

HOW IS YOUR PROPERTY APPRAISED?

PROPERTY TAX ADMINISTRATION

In Texas, property owners pay property taxes based on the market value of their property. This is sometimes referred to as “ad valorem” taxation, meaning “according to value”.

In order to employ a system of ad valorem taxation, two basic functions must take place. First, a taxable value for the property is determined each year. Secondly, local taxing jurisdictions such as cities, schools, counties, and other entities authorized to levy a property tax need to apply a tax rate to that value in order to calculate the amount of taxes owed for that year on that property.

In 1979, the Texas legislature created appraisal districts in each county. One of the primary roles of appraisal districts is to annually determine the market value of all of the properties, also referred to as tax parcels, within its county’s boundaries. Once established these values are certified to the assessor/collector for each taxing jurisdiction in the form of an appraisal roll. At this point the assessor/collector submits the rolls to the governing body for each taxing jurisdiction as the tax roll. The taxing jurisdictions then use these appraisal rolls to calculate the tax bills to be sent to property owners.

Calendar of Events

The property tax system in Texas works from a calendar of events. An example of the Texas Property Tax Calendar can be found at:

<http://www.window.state.tx.us/taxinfo/proptax/taxcalendar/index.html>

APPRAISAL DISTRICTS

Appraisal districts are administered by a chief appraiser who, assisted by his staff, oversees the day-to-day operations of the district. The function of the appraisal district is to appraise properties and administer exemptions. More information regarding appraisal districts can be found at:

<http://www.window.state.tx.us/taxinfo/proptax/appd.html>

Value

Appraisal districts follow the provisions of the Texas Property Tax Code. The Tax Code requires that, unless otherwise provided, that all taxable property be appraised at its market value as of January 1st of that tax year. The Tax Code defines “market value” as:

“The price at which a property would transfer for cash or its equivalent under prevailing market conditions if: (A) exposed for sale in the open market with a reasonable time for the seller to find a purchaser; (B) both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and (C) both the

seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.”

Exemptions

While they do not affect the market value of the property, exemptions "exempt" or excuse a portion of the value of the property from taxation. Homestead exemptions apply only to the property owner's principle residence. Homestead exemptions include a general homestead, over 65 homestead, disabled person homestead, and 100% disabled veteran's exemption. More information regarding exemptions can be found at:

<http://www.window.state.tx.us/taxinfo/proptax/exemptions.html>

Notices

Every year, near the end of April or beginning of May, the Shelby CAD delivers a "Notice of Appraised Value" to every property owner. This appraisal notice communicates to the property owner important information such as:

- the prior year's certified value,
- the current year's proposed value,
- any exemptions or special valuations granted, and
- the property owner's protest deadline.

These annual notices also include other important pieces of information of interest to the property owner.

VALUATIONS

Define the Problem

The assignment of the Shelby CAD is to develop annual valuations for every property located within Shelby County at market value with the effective date of January 1st. The Property Tax Code instructs appraisal districts to use generally accepted appraisal methods when valuing property, but it also requires them to consider each property's "individual characteristics when determining the property's market value".

Plan the Appraisal Project

District appraisers must plan their work so they can collect and analyze the characteristics of their assigned properties and their market areas within the time frame set by the property tax calendar. Generally, appraisers must allow enough time to physically inspect their properties, collect and analyze market data, and resolve any differences in the data prior to finalizing the proposed valuations necessary for the delivery of the Notice of Appraised Value.

Data Collection

After the appraisal roll has been certified in late July the next year's appraisal project can begin. Appraisers review the prior year's work and begin to identify and develop data sources for the new appraisal. These data sources include maps, permits, cost, sales, listings, income and expense information, publications, and field inspections, as well as other sources.

Data Analysis

Utilizing the data collected, the appraiser then considers the characteristics of each property including, among other things, its use, site, zoning, improvements (buildings), and locational influences as well as comparable sales and listing.

Reconciliation

Appraisers then apply the data to three different methods of appraising property. They are commonly referred to as the three approaches to value.

- 1) The Cost Approach, using cost data, appraisers can develop cost manuals and depreciation schedules.
- 2) The Direct Sales Approach, using sales data, appraisers establish benchmarks properties for comparison purposes and develop appropriate adjustments used in the sales comparison analysis.
- 3) The Income Approach, the appraiser develop economic rents, expense allowances, and discount and recapture rates.

