

# Somervell Central Appraisal District

## USPAP Report 2021

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### INTRODUCTION

#### *Scope of Responsibility*

The Somervell Central Appraisal District has prepared and published this report to provide our citizens and taxpayers with a better understanding of the district's responsibilities and activities. This report has several parts: a general introduction and then several sections describing the appraisal effort by the appraisal district.

The Somervell Central Appraisal District (CAD) is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. A member board of directors, appointed by the taxing units within the boundaries of Somervell County, constitutes the district's governing body. The chief appraiser, appointed by the board of directors, is the chief administrator and chief executive officer of the appraisal district.

The appraisal district is responsible for local property tax appraisal and exemption administration for seven jurisdictions or taxing units in the county. Each taxing unit, such as the county, a city, school district, municipal utility district, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Appraisals established by the appraisal district allocate the year's tax burden on the basis of each taxable property's January 1<sup>st</sup> market value. We also determine eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, charitable and religious organizations.

Except as otherwise provided by the Property Tax Code. All taxable property is appraised at its "market value" as of January 1<sup>st</sup>. Under the tax code, "market value" means 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:
- Both the seller and the buyer 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:
- Both the seller and buyer seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), productivity (Sec 23.41), real property inventory (Sec. 23.12), Dealer inventory (Sec 23.121, 23.124, 23.1241 and 23.127), and nominal (Sec. 23.18) or restricted use properties (Sec. 23.83). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1<sup>st</sup> of the year proceeding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1<sup>st</sup>.

The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real and personal property at least once every three years. The district's current policy is to conduct a general reappraisal of real property every two years. However, appraised values are reviewed annually and are subject to change for purposes of equalization. Personal property, industrial property, complex commercial property, and utility property values are reviewed or reappraised every year.

The appraised value of real estate is calculated using specific information about each property. Using computer-assisted appraisal programs, and recognized appraisal methods and techniques, we compare that information with the data for similar properties, and with recent market data. The district follows the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures, and subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP) to the extent they are applicable. In cases where the appraisal district contracts for professional valuation services, the contract that is entered into by each appraisal firm requires adherence to similar professional standards.

#### *Personnel Resources*

The Office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. The Administration Department's function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services. The Appraisal Department is responsible for the valuation of all real and personal property accounts. The property types appraised include commercial, residential, business personal, and industrial. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with The Texas Department of Licensing and Regulation. Support functions including records maintenance, information and assistance to property owners, and hearings support are coordinated by the Support Services Department.

**The appraisal district staff consists of 6** employees with the following classifications:

- **1 - Official/Administrator (Executive level administration)**
- **2 - Professional (Supervisory and Management)**
- **2 - Technicians (Appraisers, program appraisers and network support)**
- **1 - Administrative Support (professional, customer service, clerical and other)**

### *Data*

The district is responsible for establishing and maintaining **approximately 10,000** real and personal property accounts covering 194 square miles within Somervell County and all overlapping districts. This data includes property characteristic, ownership and exemption information. Property characteristic data on new construction is updated through an annual field inspection; existing property data is maintained through a field review that is prioritized by last field inspection date. Sales are routinely validated during a separate field effort; however, numerous sales are validated as part of the new construction and data review field activities. General trends in employment, interest rates, new construction trends, and cost and market data are acquired through various sources, including internally generated questionnaires to buyer and seller, university research centers, and market data centers and vendors.

The district has a **geographic information system (GIS)** that maintains cadastral maps and various layers of data, including zip code, facet and aerial photography. The district's website makes a broad range of information available for public access, including detailed information on the appraisal process, property characteristics data, residential sales, certified values, protests and appeal procedures, property maps, and a tax calendar. Downloadable files of related tax information and district forms, including exemption applications and business personal property renditions are also available.

