process
- Local and National publications

COMMERCIAL APPROACHES TO VALUE

Three Approaches to value:

- Cost Approach
- Sales/Market Approach
- Income Approach

COMMERCIAL COST APPROACH

Calculates Replacement Cost New (RCN)

Deducts Depreciation (LD)

Uses Age-Life Tables

National Cost Publication Service

Market Data

Cost tables generate price per square foot

Land value added to improvement value (RCNLD)

Preferred method for special use properties, new construction, limited sales data, or limited income data

COMMERCIAL SALES/MARKET APPROACH

Analyze sales of comparable properties compared to subject property.

Sales data

- Sale surveys
- Market research companies
- Third party appraisals
- Appraisal Review Board process

PACS allows appraiser to select sale comparable properties

Comparables adjusted for sale conditions, land size, improvement size, age, condition, and location.

Arrive at indicated Sales/Market Approach to value.

COMMERCIAL INCOME APPROACH

Capitalization of Income

Direct Capitalization

Single year's net operating divided by market cap rate

Market income data compared to subject property income data

Waller CAD collects and scans and enters the income information into each account

- Income and expense data
- Rental data
- Occupancy data
- Secondary income data
- Net operating income data

Capitalization rates estimated based on sale prices and net operating incomes when the information is available; otherwise collected through outside sources.

Outside sources

- Market research companies
- Real estate publication
- Properties offered for sale

Capitalization rates used for income proformas

Subject property income components compared to market indicators

Income Approach preferred method for income producing property (Office, Apartment, Retail, and Industrial)

BUSINESS PERSONAL PROPERTY VALUATION PROCESS

It is the responsibility of the Business Personal Property Division to discover, list, and value all Business Personal Property in Waller County for property tax purposes.

Business Personal Property (BPP) consists of movable items used in the course of business not permanently affixed to, or part of, the real estate.

Examples of Business Personal Property are:

- Furniture
- Machinery and equipment
- Computers
- Vehicles
- Inventory
- Supplies

BUSINESS PERSONAL PROPERTY DISCOVERY

To ensure that all business personal property that should legally be on the roll is property listed and valued, it must first be located and identified.

To accomplish this task the appraiser starts with the previous year's business personal property appraisal roll. The BPP properties are divided on a spreadsheet in geographic areas in Waller County. Within each area the properties are listed by street in the numerical order that the street will be driven. This spreadsheet is just the beginning of the discovery process. Besides verifying the businesses on the current appraisal roll the appraiser must be observant and persistent in discovering new property.

Many new businesses can be discovered by driving up and down the streets and roads of the district. Look for the "store fronts" of a business. Before driving the district there are several other places to research for information on new businesses.

Before many businesses start, the owner will file for an ASSUMED NAME (DBA) at the County Clerk's office. You can go to their offices and research

the records. They have ledgers of assumed names listed by date of filing in "semi" alpha by assumed name and by owner name.

The Texas Alcoholic Beverage Commission has a very informative website that you can find all licenses that have been issued in the county. It shows the date of issue, owner name, assumed name, owner address, location address, expiration date of license, and the type of license. The appraiser prints out a report of all the licenses in the county and then checks to see if any existing businesses had an ownership change and to see what new businesses had opened and what business had closed. The appraiser then adds this info to the spreadsheet for the field work.

The Texas Comptroller of Public Accounts maintains a website that you can use to research sales tax permits and corporations. You can find the companies officers as well as addresses on this site. The sales tax permits shows the owner, DBA and address as well as the effective date.

The Texas Department of Licensing and Regulation (TDLR) has a website that can be used to research many different types of businesses (from electricians to head dressers).

The Texas State Board of Plumbing Examiners (TSBPE) has a site where you can search for licensed plumbers.

Many of the local business associations, Chambers of Commerce, and Economic Development Corporations have websites that list their members.

The appraiser also looks at all the local newspapers and publications. Not only look for articles about a business moving or leaving the community but also look at all the advertising.

Also, look at the business cards left at local establishments and also the "bandit" signs that are nailed to telephone poles on the side of the roads and you can check out the signs on the sides of business vehicles.