The reconciliation process attempts to resolve differences in the results of the three approaches based on the reliability and credibility of the data. The reconciliation of the three approaches tends to be different depending on the type of property being appraised. A more detailed explanation of the valuation process of the four major property types (land, residential, commercial and business personal property) and the Texas property tax system can be found at:

<http://www.window.state.tx.us/taxinfo/proptax/basics/96-1425.pdf>

In Texas, property owners can protest, or appeal, any action taken by the appraisal district that adversely affects the property owner. These protests are adjudicated by the Appraisal Review Board (ARB), a citizen's board, whose members are appointed by a local administrative law judge. The ARB oversees the appraisal records, and hears the protests and appeals. The most common reasons for filing protests concern market value and the uniformity of the district's appraisals.

RESIDENTIAL PROPERTY VALUATION PROCESS

What is Residential Property?

"Residential Property", as defined by the American Institute of Real Estate Appraisers, is "A property consisting of a vacant or improved parcel of land devoted to or available for use primarily as a place of abode, such as single family homes..."

Residential properties are usually found in areas zoned for residential use, but are also found in non-platted areas outside the city limits, and include such property types as single family dwellings, duplexes, mobile homes, as well as others.

The Appraisers

Residential appraisers meet the requirements of the Texas Department of Licensing and Regulation (TDLR), and pursue continuing education training through the International Association of Assessing

Officers (IAAO), Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD), and other professional organizations. Some residential appraisers hold additional certifications, licenses and college degrees.

The assignment of each residential appraiser is to develop annual valuations for residential properties at market value as defined by the Tax Code. Residential appraisers use generally accepted appraisal methods and techniques and mass appraisal standards in compliance with the Uniform Standards of Professional Appraisal Practice, "USPAP", using similar methods and techniques for similar properties while also considering the individual characteristics of each property. Appraisal assignments for residential appraisers are based on property type and are geographically assigned by school districts.

Data

Residential appraisers collect and utilize data to be used in their valuations. Some of the collected data includes:

- verified sales of properties
- information obtained from on-site inspections
- building permits
- discovery forms
- survey letters sent to buyers and sellers
- fee appraisals
- closing statements
- aerial photography
- actual construction cost data
- market data publications and informational data bases
- mapping changes and surveys
- aerial photographs
- protest hearings & informal interviews with property owners
- deed activity (including mechanic liens)

The District also subscribes to MLS which provides information on sold properties as well as properties listed for sale. District staff collects information from other sources including property owners, neighbors, the internet, real estate agents, brokers and their websites, construction professionals, and appraisers.

Identifying and Updating Relevant Property Characteristics

The District creates and maintains an appraisal record for each residentially classified property. The appraisal records will include the owner's name and address, property legal description, parcel identifiers, appraised value of land and improvements, applicable exemptions, tax year and other such information required by statute or deemed necessary by the District. The date of last inspection, notes of inspection as deemed appropriate, and the appraiser responsible is listed in the appraisal record.

Discovery: New Construction, Remodeling, Reconfiguration and Demolition

The residential appraisal staff locates and appraises all new construction, planned renovations, and demolition utilizing:

- planned physical inspections,
- building plans,
- building permits,
- information from property owners,
- taxing jurisdictions, tax agents, real estate professionals,
- real estate publications and media services, and
- oblique imagery, orthographic imagery.

Field Review and Inspections

Each appraiser is responsible for conducting inspections of their assigned properties which includes the review of property characteristics, such as: building class, quality of construction, physical improvement characteristics, square footage, condition, physical, functional and economic obsolescence factors contributing significantly to the market value, and other observable factors or conditions deemed relevant to or influencing the valuation of the property.

Re-Inspection of Neighborhoods

A general reappraisal of all residential property is conducted annually, utilizing a sales ratio study for each neighborhood. The selection process to facilitate a physical inspection of residential property to ensure a re-inspection is performed at least once every three years is completed using a combination of resources and tools to determine those properties which are slated for re-inspection.

