

HOW YOUR PROPERTY IS APPRAISED

Land

The primary method of appraising land (your lot or acreage) is comparable sales. The appraisal district looks for land sales of similar type and location and applies the same values to the land owned by the taxpayer. For instance, if a similar sized lot sells for \$20,000, the appraiser will look at the value per square foot of property or front foot of the lot and apply the same value to each lot in the neighborhood with similar characteristics.

Residential Property

Each piece of property is examined by an appraiser who measures the improvement using outside measurements. The improvement is classed or categorized by the appraiser that is based on the cost to replace the property. That cost is based on a nationally recognized cost estimator, Marshall Valuation Service. The appraiser then estimates the amount of depreciation that the property has experienced such as physical depreciation (paint, carpet, and general deterioration). Also considered are economic factors such as the positive or negative impact of properties in the neighborhood and other factors that drive the economy of the community. This process is called the cost approach to value and is used to equalize all the properties in a neighborhood or community.

The appraiser next looks at sales of properties in the area. The properties that have sold in the area are compared to the value that is derived from the cost approach, and all the properties are adjusted by a percentage either upward or downward based on how the actual sales of homes compare with the depreciated costs. For example, if the typical sale is \$40 per square foot and the cost indicates \$50 per square foot, the adjustment factor would be .80 or 80% of depreciated cost. If the sales indicated \$50 per square foot and the cost indicated \$40 per square foot, the adjustment factor to be applied would be 1.25 or 125%. The sales adjusted cost is finally added to the land value to arrive at the final value of the property.

Commercial Property

The cost of an improvement is appraised the same way that a residential property is appraised. Marshall Valuation Service supplies information on cost to build of all types of commercial improvements from shopping malls to the local barber shop. The cost is adjusted downward by the observed depreciation noted by the appraiser. That value is then compared to sales of similar properties and market adjustments are applied similar to the residential appraisal process. Land value is added to the market adjusted cost approach to value.

Another method of appraising commercial property is the income approach. The appraiser looks at the net income to the property and divides that income by a capitalization rate. A capitalization rate is what a typical investor would expect as a return on his investment. For example, if an investor expected a rate of return of 10%, the net income of the property would be divided by .10 to develop an estimate of value. This value includes land value.

Royalty Value of Minerals

The appraiser looks at the production of an oil or gas lease over the life of the lease. That information will give the appraiser an estimate of the expected life of the well. Typical wells decline in

production over the life of the lease (a decline curve). Using that information, the appraiser determines an economic life of a property and discounts that future income by a discount rate. The future income of the property discounted for time of recovery of the oil or gas is the value of the lease. The value is then allocated to the operator and to each royalty owner based on the amount of the lease they own. Many taxpayers think that the value assigned to their property is based on the annual income. That is not true. Actual income is the basis of severance tax collected by the state, but the property tax is based on what the taxpayer could sell their interest in a well for. If the well is going to produce for several years, certainly the taxpayer would want to sell it for more than one year's income.

Business Personal Property

Personal property (movable property) is taxable if it is used for the production of income. Furniture, fixtures, equipment, and inventory are the typical types of taxable business personal property. Furniture, fixtures and equipment are taxed at cost less depreciation; inventory is taxed at its cost to the owner, not its retail value. There are many special laws that apply to various types of business personal property and it is advisable to contact your appraisal district to ask any particular questions about your individual business.

Appealing Your Property Value

If you feel that your value is not correct according to constitutional standards of equality, uniformity and market value, you may file a protest with the appraisal district. The typical deadline for filing an appeal is June 1 of each year. There are other opportunities for filing a protest, but this is the best time to file the appeal. You will be notified of a hearing date when you can appear before the appraisal review board, a group of local citizens who hear property value appeals.