### **Assumptions and Limiting Conditions**

1. Title to the property is assumed to be good and marketable and the legal description correct.
2. No responsibility for legal matters is assumed. All existing liens, mortgages, or other encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management.
3. The appraisers developing these appraisals are not required to give testimony or attendance in court by reason of the appraisals, unless directed by, employed by, and provided legal counsel by the Somervell Central Appraisal District.

All properties are appraised in fee simple interest in accordance with Texas Property Tax Code Section 25.06. (Jurisdictional Exception to Standards Rule 6-4(c) and 6-5(c) of the Uniform Standards of Professional Appraisal Practice (USPAP))

4. All sketches in the appraisal records are intended to be visual aids with rounded measurements and should not be construed as surveys or engineering reports, etc.
5. Members of the appraisal district's staff or other reliable sources have obtained all information in the appraisal records.
6. The appraisal staff has inspected, as permitted, by observation, the land and the improvements thereon; however, it is not possible to personally observe conditions beneath the soil or hidden structural components within the improvements. Therefore, no

representations are made as to these matters, unless specifically considered in an individual appraisal.

7. All interior inspections are performed at the property owner's request by appointment. All other inspections performed are external and assume the quality; condition and desirability of the interior are approximately equal to that of the exterior, unless otherwise known.
8. Agricultural land is appraised at market value using a market data model based on market sales information. However, it may also be subject to appraisal using an income model specified in Section 23, sub-chapters C, D and E of the Texas Property Tax Code.  
(Jurisdictional Exception to 6-4(b) of USPAP)
9. Subsurface rights (minerals and oil) are not considered in making these appraisals.

The following summary reports are presented to be more specific about the appraisal of various property types within Somervell Central Appraisal District.

## Single-Family Residences

### USPAP Summary Report

#### Overview

Single-family residences consist of all land and real property improvements, which by the nature of their design and/or construction are suitable for single-family use only. This includes manufactured homes, which are classified as real property when the owner of the land is also the owner of the manufactured home, and personal property when the owner of the manufactured home does not own the land.

#### Assumptions and Limiting Conditions

The appraisals completed by SCAD for single-family residences are subject to the following assumptions and limiting conditions:

1. The Somervell Central Appraisal District's staff has physically inspected all single-family residences within the district, and normally re-inspects these properties at least once every three years. Interior inspections have not been done on a majority of the properties in the county because (1) most residential owners are not at their residence during regular business hours, (2) permission to inspect is not always granted, (3) the safety of the appraiser may be in question, and (4) respect for privacy rights of the property owner should be exercised.
2. The opinion of value for each single-family property applies to land and improvement only. The value of personal property of an owner has not been included with the value of the real estate.
3. Residential real property inventory as defined by the Texas Property Tax Code in Section 23.12 shall be considered as inventory, and the market value shall be the price for which it would sell as a unit to a purchaser who would continue the business. (Jurisdictional Exception to Standards Rule 6-4(b) of USPAP)
4. Single-family qualified properties used to provide affordable housing are appraised to comply with Section 23.22 of the Texas Property Tax Code. (Jurisdictional Exception to Standards Rule 6-4(b) of USPAP)

#### Data Collection and Validation

Two basic types of data are collected: data, which is specific to each property and data, which is indicative of a particular class of property that has been predefined by SCAD.

Property-specific data is collected during the inspection process, from the building permit, and through information supplied by the property owner. As part of the inspection process, the improvements are measured and classified. The appraiser also estimates the effective age (condition) of the improvements. Any additional or unusual features are also noted at the time of the inspection. Data on individual properties is maintained on the appraisal card(s) for each

property. This data is verified through previously existing records, published reports, building permits, analyses of comparable properties, and through information received from the property owner. Appraisal data is available for review at the appraisal district office, and via the Internet. The website is [www.somervellcad.net](http://www.somervellcad.net).

Data pertaining to a class of properties is grouped together according to the differing quality levels, and then used to develop valuation models for each property class. Such data is collected in a variety of ways. Cost information is obtained from nationally recognized sources and from data supplied by property owners. All local information is used to verify, supplement, or modify costs from three published sources.