Defining Market Areas

Neighborhood identification and delineation is the cornerstone of the residential valuation system. All residential analysis is neighborhood specific. Neighborhoods are visually inspected to verify delineations based on observable aspects of homogeneity such as quality of homes, lot size, price point, etc. Sub-neighborhoods may be created when external influences create a marked difference between a smaller group of properties within a neighborhood. These sub-neighborhoods may include positive or negative influences such as a busy street, power lines, adjacent commercial influences, creeks, greenbelts, golf courses, etc.

Sales Data

SCAD receives a copy of all deeds recorded in Shelby County. For those properties involving a transfer of ownership, a sales file is produced and a verification letter is mailed to the grantee and/or grantor in the transaction. In other instances, sales verification can be obtained from other sources including: brokers, agents, appraisals, as well as local, regional and national real estate and financial publications. Finally, closing statements are often provided during the hearing process. The actual closing statement is the most reliable and preferred method of sales verification.

The 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 parcels on the appraisal roll. As previously discussed in the Data Collection section, pertinent data from actual sales, both vacant and improved, is pursued throughout the year in order to obtain relevant information which 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 appraiser an excellent means of judging the present level and uniformity of appraised values.

The Cost Approach to Value

Cost tables are developed based on the Marshall & Swift Valuation Service. The tables include the replacement cost new (RCN) based on the improvement category and class, as well as adjustments for certain property characteristics, and also lists the expected economic life of the improvement category.

Depreciation schedules are utilized based on the range of expected economic life spans of the property categories being appraised. Actual and effective ages of improvements are maintained in the appraisal records. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace.

The Income Approach to Value

The income approach to value is used for properties which are typically viewed by market participants as “income producing”.

Valuation and Statistical Analysis (Model Calibration)

Although the District recognizes all three approaches to value and considers the cost approach as an acceptable method, the District’s primary approach to the valuation of residential properties uses a hybrid “cost” sales comparison approach. This approach allows for adjustments at the neighborhood level to replicate market influences not captured in the base building class pricing tables. The neighborhood adjustment takes into consideration the location of the market area, physical attributes (size, age and condition of the properties), and all legal and economic attributes that may affect values within the market areas, as well as any other enforceable restrictions. The following equation denotes the hybrid model used:

$$MV = LV + NBHD \text{ mod} (RCN - D)$$

Whereas, the market value (MV) equals land value (LV) plus the neighborhood modifier (NBHD mod) times the replacement cost new (RCN) less depreciation (D).

Residential land values are estimated using the base lot method, which establishes the value of the standard or “base” lot, within each delineated neighborhood. The sales comparison analysis, when applicable, or in areas where insufficient vacant land sales exist, the abstraction method will be used to establish base lot values within a neighborhood and a land table will be created. Land tables are utilized to store a base lot mass pricing code and base lot value. Land adjustments are applied on individual properties, where necessary, to adjust for such influences as location, shape, size and topography, among others.

Neighborhood adjustments are developed from appraisal statistics provided by ratio studies and are used to ensure that estimated values are consistent with the market. Each sale produces a ratio by dividing the appraised value by the confirmed sales price. The ratios are arrayed in descending order and the median ratio is identified. A neighborhood factor is calculated to appraise the sold properties within the neighborhood at approximately 100% of the median ratio relative to their appraised value. Once tested, the neighborhood factor is applied to both sold and unsold properties within that neighborhood to insure equitable and accurate market values. Sales used to determine the neighborhood factor will reflect the market influences and conditions for the properties within a neighborhood, thus producing representative and equitable values.

In aging neighborhoods, where homes have been maintained at various levels of ongoing maintenance, an effective age adjustment may be applied by the appraiser which may have an effect on the depreciation in a positive or negative manner.

Reconciliation

Appraisers are required to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. Therefore, appraisers consider all three approaches and then determine which will yield the most credible results for their properties which share common influences of value. The appropriateness of each approach varies with the type of property under consideration.

Special Appraisal Provisions

The Texas Property Tax Code provides for special appraisal provisions and exemptions including:

- Section 23.01(d) of the Tax Code states: “The market value of a residence homestead shall be determined solely on the basis of the property’s value as a residence homestead, regardless of whether the residential use of the property by the owner is considered to be the highest and best use of the property.”
- Sec. 23.12 of the Tax Code provides the definition of market value and inventory: “...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. An inventory shall include residential real property which has never been occupied as a residence and is held for sale in the ordinary course of a trade or business, provided that the residential real property

remains unoccupied, is not leased or rented, and produces no income.”

