

**Property Tax Audit
September 2009**

Patrice Randle, City Auditor
Craig Terrell, Assistant City Auditor



City Auditor's Office

September 11, 2009

Honorable Mayor and Members of the City Council:

I am pleased to present the City Auditor's Office's report on the administration of property taxes within the City of Arlington. The purpose of the audit was to verify the appraisal, calculation and collection of property taxes and to evaluate the City's administration and oversight of the property tax collection agreement.

Management's responses to our audit findings and recommendations, as well as target implementation dates and responsibilities are included in the following report. Management's complete response, including a history and context introduction, is included as Attachment A.

We would like to thank the Tarrant Appraisal District, the Tarrant County Tax Assessor/Collector Office and the City of Arlington Financial and Management Resources Department for their cooperation and assistance during the project.

A handwritten signature in cursive script that reads 'Patrice Randle'.

Patrice Randle, CPA
City Auditor

- c: Jim Holgersson, City Manager
Fiona Allen, Deputy City Manager
Bob Byrd, Deputy City Manager
Gilbert Perales, Deputy City Manager
Trey Yelverton, Deputy City Manager
Louis Carr, Chief Information Officer
April Nixon, Financial and Management Resources Director
Jim Parajon, Community Development and Planning Director
Robert Sturns, Economic Development Manager

**Property Tax Audit
Table of Contents**

	<u>Page</u>
Executive Summary	1
Audit Scope and Methodology	3
Background	3
Detailed Audit Findings	9
Attachment A – Management’s Response	
Attachment B – Audits of Qualification of Homestead and Absolute Exemptions	
Attachment C – Tarrant Appraisal District 2009 – 2010 Reappraisal Plan	

Property Tax Audit



Office of the City Auditor
Patrice Randle, CPA
City Auditor

Project # 08-02

September 11, 2009

Executive Summary

Property tax collection services were performed in accordance with the agreement

Property tax assessment data is transferred accurately from the Tarrant Appraisal District to the Tarrant County tax system

Opportunities for Improvement

- ***Increased review of property tax abatement agreement calculations***
- ***Periodic comparison of homestead exemption data to Water Utilities billing data***
- ***Periodic analytical review of tax assessment data***
- ***Increased oversight over property tax refunds and the delinquent property tax collection agreement***

As part of the Fiscal Year 2008 Annual Audit Plan, the City Auditor's Office conducted an audit of property taxes. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objectives of the audit were to determine whether:

- adequate controls exist over the appraisal, calculation and collection of property taxes;
- property tax refunds were disbursed only after appropriate review and approval;
- property value assessments are recorded accurately, including property tax abatements;
- property tax exemptions are valid and recorded accurately; and,
- the Financial and Management Resources Department properly administers the property tax service agreement, property tax administrative functions and the delinquent tax collection agreement.

Generally, the City Auditor's Office noted that adequate controls exist over the administration of property taxes. Testing conducted by the City Auditor's Office indicated that the City properly records and reports property tax revenue and receivable amounts, calculates and publishes the effective tax rate in accordance with guidance from the Texas State Comptroller's Office, and adequately oversees the administration of property tax abatements.

Analytical review of property tax data by the City Auditor's Office indicated that information received from the Tarrant Appraisal District and the Tarrant County Tax Assessor/Collector was accurate and reliable. Although significant exceptions were not identified during the audit, taxing units should exercise sufficient oversight of the processes used to ensure that revenue is maximized. This could include performing periodic risk

assessments to determine the extent to which compliance testing should be conducted.

Although the City Auditor's Office noted that controls over property taxes were adequate, the following exceptions were noted.

- Errors in the communication of property tax abatement values resulted in lost revenue.
- The City does not periodically compare homestead exemption records to available City data to identify potentially invalid exemptions.
- The City does not perform reviews of tax assessment data.
- The City has not established monitoring controls over property tax refunds and delinquent property tax collections.

These findings and recommendations are discussed in the Detailed Audit Findings section of this report.

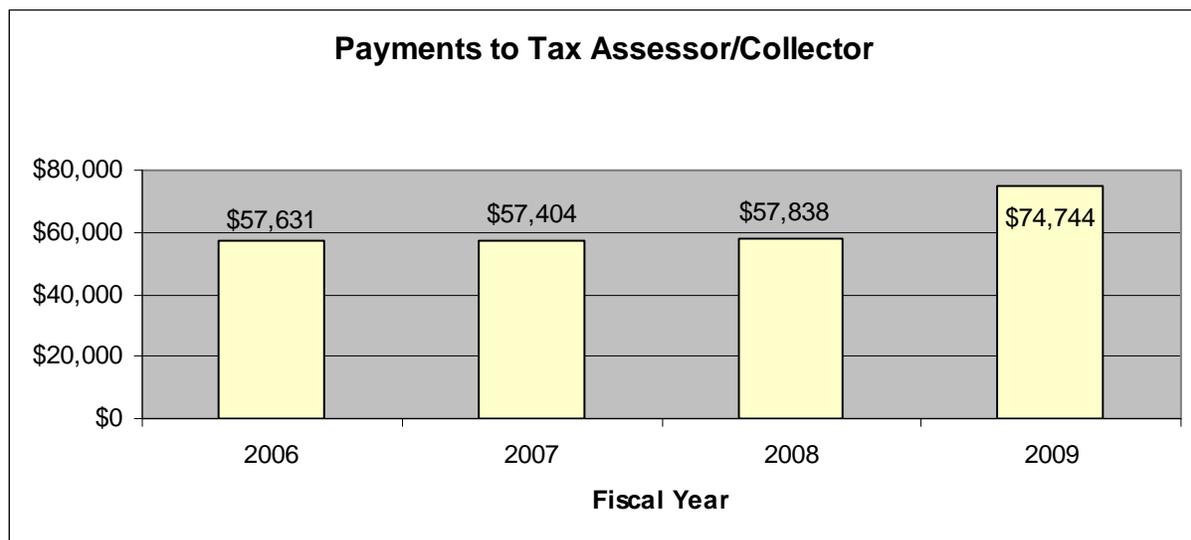
Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards. The following methodology was used in completing the audit.

- Interviewed employees with the Tarrant Appraisal District (TAD), the Tarrant County Tax Assessor/Collector Office (Tax Assessor/Collector) and the Financial and Management Resources Department to obtain an understanding of the appraisal, billing, tax collection and reporting processes.
- Reviewed properties with absolute tax exemptions and confirmed that the organization properly qualified for tax exemption status.
- Reviewed a sample of properties with homestead, over-65 and disabled person exemptions and verified that the exemption was appropriately approved.
- Compared property tax records to water utility billing records to verify eligibility for homestead exemptions.
- Performed analytical review of property tax assessment records.
- Reviewed the oversight of property tax abatement agreements to ensure that abatements were properly reflected in the tax roll.

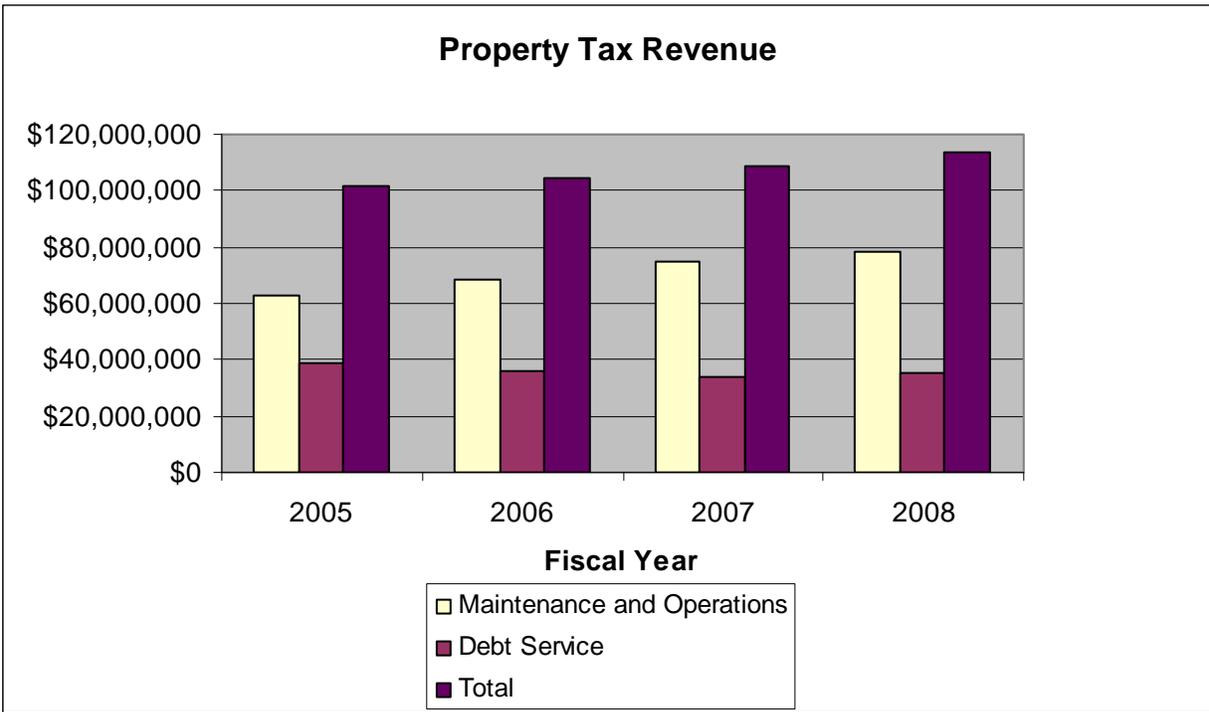
Background

Under an agreement with Tarrant County, the Tax Assessor/Collector bills and collects taxes due and owing on property upon which the City of Arlington has imposed said taxes. The services performed by the Tax Assessor/Collector include providing tax roll and payment data to mortgage companies, property owners and tax representatives and payment processing. In consideration of the services performed, the City agreed to compensate the Tax Assessor/Collector sixty five cents (\$.65) per account for fiscal year 2009, which represented an increase over prior years. The following chart summarizes the amount paid to the Tax Assessor/Collector over the past four years.



Source: Lawson Financial System

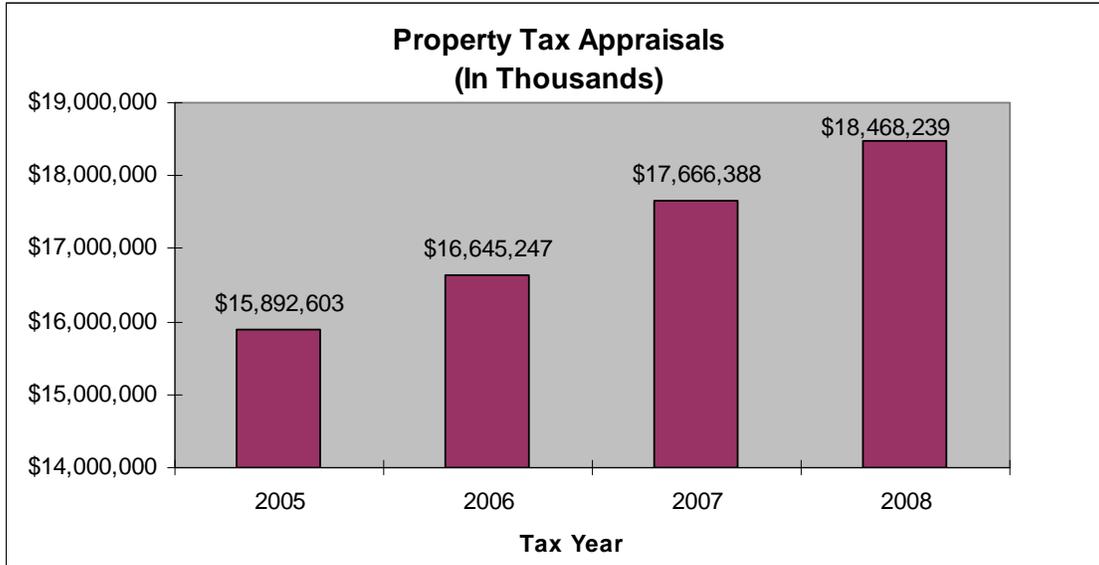
The following chart summarizes recorded property tax revenue over the past four years.



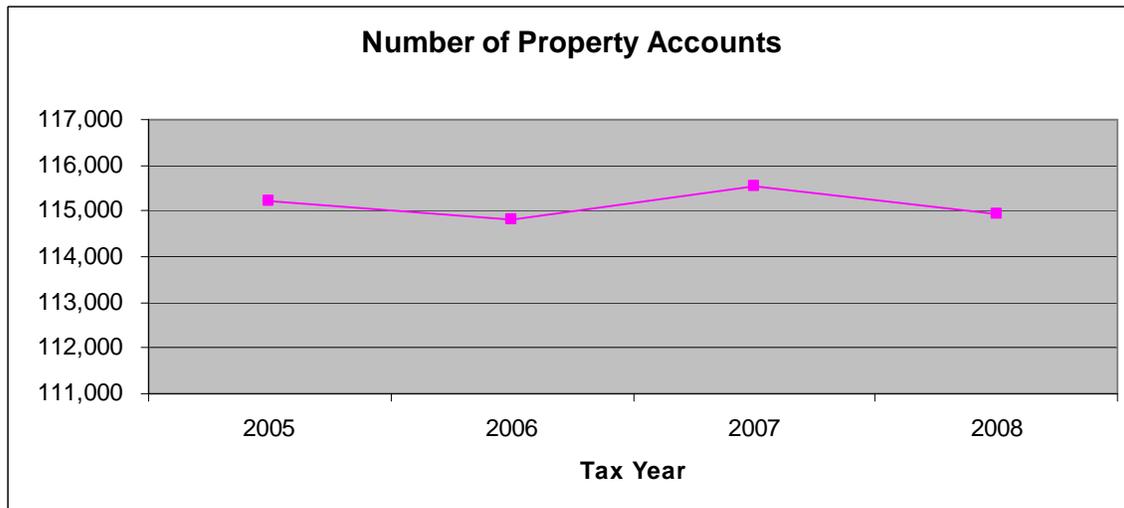
Source: Lawson Financial System

TAD is responsible for property value assessments. The City contributes approximately \$700,000 per year for TAD operations. TAD 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 five member Board of Directors, appointed by the taxing units within the boundaries of Tarrant County, constitutes the District’s governing body. TAD is responsible for local property tax appraisal and exemption administration for seventy-one jurisdictions or taxing units in the county. Appraisal responsibilities are divided between three departments, Residential, Commercial and Business Personal Property. In each department, appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation and information processes. It is the goal of TAD to periodically complete a thorough, on-site field review of all residential and commercial properties. Business personal property data is field-verified every year. Exemption administration includes reviewing new applications, periodically searching for invalid exemptions and mailing requests for confirmation of exemptions.

The following charts indicate the total taxable value and number of property accounts appraised by TAD for the City of Arlington over the past four years.



Source: TAD September Totals Report 2005 - 2008



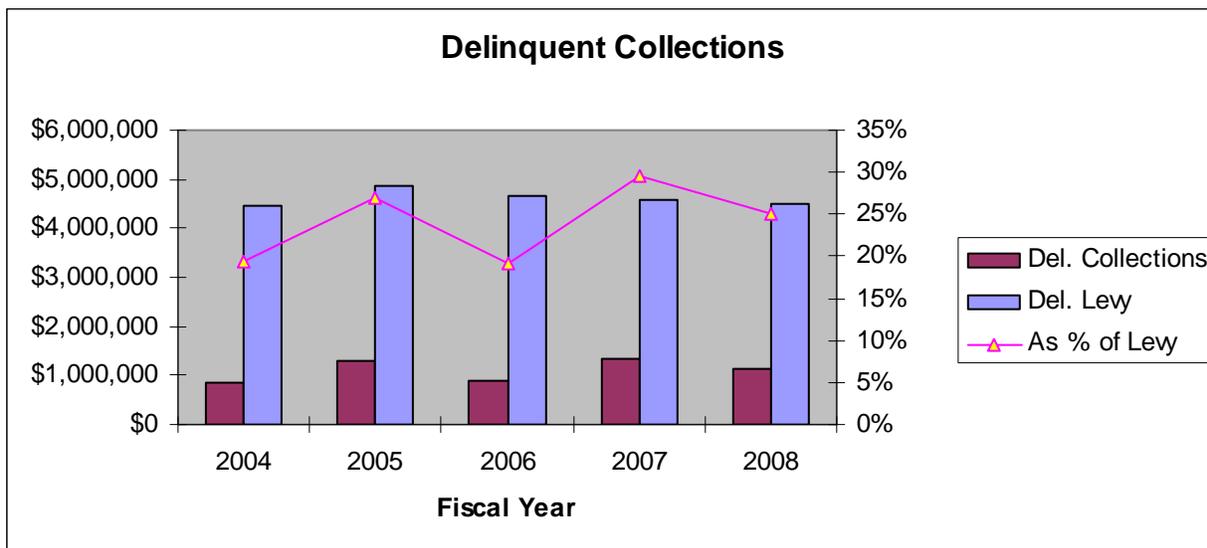
Source: TAD September Totals Report 2005 - 2008

The City’s Financial and Management Resources Department is primarily responsible for administering the property tax service agreement and related duties associated with property taxes. This includes recording the receipt of daily tax collections, reconciling reports of monthly property tax collections with recorded receipts, obtaining data necessary to record property tax abatements, calculating anticipated property tax revenue for budgeting purposes and overseeing the delinquent property tax collection agreement. Currently, two employees within the department share these duties and both spend only a portion of their available time on property tax related duties.

Property Tax Collections

In accordance with Section 31.10 of the Texas Property Tax Code, the Financial and Management Resources Department prepares a monthly tax collection report for the Mayor and City Council. The report summarizes tax collections and provides a comparison of collection rates to previous years.

In September 2007, the City contracted with a law firm for the collection of delinquent property taxes. The agreement allows the authorization to levy an additional penalty up to 20 percent of delinquent real and personal property taxes. The following chart indicates the total amount of delinquent property taxes collected over the past five years, compared to the delinquent levy.

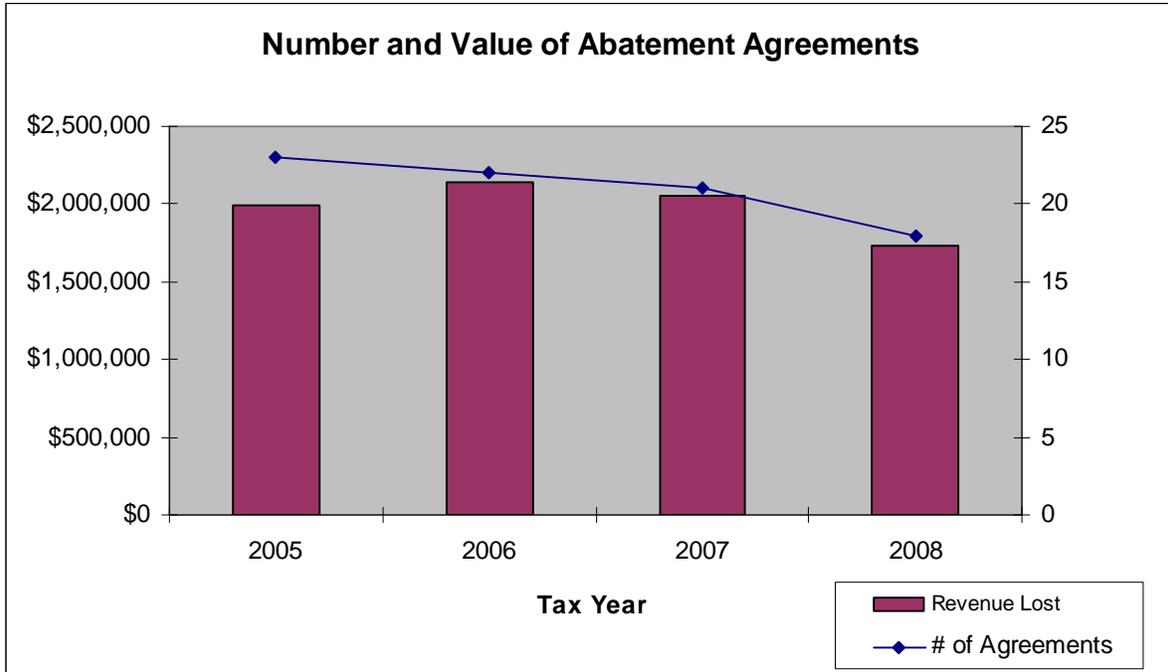


Source: Treasury Management Division statistics

Abatement Agreements

The Financial and Management Resources Department coordinates with the Economic Development Department to administer tax abatement agreements. A tax abatement is the full or partial exemption from ad valorem taxes on the value added to real property or new business personal property for a period of up to ten years and an amount of up to 90%. Specific levels of abatement are determined by the size, scope and location of the project.