Market sales information is collected through a variety of sources including surveys of buyers and sellers, deed records, local real estate professionals, and from several reporting services.

### Valuation Approach and Analysis

Improvements are appraised using replacement costs new less depreciation models. Replacement costs are estimated from published sources, other publicly available information and comparable properties. Depreciation is calculated on the age/life method using typical economic lives and depreciation rates based on published sources, market evidence, and the experience of knowledgeable appraisers. Adjustments for functional and economic obsolescence may be made if diminished utility and comparable sales are found to justify such. A comparable sales model is used when appropriate sales information is available. The model is calibrated for site values, improvement quality, living area, condition and features.

Land values are based on selling prices for the appropriate highest and best use of the site, and as though it was vacant. Highest and best use analysis of the improvements is based on the likelihood of the continued use of the improvements in their current and/or intended use and is essential to an accurate appraisal. Identification of a highest and best use different from the current or intended use has a significant effect on the cost and market data models and is always a statement of opinion, not a statement of fact.

### Testing

Field-testing of appraisals is performed through the regular inspection of subject properties. Neighborhood profiles are developed by market area, and a statistical review of the appraisals is performed. Ratio studies are performed and are the preferred method of measuring performance. The results of the performance measures used indicate the validity of the appraisal models used. The district employs a full time RPA to study and track the market sales for ratio studies in all school districts. The appraiser, a senior appraiser assigned to residential properties, along with the appraisal director, review and assist each other in adjusting models to current market information. Supervisory staff conducts random field tests of the appraiser's fieldwork.

Performance is also measured through comparison with valid single-property appraisals submitted for staff consideration. The appraiser considers the submitted appraisal report to confirm and verify data. The Property Tax Assistance Division of the Texas Comptroller's office also tests appraisal results annually. The Property Tax Assistance Division also reviews appraisal methods and procedures.

### **TREATMENT OF RESIDENCE HOMESTEADS**

Beginning in 1998 the State of Texas implemented a constitutional classification scheme concerning the appraisal of residential property that receives a residence homestead exemption. Under the new law, beginning in the second year a property receives a homestead exemption; increases in the value of that property are "capped." The value for tax purposes (appraised value) of a qualified residence homestead will be the LESSER of:

- The market value; or
- The pending year's appraised value;
  - PLUS 10 % for each year since the property was re-appraised;
  - PLUS the value of any improvements added since the last re-appraisal

Values of capped property must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1<sup>st</sup> of the following year. In that following year, that home is reappraised at its market value to bring its appraisal into uniformity with other properties. An analogous provision applies to new homes. While a developer owns them, unoccupied residences are appraised as part of an inventory using the district's land value and the developer's construction cost as of the valuation date. However, in the year following sale, they are reappraised at market value.

Monthly time adjustments were developed using the sales ratio trend analysis method. For each school district, sales-to appraisal ratios based on unadjusted cost values were stratified on a quarterly basis. Statistics produced from the quarterly market data included measures of central tendency (mean and median) that represents the level of appraised values, and measures of uniformity (COD and COV) that represents the consistency of appraised values within and between strata. The resulting quarterly medians were graphically plotted for examination and analysis. A linear regression routine was performed on each of the school district samples, along with the specific market areas. Linear regression statistics, such as the coefficient of determination (R<sup>2</sup>) and the P-value, identify the reliability and significance, respectively, of the regression outcome, namely, the independent variable of time. A quarterly time adjustment for each market area sample was produced. Analysis was then performed on each school district sample to determine the appropriate quarterly time adjustment to be employed, or if a time adjustment was determined, a monthly time adjustment was calculated.

## **Multi-Family Properties**

### **USPAP Summary Report**

#### Overview

Multi-family properties with situs in this district are appraised at market value as previously defined.