- Section 23.23 of the Tax Code allows for the limitation of the appraised value of a qualified residence homestead and is often referred to as the homestead “capped value”.
- Sec 23.41 of the Tax Code allows for land designated for agricultural use to be appraised at its value based on the land’s capacity to produce agricultural products if specific eligibility requirements are met.
- Abatements - The Tax Code also provides for a local agreement between a taxpayer and a taxing unit, other than a school district, that that may abate all or part of real property, generally commercial property, and/or tangible business personal property from taxation.

COMMERCIAL PROPERTY VALUATION PROCESS

What is Commercial Property?

“Commercial Property” refers to those real properties generally associated with businesses that sell goods or services to the general public or businesses that add value to a product through development, manufacturing, fabrication, or processing of that product.

Commercial properties are non-residential and non-agricultural properties usually found in areas zoned for business purposes. They include such property types as office, retail, industrial, hospitality, medical, and apartments, as well as others.

The Appraisers

Commercial appraisers meet the requirements of the Texas Department of Licensing and Regulation (TDLR), and pursue required continuing education training from qualified professional organizations. Some commercial appraisers have obtained advanced degrees or additional designations obtained from well-known organizations such as the Appraisal Institute.

The assignment of each commercial appraiser is to develop annual valuations for commercial properties at market value as defined by the Tax Code located within the boundaries of Shelby County. Commercial appraisers use generally accepted appraisal methods and techniques and mass appraisal standards in compliance with USPAP using similar methods and techniques for similar properties while also considering the individual characteristics of each property. Appraisal assignments for commercial appraisers are based on property category or property type.

Data

Commercial appraisers collect and utilize data to be used in their valuations. Examples of collected data include:

- verified sales of properties,
- pertinent data obtained from each (sales price levels, capitalization rates, income

- multipliers, equity dividend rates, marketing period, etc.),
- observations and data discovered by on-site inspections,
- actual construction cost data,
- actual income and expense data,
- leasing information (commissions, tenant finish, length of terms, etc.),
- market data publications and informational data bases,
- mapping changes and surveys, and
- aerial photographs.

The District also subscribes to the Dallas Morning News and the Dallas Business Journal and gathers other general and property specific information from other print and online news sources. District staff also collects information from other sources including property owners, neighbors, the internet, real estate agents, broker and their websites, construction professionals, and appraisers.

Identifying and Updating Relevant Property Characteristics

The District creates and maintains an appraisal record for each property. The appraisal records will include, if known, owner's name and address, property legal description, parcel identifiers, appraised value of land and improvements, applicable exemptions and/or abatements, tax year and other such information required by statute or deemed necessary by the District. The date of last inspection, notes of inspection as deemed appropriate, and the commercial appraiser responsible is listed in the appraisal record.

Discovery

The commercial appraisal staff locates new construction, planned renovations, building expansions, and demolition utilizing:

- planned physical inspections,
- building plans,
- building permits,
- certificates of occupancy,
- information from property owners,
- taxing jurisdictions, tax agents, real estate professionals,
- real estate publications and media services,
- oblique imagery, orthographic imagery, and
- business personal property links.

Field Review and Inspections

Each appraiser is responsible for conducting on-site inspections of their properties which includes the review of the property characteristics, such as:

- building class,
- quality of construction,
- physical improvement characteristics,

- property use,
- gross and net rentable square footage,
- access,
- visibility,
- condition,
- physical, functional and economic obsolescence factors contributing significantly to the market value of the property, and
- other observable factors or conditions deemed relevant to or influencing the valuation of the property.

Defining Market Areas - Geographic Analysis

Regional economic data regarding demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from both private and public sources and reviewed.

Defining Market Areas - Economic Analysis

Commercial real estate in Shelby County consists of a wide variety of commercial property types including offices, retail, industrial, and apartments. Market analysis is used to identify, classify, and organize comparable properties into smaller, manageable subsets.

Valuation

Highest and Best Use Analysis

The highest and best use is the most reasonable and probable use that generates the highest present value of the real estate as of the date of valuation. The highest and best use of any given property must be physically possible, legally permissible, financially feasible, and maximally productive. In many, if not most instances, the property's current use is the same as its highest and best use.