As of tax year 2008, the City had 18 active abatement agreements. The Financial and Management Resources Department is responsible for communicating eligible property values for abatement to TAD. The following chart summarizes the number of active abatement agreements and the amount of tax levy lost as a result of abatement agreements over the last four years.



Source: TAD Totals Report 2005 – 2008

Mineral Lease Properties

Preliminary reports from TAD for the 2009 tax year indicate that the taxable value of mineral lease properties will result in approximately \$1 million in tax revenue for the City. In tax year 2008, the City had only 13 mineral lease property accounts with a taxable value of \$1.9 million. In tax year 2009, the number of accounts is expected to exceed 1,382 and a taxable value of \$157 million. TAD is projecting an additional increase in the number of accounts for tax year 2010. According to a TAD representative, some entities have created policies restricting the use of tax revenue related to mineral lease properties under the belief that such revenue is not recurring and therefore should not be used to fund maintenance or operating expenditures. The current value of mineral lease accounts at the City of Arlington is not significant compared to the total property tax levy. However, the potential exists that the value of such accounts could become material in the future.

Property Tax Calendar

There are numerous important dates and deadlines during the tax year. Many, such as the January 1 assessment date, are specifically stated in the Texas Property Tax Code.

Others, such as a property owner's deadline to file a notice of protest, may depend on the date the chief appraiser performs an action (in this case, the date he mails a notice of appraised value to the property owner).

January 31

This is the last day to pay taxes before delinquency. The first payment on quarter payment plans for over sixty-five and disability homestead accounts is due on or before this date.

February 1

Penalty and interest charges begin to accrue on taxes for the preceding year. Penalty begins at 6% and increases monthly to a maximum of 12% in July. Interest begins to accrue at the rate of 1% per month until the account is paid in full.

March 31

This is the last day to make 2nd payment on a quarter payment plan.

April 30

This is the last day to file an exemption application at Tarrant Appraisal District.

May 31

This is the last day to make 3rd payment on a quarter payment plan. This is the last day to file a protest with Tarrant Appraisal District for the current year.

June 30

This is the last day to make the 2nd payment on the half payment option.

July 1

All delinquent accounts for the current year are turned over to the tax attorneys for collection. A collection penalty of 15% of the total unpaid balance is added to the current delinquent accounts.

July 25

The Chief Appraiser certifies the appraisal roll to the taxing units

July 31

This is the last day to make final payment on a payment plan.

September 25

This is the last day for taxing units to set the tax rate.

September 30

All tax rates must be set by taxing units.

October 1

The current collection period begins. Tax Bills are mailed on or as soon as possible thereafter this date, throughout the county to real and personal property owners.

November 30

This is the last day to make the first payment on the half payment option.

Source: Tarrant County Tax Assessor/Collector website

Detailed Audit Findings

1. Inaccurate abatement calculations resulted in lost property tax revenue in tax year 2008.

The City's Financial and Management Resources and Economic Development Departments coordinate and communicate with TAD to ensure that abated property values are properly recorded in the tax roll. Abated values are determined by the individual agreements and are generally expressed as a percentage of assessed value. Most of the agreements include stipulations regarding assessed value and/or job increases that must be met in order to qualify for a given level of abatement. Administratively, the Financial and Management Resources Department is responsible for contacting taxpayers with active abatement agreements to obtain annual certification statements. These statements are used to provide project information regarding job retention/creation and project status.

Based on the information recorded on the annual certification statements and the abatement agreements, the Financial and Management Resources Department determines the correct percentage for which each taxpayer qualifies. This determination is forwarded to the Economic Development Department for review and then forwarded to TAD for calculation and input. For each abatement agreement, TAD prepares a worksheet that details the calculation of exempt value for each taxpayer. TAD does not forward and the City does not request the abatement worksheets.

The City Auditor's Office obtained and reviewed 15 abatement worksheets for tax year 2008 and noted the following exceptions.

- TAD used the incorrect percentage (60%) in calculating the abatement for one taxpayer, a \$4,069 error. According to Financial and Management Resources personnel, the correct percentage (25%) was communicated to TAD by the City but an inadvertent error resulted in the wrong percentage used on the abatement worksheet. Had the City obtained and reviewed the abatement worksheet, it may have identified the error prior to inclusion on the tax roll. As of May 2009, there was no correction to the account.
- One company received an 80% abatement but should only have received a 60% abatement, resulting in lost taxes to the City of \$18,432. The City Auditor's Office did not find sufficient documentation in the file to justify the 80% determination. According to Financial and Management Resources personnel, the wrong percentage was communicated to TAD for this agreement. As of May 2009, there was no correction to the account for tax year 2008.
- Although the abatement agreements have right to audit clauses, no onsite reviews have been performed. It appears that the City has been relying on certification statements from taxpayers to determine eligibility for abatements related to job creation/retention or other criteria.

If the City does not verify TAD abatement calculations, the City may lose tax revenue, as noted above. In addition, if the City does not perform site visits, inaccurate information on annual certification statements may go undetected, also resulting in lost revenue to the City. The errors noted may have been prevented if the City had established effective monitoring controls over the abated value calculation process.

Recommendation:

The Financial and Management Resources Director should ensure that a database or listing of abatement agreements is utilized to track and monitor calculations of abated values, including how a taxpayer qualified for a given abatement percentage.

Management's Response:

Concur/Under way. A more thorough documentation process began during the 2009 abatement certification process, which identifies qualifying factors where abatements are granted (or not) and also captures some history. In addition, a comprehensive abatement database is currently under development in conjunction with the Economic Development office, and will provide information regarding thorough abatement history as well as qualification for abatements at the various tiers and evaluation criteria. It will also highlight revenue and job gains.

Target Date: January 2010
Responsibility: Ethan Klos, Treasury Manager
Robert Sturns, Economic Development Manager

Recommendation:

The Financial and Management Resources Director should ensure that the City requests that TAD adjust the accounts that have inaccurate abatement calculations.

Management's Response:

Concur/Under way. With new staff members in the City's Treasury Division, conversations have begun with the appropriate TAD staff regarding previous, incorrect abatement calculations. These calculations will be provided in writing to TAD, who will communicate to Tarrant County in order that the taxpayers be notified and corrected bills mailed.

Target Date: September 2009
Responsibility: Ethan Klos, Treasury Manager

Recommendation:

The Financial and Management Resources Director should ensure that the City obtains abatement calculation worksheets from TAD to confirm calculated values.

Management's Response:

Concur/Under Way. This process has begun. TAD calculation worksheets will be requested by the City during 2009 prior to TAD providing the abatement calculations to Tarrant County. The TAD worksheets will be compared with what was recommended, and feedback will be provided to TAD prior to the abatement information being reported (by TAD) to Tarrant County.

Target Date: September 2009
Responsibility: Ethan Klos, Treasury Manager

Recommendation:

The Financial and Management Resources Director and the Economic Development Manager should coordinate to determine when site visits should be made to confirm significant abatement information included on annual certification agreements.

Management's Response:

Concur. Financial and Management Resources will coordinate with Economic Development to make six site visits per year, so that each of the 18 abatement agreements are verified every three years.

Target Date: January through June 2010
Responsibility: Ethan Klos, Treasury Manager
Robert Sturns, Economic Development Manager

2. The City does not periodically assist TAD in identifying potential homeowners that are not entitled to the homestead exemption, potentially losing tax revenue.

Section 11.13 of the Texas Property Tax Code allows a residence homestead exemption as approved by the taxing authority. Currently, the City allows qualified homeowners a 20% residence homestead exemption. Section 11.13 defines a residence homestead as:

“a structure (including a mobile home) or a separately secured and occupied portion of a structure (together with the land, not to exceed 20 acres, and improvements used in the residential occupancy of the structure, if the structure and the land and improvements have identical ownership) that:

- (A) is owned by one or more individuals, either directly or through a beneficial interest in a qualifying trust;
- (B) is designed or adapted for human residence;
- (C) is used as a residence; and
- (D) is occupied as his principal residence by an owner or, for property owned through a beneficial interest in a qualifying trust, by a trustor of the trust who qualifies for the exemption.”

TAD maintains owner information in its appraisal system but does not maintain any records that would indicate whether a homeowner is actually occupying the home as their principal residence. The City's Water Utilities Department maintains master account information for over 90,000 utility accounts. This information can be used to help determine whether a resident claiming a homestead exemption is actually qualified for the exemption.

The City Auditor's Office compared Water Utilities billing data to TAD information to determine if non-residents are claiming homestead exemptions. Due to different data conventions, the City Auditor's Office was able to match only 56,702 of the total records. The

remaining records did not match entries in the Water Utilities billing system. In some cases, this is due to different address naming conventions. For example, in the Water Utilities data, 'trail' is represented as "TRL" but in TAD is just "TR". "PLC", "CIR" and "CRT" also appear to be recorded differently in the two systems. Directional indicators ("W", "E", "N" and "S") are also not used consistently. Due to difficulties in matching the data electronically, no further review was performed to match more than the 56,702 exact matches.

After obtaining the address matches, the City Auditor's Office ran a query to identify matching homeowner and water account owner names. The total number of matches was 50,014. The resulting 6,688 unmatched records include (but may not be limited to):

- matched records not classified as such due to shortness of name. For example, "Do", "Loe" etc. Using a short matching string length would increase the number of inaccurate matches such as "Do" and "Armando";
- possible individuals with different last names. Water utilities data might say Heather Smith but TAD says Heather Jones (recently married);
- spelling errors and typos. TAD might say "Carauthers" but water utilities data may have "Crauthers";
- joint owners. There are some records where there are two TAD accounts and the water utilities account is in only one person's name;
- TAD may have a listing such as "Smith, David & Jones, Melissa." The water account is in Jones' name and showed as a non-match because the attempted match would have been to "Smit"; and,
- actual instances where TAD owner name and water account owner name are not similar, possibly indicating an invalid exemption for a non-resident.

Of the unmatched records, the City Auditor's Office selected a random sample of 66 records to review in further detail. Based on available information, it was determined that 18 of the 66 accounts required further review by TAD to determine eligibility for the homestead exemption. If the same ratio applied to the 6,688 unmatched records, there would be approximately 1,824 unmatched records that would need to be researched further.

Of the 18 accounts identified for further review, TAD identified nine that they (TAD) would request to reapply for their exemption. If the same ratio applied to the 6,688 unmatched records, 912 ($6,688 * 9/66$) accounts would be asked to reapply. Actual results would depend on how many homeowners reapply and qualify for homestead exemptions.

TAD did not/does not monitor those requested to reapply for their exemptions to determine how many result in "lost" exemptions. As noted above, Water Utilities billing data does not match TAD data very well, complicating the identification of accounts that may not be entitled to current homestead exemptions.

The City has used an outside consultant in the past to compare Water Utilities data to TAD records. However, it has been several years since such a comparison has been conducted and the City Auditor's Office was not able to obtain documentation regarding the results of past

comparisons. It would appear that the City could benefit from periodically comparing TAD ownership records with water billing records and communicating the results to TAD.

Recommendation:

The Financial and Management Resources Director should coordinate with the Water Utilities Information Services Division and/or the Information Technology Department to periodically compare water billing data to TAD data to identify accounts that should be requested to reapply for exemptions.

Management's Response:

Do Not Concur. The Tarrant Appraisal District has a variety of checks and balances in place which serve this purpose. The attached document, provided by TAD, describes the numerous methods utilized to continually monitor exemption status eligibility, as well as automated tools which notify them of changes of address and ownership. TAD currently employs up to twelve staff members who monitor exemptions. (Exemption Attachment B)

Recommendation:

The Financial and Management Resources Director should ensure that documentation is retained regarding individuals asked to reapply for exemptions as a result of the comparison noted above.

Management's Response:

Do Not Concur. TAD retains documents in accordance with the State's document retention schedule, and has since 1982. They have agreed that Financial and Management Resources staff may have access to their files when needed for periodic research and verification of exemption status, which makes it unnecessary for Financial and Management Resources to retain the documents. (Exemption Attachment B)

Audit Comment:

Management's referenced attachment (Attachment B – Audits of Qualification of Homestead and Absolute Exemptions) states that "Cities provide assistance to the District by comparing homestead property data to city water record data (or other property based records), comparing who owns the property to who is receiving the water bill." Therefore, it appears that TAD's system of "checks and balances" includes receiving comparisons of property data as recommended by the City Auditor's Office.

3. The City does not perform analytical reviews of property tax appraisal data.

Property taxes represent approximately 40% of the City's general fund budgeted revenues. Because property taxes are such an important source of revenue to the City, sound business practices dictate that a sufficient level of oversight should be performed to verify the accuracy and completeness of appraisal data.

After noting that the City does not currently perform any type of review of the tax appraisal data received from the Tarrant Appraisal District, the City Auditor's Office performed the following steps to determine whether additional oversight was necessary.

- Identified tax accounts on the 2007 tax roll that did not match accounts on the 2008 tax roll to determine if accounts were inappropriately excluded from the 2008 roll.
- Selected a judgmental sample of construction permit activity from January to August 2007 to determine if appraisals indicated that construction values were reflected on the 2008 roll.
- Compared 2007 personal property records to 2008 records to determine if business personal property accounts removed in 2008 were actually not required to file for 2008.
- Compared Enquesta (Water Utilities' billing system) data to TAD data for 2008 and reviewed a sample of addresses that did not have matching records in TAD.
- Reviewed a sample of properties where the owner's mailing address did not match the property address to determine if the property owner should be entitled to the homestead exemption.

Generally, audit testing indicated that the data received from TAD appears to be accurate and reliable. However, in some cases, the testing indicated that the City may benefit from periodically reviewing appraisal data. The following was noted.

- Only one \$35K property was noted as an exception in the review of 2007 roll data compared to 2008 roll data. Per TAD, this property was deleted in error and added back to the roll on September 16, 2008. There was not a monetary impact to the City and the exception was considered immaterial.
- TAD obtained construction permit values from the City and generally considered the new construction values in determining appraised value. However, the City Auditor's Office noted that the City does not currently monitor or ensure that construction permit values are considered in the appraisal process. In reviewing specific accounts with TAD, TAD representatives indicated that access to additional permit information (such as square footage of concrete poured, etc.) may help them determine the value of property.
- According to TAD, business personal property renderings have a less than 70% compliance ratio from year to year, resulting in the need to closely monitor changes in accounts. In reviewing 2007 business property accounts that were removed from the tax roll in 2008, the City Auditor's Office did not find any accounts from 2007 that should also have been rendered in 2008. TAD was able to quickly respond to City Auditor's Office questions on specific accounts, indicating prior review and knowledge.
- The City Auditor's Office judgmentally selected a sample of 30 addresses that were recorded in the Water Utilities billing system but were not shown as taxable properties on the TAD website. Explanations were readily available to explain why most of the addresses were not found on TAD. For example, duplexes are typically shown as one parcel on TAD but may have multiple water accounts. The City Auditor's Office was not able to obtain quick explanations for why three of the addresses were not taxable accounts. After researching and performing site visits, the City Auditor's Office was

able to verify that two of the three addresses were actually part of parcels recorded on TAD under different addresses. For the final address, TAD confirmed that the recorded value for a parcel was based on two separate structures included on the parcel, each with its own address and water account.

- One exception was noted with a homeowner that claimed homestead exemptions on two properties. The exemption was removed for an Arlington property in 2009 but the owner received both a Dallas County exemption and Tarrant County exemption for property owned on January 1, 2008. However, generally, homestead exemptions were removed for owners that moved or relocated and had changes of address during calendar year 2008.

The results of the testing noted above indicate that TAD data is reliable. However, limited additional oversight could be beneficial to ensure that the City is maximizing property tax revenue and to allow the City to periodically assess the risk of potential erroneous or fraudulent assessment data. The City has not previously established a practice of periodically assessing the risk of erroneous information.

Recommendation:

The Financial and Management Resources Director should ensure that oversight of the appraisal process is increased by:

- determining the frequency and extent of monitoring that should be performed to verify the tax roll; and,
- testing as deemed necessary and communicating the results of such tests as appropriate.

Management's Response:

Do Not Concur. TAD staff members are trained and tested via an extensive certification process that is governed by the State's Board of Tax Professional Examiners. The attached 2009-2010 Reappraisal Plan from TAD explains the extent to which their employees are trained in the appraisal business (beginning p. 5). In addition, the State of Texas Comptroller's Property Tax Assistance Division (PTAD) performs random sample testing of appraisals on behalf of the Texas Education Agency (TEA). While the PTAD does not serve as an oversight entity, they do report their findings to TAD so that the findings may be used for comparison, and the results of those samples are available to the City. During the prior tax year, PTAD studied a random sample of 280 residential and 60 commercial properties. (Reappraisal Plan Attachment C)

Audit Comment:

The City Auditor's Office agrees that procedures are in place to ensure that TAD staff members are well trained and that data received from TAD has been accurate and reliable. However, the future effectiveness of controls may change due to economic, industry, regulatory and operating changes. Weakened controls could result in errors or fraud that may not be detected. Management should, therefore, periodically assess risks. Based on risk assessment results, management may determine that monitoring of property tax appraisal data is necessary to verify that controls continue to function as designed. The City Auditor's

Office did not find evidence that risk assessment activities had been performed during audit fieldwork.

4. The City does not reconcile the summary certified tax roll report with detailed electronic data received from the Tarrant County Appraisal District.

In late July of each year, TAD sends the City an electronic file of all properties included in the City's appraisal roll. The detail information is transferred to a legacy mainframe system and will be recorded in the AMANDA client server-based development tracking system. The data is used by various departments to confirm address data, analyze property tax trends and prepare maps of valuation data.

TAD also distributes a hardcopy report of the valuation summary, which is used by the City to support estimates of the expected tax levy for the next fiscal year. The report is the basis for estimated revenue amounts that are included in the City's annual budget.

The City does not compare the data provided on the electronic file to the totals presented on the summary reports of the appraisal roll. Such a comparison is necessary to ensure that the City has received accurate data and that any analysis or comparison to past data is valid. For tax year 2008 data, the City Auditor's Office was able to compare the detailed electronic file to the summary tax roll and found only immaterial differences. However, it required two attempts to import the data to a usable format, indicating that comparison is necessary before importing or analyzing data.

According to Information Technology Department staff, the City has not established an owner of property tax data received from TAD. Therefore, no City department has taken an active role in verifying the detailed data received from TAD and importing the data to various City applications.

Recommendation:

The Financial and Management Resources Director should ensure that summary tax assessment information is reconciled to available detailed data.

Management's Response:

Concur. Financial and Management Resources staff will coordinate with TAD to receive detailed assessment data and conduct an annual comparison after the receipt of the July 25 Certified Roll.