#### Assumptions and Limiting Conditions

The appraised value derived is subject to the following assumptions and limiting conditions:

1. For multi-family properties only, the market value stated is for land, improvements and the personal property common to the classification and economic area. The business personal property value is insignificant to the overall value.
2. Appraisal staff of the Somervell Central Appraisal District physically inspects all apartment complexes and duplex properties within the district at least once every three years.
3. For a multi-family property that is used to provide affordable housing, the property is appraised to comply with Texas Property Tax Code Section 23.22. (Jurisdictional Exception to Standard 6-2(d) of USPAP)

#### Data Collection and Validation

Two basic types of data are collected: data, which are specific to each property; and data, which are indicative of a particular property class that has been predefined by SCAD.

The property appraised has multi-family use. This classification of properties includes apartment complexes and duplex properties. Properties of this classification are discovered and their characteristics recorded during periodic field inspections, investigation of building permits issued through political entities, and investigation of mechanic liens recorded with the county clerk. Geographically, these properties are typically located in Glen Rose.

Sales data is obtained from deed records, local real estate professionals, a sales service publication, written appraisal reports, and contact with principals. Sales are validated with the principals when possible. Sales data for properties is account-specific and retained electronically.

General market data is gathered from multiple sources. Environmental, economic, political, and social influences vary by location. Apartment properties were assigned a comparative



classification in the inspection process. Duplexes are classed in compliance with predefined classing criteria.

Apartment income and occupancy information is gathered from owners, operators and published sources. Occupancy data is validated by apartment association surveys and broker surveys. Neighborhood and comparative class to seek rent anomalies array income data. Location, comparative class, condition, desirability and age establish market rent and occupancy levels. Historical income and occupancy trends are studied, and those trends are forecast and projected into future years. Expenses from previous years' data, as supplied by the owner or operator of the property, consumer price index information, and expense surveys by apartment associations of other metropolitan areas are reviewed. From this research, expense trends are analyzed and projected.

Investor surveys are reviewed and their requirements and expectations are considered, as are trends from previous surveys. A range of investor yield rates is selected, and a gradient scale is used in consideration of the neighborhood characteristics and comparative class of properties. Income models are built for classes and neighborhoods in which a sufficient amount of quality data exists. Where data is inadequate or inconsistent, models are interpolated.

### Valuation Approach and Analysis

Based on the principal of substitution, land values are determined by selling prices for similarly positioned functional tracts. Sites are analyzed for highest and best use as though they were vacant. Highest and best use of the improvements is based on the likelihood of the continued use of the improvements in their current and/or intended use and is essential to an accurate appraisal. Identification of a highest and best use different from the current or intended use has a significant effect on the cost and market data models, and is always a statement of opinion and not a statement of fact.

An income capitalization is performed for each apartment property, as time permits, and a value per unit are charted. A sales value per unit is also charted by neighborhood for recent sales, and then compared to unit values from the individual income analysis. Acceptable ranges of value are established for these comparative units. Preliminary property values are adjusted to meet with agreed ranges and then unique property considerations are addressed.

New apartment construction is valued based on actual cost, when available. If actual costs are not available, national cost manuals are compared to the estimated cost on the building permit.

For apartment complexes within the appraisal district, personal property value is excluded from the real property estimate. This practice is due to the district's reliance on sales information and the income approach to value. Sales prices reported to the district are for the total property, real and business personal, and the income approach develops a value indication for all property

necessary to sustain stabilized income for the total property. The business personal property value portion of the overall property value is subtracted from the overall value and listed in a separate account.

## Testing

Field-testing of appraisals is performed through the regular inspection of subject properties. A computer-assisted statistical review of property value changes is conducted. Ratio studies are reviewed for level of appraisal, as sales are available. Results of the performance measures used indicate the validity of the appraisal models.

Preliminary values are analyzed in consideration of classification and neighborhood. Value indications are compared to renditions and valid multi-family property appraisals submitted for staff consideration. The appraiser considers the submitted appraisal report to confirm and verify data as would be done with a sale. Final value recommendations are tested for reasonableness by performing a sales ratio study and, individually, during the appeal process. During the appeal process, property specific income and expenses are reviewed for reasonableness and values are adjusted as necessary.