Sales Data

The SCAD receives copies of deeds recorded in Shelby County. For those properties involving a transfer of ownership, a sales file is produced and verification of the conditions of the sale are undertaken. A sales verification letter is mailed to the grantee and grantor in the transaction. In other instances, sales verification can be obtained from other sources including: brokers, agents, appraisals, as well as local, regional and national real estate and financial publications. Additionally, closing statements are often provided during the hearings process. The actual closing statement is the most reliable and preferred method of sales verification.

The 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 parcels on the

appraisal roll. As previously discussed in the Data Collection section of this plan, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year in order to obtain relevant information which 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 appraiser an excellent means of judging the present level and uniformity of appraised values.

The Cost Approach to Value

Cost tables are developed based on the Marshall & Swift Valuation Service. The tables include the replacement cost new (RCN) based on the improvement category and class, as well as adjustments for certain property characteristics, and also lists the expected economic life of the improvement category.

Depreciation schedules are utilized based on the range of expected economic life spans of the commercial property categories being appraised. Actual and effective ages of improvements are maintained in the commercial appraisal records. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace.

The Income Approach to Value

The income approach to value is used for properties which are typically viewed by market participants as “income producing”.

The first step in the income approach is the estimation of potential market rent at 100% occupancy which is derived from actual rent data, asking rents data, and local market study publications.

Next, any potential secondary income is considered. Secondary income represents 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 total of base rent and secondary income is called the potential gross Income (PGI).

Next, a projected vacancy and collection loss which accounts for periodic fluctuations in occupancy is established from actual data furnished by property owners and local market conditions. Subtracting the projected vacancy and collection loss from the PGI leaves the effective gross income (EGI)

Next, allowable expenses and expense ratio estimates are calculated based on a study of the local market, with the assumption of prudent management. Operating expenses are classified as typical operating expenses associated with a specific category of property. Subtracting the allowable expenses from the effective gross income yields an estimate of net operating income (NOI).

Capitalization rates (R) are used to convert the net operating income (NOI) to value. These rates are derived from the analysis of sold properties, financial reports, and real estate publications. The net operating income (NOI) divided by the capitalization rate (R) equals the value (V). $V = NOI / R$

Reconciliation

Appraisers are required to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. Therefore, appraisers consider all three approaches and then determine which will yield the most credible results for their properties which share common influences of value. The appropriateness of each approach varies with the type of property under consideration.

Special Appraisal Provisions That Affect Commercial Property

The Texas Property Tax Code provides for special appraisal provisions including:

- Section 23.01(d) of the Tax Code states “The market value of a residence homestead shall be determined solely on the basis of the property’s value as a residence homestead, regardless of whether the residential use of the property by the owner is considered to be the highest and best use of the property.”
- Exemptions - The Tax Code provides for an exemption from taxation for commercial properties which fulfill certain requirements as listed in Chapter 11, Subchapter B. Examples would be charitable or religious organizations.
- Abatements - The Tax Code also provides for a local agreement between a taxpayer and a taxing unit that that may abate all or part of real property, generally commercial property, and/or tangible business personal property from taxation.

BUSINESS PERSONAL PROPERTY VALUATION PROCESS

What is personal property?

According to the Texas Property Tax Code, tangible “Personal property” means property that is not real property”. A well-known appraisal textbook, Property Assessment Valuation, defines personal property as, “all moveable items not permanently affixed to or a part of the real estate”. There are four different types of personal property appraised by the district:

- business personal property (BPP)
- leased assets at multiple locations
- commercial aircraft, and
- vehicles.

The Appraisers

BPP appraisers meet the requirements of the Texas Department of Licensing and Regulation (TDLR), and pursue continuing education training in the International Association of Assessing Officers (IAAO), Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD), and other professional organizations. Appraisal assignments for BPP appraisers are based on geographic areas.

Data

Data characteristics for each account are collected by appraisers in the field, by phone, and other pertinent sources. These property characteristics are used to assist the appraisal staff in determining market value.

SIC Code Analysis

Four digit numeric codes, called Standard Industrial Classification (SIC) codes, are used as the basis for classification and valuation of business personal property accounts. SIC codes are used to group business types that have similar property characteristics. SCAD has implemented other property codes that further delineate similar business types within an SIC code.