Target Date: August 2010
Responsibility: Ethan Klos, Treasury Manager

5. The City does not periodically review tax exempt properties or ensure that TAD routinely reviews the tax exempt status of properties.

Chapter 11 Subchapter B of the Texas Property Tax Code details the various types of properties that may be exempt from property taxation. This includes the requirements for total, or absolute, exemption for cemeteries as well as religious and charitable organizations.

According to the 2008 certified tax roll, there were 2,354 accounts with absolute exemptions worth \$2.2 billion dollars (\$14.2 million in tax revenue) in Arlington. TAD has established policies and procedures for approving applications for tax exemption and for periodically performing field “re-checks” to verify that a property still qualifies for a claimed exemption. TAD utilizes its appraisal information system to indicate the date exemptions were first granted and to identify when field re-checks are performed. However, this information is not included in the certified tax roll data file and is currently only available to the City upon request.

The City Auditor’s Office reviewed a judgmentally selected sample of 45 absolute exemptions to determine whether the exemptions appeared to be appropriately granted. No exceptions were noted, but several of the properties required further research or explanation by TAD. A TAD representative also noted that one of the selected properties was initially denied an exemption and is on a more frequent (every two years) re-check schedule than the standard re-check (every eight to ten years). The TAD representative also noted that TAD has not been able to communicate consistently with a City liaison to obtain information that could assist in determining whether an organization should qualify for a given exemption. Such information may include certificate of occupancy information or other information that could assist TAD in determining how a property might be used.

Because no exceptions were noted in the sample of absolute exemptions, it appears that only limited review of absolute exemptions is required by the City. Such review could be performed to ensure that TAD is performing re-checks as expected and to perform periodic analytical reviews to identify properties that should be researched further. This would help ensure that absolute exemptions are given only to qualified organizations and ensure that property tax revenue is maximized.

The City has not previously performed a risk assessment of its property tax responsibilities and therefore has not identified a need for review of property tax exemptions.

Recommendation:

The Financial and Management Resources Director should ensure that a liaison is designated to coordinate with TAD personnel responsible for verifying absolute exemptions and should ensure that absolute exemptions are periodically reviewed and researched as considered necessary.

Management’s Response:

Concur. Financial and Management Resources staff will periodically review and research absolute exemptions utilizing TAD and City of Arlington records. (Exemption Attachment B)

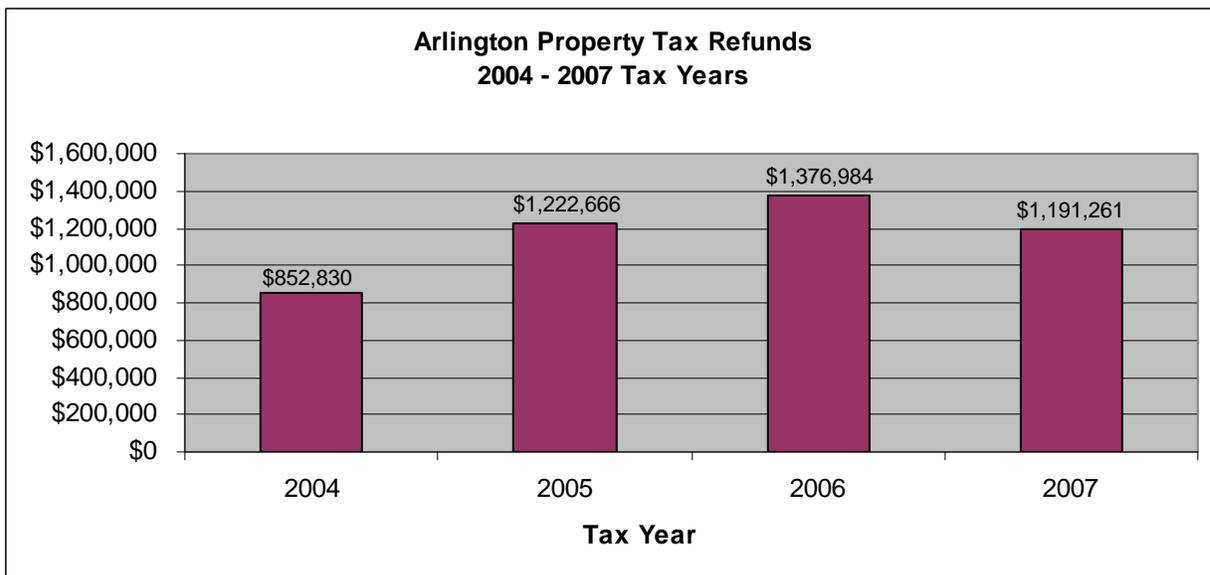
Target Date: September 2010
Responsibility: Ethan Klos, Treasury Manager

6. The City does not monitor tax refunds.

Property tax refunds are governed by Chapter 31 of the Texas Property Tax Code. The Chapter indicates that if a taxpayer applies to the tax collector of a taxing unit for a refund of an overpayment or erroneous payment of taxes and the auditor for the unit determines that the payment was erroneous or excessive, the tax collector shall refund the amount of the erroneous payment from available tax collections. Section 31.11 of the Property Tax Code indicates that the governing body of the taxing unit must also approve the refund if the amount of the refund exceeds \$2,500.

Refunds paid by the Tax Assessor/Collector are subtracted from tax revenue sent to the City. The amount of refunds paid on City taxes are summarized on numerous reports available to the City. However, the City does not obtain detail data on refunds. Therefore, although the City will know the dollar value of refunds over a specific period, the City would not know whether the amount is one large refund or multiple smaller refunds. The lack of detail would not allow the City to identify any potential anomalies such as recurring refund amounts, increased refunds for amounts just under the \$2,500 approval level or multiple refunds to taxpayers with identical last names.

The Tax Assessor/Collector was able to provide the City Auditor’s Office with detailed spreadsheets of refunds that match the summary reports available on the Tarrant County website. For the period October 2008 through January 2009, the Tax Assessor/Collector processed 300 refunds for \$89,853 for City of Arlington properties. The following chart documents the total amount of City refunds processed by Tarrant County over the past four tax years:



Source: Tarrant County Tax Assessor-Collector

The City Auditor's Office reviewed a sample of 30 of the refunds processed between October 2008 and January 2009 to verify that the refunds were appropriately calculated and approved. No exceptions were noted, however, additional research and explanations had to be obtained for several of the selected refunds.

Detail refund information can be obtained by the City in order to periodically perform trend analysis of refunds or to review specific refunds that may seem inappropriate or erroneous. The City has not previously identified a need to monitor tax refunds. However, because refunds represent a reduction of amounts otherwise due to the City, the risk exists that refunds may be given inappropriately. In Washington D.C., several individuals face federal charges for allegedly issuing more than \$40 million in fraudulent tax refund checks (Washington Post December 10, 2007).

Recommendation:

The Financial and Management Resources Director should ensure that the City periodically obtains detail refund information in order to perform a cursory review of the refunds processed and to identify any refunds that require explanation.

Management's Response:

Concur. Financial and Management Resources staff will work with Tarrant County to review random samples of refund recipients.

Target Date: Spring 2010
Responsibility: Ethan Klos, Treasury Manager

Recommendation:

The Financial and Management Resources Director should ensure that the appropriate City representative obtains an understanding of the Tarrant County Tax Assessor/Collector refund processes and conducts limited testing of those processes to verify that sufficient controls exist to ensure that refunds are appropriately approved and that reports of refund amounts are reliable.

Management's Response:

Concur. Financial and Management Resources staff will work with Tarrant County to increase our knowledge of refund processes and to conduct random sample testing of processes.

Target Date: Spring 2010
Responsibility: Ethan Klos, Treasury Manager

7. The City does not confirm delinquent property tax receivable amounts or reconcile reports of delinquent property taxes submitted to the collection attorney.

Section 6.30 of the Texas Property Tax Code provides that a taxing unit may contract with a private attorney for the collection of delinquent taxes and to provide compensation for such contract in an amount not to exceed 20% of the amount of the delinquent tax, penalty and interest for tax years 2003 and subsequent.

The City has entered into a professional services agreement with a law firm for the collection of delinquent taxes. Under the agreement, responsibilities of the law firm include the preparation and mailing of legal demand letters; the preparation and filing of pleadings, motions and judgments; representation of the City in judicial and administrative proceedings and the taking of other actions necessary to collect delinquent ad valorem taxes. The professional services contract also requires the law firm to provide various reports at the request of the City, including summary and detailed breakdowns of delinquent property taxes by year and type of property.

The collection attorney currently provides the City with a monthly summary report that identifies the amount of delinquent taxes collected; information on the number of mailings, lawsuits and judgments; and the number of bankruptcy representations. The report includes a spreadsheet that lists the total outstanding delinquent tax base. This report identified the delinquent tax base as \$3,910,701 as of January 1, 2009. This base did not equal the delinquent tax base amount (\$4,010,267) reported on year-to-date summary reports (as of December 31, 2008) available on the Tax Assessor/Collector website.

The collection attorney receives a weekly electronic update of delinquent accounts from the Tax Assessor/Collector. The collection attorney uses a report from the second week of each month to reflect how much delinquency was turned over to their firm. According to the collection attorney, this amount does not balance to any report available to the City. Some items (agriculture land) shown as delinquent do not actually get collected by the attorney. Therefore, it is difficult to determine whether all amounts shown as delinquent are being actively pursued.

Section XX (Computer Software License) of the professional services contract states:

“The FIRM grants to the CITY, upon execution of this Contract, an exclusive perpetual license to use and modify all computer software developed, owned and used by the FIRM to perform this Contract. The FIRM will furnish to the CITY a current copy of all such software and all amendments thereto. If any such software has been purchased by the FIRM pursuant to a copyright license, the FIRM shall procure a license for the CITY to utilize such software during the term of this Contract.”

The City does not currently have direct access to the information system used by the Tax Assessor/Collector. It may be possible to obtain such access in order to produce reports of delinquent accounts. Alternatively, the Tax Assessor/Collector can provide the City with any requested information necessary to verify that amounts reported as delinquent are being actively pursued. If such reconciliation is not performed, a risk exists that amounts shown as delinquent are erroneous or fraudulently presented to conceal theft.

Recommendation:

The Financial and Management Resources Director should ensure that staff reconciles the amount of delinquent property taxes receivable per the Tarrant County Tax Assessor/Collector with the amount reported as subject to collection by the collection firm.

Management's Response:

Do Not Concur. The City has successfully outsourced its tax office and tax collection functions. While Linebarger, the outsourced delinquent property tax collector, produces reports that are not identical to the County, they do reconcile. This is checked by City staff. However, the above recommendation would require that some portion of the tax collection office that has been successfully outsourced be brought back into the City, with the additional expense that would accompany such additional effort.

Audit Comment:

In a communication to the City Auditor's Office, the Budget Manager indicated that staff started comparing Tarrant County reports to reports from the delinquent property tax attorney in March 2009, which was after the fieldwork conducted by the City Auditor's Office. A confirmation of such reconciliation will be performed during audit follow-up. The City Auditor's Office does not believe that the above recommendation would require that a portion of the tax collection office be brought back into the City.

Attachment A

Management's Response

Detailed Audit Findings

History/Context

In FY 2003, the City closed its internal tax collections office and outsourced those efforts to Tarrant County. The total net savings that year was \$78,000. The ongoing cost savings was approximately \$123,000 beyond FY 2003. Assuming inflation rates as calculated by the Federal Reserve, the same internal costs would equal \$142,500 in 2009 dollars. In FY 2009, the City has paid Tarrant County a total of \$74,744 for tax collection efforts. It is not the intention of City Management at this time to bring the tax office or its functionality back inside the City organization.

This audit is based on data from the 2008 tax year. Since that time, the City's Financial Services and Management Resources departments were combined. Additionally, just prior to this consolidation, two long-tenured Finance employees who worked with the tax function retired. While the City has always had a good working relationship with Tarrant Appraisal District and the Tarrant County Tax Assessor/Collector, special emphasis has recently been put on developing those relationships and better defining roles and responsibilities. A new Treasury Analyst and a TIRZ Coordinator have joined the organization, and they have been tasked with a broader focus. They not only work with Tarrant County on tax issues, but they collaborate with the City's new Economic Development Division on tax abatement issues. These two divisions research data and produce several types of tax reports and analysis. They also provide support staffing and reporting on the City's Tax Increment Reinvestment Zones. These two groups, Treasury and Economic Development, are developing much closer working relationships and better communication with Tarrant County and the Tarrant Appraisal District.

1. Inaccurate abatement calculations resulted in lost property tax revenue in tax year 2008.

Recommendation:

The Financial and Management Resources Director should ensure that a database or listing of abatement agreements is utilized to track and monitor calculations of abated values, including how a taxpayer qualified for a given abatement percentage.

Management's Response:

Concur/Under way. A more thorough documentation process began during the 2009 abatement certification process, which identifies qualifying factors where abatements are granted (or not) and also captures some history. In addition, a comprehensive abatement database is currently under development in conjunction with the Economic Development office, and will provide information regarding thorough abatement history as well as qualification for abatements at the various tiers and evaluation criteria. It will also highlight revenue and job gains.

Target Date: *January 2010*

Responsibility: *Ethan Klos, Treasury Manager and Robert Sturns, Economic Development Manager*

Recommendation:

The Financial and Management Resources Director should ensure that the City requests that TAD adjust the accounts with inaccurate abatement calculations.

Management's Response:

Concur/Under way. With new staff members in the City's Treasury Division, conversations have begun with the appropriate TAD staff regarding previous, incorrect abatement calculations. These calculations will be provided in writing to TAD, who will communicate to Tarrant County in order that the taxpayers be notified and corrected bills mailed.

Target Date: *September 2009*

Detailed Audit Findings

Responsibility: Ethan Klos, Treasury Manager

Recommendation:

The Financial and Management Resources Director should ensure that the City obtains abatement calculation worksheets from TAD to confirm calculated values.

Management's Response:

Concur/Under Way. This process has begun. TAD calculation worksheets will be requested by the City during 2009 prior to TAD providing the abatement calculations to Tarrant County. The TAD worksheets will be compared with what was recommended, and feedback will be provided to TAD prior to the abatement information being reported (by TAD) to Tarrant County.

Target Date: September 2009
Responsibility: Ethan Klos, Treasury Manager

Recommendation:

Financial and Management Resources Director and the Economic Development Manager should coordinate to determine when site visits should be made to confirm significant abatement information included on annual certification agreements.

Management's Response:

Concur. Financial and Management Resources will coordinate with Economic Development to make six site visits per year, so that each of the 18 abatement agreements are verified every three years.

Target Date: January through June 2010
Responsibility: Ethan Klos, Treasury Manager and Robert Sturns, Economic Development Manager

2. The City does not periodically assist TAD in identifying potential homeowners that are not entitled to the homestead exemption, potentially losing tax revenue.

Recommendation:

The Financial and Management Resources Director should coordinate with the Water Utilities Information Services Division and/or the Information Technology Department to periodically compare water billing data to TAD data to identify accounts that should be requested to reapply for exemptions.

Management's Response:

Do Not Concur. The Tarrant Appraisal District has a variety of checks and balances in place which serve this purpose. The attached document, provided by TAD, describes the numerous methods utilized to continually monitor exemption status eligibility, as well as automated tools which notify them of changes of address and ownership. TAD currently employs up to twelve staff members who monitor exemptions. (Exemption Attachment)

Recommendation:

The Financial and Management Resources Director should ensure that documentation is retained regarding individuals asked to reapply for exemptions as a result of the comparison noted above.

Management's Response:

Do Not Concur. TAD retains documents in accordance with the State's document retention schedule, and has since 1982. They have agreed that Financial and Management Resources staff may have access to their files

Detailed Audit Findings

when needed for periodic research and verification of exemption status, which makes it unnecessary for Financial and Management Resources to retain the documents. (Exemption Attachment)

3. The City does not perform analytical reviews of property tax appraisal data.

Recommendation:

The Financial and Management Resources Director should ensure that oversight of the appraisal process is increased by:

- Determining the frequency and extent of monitoring that should be performed to verify the tax roll
- Conducting testing determined as necessary and communicating the results of such testing as appropriate

Management's Response:

Do Not Concur. TAD staff members are trained and tested via an extensive certification process that is governed by the State's Board of Tax Professional Examiners. The attached 2009-2010 Reappraisal Plan from TAD explains the extent to which their employees are trained in the appraisal business (beginning p. 5). In addition, the State of Texas Comptroller's Property Tax Assistance Division (PTAD) performs random sample testing of appraisals on behalf of the Texas Education Agency (TEA). While the PTAD does not serve as an oversight entity, they do report their findings to TAD so that the findings may be used for comparison, and the results of those samples are available to the City. During the prior tax year, PTAD studied a random sample of 280 residential and 60 commercial properties. (Reappraisal Plan Attachment)

4. The City does not reconcile the summary certified tax roll report with detailed electronic data received from the Tarrant County Appraisal District.

Recommendations:

The Financial and Management Resources Director should ensure that summary tax assessment information is reconciled to available detailed data.

Management's Response:

Concur. Financial and Management Resources staff will coordinate with TAD to receive detailed assessment data and conduct an annual comparison after the receipt of the July 25 Certified Roll.

Target Date: August 2010
Responsibility: Ethan Klos, Treasury Manager

5. The City does not periodically review tax exempt properties or ensure that TAD routinely reviews the tax exempt status of properties.

Recommendations:

The Financial and Management Resources Director should ensure that a liaison is designated to coordinate with TAD personnel responsible for verifying absolute exemptions and should ensure that absolute exemptions are periodically reviewed and researched as considered necessary.

Management's Response:

Concur. Financial and Management Resources staff will periodically review and research absolute exemptions utilizing TAD and City of Arlington records. (Exemption Attachment)

Target Date: September 2010

Detailed Audit Findings

Responsibility: Ethan Klos, Treasury Manager

6. The City does not monitor tax refunds.

Recommendation:

The Financial and Management Resources Director should ensure that the City periodically obtains detail refund information in order to perform a cursory review of the refunds processed and to identify any refunds that require explanation.

Management's Response:

Concur. Financial and Management Resources staff will work with Tarrant County to review random samples of refund recipients.

Target Date: Spring 2010
Responsibility: Ethan Klos, Treasury Manager

Recommendation:

The Financial and Management Resources Director should ensure that the appropriate City representative obtains an understanding of the Tarrant County Tax Assessor Collector refund processes and conducts limited testing of those processes to verify that sufficient controls exist to ensure that refunds are appropriately approved and that reports of refund amounts are reliable.

Management's Response:

Concur. Financial and Management Resources staff will work with Tarrant County to increase our knowledge of refund processes and to conduct random sample testing of processes.

Target Date: Spring 2010
Responsibility: Ethan Klos, Treasury Manager

7. The City does not confirm delinquent property tax receivable amounts or reconcile reports of delinquent property taxes submitted to the collection attorney.

Recommendations:

The Financial and Management Resources Director should ensure that staff reconciles the amount of delinquent property taxes receivable per the Tarrant County Tax Assessor-Collector with the amount reported as subject to collection by the collection firm.

Management's Response:

Do Not Concur. The City has successfully outsourced its tax office and tax collection functions. While Linebarger, the outsourced delinquent property tax collector, produces reports that are not identical to the County, they do reconcile. This is checked by City staff. However, the above recommendation would require that some portion of the tax collection office that has been successfully outsourced be brought back into the City, with the additional expense that would accompany such additional effort.