The Property Tax Assistance Division of the Texas Comptroller's office tests appraisal results annually. The Property Tax Assistance Division also reviews appraisal methods and procedures.

## **COMMERCIAL PROPERTY**

### **USPAP SUMMARY REPORT**

#### Overview

This type of property consists of all land and improvements within the appraisal district that are classed “commercial” according to the property’s highest and best use.

#### Assumptions and Limiting Conditions

The appraisals completed by SCAD are subject to the following assumptions and limiting conditions:

1. The opinion of value for each property applies to land and improvements only. The value of trade fixtures, furnishings and other equipment has not been included with the value of the real estate.
2. The Somervell Central Appraisal District’s staff has physically inspected all properties in the appraisal district, and normally re-inspects these properties at least once every three years. Complete interior inspections have not been done on a majority of the properties in the county.

#### **Data Collection and Validation**

Two basic types of data are collected: data, which is specific to each property; and data, which is indicative of a particular class of property that has been predefined by SCAD.

Property-specific data is collected as part of the inspection process and through information supplied by the property owner. As part of the inspection process, the improvements are measured and classified. Properties are classified according to construction type and quality. The appraiser also estimates the effective age and condition of the improvements. Any additional or unusual features are also noted at the time of the inspection. Data on individual properties is maintained on the appraisal card(s) for that property. Such data includes legal description, situs, owner’s name and address, parcel number, and the property-specific information such as class, quality, measurements, condition, etc. Data on individual properties is verified through previously existing records, published articles and reports, building permits, mechanics liens, analysis of comparable properties, and through information obtained from the property owner. Appraisal cards are available for review at the appraisal district office.

Data pertaining to a class of properties is used to develop valuation models for that property class. Such data is collected in a variety of ways. Cost information is obtained from nationally

recognized sources, as well as from new construction permits, mechanics liens, local contractors, reliable sources of sales of new properties, and renditions submitted by the property owners. Cost information on newly constructed improvements is also used to verify and/or modify costs from published sources. New models and cost tables have been completed using this information, and have been used in test areas. Renditions are confidential submissions by property owners and cannot be used for other properties. However, data from renditions may be compared with data obtained from cost manuals to test their accuracy. A comprehensive appraisal manual for commercial real property is maintained by SCAD.

Market sales information is collected through surveys of buyers and sellers in addition to real estate publications, reports, and public records.

Income and expense information is obtained from surveys of rental properties.

### Valuation Approach and Analysis

Land values are based on selling prices for the appropriate highest and best use of the site analyzed as though vacant. Highest and best use analysis of the improvements is based on the likelihood of the continued use of the improvements in their current and/or intended use, and is essential to an accurate appraisal. Identification of a highest and best use different from the current or intended use has a significant effect on the cost and market data models and is always a statement of opinion, not a statement of fact.

Improvements are valued using replacement/reproduction cost new less depreciation. Cost tables are constructed using published sources as a guide, and adjustments are applied using local market information. Adjustments are also applied for functional and economic obsolescence if utilization, sales, and income information warrant. An income approach is also used when economic and/or subject property income information is available. A sales comparison (market data) model based on the selling prices of similar properties is used when sufficient information is available.

The cost approach to value is most accurate and reliable when appraising new construction. In older areas or areas of transition, cost is calculated and considered. However, due to the difficulty of measuring accrued depreciation, more weight is applied to the sales comparison (market) and income approaches.

### Appraisal Procedures Followed

Cost Schedules: All commercial improved parcels in the district are valued from cost tables using a property class system. The district's commercial cost schedules were developed using nationally published cost services, namely, Marshall & Swift, with adjustments made for location. The cost schedules are reviewed annually.