Data Collection Procedures

District appraisers collect appraisal data in a variety of ways. The use of renditions is by far the most important method of discovering business personal property. A rendition is a listing form filed by a taxpayer in which the taxpayer declares the business personal property owned by the business. In Texas, all business personal property owners are required to file a rendition with the appraisal district by April 15th of each year.

Annually, the District produces a route book of known BPP accounts. Appraisers verify and update all data listed in the route book by way of an on-site inspection for each business account.

Also, various discovery publications such as business journals, state records, subscription services, sales tax permit listings, and local building permits are used. Newspapers, business publications, business owners, and residents provide discovery information and other useful facts related to discovery and valuation.

Leased Assets at Multiple Location Accounts

The primary source for these accounts is owner filed renditions submitted in either hard copy or electronic format. On-site inspections and the renditions of lessees may be used to supplement this information.

Commercial and Business Aircraft

Private subscription services, Federal Aviation Administration (FAA) data, information from local airport/airfield management, the Aircraft Blue Book Price Guide (Winter Edition), owner renditions and, when necessary, the Bureau of Transportation Statistics website provide data for aircraft valuations.

Special Inventory

Monthly and annual declaration forms for boat, heavy equipment, manufactured housing, and motor vehicle dealers (as defined by Section 23 of the Texas Property Tax Code) are used for discovery and valuation of special inventory accounts. Copies of annual declarations are maintained by SCAD.

Alternate discovery methods may sometimes be used as described in the Business Personal Property section.

VALUATION

Highest and Best Use Analysis

The highest and best use of property is the most reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legally permissible, financially feasible, and maximally productive. The highest and best use of business personal property is normally its current use.

The Cost Approach to Value

The District's primary approach to the valuation of business personal property is the cost approach. The cost approach utilizes the following formula:

$$\text{Replacement Cost New (RCN)} - \text{Depreciation} = \text{Value}$$

Cost Schedules

The replacement cost new (RCN) is developed from actual historical costs reported by the property owner or from SCAD developed valuation models. The cost schedules are developed according to property types using property owner renditions, Settlement and Waiver of Protest documentations, Appraisal Review Board (ARB) hearing evidence, Texas Comptroller schedules, and published guides.

Depreciation

Depreciation is a loss in value of an asset with the passage of time, due in particular to wear and tear. The trending factors used by SCAD to develop RCN are based on published valuation guides. The percent good depreciation factors used by SCAD are also based on published valuation guides. Index and percent good depreciation factors are used to develop present value factors (PVF), by year of acquisition, as follows:

$$\text{PVF} = \text{Index Factor} \times \text{Percent Good Factor}$$

The PVF is used as an "express" calculation in the cost approach. The PVF is applied to reported historical cost as follows:

$$\text{Market Value Estimate} = \text{PVF} \times \text{Historical Cost}$$

Leased Assets at Multiple Location Accounts

Leased and multi-location assets are valued using the depreciation schedules mentioned above. If the asset to be valued in this category is a vehicle, then NADA published book values may be used.

Commercial and Business Aircraft

The Tax Code has a specific methodology for the valuation and/or allocation of all aircraft.

Special Inventory

The Tax Code provides a specific methodology for valuing this category of property. Valuation is based upon the annual declaration filed by the property owner indicating the previous year's Texas sales (used as the numerator) and divided by a factor of 12 (the denominator). This establishes a monthly basis consistent with the owner's tax payment requirements. In the absence of an annual declaration, similar businesses that have filed declarations are identified and compared, with appropriate adjustments, to the subject property to establish an estimated market value.

Leased Assets at Multiple Location Accounts

Leased asset accounts that have a high volume of vehicles or other assets are typically loaded programmatically if reported by the property owner electronically. Electronic renditions either emailed or on diskette, may require reformatting before they can be worked for value input. Accounts that render by hard copy are data entered manually. After proofing and data entry, reports are generated and reviewed by the assigned support staff. Once proofed, necessary corrections are made, appraiser approval is granted, and the account is sent a notice of appraised value which includes a break-down of each leased asset by jurisdiction.

Commercial and Business Aircraft

The commercial and business aircraft accounts are simultaneously reviewed and valued with rendered data and third party market value data.