Attachment B

Audits for Qualification of Homestead and Absolute Exemptions

TARRANT APPRAISAL DISTRICT
AUDITS FOR QUALIFICATION
OF
HOMESTEAD AND ABSOLUTE EXEMPTIONS

- **All Exemptions**

- A change in ownership programmatically stops an exemption.
- A change in exemption status will result in the account reporting on a daily audit report. The daily audit report is reviewed and necessary corrective action is taken.
- New applications are thoroughly reviewed to ensure statutory requirements and qualifications are met. Properties are then monitored for various types of changes which may result in the exemption being canceled, modified or tagged for reapplication.

- **Homestead Type Exemptions**

- If applicant has not provided the necessary documentation to establish ownership or residency the application is returned and/or a "more information" letter is sent to applicant. Failure to provide the necessary information to support ownership or residency will result in the denial of exemption.
- A change in mailing address may be an indication the owner has moved or requested an alternate location for mail delivery. A change in mailing address on a homestead property will result in the account being tagged for reapplication. The District receives information regarding forwarding addresses and/or non delivery of mail from the following sources:
 - All value notices are mailed utilizing the USPS Address Change service. Forwarding address information is made available electronically to the District monthly. All non deliverable value notices are returned to the District for review and research.
 - Semi-annually the District processes the entire owner file against the USPS NCOA (National Change of Address) database. Forwarding addresses are programmatically applied to the owner record. Properties with homestead type exemptions are programmatically tagged for reapplication.
 - Tax statements from Tarrant County Tax Office and other surrounding tax offices are mailed utilizing the USPS Return Service Requested service. All non deliverable tax statements and all tax statements with USPS forwarding orders on file are sent to the District for processing.
 - Annually the District mails Exemption Confirmation Postcards to all property owners receiving benefit of a homestead exemption (excluding those ear marked for reapplication). The postcards are mailed with USPS Return Service Requested service. All non deliverable postcards and all postcards with USPS forwarding orders on file are returned to the District for processing.
- Owners of homesteaded property with a noted mailing address change will be asked to reapply for the homestead exemption. Any returned application is researched extensively to insure the owner still occupies the property.
- Individuals whose mailing address is permanently changed to a PO Box or a nursing home will be asked to reapply every three years to ensure they qualify for the exemption.
- Individuals who are exercising a two year absence from their homestead property, section 11.13(l) of the Texas Property Tax Code, will be asked to reapply annually, during this period.
- The District currently utilizes various skip tracing services to verify eligibility for exemptions.
- The District daily researches the Fort Worth Star Telegram website for the obituaries of deceased individuals with exemptions. The estate of the deceased will receive a written letter within 60 days of the date of death to provide notification of exemption(s) cancellation and to request a

TARRANT APPRAISAL DISTRICT
AUDITS FOR QUALIFICATION
OF
HOMESTEAD AND ABSOLUTE EXEMPTIONS

copy of the death certificate. A surviving spouse may contact the District and request a homestead application.

- The District audits over 65 homestead exemptions every 10 years by asking the owner to reapply. A sizeable amount of information is obtained regarding deceased individuals, as well as notification of placement in assisted living or nursing homes.
- The District audits disabled person homestead exemptions every three years by asking the owner to reapply, as this is a guideline used by the Social Security Administration. Disabled individuals may be able to return to work and therefore, be ineligible for this type of exemption.
- Annual audits are produced and reviewed to determine if an owner may be receiving benefit of multiple homestead exemptions. If such a determination is made, one of the erroneously granted exemptions will be cancelled. The owner will be notified of such determination and by law, provided the opportunity to file a protest to the appraisal review board.
- Property owner's qualifying for the new 100% disabled veteran exemption will be asked to reapply every 1 to 2 years to insure they continue to qualify.
- Non residential use of homesteaded property may result in the property being split into qualifying and non qualifying usage.
- Cities provide assistance to the District by comparing homestead property data to city water record data (or other property based records), comparing who owns the property to who is receiving the water bill.
- District appraisal staff conducts field checks and inform exemption division of vacant, rental or uninhabitable properties.
- **Homestead Exemptions with Tax Ceilings**
 - Tax Ceilings are subject to increase based upon new construction or added value to the property. The District annually reviews accounts with established tax ceilings to determine if the ceiling will need to be adjusted due to new construction.
- **Absolute Exemptions**
 - New exemption applications are thoroughly reviewed to ensure statutory requirements and qualifications are met. Requirements extend into ownership of property, organization governance and bylaws, as well as qualifying use of property.
 - Each property is field inspected to ensure the use complies with the Texas Property Tax Code. Pictures may be taken and field notes are often collected. Findings may result in communication with applicant clarifying specific issues. A final determination will be made to grant, deny or change the exemption and the applicant will be notified in writing.
 - Properties receiving benefit of an absolute exemption will be field inspected once every ten years, more often if deemed necessary.
 - Property owners qualifying for an exemption that requires an annual application will be mailed an application every January 1.
 - Organizations qualifying for a community housing development organization exemption are notified January 1 of annual compliance requirements.
 - Charitable hospitals qualifying for a charitable exemption are required by the Texas Property Tax Code to submit annual community benefits reports to the District. The community benefit reports are reviewed to determine if compliance with section 11.1801 of the Texas Property Tax Code.

TARRANT APPRAISAL DISTRICT
AUDITS FOR QUALIFICATION
OF
HOMESTEAD AND ABSOLUTE EXEMPTIONS

- Properties granted an absolute exemption based upon a three year or six year new construction plan are regularly reviewed to determine the status of new construction. Correspondence is often sent to the property owner requesting a certificate of occupancy or providing notification of upcoming completion deadlines.
- Properties granted an absolute exemption based upon a three or six year new construction plan are subject to a cancellation of exemption if the property is sold prior to completing construction. These types of properties are monitored for ownership changes.

Retention Guidelines for Documents:

Approved applications for exemption or special appraisal: Until superseded or entitlement ends plus five years.

Denied Applications for exemption or special appraisal: one year

Absolute exemptions, partial exemption and special appraisal: permanent

Attachment C

Tarrant Appraisal District 2009-2010 Reappraisal Plan

Tarrant Appraisal District 2009-2010 Reappraisal Plan

INTRODUCTION

General Overview of Tax Code Requirement

Passage of Senate Bill 1652 in 2005 amended the Property Tax Code to require each Appraisal District to prepare a biennial reappraisal plan. The following details the Tax Code requirements:

The Written Plan

Section 6.05, Property Tax Code, is amended by adding Subsection (i) to read as follows:

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

Plan for Periodic Reappraisal

Subsections (a) and (b), Section 25.18, Property Tax Code, are amended to read as follows:

- (a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05(i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:
 - (1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches;
 - (2) Identifying and updating relevant characteristics of each property in the appraisal records;

- (3) Defining market areas in the district;
- (4) Identifying property characteristics that affect property value in each market area, including:
 - (a) The location and market area of the property;
 - (b) Physical attributes of the property, such as size, age, and condition;
 - (c) Legal and economic attributes; and
 - (d) Easements, covenants, leases, reservations, contracts, declarations, special assessments; ordinances, or legal restrictions;
- (5) Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;
- (6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- (7) Reviewing the appraisal results to determine value.

Scope of Responsibilities

Tarrant Appraisal District has prepared and published this reappraisal plan to provide the Board of Directors, taxing units, citizens and taxpayers with a better understanding of the District's responsibilities and reappraisal activities. This report has several parts: a general introduction and then, several sections describing the proposed 2009-2010 reappraisal effort by the appraisal departments within Tarrant Appraisal District.

Tarrant Appraisal District (TAD) 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 five member Board of Directors, appointed by the taxing units within the boundaries of Tarrant 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.

Tarrant Appraisal District (TAD) is responsible for local property tax appraisal and exemption administration for seventy-one 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. Property appraisals are values established by the appraisal district to be used by the taxing units to calculate and allocate the annual tax burden. The Texas Property Tax Code contains statutes that guide the administration of property taxes in Texas. For the most part, the tax code defines the scope of work required for local property tax appraisals. Appraisals are based on each property's worth or market value. TAD also administers and determines eligibility for various types of property tax exemptions that are authorized by State and local governments; such as

those for homeowners, the elderly, disabled persons, disabled veterans, and charitable or religious organizations.

The Property Tax Code states that all taxable property is appraised at its market value as of January 1st, unless special appraisal provisions are otherwise provided. 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 Texas 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), nominal (Sec. 23.18) or restricted use properties (Sec. 23.83) and allocation of interstate property (Sec. 23.03). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1st of the year preceding the tax year to which the appraisal applies by filing an application with the chief appraiser.

The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. ***Tarrant Appraisal District’s current policy is to conduct a general reappraisal of real and business personal property value annually, meaning that a property’s appraised value is established and reviewed for equality and uniformity each year.*** The district conducts an onsite field review of real property in a portion of the county annually as part of a reappraisal cycle. Business personal property is verified on an annual basis through various means.

The appraised value of real and business personal property is calculated using specific information and data about each property. Using various computer-assisted mass appraisal (CAMA) programs, and generally recognized appraisal methods and techniques, registered and trained appraisers compare the subject property information with the data for similar properties, and with recent market data. The district adheres to 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. USPAP identifies a minimum set of standards that apply in all appraisal assignments.

Chapter 23 of the Texas Property Tax code contains statutes dealing with appraisal methods, procedures and statutory requirements. Section 23.01 of this chapter was amended in 1997 to specify that appraisal districts are required to comply with the mass appraisal standards of USPAP (Standard Six) when the appraised value of a property is established using mass appraisal techniques. 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. Policies and procedures are available at the office of each firm contracting with the District.

Overview of District Operations

2009 – 2010 Proposed Calendar of Key Events (See Appendix A)

2009 & 2010 Budgets Adopted by Reference

Personnel Resources

The Office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling all district operations. The district is organized into six primary departments: Administration, Support Services, Information Technology, Residential Appraisal, Commercial Appraisal and Business Personal Property Appraisal. A director heads each department. 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 maintenance and mail service.

The Support Services Department has four divisions that perform various functions including land management (GIS and records management), customer service, exemptions administration and Appraisal Review Board support. The Information Technology Department consists of various divisions that maintain TAD's Information Technology infrastructure. This area also includes a Data Services division.

Three separate appraisal departments are responsible for the valuation of all real and business personal property. The Commercial Department has three work divisions: Commercial Real Property Appraisal including complex commercial appraisal/abatements, Commercial Research and Reporting and Litigation/Arbitration. Business Personal Property Appraisal includes BPP, minerals, and utilities. The Residential Department includes Residential Appraisal, Residential Research and an Agricultural Land Valuation section. The 2009 and 2010 adopted budgets will provide information for TAD employee positions and classifications.

Staff Education and Training

All appraisal district employees that perform appraisal work are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with The Texas Board of Tax Professional Examiners (BTPE). This board is responsible for ensuring appraisers are professional, knowledgeable, competent and ethical. This is accomplished through a statewide program of registration, education, experience, testing and certification for all property tax professionals for the purpose of promoting an equitable tax system.

Upon registration, appraisers registered with the Board of Tax Professional Examiners have up to five years to take nine appraisal courses and pass two additional exams in order to achieve certification as a Registered Professional Appraiser (RPA). During each subsequent five-year period after certification, appraisers must complete an additional 75 hours of continuing education. Failure to meet these minimum standards will result in the removal of the employee from an appraiser position. The BTPE also ensures that all registered appraisers comply with the requirements of the Property Taxation Professional Certification Act and adhere to the Property Tax Professional Code Of Ethics.

Additionally, all appraisal personnel receive on-going training in data collection and valuation methodology. Standardized manuals are provided to ensure uniform and accurate data collection. Senior personnel provide on-the-job data collection training in the office and the reappraisal field area. Managers meet regularly with staff to introduce new procedures and regularly monitor appraisal activity to ensure that all personnel are following standardized appraisal methods and techniques.

Data

For 2008, the district was responsible for establishing and maintaining approximately 626,000 real estate and 44,000 business personal property accounts located in Tarrant County. According to the U.S. Census Bureau, the county has a total area of 897 square miles, of which, 863 square miles of it is land and 34 square miles of it (3.80%) is water.

The following chart contains the projected numbers of parcels for the 2009-2010 Reappraisal Year:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008*</u>	<u>2009**</u>	<u>2010**</u>
Real Estate Accts	607,233	624,959	627,113	626,199	640,000	660,000
BPP Accounts	42,413	42,169	42,415	44,369	45,000	46,000
Mineral Accounts	5,551	7,936	13,018	31,000	55,000	100,000
Total Accounts	655,197	675,064	682,546	701,568	740,000	806,000
Total Added Accounts		19,867	7,482	19,022	38,432	66,000
Total % Increase		3.0%	1.1%	2.8%	5.5%	8.9%
	Sept 1 Roll	Sept 1 Roll	Sept 1 Roll	July 25 Roll	**Projected	**Projected

*Approx 53,000 Overlap Accounts Were Removed From 2008 TAD Roll
 So Effective Increase Was 10.5% For 2008

Each parcel contains data related to property characteristics, ownership and exemption information. Accurate ownership and legal description data is maintained by processing recorded deeds and plats that are provided by the Tarrant County Clerk's office. Exemption data, in amounts authorized by State and local governments, is processed in conjunction with various application requirements as stipulated in the State Property Tax Code.

Existing property characteristics data is updated and maintained through on-site inspections and other generally accepted methods. The property data related to new construction and other building permit activity is also collected through an annual field review effort. Each city within TAD's jurisdiction provides permit information either electronically or in paper form. Comparable sales data is also routinely validated as part of the building permit field review and reappraisal activities.

General demographic, economic and financial trends, construction cost, market sales and income data are acquired through various sources. These may include internally generated questionnaires to buyer and seller, public and university research centers, private market data vendors, real estate related publications and telephone contact with buyers, sellers, brokers and fee appraisers, as well as information collected from property owners and agents during the informal appeal and Appraisal Review Board process. The appraisal departments have appraisal staff assigned to research functions and they are responsible for collecting this type of data.

The district has a geographic information system (GIS) that contains cadastral maps and includes various layers of data, including parcel lines, FEMA flood data, zoning, jurisdictional boundaries and aerial photography. Tarrant Appraisal District is dependant upon local cities to provide updated zoning information for the cadastral maps. The district's website makes a range of information available for public access, including information on appraisal district operations. The public can also access online information from TAD's website (www.tad.org) that includes property characteristics data, preliminary and certified values, protests and appeal procedures, property maps, and a tax calendar. Residential and commercial property owners can access the district's Internet site to obtain a copy of their pending ARB case evidence. Downloadable files of related tax information and district forms; including various application forms, ARB protest notices and business personal property renditions are also available. ARB protests can be filed on a downloaded form or on-line. TAD has also implemented an online rendition process for business owners that choose to file their renditions electronically.

Management Information Systems Support

The Management Information Systems Support Division (MIS) maintains Tarrant Appraisal District's Information Technology Infrastructure. The various Management Information Support functions include Technical Support and Systems Programming, Computer Operations,

Applications Systems Development and Support, Internet and Web Site Support functions, Voice and Data Communications, Network, server and Personal Computer Workstation Support, Geographic Referencing, Data Management, Geographic Information Systems in support of Cadastral mapping, and multiple layers of GIS related intelligence and digital ortho-photography, for utilization by all operating departments of the organization. The principal environment for the TAD MIS facility is supported on an IBM Z800, Model OA1 processor which may be replaced in the near future by an IBM Z9 Enterprise Server. Additionally, multiple network servers are in place to support the access through the internal and external networks for use by individuals. An I-Series mid-range processor is dedicated to the support of our voluminous Image processing environment and related workflow management features. TAD data structures reside and are supported by multiple data base tables and flat file structures. Mainframe data-access as well as server based functions is accessible through the PC Workstation and Network structure. These systems provide direct support for all operating departments involved in appraisal functions, customer service, exemption administration and the Appraisal Review Board support activities. The mainframe and server data is also utilized to fulfill all the reporting requirements for the taxing units and the State Comptroller's Property Tax Division.

Shared Appraisal District Boundaries (Overlapping Jurisdictions)

Tarrant Appraisal District is responsible for seventy-one taxing jurisdictions, covering 897 square miles. Several of these jurisdictions have boundaries that fall outside of Tarrant County. During the 2007 reappraisal year, TAD shared appraisal responsibilities in these overlapping areas with appraisal districts in Wise, Parker, Dallas, Ellis, Denton and Johnson County. Recent revisions to Section 6.025 of the Tax Code, in effect beginning with the 2008 tax year, now specify that the appraisal district boundaries are the same as the county's boundaries. Coordination of appraisal values, with other appraisal districts, will continue to occur for the approximately 1,100 parcels that are split by county lines.

Independent Performance Test

According to Chapter 5 of the Texas Property Tax Code and Section 403.302 of the Texas Government Code, the State Comptroller's Property Tax Division (PTD) conducts an annual property value study (PVS) of each Texas school district within each appraisal district. As a part of this annual study, the Code also requires the Comptroller to: use sales and recognized auditing and sampling techniques; review each appraisal district's appraisal methods, standards and procedures to determine whether the district used recognized standards and practices (MSP review); test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representativeness and

techniques or procedures of measuring uniformity. This study utilizes statistical analysis of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 5% of the median, the percentage of properties within 25% of the median, and price-related differential (PRD) for properties overall and by state category (i.e., categories A, B, C, D and F1 are directly applicable to real property).

There are twenty-one independent school districts in Tarrant County for which appraisal rolls are annually developed. The preliminary results of the PTD value study are released in January of the year following the year of appraisal. The final results of this study are certified to the Education Commissioner of the Texas Education Agency (TEA) in the following July of each year for the year of appraisal.

This outside (third party) ratio study provides additional assistance to Tarrant Appraisal District in determining areas of market activity or changing market conditions. Results from the upcoming 2008 and 2009 Property Value Studies will be reviewed and analyzed by appraisal management. Geographic areas or property categories with unsatisfactory ratio results will be added to the work plan for the 2009-2010 reappraisal cycles.

Appraisal Activities

Overview of Appraisal Responsibilities

Tarrant Appraisal District appraisal responsibilities are divided between three appraisal departments, Residential, Commercial, and Business Personal Property. The Residential Appraisal Department is organized into four geographic regions or quadrants. The department also contains an Agricultural Land Appraisal Section and a Research Section. The Commercial Appraisal Department consists of three divisions; Commercial (real property) Appraisal including Complex Properties/Abatements, Commercial Research and Reporting, and Litigation/Arbitration. The Business Personal Property (BPP) department includes personal property, minerals and utilities.

In each department, the appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and information processes. Accurate valuation of real and personal property by any method requires a physical description of personal property, land, and building characteristics. An effective data collection effort involves an inspection of all real and personal property accounts. It is the goal of TAD appraisal departments to periodically complete a thorough, on-site field review of all residential and

commercial properties. Business personal property data is field-verified every year. Meeting this goal is dependent on budgetary constraints and staffing levels.

Overall Appraisal Resources

- **Personnel** - Tarrant Appraisal District appraisal activities are accomplished with a staff of appraisers and clerical personnel. Staffing resource numbers are reflected in the budget, adopted by reference. These employees are assigned to a specific appraisal department.
- **Data** - The residential staff utilizes existing property characteristic information contained in a CAMA (Computer Assisted Mass Appraisal) system that operates within the district's mainframe computer or legacy-operating system. Personal property utilizes a main-frame CAPP (Computer Assisted Personal Property Appraisal) system. All commercial data collection and valuation applications reside in MARS (Mass Appraisal Records System). A limited amount of commercial data also resides in the TAD CAMA system for the purpose of ownership/records maintenance, exemption administration and entity reporting.