Sales Information: The SCAD maintains a sales file for commercial improved property and vacant land. Sales information is collected from district sales letter questionnaires sent to buyers and sellers, field discovery, protest hearings, published sales information reports, and shared information with appraisers and brokers.

## Market Analysis

A market analysis relates directly to market forces affecting supply and demand. This study involves the relationships between social, economic, environmental, governmental, and site conditions. Current market activity including sales of commercial properties, new construction, new leases, lease rates, absorption rates, vacancies, allowable expenses (inclusive of replacement reserves), expense ratio trends, capitalization rate studies are analyzed. Local publications are also reviewed to lend support to the various assumptions utilized in the valuation of real estate.

## Valuation Analysis

Cost Approach: The cost approach to value is applied to all improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on comparable properties whenever possible. These include comparative base rates, per unit adjustments, and lump sum adjustments. This approach also employs the sales comparison approach in the valuation of the underlying land value. Location modifiers are necessary to adjust cost data to reflect conditions in a specific market. Because a national cost service is used as a basis for the cost models, location modifiers are necessary to adjust these base costs for the Somervell County area. The national cost service provides these modifiers.

Depreciation schedules are developed based on what is typical for each property type at that 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, and 70-year expected life. The utilization of these depreciation schedules involves a national data service.

Market adjustment factors such as external and/or functional obsolescence can be applied if warranted. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific property type or location.

Income Approach: The income approach to value is applied to those real properties that are typically viewed by market participants as “income-producing,” 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 on a per-unit basis. This can be derived from a variety of sources ranging from local market studies, to actual rent data furnished by property owners. This per-unit rental rate multiplied by the number of units results in the estimate of potential gross income.

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 based on local market information. This allowance accounts for periodic fluctuations in occupancy, both above and

below an estimated stabilized level. The market-derived stabilized allowance is then subtracted from the potential gross income estimate to arrive at an effective gross income.

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of *prudent management*. Different per-unit expenses are developed for different types of commercial property based on use. This information is obtained from real estate and financial publications. Subtracting the allowable expenses (inclusive of replacement reserves) from the effective gross income results in an estimate of net operating income.

Rates and multipliers are 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, and age and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market.

Capitalization analysis is used in the income approach. 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, can 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. In addition, overall capitalization rates can be derived from the built-up method (band-of-investment). This method relates 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.

Sales Comparison (Market) 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 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, is pursued throughout the year in order to obtain relevant information that can be 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 are also used in ratio studies, which afford the analyst a means of judging the present level and uniformity of the appraised values.

Final Valuation Reconciliation: Based on the market data analysis and review discussed previously, the three approaches to value are analyzed and reconciled to arrive at a final value estimate. On most income-producing properties the income approach is considered to typically reflect the actions of buyers and sellers in the market place with a lesser degree of reliance placed on the sales comparison approach. The cost approach is a good indicator of value when the property is new and represents the highest and best use of the land.

## Testing

Field-testing of appraisals is performed through the regular inspection of subject properties and sales ratio comparisons. These comparisons validate the results of the appraisal model. Appraisers then review and assist each other in adjusting models to current market information.

Although the ratio study is the preferred method of measuring performance, single property appraisals submitted to the appraisal staff is also considered for appraisal accuracy. The appraiser considers the submitted appraisal report to confirm and verify data. The Property Tax Assistance Division of the Texas Comptroller's office tests appraisal results annually. The Property Tax Assistance Division also reviews appraisal methods and procedures.

## Business Personal Property

### USPAP Summary Report

#### Overview

Business personal property is the tangible personal property owned by a business or by an individual for the purpose of producing income. Other tangible personal property is exempt according to Section 11.14(a) of the Texas Property Tax Code.

#### Assumptions and Limiting Conditions

Appraisals completed by the SCAD are subject to the following assumptions and limiting conditions:

1. Somervell Central Appraisal District staff does not personally inspect every business each year. Re-inspection schedules for business personal property are as follows: (1) Each year a list of properties that were not rendered for the previous two years is compiled and visited. (2) Each year a list of new businesses is compiled and visited.