You must be cautious and do your research. Many times someone will apply for an assumed name certificate or a sales tax permit with the intent to open a business but it doesn't happen.... Some local people may join local Chambers and list their business but their business is not in the county...This is when the appraiser must do their due diligence...

The appraiser drives the district after gathering up all the information and tries to verify what business are here. The appraiser checks the existing businesses to make sure they are still there and looks to see if there are any obvious changes (additional space, more equipment/vehicles in yard,). They check the existing businesses that showed new ownership and verify the information. The appraiser tries to stop at all new businesses with store fronts, identifies themselves and asks to speak to the owner/manager of the business. The appraiser explains about business personal property and about the ad valorem tax process. The appraiser verifies the information he had gathered on the business and asks for a quick walk thru and leaves his card and a rendition (or explains that a rendition will be mailed). During this time the appraiser should observe the type, quality, and density of the assets (F & E, computers and inventory). The appraiser asks questions about when the business opened at this location, where they were previously, if they lease any equipment. Many times, if they are a small start-up business, they will say that they personally own some of the F & E. Explain to them that it is being used to attempt to produce an income so it was now taxable (even though it was located in their home previously). Explain that we can set up a separate account for the items he owns personally but they will still be taxed. Most of the time they decide to have it all on one account (for the business) so they can write the taxes off as a business expense.

Once you have gathered and verified the information, a business personal property account can be created.

LISTING OF BUSINESS PERSONAL PROPERTY

The proper listing of property is critical to insure that the value and value and ownership of the property can be properly determined.

Property records must include:

- Current Legal Owner – This is the actual owner of the business.
- The Business DBA – DBA stands for “Doing Business As”, and it is typically the name on the door or sign for the business.
- The property address of the business – This is the physical address where the business and the assets being appraised are located.

- The Waller CAD Account number – A unique 15 digit account number that is assigned to each business personal property account in Waller County.
- The Property Characteristics of the Business – After locating the property, the appraiser must accurately record and list all of the property's characteristics to properly value the business personal property. This requires that the appraiser tour the business, determine the business type, and estimate the square footage of the facility. Once that is complete the appraiser makes general notes regarding the type and condition of the fixed assets at the location, and the inventory if applicable.

BUSINESS PERSONAL PROPERTY VALUATION

Typically the cost approach is used to value business personal property, although all approaches are considered, the cost approach offers the most equitable and consistent method for mass appraisal of business personal property.

The BPP appraiser will estimate the market value by comparing the subject business being appraised against similar types of businesses. The appraiser takes into account the size of the business, the quality and condition of the assets, and an estimate of the overall age of the assets. In addition to the business assets, the appraiser will also estimate the market value of inventory based on the quantity, and make any known condition adjustments.

The sales and income approach is often less useful with many types of business assets that don't have an active used market.

BUSINESS PERSONAL PROPERTY RENDITION

The next important step in completing a business personal property appraisal is based on reviewing the Business Personal Property Rendition Form. Waller CAD would like to encourage all business owners to file a BPP Rendition as this is beneficial for both Waller CAD and the business owner.

- Renditions contain information provided by the property owner and per the Texas Property Tax Code, business owners are legally required to file a BPP rendition annually by April 15th, and upon written request by the property owner the chief appraiser shall extend a deadline for filing a rendition statement to May 15th
- Not filing a rendition by the annual April 15th deadline will result in a ten percent penalty being applied to the business personal property tax bill.
- The rendition requests basic information about a business including cost and year acquired of assets, inventory values, consigned goods, leased equipment and the property owner's opinion of value.
- The Waller CAD mails rendition forms to all existing BPP accounts.

A properly filed rendition form allows the BPP appraiser to:

- Verify the Legal Owner, DBA, and Physical Location of the property on January 1 of the appraisal year.
- Use contact information on the rendition if the appraiser has questions about the business being appraised.
- Compare cost or opinion of value information against the estimate of value made by the appraiser in the field.

BUSINESS PERSONAL PROPERTY VALUATION

With the appraiser's information gathered in the field and a properly filed Business Personal Property Rendition form from the owner, the BPP appraiser has enough information to make an accurate and equitable business personal property market value appraisal for property tax purposes.