Appraisal Frequency and Method Summary

Tarrant Appraisal District has adopted an annual reappraisal cycle

- **Residential Appraisal** - Residential new construction is physically examined as part of an annual building permit data collection process. Appraisers determine size, class, year built, effective year of construction and other property characteristics and features that are used in the cost and sales comparison valuation methods. Vacant rural land is valued using comparable sales. Lot values in subdivisions are computed by market sales, or if unavailable, as an allocated percentage. Improved residential properties are delineated by neighborhoods as defined later in this document. On an annual basis, residential managers perform statistical analysis to evaluate whether values are equitable and consistent with the market. Based on analysis of the sales activity, market adjustment factors are developed and applied to adjust the appraised values in neighborhoods or specified geographic areas on comparable properties.
- **Commercial Appraisal** - Commercial and industrial real estate is verified by attempting to field observe and photograph each property at least once every four years to confirm class, condition and other property data. Properties are also reviewed as part of an annual building permit inspection process. The appraisers determine highest and best use and define the economic unit characteristics for a grouping of associated accounts. Economic units are delineated by improved and land market areas. On an annual basis, commercial market values are established using generally accepted

appraisal methods and techniques. Land values are generally determined using comparable sales. For improved properties, appraisers consider the cost, sales comparison and income approaches and then reconcile the final value, based on the quality and availability of the most accurate and credible data for each valuation approach. A commercial cost approach model computes values at the account level. A total economic unit value is developed using the commercial sales comparison and income approach models. This total property value is then allocated among the accounts within an economic unit (ECU), based on each specific account's classification and property characteristics.

- **Business Personal Property** - The Business Personal Property staff reappraises businesses each year through various discovery methods. Business personal property appraisers utilize survey letters, phone calls, and on-site inspections of businesses to verify ownership, Standard Industrial Code (SIC) classification, quality and density of inventory, furniture and fixtures and other key information. SIC code identification and delineation is the cornerstone of the business personal property valuation system. The cost approach is the predominant techniques used to value personal property. Cost tables are developed for each SIC classification using actual historical cost data and market data from generally accepted cost valuation sources. The SIC models are reviewed and tested annually. Depreciation schedules are review and adjusted as necessary. Most business owners are required to annually file rendition reports and list key information about their tangible personal property assets. Appraisers consider information from field observations, SIC models and owner's rendition values when determining the market value of the business personal property.

Data Collection Process

Residential appraisers are currently provided with a standardized field collection document in order to verify existing property characteristics or record new property data. The worksheets are batch-produced based on the geographic area that is delineated for reappraisal. Existing appraisal data is pre-printed on a residential field sheet that is used by the appraiser to record new or modified data during an on-site inspection. Field collected data is returned and entered into the TAD system by an assigned staff of data entry employees. A limited amount of data entry may be performed in the field by residential appraisers using wireless laptop computers linked directly to the TAD mainframe computer.

Commercial appraisers collect on-site field data using a hand-held computer, pen device. Commercial appraisers are assigned a daily "work plan" during field reappraisal. The work plan consists of a group of accounts to be worked in a specified area. GIS maps, aerial photography and all the property characteristics related to the accounts in the work plan can be downloaded from MARS main system to a "local" version of MARS on the pen device. The pen device and digital camera are then utilized to collect and record the field data during the on-site inspection.

When a work plan is completed, an appraiser can upload all the collected data from the device back into the MARS main system.

The BPP appraisal staff collects data on pre-printed data collection forms. They also use laptop computers with wireless connectivity to access various TAD information while working away from the office.

Other field inspection resources for all departments may include a MAPSCO street directory, sales and income data, fire damage reports, private water and electrical service applications, building permits, certificates of occupancy, building plans, site plans, recorded deeds and plats, photos, published articles and actual cost information. Appraisal department managers and data management employees conduct on-going quality control of the entire data entry process using numerous edit and audit reports. Supervisors and managers verify the accuracy of collected data with periodic on-site field reviews. The review process may pinpoint areas where additional appraiser training is required.

Residential Property Valuation Process

INTRODUCTION

Scope of Responsibility

The Residential Appraisal staff appraisers are responsible for developing equal and uniform market values for improved and vacant residential property. There are approximately 507,000 residential improved parcels and 60,000 vacant residential properties in Tarrant County.

Residential appraisal assignments are delineated from commercial assignments on the basis of state use code guidelines, established by the State Comptroller. Generally, the residential staff values residential single family, all multifamily housing other than apartments, vacant residential lots, improvements on rural acreage, mobile homes and residential inventory properties.

Appraisal Resources

- **Personnel** - The Residential Appraisal staff consists of appraisers and clerical staff. A detailed count may be found in the adopted budget.
- **Data** - A common set of data characteristics for each residential dwelling in Tarrant County is collected in the field and data entered to the computer. This property-specific data drives the TAD computer-assisted mass appraisal (CAMA) approaches to valuation. Residential appraisal also requires verified sales data, actual construction cost data, and data from other real estate sources. Appraisers also review various real estate related publications to determine patterns and trends in the market data.

VALUATION APPROACH (Model Specification)

Land Analysis

Residential land analysis is conducted by each of the residential managers prior to neighborhood sales analysis. The managers develop a base lot value or primary rate for each residential parcel. Specific land adjustments are applied, where necessary, to adjust parcels outside the neighborhood norm for such factors as view, shape, size, and topography, among others. The appraisers use sales data where available or abstraction and allocation methods to insure that the land values developed best reflect the contributory market value of the land to the overall property value.

Area Analysis

Data on regional economic forces such as 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 private vendors and public sources and provide the field appraiser a current economic outlook on the real estate market. Information is gathered from real estate publications and other outside sources including seminars, conferences, and continuing education in the form of Board of Tax Professional Examiners and International Association of Assessing Officers courses.

Neighborhood and Market Analysis

Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these forces are also used to identify, classify, and stratify comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. Residential valuation and neighborhood analysis is conducted on various areas within each of the political entities known as Independent School Districts (ISD). Analysis of comparable market sales data forms the basis of estimating market activity and the level of supply and demand affecting market prices for any given market area, neighborhood or district. Market sales reflect the effects of these market forces and are interpreted by managers into an indication of market value ranges for a given neighborhood. Sales also provide an indication of property component changes considering a given time period relative to the date of appraisal. Although all three approaches to value are considered, residential sales can best be interpreted and applied using two generally accepted appraisal techniques known as the cost and market or comparable sales approach. For low density, multiple family properties, the income approach to value may also be utilized, in the absence of recent sales data.

The first step in neighborhood analysis is the identification of a group of properties that share certain common traits. A "neighborhood" for analysis purposes is defined as the largest geographic grouping of properties where the property's physical, economic, governmental and social forces are generally similar and uniform. Geographic stratification accommodates the local supply and demand factors that vary across a jurisdiction. Once a neighborhood with similar characteristics has been identified, the next step is to define its boundaries. This process is known as "delineation". Some factors used in neighborhood delineation include location, sales price range, lot size, age of dwelling, quality of construction and condition of dwellings, square footage of living area, and story height. Delineation can involve the physical drawing of neighborhood boundary lines on a map, but it can also involve statistical separation or stratification based on attribute analysis. Part of neighborhood analysis is the consideration of discernible patterns of growth that influence a neighborhood's individual market. Few neighborhoods are fixed in character. Each neighborhood may be characterized as being in a stage of growth, stability or decline. The growth period is a time of development and construction. As new neighborhoods in a community are developed, they compete with existing

neighborhoods. An added supply of new homes tends to induce population shift from older homes to newer homes. In the period of stability, or equilibrium, the forces of supply and demand are about equal. Generally, in the stage of equilibrium, older neighborhoods can be more desirable due to their stability of residential character and proximity to the workplace and other community facilities. The period of decline may reflect diminishing demand or desirability. Declining neighborhoods may also experience renewal, reorganization, rebuilding, or restoration, which promotes increased demand and economic desirability.

Neighborhood identification and delineation is the cornerstone of the residential valuation system at the district. Most residential analysis work, in association with the residential valuation process, is neighborhood specific. Neighborhoods are visually inspected to verify delineations based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood specification is warranted. Whereas neighborhoods involve similar properties in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations. Each residential neighborhood is assigned and coded to a neighborhood group based on observable aspects of homogeneity between the areas. Neighborhood grouping is highly beneficial in cost-derived areas of limited or no sales and in direct sales comparison analysis. Defining comparable neighborhood groups serves to increase the available market data by linking comparable properties outside a given neighborhood. Sales ratio analysis, discussed below, is performed on at the neighborhood level, and in soft sale areas on a comparable neighborhood group basis.

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 productive to its maximum. The highest and best use of residential property is generally its current use. This is due in part to the fact that residential development, in many areas, through use of deed restrictions and zoning, precludes other land uses. Residential valuation undertakes reassessment of highest and best use in transition areas and areas of mixed residential and commercial use. In transition areas with ongoing gentrification, the appraiser reviews the existing residential property use and makes a determination regarding highest and best use. Once the conclusion is made that the highest and best use remains residential, further highest and best use analysis is done to decide the type of residential use on a neighborhood basis. As an example, it may be determined in a transition area that older, non-remodeled homes are not the most productive or profitable use, and the highest and best use of such property is to demolish the old homes and construct new dwellings. In areas of mixed residential and commercial use, the appraiser reviews properties on a periodic basis to determine if changes in the real estate market require reassignment of the highest and best use of a select category of properties.

VALUATION AND STATISTICAL ANALYSIS (Model Calibration)

Cost Schedules

The district's residential cost schedules are compared against Marshall & Swift, a nationally recognized cost estimator, and are reviewed and adjusted periodically to reflect the local market.

Tables are also produced in order to uniformly apply value for added amenities as determined by the marketplace. Examples may include pools, bathhouses, outbuildings, boathouses, tennis courts, and other market driven value items.

Possible adjustments for factors that may inhibit value are also in table form and are applied uniformly to any properties affected. Examples may include cracked slab, termite damage, repairs needed, etc.

The District considers all three approaches to value and recognizes the cost approach as an acceptable approach. Generally, for residential property, the district considers the market approach a more viable and accurate indicator and utilizes the market approach, in conjunction with the cost approach, to arrive at a final estimate of market value.

Income Models

The income approach to value may be useful to those real properties that are typically viewed as "income producing" when sufficient income data is available and where comparable sales are not present. In the current residential market, the income approach is not generally used.

Sales Information

A sales file for the storage of "snapshot" sales data for vacant and improved properties at the time of sale is maintained for residential real property. Residential improved and vacant sales are collected from a variety of sources, including: district survey letters sent to buyers and sellers, field discovery, protest hearings, Board of Realtor's MLS and other sales vendors, builders, and realtors and brokers. The following chart identifies the historic and projected numbers of sales that are received and processed annually by the residential research staff.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Multiple Listing Service (MLS)	19,004	20,866	25,624	23,947	19,600	20,500	21,500
Other Sources	4,651	3,890	3,998	3,654	3,000	3,200	3,300
Total Sales	23,655	24,756	29,622	27,601	22,600	23,700	24,800
			Revised	Revised	Projected	Projected	Projected

A system of type, source, validity and verification codes has been established to define salient facts related to a property's purchase or transfer and to help determine relevant market sale price information. The effect of time as an influence on price can be considered by paired sales analysis and applied in the ratio study to the sales as indicated within each neighborhood area. Neighborhood sales reports are generated as an analytical tool for the managers in the development and estimation of market price ranges and property component value estimates. Abstraction and allocation of property components based on sales of similar property is an important analytical tool to interpret market sales under the cost and market approaches to value. These analytical tools help determine and estimate the effects of change, with regard to price, as indicated by sale prices for similar property within the current market.

Multiple sales of the same property are considered and analyzed for any indication of price change attributed to a time change or influence and monthly time adjustments are developed. Property characteristics, financing, and conditions of sale may be compared for each property sold in the pairing of property to isolate only the time factor as an influence on price.

Statistical Analysis

The residential appraisal managers perform statistical analysis annually to evaluate whether values are equitable and consistent with the market. Ratio studies are conducted on residential neighborhoods in the district to judge the two primary aspects of mass appraisal accuracy and uniformity of value. Appraisal statistics of central tendency and dispersion generated from sales ratios are available for each neighborhood and are summarized by year. These summary statistics including, but not limited to, the weighted mean, median, standard deviation, coefficient of variation, and coefficient of dispersion provide the managers a tool by which to determine both the level and uniformity of appraised value on a neighborhood basis. The level of appraised values is determined by the weighted mean for individual properties within a neighborhood, and a comparison of neighborhood weighted means reflect the general level of appraised value between comparable neighborhoods. Review of the standard deviation, coefficient of variation, and coefficient of dispersion discerns appraisal uniformity within and between neighborhoods.

The managers, through the sales ratio analysis process, review neighborhoods annually. The first phase involves neighborhood ratio studies that compare the recent sales prices of neighborhood properties to the appraised values of these sold properties. This set of ratio studies affords the manager an excellent means of judging the present level of appraised value and uniformity of the sales. Based on the sales ratio statistics and designated parameters for a valuation update, a preliminary decision is made as to whether the value level in a neighborhood needs to be updated in an upcoming reappraisal, or whether the level of appraised value is acceptable. The residential managers perform statistical analysis annually to evaluate whether estimated values are equitable and consistent with the market.

Reconciliation And Valuation

Neighborhood, or market adjustment, factors are developed from appraisal statistics provided from ratio studies and are used to ensure that estimated values are consistent with the market. The district's approach to the valuation of residential properties is a cost-market approach. This approach accounts for neighborhood market influences not particularly specified in a purely cost model. The following equation denotes the hybrid model used:

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

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

Statistical analysis of present appraised values as compared with recent sales determines the appropriate market adjustment for a neighborhood. Statistical programs developed by the TAD Information Technology and the Residential Department staffs are used to study market trends and to develop appropriate market adjustments.

Special Appraisal Provisions

Appraisal of Residential Homesteads

Article VIII, Sec. 1 (i) of the Texas constitution allows the legislature to limit the annual percentage increase in the appraised value of residence homestead to 10% under certain conditions. This limitation is commonly referred to as a Homestead "Capped Value". Sec.23.23 of the Tax Code implements the cap on increases in value. The limited value begins in the second year the property qualifies for a residential homestead exemption. The appraised value of a qualified residence homestead will be the LESSER of:

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

Since Tarrant Appraisal District is on an annual reappraisal cycle, the limited appraised value must be recomputed annually. The appraised value of a homestead increases 10% annually or until the appraised value is equal to the market value. If a limited homestead property sells, the cap automatically expires as of January 1st of the year following the sale of the property and the property is appraised at its market value. The market value of a limited homestead is maintained, as well as the limited appraised value.

Residential Inventory

Sec. 23.12 of the Texas Property Tax Code provides the definition of market value for inventory. Inventory includes residential real property that has never been occupied as a residence and is held for sale in the ordinary course of business, if the property is unoccupied, is not leased or rented, and produces no revenue.

Residential inventory is appraised at market value. The market value of residential inventory is the price at which it would sell as a unit to a purchaser who would continue the business. The residential appraisal staff applies the same generally accepted appraisal techniques to determine the market value of residential real property inventory.

Agricultural Appraisal

The Texas Constitution permits certain kinds of agricultural land to be appraised for tax purposes at a productivity value, rather than at market value. This special appraisal value is based solely on the land's capacity to produce agricultural products. Property qualifying for agricultural appraisal will have a substantial reduction in taxes, based on the difference in special agricultural appraisal and the market value of the property. Property taxes are deferred until a change of use of the property occurs or, in a much less frequently requested type of special agricultural appraisal, when the ownership changes. At the time of use or ownership change, taxes are recaptured for up to five previous years, based on the difference in what was paid based on agricultural appraisal, and what would have been paid based on the market value of the property. Procedures for implementing this appraisal are based on the guidelines published in the Manual for the Appraisal of Agricultural Land, printed April 1990. A copy may be obtained from the State Comptroller of Public Accounts.

Application Process

The State Property Tax Code requires an application before land is considered for agricultural valuation. The deadline for filing a timely application is before May 1. Late agricultural valuation applications may be filed up to the time the appraisal roll is certified, however a penalty is imposed for late filing. After an application is filed, the property is inspected to determine its qualification.

Three criteria must be met when determining qualification.

Use- Land must be currently devoted principally to agricultural use.

Degree of Intensity- The agricultural use must be to the degree of intensity generally accepted in the area.

History of Use- The land must have been devoted principally to agricultural use for five (5) of the preceding seven (7) years. Land located within an incorporated city or town

must have been devoted principally to agricultural use continuously for the preceding five (5) years.

When the land's use qualifications have been reviewed, one of three actions will be taken.

Application is Denied– Property owner is notified by certified mail and given 30 days to appeal the decision to the Appraisal Review Board.

Application is Approved- Property owner is notified of the decision and the productivity land appraised value. Once approved, the property remains valued as a special agricultural use until a change of use occurs, or the ownership changes. If the property's use remains unchanged and only ownership has changed, the new owner is notified and is required to timely apply for special agricultural valuation.

Disapprove the Application and Request More Information- The application is disapproved and the applicant is allowed thirty days to provide additional information, otherwise the application is denied. When requested information is provided, it is added to data already collected to arrive at a final decision.

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The appraiser identifies individual properties in need of field review through examples such as: sales ratio analysis, ARB hearings, building permits, property owner's requests, aerial photography and other sources. Sold properties are reviewed on a regular basis to check for accuracy of data characteristics before they are used in reappraisal analysis.

As the district's parcel count has increased through new home construction, and existing home remodeling, the appraisers are required to perform associated field activity. Increased sales activity can result in a more substantial field effort on the part of the appraisers to review and reconcile sales that fall outside acceptable ranges. Additionally, the appraisers frequently field review subjective data items such as quality of construction, condition, and physical, functional and economic obsolescence, factors contributing significantly to the market value of the property.

The following chart contains historical and projected permit activity for residential property.

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
NEW HOMES	15,197	17,497	14,245	9,069	5,600	6,160	6,776
OTHER PERMITS	11,075	8,564	8,235	12,882	12,100	12,800	12,000
TOTAL	26,272	26,061	22,480 Revised	21,951 Revised	17,700 Projected	18,960 Projected	18,776 Projected

Office Review

Once field review is completed, the managers conduct a routine valuation review of all properties as outlined in the discussion of ratio studies and market analysis. Previous values resulting from protest hearings, informal negotiation, or litigation are individually reviewed to determine if the value remains appropriate for the current year.

Once an appraisal manager is satisfied with the level and uniformity of value for each area, the estimates of value are prepared for a notice of proposed value.

PERFORMANCE TESTS

Sales Ratio Studies

The primary analytical tool used by the appraisal manager to measure and improve performance is the ratio study. The district ensures that the appraised values produced meet the standards of accuracy in several ways. Overall, sales ratios are generated for each ISD to allow the appraiser to review general market trends within their area of responsibility, and provide an indication of market change over a specified period. The neighborhood descriptive statistic is reviewed for each neighborhood being updated for the current tax year. In addition to the mainframe computer generated sales ratios by school district and neighborhood, other sales ratios statistics are produced. Reported in the statistics is a level of appraisal value and uniformity profile by land use and appraised value ranges. Residential appraisers may use sales up to two years prior to, and three months after January 1st of the appraisal year to obtain a statistically valid sample.

Management Review Process

Once the proposed value estimates are finalized, the appraisal managers review the sales ratios by neighborhood and present pertinent valuation data, such as weighted sales ratio and pricing trends to the Director of Residential Appraisal and the Chief Appraiser for final review and approval. This review includes comparison of level of value between related neighborhoods within and across jurisdiction lines. The primary objective of this review is to ensure that the proposed values have met preset appraisal guidelines appropriate for the tax year in question.