#### Data Collection and Validation

Data on new and existing businesses is collected through personal inspection, newspaper articles, government reports, and comparisons to like businesses, renditions, and other confidential information supplied by the owner.

Due to the multitude of personal property types, there is no standard data collection form or manual. We have attempted to standardize the data collection through in-house training for business personal property.

## Valuation Approach and Analysis

Personal property as defined by USPAP is “identifiable, portable and tangible objects which are considered by the general public to be ‘personal,’ e.g. furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment: all property that is not classified as real estate.” The Texas Property Tax Code, Section 1.04(5) defines tangible personal property as “...personal property that can be seen, weighed, measured, felt, or otherwise perceived by the senses but does not include a document or other perceptible object that constitutes evidence of a valuable interest, claim, or right and has negligible or no intrinsic value.” The Texas Property Tax Code, Section 1.04(4) defines personal property as “...property that is not real property.”

The purpose of the appraisals of business personal property is to estimate market value on January 1 of each year as previously defined in the introduction. A separate definition of market value for inventory is found in the Texas Property Tax Code, Section 23.12(a), “...the market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business.” The Texas Property Tax Code sets forth three ways in which inventory may be valued if the requirements are met:

- A. Section 23.12(f) allows some inventories to qualify for appraisal as of September 1 of the year before January 1 of the taxable year.
- B. Sections 23.121, 23.127, 23.1241, and 23.12D dictate that dealers in new and used vehicles, vessels, outboard motors and trailers, manufactured housing, and heavy equipment be valued differently. (Jurisdictional Exception to Standard Rule 6-3(b) and (c))
- C. Section 23.12(a) covers the inventories of remaining businesses.

Personal property is appraised using original cost less depreciation models. Depreciation is calculated on the age/life method using typical economic lives and depreciation rates based on published sources, market evidence, and the experience of knowledgeable appraisers. Adjustments for functional and economic obsolescence may be made if utilization for subject property justifies such. In the case of some personal property types, such as licensed vehicles and aircraft, market data from published pricing guides is used to construct a market value model. In other cases, models are based on quality and density information available through published sources or through private sources. These models are cost-based.

## Testing

Field-testing of appraisals is performed through the inspection of subject properties. The periodic reassignment of properties among appraisers or the assistance of an experienced senior appraiser also contributes to the testing process.

Sales for most types of personal property are infrequent. Furthermore, many market transactions occur for multiple sites and include real and personal property, tangible and intangible, thereby making analysis difficult, subjective, and inadequate to develop a statistical analysis.



Performance is measured through comparison of like businesses as well as applying quality and density models to units of comparison.

## Notes

In the state of Texas, where appraisal of personal property is for the purpose of personal property taxation and distribution of the personal property mill levy, the guidelines set forth in Standard 8 are unnecessary. No exception is taken to the guidelines, and the state of Texas recognizes and accepts Standard 8 as written.

## Certification

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

The statements of fact contained in this report are true and correct.

The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the appraisal staff's personal, unbiased professional analyses, opinions, and conclusions.

I have no present or prospective interest in the property that is the subject of this report, save and except the ownership of my personal residence, and I have no personal interest or bias with respect to the parties involved.

My compensation is not contingent on the reporting of a predetermined value, or direction in value, that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.

My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

I have not made a personal inspection of all property that is the subject of this report. The appraisal staff of the Somervell Central Appraisal District makes personal inspections.

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Wes Rollen, CTA, RPA  
Chief Appraiser/Executive Director  
Somervell Central Appraisal District

**Computer System information:**

- **PC Windows based Client Server system**
- **Server utilizes Windows 2012 Server OS**
- **Client (Desktop) support Microsoft Windows 10**
- **Microsoft SQL 2012**
- **Local Area Network consisting of Server and 7 workstations**
- **Integrated Document and Photo Imaging**
- **Appraisal Software**