Commercial Property Valuation Process

INTRODUCTION

Appraisal Responsibility

The Commercial (real property) Appraisal Department is responsible for the valuation of all commercial real property, including land and improvements, located within the boundaries of Tarrant Appraisal District's jurisdiction. This currently includes approximately 26,000 unimproved and 38,000 improved commercial accounts. Commercial real property types generally include multi-family, office, retail, warehouse/manufacturing and various other categories of business related facilities. The staff appraisers also value all commercial and rural land parcels. In general terms, the commercial appraisal staff is responsible for establishing market value on any real property for which the highest and best use is determined to be non-residential.

Commercial appraisal assignments are delineated from residential assignments on the basis of state use code guidelines established by the State Comptroller. Generally the commercial staff values all commercially improved properties including apartments, vacant commercial land, vacant acreage, and the underlying land of improved acreage. Residential properties located in areas of transition to commercial, or interim-use properties, are also valued by the commercial division. If the interim-use property does not have a residential homestead exemption, the property data and valuation models for these accounts is stored in MARS, the Mass Appraisal Records System utilized by the commercial appraisal staff. Otherwise, the records are maintained in the TAD Mainframe residential system, for purposes of calculating the 10% limitation on increases to the appraised value for a property with a general residential homestead exemption.

Appraisal Resources

Personnel - Staffing details can be found in the budgets adopted by reference for 2009/2010. The real property portion of the Commercial Appraisal Department is organized into two separate divisions or areas of responsibilities. The divisions are Commercial Appraisal including Complex Properties/Abatements, and Commercial Research and Reporting. Each division is staffed with a manager, appraisers and clerical support staff. Each Division Manager reports to the Director of Commercial Appraisal.

A separate Litigation Division also resides within the commercial department structure. This staff consists of a manager, litigation appraisers, and clerical support. They are responsible for

appraisal review and a myriad of other activities as they relate to property lawsuits filed against Tarrant Appraisal District and the Tarrant Appraisal Review Board. The Litigation division also manages Arbitration which is a post administrative appeal process that allows owners of real property valued at less than \$1,000,000 to appeal their ARB value to an arbitrator rather than to District Court.

- **Commercial Appraisal and Complex Properties Division**

The Commercial Appraisal and Complex Properties Division is responsible for valuing all commercial improved real property, vacant commercial land, and vacant acreage within Tarrant Appraisal District. Within this division there are two separate sections: the Commercial Appraisal Section, and the Complex Properties Section.

The Commercial Appraisal Section is staffed with regional supervisors and appraisers. In addition, clerks and a clerical supervisor are assigned to support both commercial divisions in the department. Appraisal duties and responsibilities are divided between a north-region and a south-region workgroup. Each appraiser is assigned to a workgroup or team that is supervised by a regional supervisor.

The north appraisal team values industrial and office-related categories and all commercial land located in the northern portion of TAD's jurisdiction. The south team values multi-family and retail-related categories and land located in southern portion of Tarrant Appraisal District. The supervisor for each region is responsible for assigning geographic land areas of responsibility to each appraiser. Appraisers are also given the task of completing a field review for all permits issued in their designated area.

During the field-reappraisal phase of each reappraisal year the commercial appraisal staff makes on-site physical inspections and photographs real estate accounts of a portion of the county. A portion of the north-central quadrant of Tarrant County will be field inspected as part of the 2009 reappraisal cycle. This field inspection area covers the north portion of the Fort Worth Independent School District, consisting of approximately 15,850 real estate accounts. The remaining 14,000 commercial accounts, located in the south-central quadrant of Fort Worth ISD will be field inspected during the 2010 reappraisal.

The Complex Properties Section is responsible for valuing complex and unique properties as well as administering abatements. The complex and unique properties consist of golf courses, utilities, railroads, high-rise downtown office buildings, the Fort Worth downtown central business district, regional and local airports, regional shopping malls, hospitals, and possessory interest properties. The Complex properties staff also monitor properties located within designated Tax Increment Financing (TIF) areas. The higher profile complex properties that have a tremendous impact on the North Texas economy include Hurricane Harbor, Six Flags, DFW Airport, American Airlines, General

Motors, and Gaylord Texan Resort. This Section consists of a supervisor, two appraiser analysts and clerical support.

- **Research and Reporting Division**

The Research and Reporting Division consists of a manager, a senior research supervisor, appraisers and clerks. This section is primarily responsible for collecting, processing, and maintaining sales and income information that is used in the valuation process. After the information is processed and verified, the sales and income information is entered into a Mass Appraisal Records System (MARS) and stored in database tables. The database tables are integrated within the Mass Appraisal Records System valuation models. The information is easily accessible for the appraisers to use in the sale model building and calibration process, edit/valuation process, informal discussions, and Appraisal Review Board hearings. Land sales data is processed into MARS and GIS mapping software is used to outline and post the sale data onto the TAD appraisal base maps. This data is stored as a year-based layer within the Geographic Information System.

The Research and Reporting Division, with input from the commercial appraisal staff, is responsible for updating and maintaining the commercial classification manual. This includes the periodic review and calibration of various cost and depreciation tables. The research staff is also responsible for monitoring and implementing new or revised appraisal methods and techniques in order to stay proficient with current appraisal technique and maintain compliance with USPAP Standard Six for mass appraisal. An extensive resource library is maintained and includes commercial real estate and financial publications, published survey data, on-line appraisal data sources, appraisal educational textbooks and software, periodicals and journals, comptroller's reports and various other resources to assist the appraisal process.

Data - A standardized set of data characteristics for each commercial property in Tarrant County is collected and data entered by the commercial appraisal staff into MARS. This property-specific data drives the three MARS valuation models. Additional required data includes verified sales of vacant land and improved properties and the pertinent data obtained from each (sales price levels, capitalization rates, income multipliers, equity dividend rates, marketing period, etc.). Other data used by the appraisers includes sale listings, fee appraisals, actual income and expense data (typically obtained through the appeals process), actual contract rental data, leasing information (commissions, tenant finish, length of terms, etc.), and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications and published market surveys are also reviewed to provide additional support for market trends.

PRELIMINARY ANALYSIS & DATA COLLECTION

Prior to beginning of the valuation activities for an appraisal year, the appraisal department management team completes a thorough review of the results of the preceding year. Goals and objectives are determined and managers establish a plan of action. Budget, calendar issues and resource availability are all considered. Appraisal activities must be coordinated between TAD departments to avoid conflicts and ensure availability of personnel. Appraisal resources, including staff and system needs are evaluated. Appraisal Review Board activity and value changes in the informal appeals process are analyzed. Most importantly, a preliminary internal ratio study is produced to identify any property category or geographic area that may require more research or analysis. The appraisal staff works with the research division to identify priority areas for sale and income data collection and any necessary enhancements to the standardized appraisal classification manual.

Tarrant Appraisal District also coordinates its discovery and valuation activities with adjoining appraisal districts. Numerous field trips, interviews and data exchanges with adjacent appraisal districts are conducted to ensure compliance with state statutes. In addition, Tarrant Appraisal District administration and personnel interact and exchange information with other assessment officials through professional trade organizations including the International Association of Assessing Officers, Texas Association of Appraisal Districts and its subchapter Texas Metropolitan Association of Appraisal Districts and the Texas Association of Assessing Officers.

Area Analysis

Data on regional economic forces such as demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rates, discount rates, and financing trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources. Key employees and managers analyze the data and meet regularly to discuss how these factors and trends could impact the local real estate market. More detailed analysis is then completed to determine what model recalibration and specification will need to occur during the upcoming valuation cycle.

Neighborhood Analysis

A commercial neighborhood, submarket or economic area is comprised of land and the commercial properties located within the boundaries of a specifically defined geographic location. The term used in MARS is "improved market area" otherwise known as IMA, or "land market area" otherwise known as LMA. Every commercial account and economic unit is identified with an IMA and LMA. A market area consists of a wide variety of both competing and complimentary property types including residential, commercial, industrial and governmental. Market area delineations can be based on man-made, political, or natural boundaries. Submarket analysis involves the examination of how physical, economic, governmental and social forces at the local, national and international level influence or affect property values.

The effects of these forces are used to determine the highest and best use for a property, and to select the appropriate sale, income and cost data in the valuation process.

Improved and land market areas are defined for each of the various improved property types (apartment, office, retail, warehouse and special use) based upon a qualitative and quantitative analysis of similar economic or market forces. These include but are not limited to similarities of rental rates, quality of overall buildings or projects (also known as “building rank” by area commercial market experts), date of construction, levels of market activity and competition, supply and demand, submarket stability, city ordinances, availability of infrastructure and other pertinent influences. TAD commercial IMA boundaries closely mirror the submarket areas as defined by Black’s Industrial and Office Guide, MPF Research (multifamily property) and CoStar Properties, a published source of commercial sales. Economic area identification and delineation by each major property use type is a key component in a mass-appraisal, commercial valuation system. All the MARS income and sales comparison valuation models are IMA specific. Economic areas are periodically reviewed to determine if a revised delineation is required.

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. It is that use that will generate the highest net return to the property over a period of time. For vacant tracts of land within a jurisdiction, the highest and best use is considered speculative but market-oriented, and is based on the surrounding land uses in a competing land market area. The appraiser must consider the most probable use that is permitted under local administrative regulations and ordinances. While its current zoning regulation may restrict a property’s use, the appraiser may also consider the probability that the zoning could be changed, based on activity in the area and a city’s propensity for approving zoning change requests.

For improved properties, highest and best use is evaluated as currently improved and as if the site were still vacant. In many instances, the property's current use is the same as its highest and best use. However, the appraiser may determine that the existing improvements have a transitional use, interim use, nonconforming use, multiple uses, speculative use, excess land, or a different optimum use, if the site were vacant. Improved properties reflect a wide variety of highest and best uses which include, but are not limited to: office, retail, apartment, warehouse, light industrial, special purpose, or interim uses. Proper highest and best use analysis insures that the most accurate estimate of market value can be derived.

“Value in use” represents the value of a property to a specific user for a specific purpose. An example of value in use is agricultural or productivity value. The Texas Property Tax Code has specific provisions for appraisal of certain types of property that require a value based on a

specific use. The complex properties division manages the special requirements for appraising possessory interests and restricted use properties.

Economic Unit (ECU)

An economic unit consists of a property or grouping of properties recognized by investors in the market as a single unit. An economic unit requires common ownership and physical contiguity with natural or geographic boundaries and may contain one or more TAD accounts. In addition, the highest and best use is most probable that it would sell as one property. A commercial appraiser determines an economic unit as part of the highest and best use analysis. This grouping is represented and described in the MARS system in a customized economic unit value module. The appraiser creates an economic unit or ECU record by identifying the account numbers and other required data as indicated in the Economic Unit section of the commercial classification manual. The high level criteria that describe an economic unit are two data fields called "income class" otherwise known as ICLASS; and "improved market area", otherwise known as IMA. An ICLASS represents the primary use of the entire property, such as low-rise office, master-metered apartment, or distribution warehouse. An ECU ICLASS may be comprised of several accounts with multiple building classes, such as a shopping center or auto dealership. The IMA or improved market area represents the location, submarket or competing market area for the economic unit. ICLASS and IMA are necessary and critical for the grouping of similar or "like" properties in the mass appraisal valuation models. Commercial appraisers make market value determinations at both the account or "parcel" level and the economic unit or "property" level.

Market Analysis

A mass-appraisal market analysis relates directly to economic market forces affecting supply and demand that effect a group of similar or "like" properties. This study involves the relationships between social, economic, environmental, governmental, and site conditions. Appraisers consider such general market data as submarket supply and demand, zoning and code restrictions, municipal services, school district characteristics, crime rate patterns, job growth patterns, income levels, population trends, transportation issues, interest rate levels, investment patterns and a myriad of other factors that influence the local real estate market.

Specific market data is gathered and analyzed including sales of commercial properties, new construction and other permit activity, new leases, lease rates, absorption rates, vacancies, typical property expenses (inclusive of replacement reserves, if recognized by the market), expense ratio trends, and capitalization rate indicators. This data is used to determine market ranges in price, operating costs and investment return expectations.

DATA COLLECTION / VALIDATION

Data Collection Manuals

The Commercial Appraisal Classification Manual is the primary source and standard applicable to commercial property data collection and documentation. The commercial manual is utilized to establish uniform procedures for the correct listing of real property by field appraisers. This compilation of data collection guidelines is continually updated, providing a uniform system for listing the multitude of field data elements necessary to describe commercial real properties. All commercial properties located in TAD's jurisdiction are identified or described according to the manual and the three approaches to value are structured and calibrated based on this identification system. The field appraisers study and use the manuals extensively during their initial training and as a guide in the field inspection of properties. The manual is available in a hard-copy form or in an HTML file available on each appraiser's PC or portable computer pen tablet. Most of the data collection that is described in the manual is represented in MARS through a series of drop-down selection lists. Standardized codes are developed and used to describe commercial property at both the parcel and the economic unit level. For example, one key characteristic of a property, at the individual parcel or account level, is building class. This is similar to the Marshall and Swift component called "occupancy class". TAD employs the use of 236 different building classes to describe the various types of commercial structures. The manual also contains calibrated cost rates for various site and ancillary improvements and recommended depreciation guidelines based on condition and effective year of construction.

Commercial Building Permits

Every city within TAD's jurisdiction has a system of issuing building permits to property owners in order to ensure that building code standards are followed for all new construction or major remodeling projects. Permits may also be issued for repair or replacement of plumbing, electrical, HVAC, roofing, foundations, canopies, interior or exterior finish, parking lots, and ancillary structures. On a monthly basis, copies of those permits are either forwarded to TAD or downloaded by a TAD employee from various city websites. Permits are matched to a corresponding commercial account and pertinent permit data is entered into MARS.

Commercial appraisers field inspect and measure the permitted properties as part of a reappraisal work plan assignment or during the land reappraisal cycle. Changes to property characteristics, as a result of the completed permit work, are recorded at both the account and ECU level. Value added to the roll from new construction is tabulated and reported to each taxing units for the use in their effective tax rate calculation.

The following grid shows historic and projected Commercial permit activity:

<u>Number Of Permit Issued</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009**</u>	<u>2010**</u>
New Construction	1,649	777	1,141	1,568	1,300	1,300
Other Commercial Permits	6014	2924	1927	2807	2700	2700
Total # of Permits	7,663	3,701	4,010	4,375	4,000	4,000
Total Value New Construction	\$1,494,293,640	\$832,451,094	\$1,357,050,165	\$1,947,705,054	\$2,000,000,000	\$2,000,000,000
					Projected	Projected

Comparable Sales Data

Commercial sales data is collected, verified and processed by the commercial research staff. A standardized workflow procedure is followed to track and accurately process the documents. The sale data items are preliminarily reviewed and verified to determine reliability of the content and the source. Some preliminary sale information is then entered into an Access-based tracking system, using Tarrant County's deed filing's instrument number as a key field. After entry into the tracking system, the staff then assembles and records detailed information about each sold property. Extensive sale details are compiled to create a "snapshot" of the economic unit and sold parcels as of the time of sale. A research appraiser may conduct a field inspection to verify the accuracy of the existing property characteristics data. Property, location and financial data is documented and entered in the MARS sale entry record. A final quality control review of the recorded and entered data occurs and the sales data is then released to the appraisers and the general public for the purpose of mass appraisal valuation. Sales can be viewed in MARS individually, in the data entry module, or as part of a model-driven sales summary grid in the sales comparison module. The paper documentation for all processed sale and income information is maintained in files in the research area. A scanning application is being implemented to store sale documents as an imaged file.

Income and Expense Data

Income and expense data consists of property rent rolls and income statements and is generally provided by property owners during the appeals process. The appraisal staff forwards the data to the research section where it is immediately scanned into an image-processing workflow application based on property type. The data is retrieved by appraisers and processed into the MARS income and expense tables. The district also subscribes to several real estate publications, such as Blacks Office Guide and CoStar Properties that provide individual summarized income data within each specified submarket or improved market area. Pertinent income data includes contract and market rental rates, asking rental rates, physical and economic vacancies, tenant reimbursements, operating expenses, capitalization rates, discount rates, lease up projections, and finish out costs.

Sources of Commercial Data

Property specific data is gathered as part of an on-site field inspection. The majority of cost related data is compiled by subscribing to Marshall and Swift Valuation Services. Closing statements, actual cost documents, rent rolls and income statements provided by owners during the appeals and ARB process are considered the most reliable sources of property data. Another reliable source of verified sales and income data is the local fee appraiser community. Networking with others in the appraisal profession benefits the overall quality and credible application of the data. The TAD Records division should receive a copy of the deeds recorded in Tarrant, Dallas, Denton, Johnson, Parker, and Ellis County that convey commercially classed properties located within the TAD jurisdiction. When a deed involving a change in commercial property ownership is entered into the TAD system, a set of commercial survey letters are produced. One letter is mailed to the buyer and one to the seller, in an attempt to obtain the pertinent sale information. Tarrant Appraisal District also subscribes to CoStar, a vendor of commercial sale and property data, and to the Multiple Listing Service (MLS). Other sales sources are contacted such as the brokers involved in the sale, property managers, commercial real estate vendors, the Texas State Comptrollers Property Tax Division and other knowledgeable parties. The research staff attempts to confirm and verify all data from secondary sources.

The following grid identifies historic and projected number of commercial sales by source type. Unlike the majority of states, Texas laws do not require mandatory disclosure of sale prices. TAD Commercial sales data is provided by voluntary disclosure or purchased from third party vendors.

Sources Of Commercial Sales	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Closing Statements	289	263	261	269	277	285
CoStar Properties-Web Publications	106	185	356	366	377	389
Multiple Listing Service (MLS)	13	49	152	157	162	167
Fee Appraisal Sale Comparables	295	74	38	39	40	41
Grantor/Grantee Survey Letters	531	580	406	419	431	444
Other	13	19	27	55	53	51
Total Commercial Sales	1247	1170	1240	1305	1340	1377

VALUATION APPROACH/FORMULAS (Model Specification)

The commercial appraisal system, developed and maintained in MARS, consists of mass appraisal applications of the sales comparison, cost, and income approaches to value. The applications were developed based on economic theory, market analysis, and generally accepted appraisal techniques. Each approach to value represents a specific model or formula that defines property characteristics and their relationships in an effort to arrive at an indication of market value for a given property. The final value is a reconciliation of all three approaches to value.

Cost Approach Models

The very basic valuation model is **Market Value=Land Value Plus Improvement Value**. This model represents the formula for the cost approach to value. The formula for a cost driven valuation model begins with an estimate of replacement cost new (RCN) for all improvements (buildings, fencing, paving etc.) on a parcel of land. Three forms of depreciation are considered and subtracted from the RCN to result in an estimate of value for the improved portion of the real estate. The sales comparison approach is typically the most reliable method to value the underlying land. An overall value is then computed by adding the depreciated value of the improvements to the value of the land.

Improvement Valuation

Cost model specification involves categorizing or grouping commercial improvements by construction type or use. The Commercial Department uses a numerical coding system of building classes that represent over 282 types of commercial property construction. For each building class, key characteristics are used to describe a typical or benchmark property. The characteristics include construction quality, plumbing, interior, flooring, roof type, roof materials, heating/cooling, exterior, foundation, story height, electrical, and number of stories. The Commercial Valuation Manual contains a thorough description and a list of these specific characteristics for each property class. Photo examples of each building class are provided to assist the appraisers in making class determinations. Additional site improvements for each building class, such as concrete paving, light standards, canopies, garages, and storage buildings are also specified and valued using the cost approach. Over 300 ancillary improvement types are defined and valued in the MARS cost model.

Other key data necessary for cost valuation includes gross and net building areas, year built and effective year of construction (EYOC), percent and quality of finish-out, percent of completion, and property condition. A base cost rate is associated with each commercial building class. An improvement value or replacement cost is then computed by multiplying the base rate times the structures gross building area. An improvement can have more than one building class.

Each building class is identified in MARS as a "taxable object", otherwise known as a TO. The total improvement value for an account represents the sum of the depreciated improvement

value of all taxable objects plus any value for the additional site improvements associated with the account.

Depreciation

Accrued depreciation is the sum of all forms of loss affecting the contributory value of the improvements. It is the measured loss against replacement cost new taken from all forms of physical deterioration, functional and economic obsolescence. Accrued depreciation is estimated and developed based on losses typical for each property type at that specific age. Physical depreciation is expressed as a percentage that is computed and subtracted from estimated replacement cost value. This percentage rate is extracted from MARS depreciation tables and is dependent on the class, condition, effective age and economic life of each improvement. Individual determinations are made for functional and economic depreciation rates based on property specific conditions. The sum of the three rates is utilized in the MARS application to compute a depreciated improvement value.

Land Valuation

On an annual basis, commercial land values are analyzed to compare appraised values with recent sale prices in each designated land market area or LMA. The definition of a land market area is a geographic or economic locality comprised of commercial properties with both complimentary and competing land uses. The appraisers on the north and south work regions are each assigned a specific geographic area to collect land characteristics data and determine land values. An assigned land area generally consists of approximately 2,500 accounts and may include one or more land market areas. The parcel count per appraiser may vary depending on the land-use density and the total size of an assigned area. A densely populated urban land area generally has more accounts than a less populated rural assignment. The Complex Properties Section manages the land valuation for the 6,500 complex property accounts.

During the land reappraisal, the appraisers review sales to develop or adjust base land rates on per acre or per square footage basis. A land base rate represents the unit value for a "benchmark" land parcel whose property characteristics are described by a particular size, use, shape, zoning, topography, location, and other characteristics. Properties within a competing area that differ from the benchmark will be valued using the base rate and then adjusted for those characteristics that differ from the benchmark property. Percentage based adjustment factors and adjustment reason codes are applied on individual properties based on corner influence, depth and shape of site, easements across site, visibility, and other factors that may influence value.

The land value for each account is computed by multiplying the land size by the adjusted land

rate. The depreciated improvement value is added to the land value to compute a total cost approach value at the account level. For an economic unit, the cost approach value represents the sum of the cost for all accounts associated with the economic unit.

Sales Comparison Approach Models

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 for estimating land value and also in comparing sales of similarly improved properties to parcels on the appraisal roll. Sales of similarly improved properties can also 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 the appraised values.

The formula for the sales comparison approach is **Market Value=Sale Price of Comparable Properties plus or minus adjustments** (for differences between the comparables and the subject). In this model, market value is a total amount without a separation for improvement and land values. Commercial sales modeling begins by processing and storing extensive physical and financial data for each commercial sales transaction. There are currently 255 data fields in the commercial sale database and another 30 fields will be added by 2009. This amount of information is necessary to determine comparability and adjustments factors. The sales comparison approach requires an adequate amount of sales data to be accurate. Some commercial property categories cannot be valued with this technique because of a limited amount of verifiable sales data.

The commercial mass appraisal sales model is specified or defined based on several standardized property characteristics or comparison fields. Model characteristics can vary by property type. For example, the field "average unit size" is included in apartment models but not used in a component of office models. There are 65 comparison fields in the MARS sales comparison application. While some fields are for descriptive purposes such as ECU number, legal description, sales price and property address, the majority of the fields serve as interactive variables that more accurately define market value for a specific type of property. The variables provide a means of stratifying or grouping sales by class, age, size, location and other key attributes that influence value. The highest level of model specification is by ICLASS and IMA. There is an ICLASS/IMA model developed for every improved category that has an adequate amount of sales data. The second key level of stratification is effective age range and building size range (net rentable area). For example, effective age range groupings for apartments may be 0-10 years, 11-30 years and greater than 30 years. Because sales models are specified based on all four criteria, IMA, ICLASS, age range, and size range, each subject economic unit can only fall within the definition of one model.

Before the models are defined in MARS, the appraisers study and analyze sales using Excel software. This market analysis aids in revealing patterns in value that vary due to location, size, age, etc. The appraiser determines which ICLASS/IMA combinations have enough credible sales data to create and calibrate a sales model. The analysis also provides a means for establishing adjustment amounts, value ranges and weightings for each comparison criteria on a property type basis. For example, sale analysis may reveal that wide ranges in net rentable area may not have as much influence on value for high-rise office sales as compared to apartments. The appraisers also use various forms of statistical analysis in Excel to measure and predict many market driven value indicators.

The key model comparison fields that are typically selected as search fields include income class (ICLASS), improved market area (IMA), income tag (ITAG) sales price per square foot or unit, effective age, effective year of construction, net rentable area, number of units, average unit size, Mapsco, story height, rent per square foot, and land to building ratio. These fields are primarily calibrated with search criteria in the MARS mass appraisal "default" model application. However, appraisers and managers also have the ability to determine, on an individual property basis, which of the 65 comparison fields are for display only and which fields are defined with specific search criteria to produce a sample of comparable sales.

Income Approach Modeling

The income approach to value is applied to those real properties which are typically viewed by market participants as "income producing", and for which the income methodology is considered a leading value indicator. The basic formula for the income approach is **Market Value= Net Operating Income Divided By Overall Cap Rate**. This is also known as "Direct Capitalization", which is a generally accepted appraisal technique used to convert one year's stabilized income into an indication of market value. The MARS income approach module provides the mechanism to capture and specify a property's income characteristics for three levels or variable situations known as "actual", "default model" (market) and "pro forma". These income calculations are laid out in three separate sections or tabs in the MARS income module. The income formula is the same for each income variable but the data used to calibrate or populate each variable situation may differ. A thorough analysis of both actual income and default model income data is used to develop an indication of market value represented in the income pro forma calculation. The pro forma allows the appraiser to blend market rate comparable income data with actual income characteristics that are property specific.

The key model fields in the income approach formula include potential gross rent, physical vacancy, economic vacancy, secondary income, total operating expenses, net operating income and total tax rate, and capitalization rate.

The income approach formula is generally expressed the following way. A brief definition of each component of the formula is listed below.

Potential Gross Rent
Minus Vacancy & Collection Loss
Equals Effective Gross Rent
Plus Secondary Income
Equals Effective Gross Income
Minus Operating Expenses
Equals Net Operating Income
Then **Net Operating Income/Overall Cap Rate=Value**

Potential Gross Rent (PGR) - Total economic or market rent at 100% occupancy; Usually expressed as an annual amount on a per square foot or per unit basis.

Vacancy and Collection (V & C) - Loss in rental income because of physical vacancy, bad debt or economic rental concessions; often expressed as a percent of PGR; based on market cycles and trends.

Effective Gross Rent (EGR) - Rental Income after subtracting vacancy & rental loss from potential gross rent.

Secondary or Other Income - Income, other than rent, that is received from concessions; laundry rooms, parking, storage area rental, electronic communication roof space rental, and other sources related to ordinary operation of a property. Can be expressed as a percentage of PGR or EGR or dollar amount per unit of measure.

Effective Gross Income - Amount of actual income received from rent and secondary sources.

Operating Expenses - Expenses necessary to maintain a cash flow from the real property (not from the business). Typical expenses include management, utilities, property insurance, property taxes, repairs and maintenance, etc. This dollar amount can also be expressed as a percentage or ratio that represents total expenses divided by effective gross income.

Net Operating Income (NOI)- Income remaining after subtracting operating expenses from Effective Gross Income. This amount is income before debt service, property depreciation, personal income taxes, amortization, or interest payments.

Overall Capitalization Rate (OAR) - Rate used to convert income into value. An overall rate represents the requirements of discount (return), recapture and effective tax rates for the whole property. This is expressed as cap rate plus tax rate. If the tax rate is "loaded" into the cap rate, then the amount of real estate taxes is removed as an expense item.

Actual income data is property specific, but income characteristics derived from these “actuals” are generally representative of typical, market-based characteristics for similar income-producing properties. Standardized or “default income models” are developed by grouping these actual income comparables based on specific comparison or search criteria. The groupings provide a results set of income parameters that are analyzed and calibrated to create a pre-defined or “defaulted” income model. The income parameters that are modeled include potential gross rent per square foot, economic vacancy percent, other income per square foot, expenses per square foot and as a percentage of potential gross rent.

There are 27 income comparison fields used to search and group comparables. Model search criteria can vary by property type. The variable criteria provide a means of stratifying or grouping sales by class, age, size, location and other key attributes that influence income characteristics. The highest level of model specification is by ICLASS, IMA, effective age range and building size range. Other major search fields may include average unit size, lease type, Mapsco location, number of units, rent per square foot, income level, and property rank. The TAD commercial staff strives to develop an ICLASS/IMA model for every improved category that has an adequate amount of income data. Each default model is then utilized in the mass appraisal of properties with the same ICLASS/IMA/age and size range. There are approximately 1,500 default income models used in the valuation over 12,700 improved commercial economic units.

VALUATION PROCESS (Model Calibration)

Model calibration involves the process of estimating and periodically adjusting the mass appraisal formulas, tables, and schedules to reflect current local market conditions. Three valuation models are utilized in the mass appraisal process; cost, income and sales comparison models. These are represented in three separate modules in commercial system known as Mass Appraisal Records System or MARS. The software developed to create the commercial valuation models has been specified according to appropriate Uniform Standards of Professional Appraisal Practices and International Association of Assessing Officers mass appraisal standards and techniques. On an annual basis, adjustments or calibrations are made to reflect local market trends, new construction procedures, materials and/or costs, new improved market area delineations, current sale and market income factors and market capitalization rates, which can vary from year to year. The basic structure of the overall mass appraisal model can be valid over an extended period of time, with recalibration or trending factors utilized for updating the data to the current market conditions. However, at some point, if the adjustment process becomes too involved, the model calibration technique can mandate new model specifications or a revised model structure.

Cost & Depreciation Schedules

The cost approach to value is applied to all improved real property utilizing the comparative unit

or square foot method to determine replacement cost new. Replacement cost new should include all direct and indirect costs, including materials, labor, supervision, architect and legal fees, overhead and a reasonable profit. Development of a comparative cost unit for each building class involves the utilization of national cost data reporting services as well as consideration of actual cost information on comparable properties. A base cost rate has been developed for each building class and represents the replacement cost per unit for a benchmark property for each class. Date and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period of time. Because a national cost service is used as a basis for the cost models, location modifiers are necessary to adjust these base costs specifically for Tarrant County. The national cost services provides these modifiers.

Additional cost modifiers for each building class have been developed to adjust individual properties for construction components that differ from the base property. Modifiers have been developed for wall height, story height, foundation type, heat/AC type, percentage of finished-out area, and lack of typical property amenities. TAD's method of establishing a base cost per unit and adjusting with modifiers is called a Formula-driven cost model and provides an easy mechanism to adjust periodically.

The commercial classification manual was updated in its entirety August 2001. Since then, periodic updates have been completed as necessary. Field data lists, codes and table rates are reviewed periodically for update as needed. Recent economic news has indicated that the cost of construction materials have risen substantially over the last two years. Some of this increase is a result of hurricane related conditions and increasing prices for oil and natural gas. A thorough review of TAD's commercial base cost rates will be scheduled for the fall of 2009 and may affect the 2009/2010 cost table values. The research staff will employ several methods to determine table adjustments. Marshall and Swift Valuation service provides cost-trend factors for indexing existing costs as well as formula driven cost calculations. This data will be reconciled with actual cost data provided by local property developers to determine which cost rates require adjustments.

Accrued depreciation is estimated and developed based on losses typical for each property type at that specific age. Physical depreciation is the loss in value due to wear and tear and exposure to natural forces. For each major class of commercial property, standardized physical depreciation tables have been developed based on physical condition and the building life expectancy. These schedules have been developed for improvements with a 15, 20, 30, 40, 50, 60 or 70-year economic life expectancy. These schedules are tested annually using sales of relatively new properties to ensure they are reflective of current market conditions. The actual and effective age of all improvements are noted in MARS. 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. In addition to age, physical depreciation is also based on five condition ratings, poor to excellent, that relate to the level of

property maintenance. These condition ratings are further described in the Commercial Appraisal Classification Manual.

A depreciation calculation override can be used if the condition or effective age of a property varies from the standard. These adjustments are typically applied to a specific property type or location and can be developed via ratio studies or other market analyses. Accuracy in the development of the cost schedules, condition ratings and depreciation schedules will usually minimize the necessity of this type of an adjustment factor.

Sales Comparison Default Model Calibration

The commercial sale models are calibrated by populating the various comparison fields with specific sales search criteria. The goal of accurate calibration is to return a group of sales that are comparable to the subject property and require the least amount of adjustments. This is accomplished by accurately populating several of the 65 model comparison or variable fields with accurate and category specific search criteria. For example, in addition to specified ICLASS, IMA, age and size range criteria, an appraiser may also calibrate an apartment model for the following:

<u>Comparison Field</u>	<u>Calibrated Search Criteria</u>
Sale Date	Within Previous 24 Months of Jan 1 of the appraisal year
ITAG	(080)- Average Unit Size Greater than 830 SF
# Of Units	Greater than 200 units
Economic Vacancy	Less than 20%
Rents Per SF	Greater than \$10.00

If the resulting set of comparables sales does not meet adequate sample standards, the appraiser can recalibrate comparison fields as needed.

Prior to the final value edit process each year, commercial managers and supervisors analyze all improved sales and determine which ICLASS/ IMA/age/ size range combinations can be modeled with a standardized set of search criteria. These standardized models are called "default models". The default models provide for uniformity and consistency in the development of sales comparison groupings in the mass appraisal process. Therefore, ECU properties within each ICLASS that have similar physical, economic and location characteristics will be valued using similar market-driven sales indicators. There are approximately 1,300 default models that provide for the standardized valuation of 123 different ICLASS categories using the sales comparison approach.

Once the default sales comparison search criteria are defined, a search can be executed for each improved ECU property to produce a set of comparable sales. These sales are displayed in the MARS module in a sales comparison grid. The appraiser reviews the sales grid to

determine if the sample is sufficient and representative of the subject economic unit. If the sample is either not sufficient, or too large to be representative, the appraiser can recalibrate the search criteria to return a modified sales sample. The appraiser can also make adjustments, as a percentage or dollar amount to individual sales, to account for differences between the sale and the subject. Each of the selected, adjusted sales carries an equal amount of weight unless the appraiser determines otherwise. The appraiser can adjust the percentage weight based on location or other factors for one or more sales, as long as the total of the weightings equals 100%.

Based on the weighted sales, the MARS application displays the average and median per unit prices and computes a total sales comparison value indication. To complete the appraisal process, the appraiser selects either the median value, the average value or can enter an override value for the subject property. This sales comparison value is saved and also displays on the Summary and Reconciliation screen in the MARS Economic Unit valuation module.

Income Model Calibration (Actual, Market, Pro Forma)

Property owners often provide TAD with rent rolls, operating statements and other income documentation that reflect the actual income characteristics of a given property. This type of data is based on actual tenant or contract rent received and actual expenses incurred by the owner. The information is analyzed and entered into the “actual” income formula in MARS. This year-based data is generally representative of the entire economic unit or ICLASS level but a separate mechanism also exists to capture data at the building class level in a table called “specialty” rents. The TAD commercial research staff processes an average of 3,500 income-related statements each year. The entry of this property-specific data serves to calibrate or populate the “actual” income model for each given property. Income from outside or contributed sources that is labeled as “pro forma” is not processed into the MARS “actual” model, even if the property owner is the source.

The default income models are calibrated by populating the various income comparison fields with specific search criteria. The goal of accurate calibration is to return a grouping of actual lease comparables that can be used to determine income parameters for a specified ICLASS, IMA, age and size category. This is accomplished by accurately defining the 27 model comparison fields with category specific search criteria.

For example, in addition to ICLASS, IMA, age and size range criteria, an appraiser may also calibrate an apartment model for the following:

<u>Comparison Field</u>	<u>Calibrated Search Criteria</u>
EYOC	Greater than 1995
ITAG	(080)- Average Unit Size Greater than 830 SF
# Of Units	Greater than 200 units
Economic Vacancy	Less than 15%
Rents Per SF	Greater than \$10.00

If the resulting set of rent comparables does not meet adequate sample standards, the appraiser can recalibrate comparison fields as needed.

The MARS income application assists in analysis of the rent comps by computing the average, median and weighted average calculation of each income formula field. The commercial staff also gathers additional income data from various outside sources such as Blacks Office Guide, CoStar Properties, Dollars and Cents of Shopping Centers and PKF Hotel Trends. A default model for each IMA/ICLASS is then calibrated using all sources of market related data. The default income model fields include those that are defined include potential gross rent or PGR, economic vacancy percent, other income, expense per square foot or percent of PGR, cap rate, rent type, age range and size range.

Pro Forma Income Valuation

A pro forma is an operating statement used to project probable gross income, operating expenses, and net operating income based on specified market derived assumptions. The direct capitalization income approach is based on projecting rent and expense quantities that reflect how a typical, prudent property owner would manage the property. The cap rate is selected based on the projected quantity, quality and duration of these income characteristics of a property. These projections are defined or calibrated in the pro forma portion of the MARS income module. Adjustments to actual and model income data are developed and applied in the pro forma to reflect differences between a subject property's performance versus a typical property's operating performance or cash flow characteristics. Adjustments for income differences may relate to physical, functional or economic influences that affect a property's ability to generate income. Market-based similarities or differences may be represented in the pro forma model through application of higher vacancy or expense ratios, differences in capitalization rates or through application of a lease up cost adjustment. Reconciliation of actual income and model market-driven data is used to populate the income pro forma and results in a final indication of market value for each economic unit of property.

Final Valuation Summary and Reconciliation

Based on the market data analysis and the methodology described in the cost, income and sales approaches, the various models are calibrated and values are developed for each

commercial property. The cost approach mass appraisal model is applied to every improved property. Additional valuation indicators may be developed and applied using the sales comparison and income approaches, depending on the property type and availability of data. The total economic unit value, resulting from the execution of each approach, is displayed on the MARS Summary and Reconciliation Screen. The final valuation of a property is estimated based on reconciling these indications of value considering the weight of the market information available for evaluation and analysis in these approaches to value.

Statistical and Capitalization Analysis

Statistical analysis of final values is an essential component of quality control. This methodology represents a comparison of the final value against the standard and provides a concise measurement of the appraisal performance. Statistical comparisons of many different standards are used including sales of similar properties, the previous year's appraised value, audit trails, value change analysis and sales ratio analysis.

Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each property type with available sales data. These summary statistics including, but not limited to, the weighted mean provide the appraisers an analytical tool by which they determine both the level and uniformity of appraised values of a particular property type. The level of appraised values can be determined by the weighted mean for individual properties within a specific type, and a comparison of weighted means can reflect the general level of appraised values.

Appraisers review every commercial property type annually through the sales ratio analysis process. The first phase involves ratio studies that compare the recent sales prices of properties to the appraised values of the sold properties. This set of ratio studies affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the appraised values. Appraisers, based on the sales ratio statistics and designated parameters for valuation update, make a preliminary decision as to whether the value level of a particular property type needs to be updated in an upcoming reappraisal, or whether the ratio of market value is at an acceptable level.

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses (inclusive of non-recoverable and replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed. Income model estimates and conclusions are compared to actual information obtained on individual commercial and industrial income properties during the appeal and protest hearings process, as well as with information received from published sources and area property managers and owners.

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The date of last inspection, extent of that inspection, and the TAD appraiser responsible are listed in the MARS system. If a property owner disputes the District's records concerning this data in a protest hearing, MARS data may be altered based on the credibility of the evidence provided. Normally, a new field inspection is then required to verify this information for the current or for the next year's valuation. In addition, if a building permit is issued for a particular property indicating a change in characteristics, that property is added to a work file for review and field inspection.

A major effort is made by appraisers to field review economic areas experiencing large numbers of remodels, renovations, or retrofits, changes in occupancy levels or rental rates, new leasing activity, new construction, or wide variations in sale prices on as many properties as time and resources allow. Additionally, the appraisers frequently field review subjective data items such as building class, quality of construction (known as cost modifiers), condition, and physical, functional and economic obsolescence factors contributing significantly to the market value of the property. In some cases field reviews are warranted when sharp changes in occupancy or rental rate levels occur between building classes or between economic areas. While in the field, the appraisers make an effort to inspect sold and unsold properties for comparability and consistency of values.

Office Review

Office reviews are completed, as authorized by the International Association of Assessing Officers standards, on properties subject to field inspections and are performed in compliance with the guidelines required by the existing classification system. Office reviews are typically limited by the available market data presented for final value analysis. The appraisers may utilize aerial photography as a means to verify building characteristics and location without an on-site field inspection. These reviews summarize the pertinent data of each property as well as comparing the previous value to the proposed value conclusions of the various approaches to value. These evaluations and reviews show proposed value changes; income model attributes or overrides, economic factor (cost overrides) and special factors affecting the property valuation such as new construction status, and a three years sales history. The three-year sales history is required by the Uniform Standards of Property Appraisal Practices (USPAP) for non-residential property. The appraiser may review methodology for appropriateness to ascertain that it was completed in accordance with USPAP or more stringent statutory and district policies. This review is performed after preliminary ratio statistics have been applied. If the ratio statistics are generally acceptable overall the review process is focused primarily on locating skewed results on an individual basis. Previous values resulting from protest hearings are individually reviewed to determine if the value remains appropriate for the current year based on market conditions. Each appraiser's review is limited to properties in

their area of responsibility by property type (improved) or geographic area (commercial vacant land).

Once the appraiser, supervisors and managers are satisfied with the level and uniformity of value for each commercial property within the appraisers area of responsibility, the estimates of value are prepared to send a notice of proposed appraised value. Each parcel is subjected to the value parameters appropriate for its use type.

PERFORMANCE TESTS

Sales Ratio Studies

The primary tool to measure appraisal performance is a ratio study. A ratio study compares appraised values to market values. Sales ratio studies are an integral part of estimating equitable and accurate market values, and ultimately property assessments for the taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analyses; and, to calibrate models used to estimate appraised values during valuation or reappraisal cycles.

Tarrant Appraisal District has adopted the policies of the International Association of Assessing Officers IAAO STANDARD ON RATIO STUDIES, circa July 2007 regarding its ratio study standards and practices. Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis, and (6) evaluation and application of the results.

On an annual basis, appraisal managers analyze the results of the previous years Property Value Study that is conducted by the Property Tax Division of the State Comptroller's Office. Commercial Research also produces internal ratio reports at various times during the annual appraisal cycle.

Comparative Appraisal Analysis

The commercial appraiser performs an average unit value comparison in addition to a traditional Ratio study. These studies are performed on commercially classified properties by property use type (such as apartment, office, retail and warehouse or special use). The objective to this evaluation is to determine appraisal performance of sold and unsold properties. Appraisers compute the average unit prices of sold properties and the average unit appraised values of the same parcels to develop a comparison of average value changes of sold and unsold properties. These studies are conducted on substrata such as building class and on properties located within various economic areas. In this way, overall appraisal performance is evaluated geographically, by specific property type to discern whether sold parcels have been selectively appraised. When sold parcels and unsold parcels are appraised equally, the average unit

values are similar. These sales and equity studies are performed prior to final appraisal and generation of notices of proposed appraised values.

Business Personal Property, Minerals & Utilities

Valuation Process

INTRODUCTION

Appraisal Responsibility

The Business Personal Property, Mineral & Utility Division (BPP) of Tarrant Appraisal District (TAD) is responsible for developing fair and uniform market values for business personal property, minerals, and utilities located within the district. There are several different account types appraised: (1) standard business personal property, (2) leased asset/special property at multiple locations, (3) commercial aircraft, (4) special inventory, (5) "J" State Code utility properties and (6) mineral accounts (which are real property but the valuation is contracted out and managed by the division). There are approximately 80,000 total accounts, excluding individual 'leased asset/special property at multiple locations' accounts.

Appraisal Resources

- **Personnel** – The BPP staff consists of a department director, an appraisal coordinator, senior research specialist, research specialists, valuation analyst, senior appraisers/ appraisers/valuation technicians, and a clerical staff with a senior clerk and entry/support clerks. The BPP Division Director reports to the Executive Director/Chief Appraiser.
- **Data** – A common set of data characteristics for each account in the district are collected by appraisers in the field, by phone, and other pertinent sources and are entered into the TAD mainframe computer by both the appraisal and clerical staff. These assigned property characteristics direct the computer-assisted personal property appraisal (CAPPA) system to a preliminary account value.

Additionally, a third party appraisal firm that values minerals and certain utility properties gathers data from the Texas Railroad Commission and other proprietary sources.

VALUATION APPROACH (Model Specification)

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. TAD has further stratified these codes by adding alpha and numeric suffixes in order to group business types that have similar property characteristics.

SIC code identification and delineation is the cornerstone of the business personal property valuation system in the district. All of the analysis work done in association with the valuation process is SIC code specific. There are approximately 900 TAD-specific SIC codes. SIC codes are delineated based on observable aspects of homogeneity. SIC code delineation is periodically reviewed to determine if delineation revision is necessary.

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.

DATA COLLECTION / VALIDATION

Data Collection Procedures

Appraisal and data collection procedures are maintained in the Business Personal Property Manual, available at the customer service counter, and supplemented with work memorandums as needed. Procedures are reviewed and revised to meet the changing requirements of field data collection. Commercial real estate staff verifies basic business personal property data items in conjunction with their field inspections of selected geographic areas of the appraisal district. Business Personal Property appraisers reappraise all other businesses each year through various discovery means and resources.

Sources of Data

Standard Business Personal Property Account

District appraisers collect new data via an annual reappraisal. Various discovery publications such as the Business Marketing Source, Texas Department of Transportation commercially registered vehicle listing currently provided by Infonation Inc. a commercial publication, sales tax permits listings, and local occupancy permits are also used during the reappraisal. Newspapers, business publications, business owners, and district residents provide discovery information and other useful facts related to discovery and valuation.

Leased Asset/Special Property at Multiple Locations Account

The primary source of discovery for these accounts is owner renditions submitted in either hard copy or electronic format. Property owner survey letters, on-site inspections and the renditions of lessees are sometimes used to supplement this information.

Commercial and Business Aircraft

AirPac, a private company in Edmond, Oklahoma, consolidates information from the Federal Aviation Administration (FAA) along with local airport/airfield management and provides TAD with a listing of commercial and business aircraft with situs in this district. Valuation is accomplished by referencing the Aircraft Blue Book Price Guide (Winter Edition), the Airliner Price Guide, and/or the Avitas Blue Book of Aircraft Values to establish market value. Owner renditions (and when necessary the Bureau of Transportation Statistics website) are then referenced for aircraft allocation.

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

Certain Utility, Pipeline and Mineral Accounts

Tarrant Appraisal District contracts for certain appraisal work on Electric Generating Plants, Electric Distribution, Pipelines, and Oil/Gas reserves with third party appraisal firms. Uniform Standards of Professional Appraisal Practices or USPAP certification and reappraisal plan information on these properties are maintained at the contractors individual offices. A list of third party vendors is available upon request.

VALUATION AND STATISTICAL ANALYSIS (model calibration)

Cost Schedules

Tarrant Appraisal District Business Personal Property research specialists develop cost schedules according to Standard Industrial Codes. Cost data is analyzed from property owner renditions, Settlement and Waiver of Protest documentation, Appraisal Review Board (ARB) hearing evidence, Texas Comptroller schedules, and published guides. Schedules are reviewed as necessary to reflect changing market conditions and are presented exclusively in a cost per square foot format.

Statistical Analysis

Summary statistics such as the median, weighted mean, and standard deviation provide appraisers analytical tools by which to determine both the level and uniformity of appraised value by SIC code. Review of standard deviation can distinguish appraisal uniformity within SIC codes.

Depreciation Schedule and Trending Factors:

Although all three approaches to value are considered, Tarrant Appraisal District's primary approach to the valuation of business personal property is the cost approach. The replacement cost new (RCN) is either developed from property owner reported historical cost or from TAD developed valuation models. The trending factors used by TAD in the development of the depreciation schedule are based on published valuation guides. The "percent good", or remaining economic life, depreciation factors published is considered to recognize the trend for changes in cost factors.

Depreciation schedules are reviewed annually and adjusted on an as needed basis. Any revisions are then adopted and their use is reflected in all of the calculations for that property. Consistent application of this schedule ensures that market values are uniform and equal.

Computer Assisted Personal Property Appraisal (CAPPA)

The two main objectives of the CAPPA valuation process are to: (1) analyze and adjust existing SIC models and (2) develop new models for business classifications not previously integrated into CAPPA. The delineated sample is reviewed for accuracy of SIC code, square footage, field data, and original cost information. Models are created and refined using both actual original

cost data and market data to derive a typical replacement cost new (RCN) per square foot for a specific category of assets. The RCN per square foot is depreciated by the estimated age using the depreciation table adopted for that tax year.

The data sampling process is conducted in the following order: 1) Prioritizing SIC codes for model analysis. 2) Compiling the data and developing the reports. 3) Field inspecting the selected samples. The models are built and adjusted using internally developed software. The models are then tested against the previous year's data. The typical cost per square foot is determined by a statistical analysis of the available data.

Standard Business Personal Property Account

CAPPA model values are used in the general business personal property valuation program to estimate the value of new and/or existing accounts for which a property owner's rendition has either not been received or not used to estimate a value. Model values are also used to establish tolerance parameters for testing the valuation of property for which prior data years' data exist or for which current year rendered information is available. The calculated current year value or the prior year's value is compared to the indicated model value by the valuation program. If the value being tested is within an established acceptable percentage tolerance range of the model value, the account passes that range check and moves to the next valuation step. If the account fails the tolerance range check, it is flagged for individual review. Allowable tolerance ranges may be adjusted from year to year depending on the analysis of the results of the prior year.

Leased Asset/Special Property at Multiple Locations Account

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

Valuation is accomplished by referencing the Aircraft Blue Book Price Guide (Winter Edition), the Airliner Price Guide, and from the Avitas Blue Book of Aircraft Values. The Texas Property Tax Code has a specific methodology for the valuation and/or allocation of all aircraft.

Special Inventory

The Texas Property 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.

INDIVIDUAL VALUE REVIEW PROCEDURES

Office Review

Standard Business Personal Property Account

A BPP valuation program exists in the mainframe and personal computer environment that identifies accounts in need of specific review based on a variety of conditions. Property owner renditions, accounts with field or other data changes, accounts with prior Appraisal Review Board hearings activity, newly established business accounts, and SIC cost table changes are all considered. The accounts are processed by the valuation program and pass or fail preset tolerance parameters by comparing appraised values to prior year and model values. An appraiser reviews accounts that fail the tolerance parameters.

Leased Asset/Special Property at Multiple Locations Account

Leased Asset/Special Property accounts that have a high volume of vehicles or other assets are loaded programmatically if reported by the property owner electronically. Electronic renditions may require reformatting before they can be loaded to the account. The BPP clerical staff enters accounts that are rendered via hard copy. After data matching and entry, reports are generated and reviewed by an appraiser. Once proofed, necessary corrections are made, supervisor approval is granted, and the account is sent a notice of appraised value.

Commercial and Business Aircraft

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

Special Inventory

TAD's perpetual account tracking system ensures dealers without a current declaration on file are contacted to advise them of their legal filing requirements and to provide TAD with the most current valuation/review data available.

PERFORMANCE TESTS

Ratio Studies

Each year the Property Tax Division of the State Comptroller's Office conducts a Property Value Study (PVS). The PVS is a ratio study used to measure appraisal district performance. Results from the PVS play a part in school funding. Rather than a sales ratio study, the personal property PVS is a ratio study using state cost and depreciation schedules to develop comparative personal property values. These values are then compared to TAD's personal property values and ratios are determined.

LIMITING CONDITIONS

The appraised value estimates provided by the district are subject to the following conditions:

1. The appraisals are prepared exclusively for ad valorem tax purposes as specified in the Texas Property Tax Code. Jurisdictional exceptions may apply where compliance with part or parts of USPAP is contrary to law or public policy applicable to TAD's appraisal assignment.
2. The property characteristic data upon which the appraisals are based is assumed correct. Exterior inspections of the property appraised are performed as staff resources and time allowed. Some interior inspections of property appraised are performed at the request of the property owner or as requested by the district for clarification purposes and to correct property descriptions.
3. Validation of sales transactions is attempted through questionnaires to buyer and seller, telephone survey and field review. In the absence of such confirmation, sales data obtained from vendors is considered reliable.
4. See Appendix B for a list of staff providing significant assistance to the person signing this certification.

Certification Statement:

"I, Jeffery D. Law, Chief Appraiser/Executive Director for Tarrant Appraisal District, solemnly swear that I have made or caused to be made a reappraisal plan for Tarrant Appraisal District for the 2009/2010 tax years as required by law."

Jeffery D. Law
Chief Appraiser/Executive Director

Appendix A. 2009-2010 Proposed Calendar of Key Activities

<u>PROJECTED DATE</u>	<u>2009 REAPPRAISAL - RELATED ACTIVITY OR EVENT</u>
July-08	<ul style="list-style-type: none"> * Appraisal Review Board (ARB) Approves 2008 Appraisal Records To Create Appraisal Roll * Chief Appraiser Certifies 2008 Appraisal Roll To Taxing Units
August-08	<ul style="list-style-type: none"> * Begin 2009 Appraisal Field Work For Residential & Commercial New Construction * Research Depts. Begin Cost, Sale & Income Data Collection For Model Calibration * Managers Review Ratio Study Results-Identify Key Areas For 2009 Value Review * Staff Training for 2009 Commercial Field Data Collection * Texas Association Of Appraisal Districts (TAAO) Annual Conference * Information Systems Rollover Of TAD Data Records To Begin Appraisal Year 2009
September-08	<ul style="list-style-type: none"> * Sept. 1 - Statutory Appraisal Date For Certain Inventory Properties (Sec.23.12) * Begin 2009 Appraisal Field Work For BPP * Labor Day-District Closed * 2008 ARB Hearings Continue From September 2008 Through May 2009 * Begin 2009 Commercial Field Reappraisal In Portion Of 905 School District * Texas A & M Legal Seminar On Ad Valorem Taxation-San Antonio Texas * Initial Overlapping CAD Exchange Of Deed Records and Appraisal Data * Sept. 15 - Statutory Deadline For TAD Board of Directors To Approve 2009 Budget & 2009-2010 Reappraisal Plan * Begin Residential 2009 Land Value Review
October-08	<ul style="list-style-type: none"> * Taxing Units Mail 2008 Tax Bills - Appraisal Support For Phones & Customer Service * Supervisory Review of Commercial Market & Preliminary In-House Land Ratio Study * Residential Begins Review of Neighborhood Delineations * Comptrollers 52th Annual Conference on Property Taxation-Austin TX * 4 Day- Board of Tax Professional Examiners (BTPE) In-House Appraisal Course -TAD Instructors
November-08	<ul style="list-style-type: none"> * TAD Managers & Supervisors Receive 2009 Employee Performance Review Packets * 5 Day BTPE In-House Appraisal Course - With TAD Instructors * Complete 2008 Commercial Field Reappraisal -Managers Review QC Edits * Appraiser In-House Training For 2009 Land Reappraisal * Thanksgiving Holiday-TAD Closed * Begin 2009 Commercial Land Reappraisal/Permits Field Review * Review & Return PTD Clerical Error Report For 2008 Property Value Study
December-08	<ul style="list-style-type: none"> * 2008 Employee Performance Reviews-Discussions With Staff * 5 Day BTPE In-House Appraisal Course - With TAD Instructors * Christmas Holiday - TAD Closed * Mail Business Personal Property Rendition Forms

PROJECTED
DATE

2009 REAPPRAISAL - RELATED ACTIVITY OF EVENT

- | | |
|--------------------|---|
| January-09 | <ul style="list-style-type: none"> * New Years Day-TAD Closed * Jan. 1 - Statutory Appraisal Date For Most Categories Of Taxable Property * Residential & Commercial Market & Statistical Analysis Begins * Martin Luther King Day-TAD Closed * 4 Day BTPE In-House Appraisal Course - With TAD Instructors * Long Range Planning Session - TAD Managers & Supervisors * Complete 2009 Commercial Land Reappraisal-Managers Review Edits * Analysis & Preparation For Final Value Edits - Personal Property & Commercial * Receive 2008 Property Value Study Results from Property Tax Division - Begin Appeals Preparations |
| February-09 | <ul style="list-style-type: none"> * Begin Application of Residential Neighborhood Market Adjustments * 4 Day BTPE In-House Appraisal Course - With TAD Instructors * TAD/Tarrant County Tax Office Roundtable Discussion * Texas Association Of Appraisal Districts (TAAD) Annual Conference Austin TX * President's Day-TAD Closed * Business Personal Property Wrap-up Of Field Verification Activities * Begin Working 2009 Business Personal Property Renditions |
| March-09 | <ul style="list-style-type: none"> * 4 Day BTPE In-House Appraisal Course - With TAD Instructors * Deadline to Submit 2008 Property Value Study Appeals Evidence to Comptroller * Appraisal Level III and RPA Exams In Dallas |
| April-09 | <ul style="list-style-type: none"> * Begin Preparation For 2010 Budget * Finalize Residential Changes Prior To First Value Notice Run * Agreed Upon Timeframe to Exchange 2009 Overlap Values With Overlap CADS * Complete Commercial Final Value Edits-Managers Review Reports * BPP Rendition Deadline on April 15th * Finalize Commercial & BPP Changes Prior To First Value Notice Run * Deadline To File Abatement Application on April 30th |
| May-09 | <ul style="list-style-type: none"> * First Mailing of 2009 Real and BPP Value Notices * Mineral Property First Notice Run * Begin Informal Appeals * BPP Rendition Extension Deadline On May 15th * Statutory Date For to Match Overlapping Values * 2008 Property Value Study Appeal Hearings-Austin TX * Memorial Day-TAD Closed * Statutory Deadline To File Appraisal Review Board Protest |
| June-09 | <ul style="list-style-type: none"> * Chief Appraiser Submits 2009 Completed Appraisal Records To ARB * 2009 Appraisal Review Board Hearings Begin |

PROJECTED
DATE

2010 REAPPRAISAL - RELATED ACTIVITY OF EVENT

- July-09**
- * Appraisal Review Board (ARB) Approves Appraisal Records-Creates Appraisal Roll
 - * Chief Appraiser Certifies 2009 Appraisal Roll To Taxing Units
 - * Chief Appraiser Prepares 2009 Mass Appraisal Report
- August-09**
- * Begin 2010 Appraisal Field Work For Residential & Commercial New Construction
 - * Research Depts. Begin Cost, Sale & Income Data Collection For 2010 Model Calibration
 - * Managers Review Ratio Study Results-Identify Key Areas For 2010 Value Review
 - * Staff Training for 2010 Commercial & Business Personal Property Field Data Collection
 - * TAAO Annual Conference
 - * Information Systems Rollover Of TAD Data Records To Begin Appraisal Year 2010
- September-09**
- * Sept. 1 - Statutory Appraisal Date For Certain Inventory Properties (Sec.23.12)
 - * Begin 2010 Appraisal Field Work For BPP
 - * Labor Day-District Closed
 - * 2009 ARB Hearings Continue From September 2009 Through March 2010
 - * Begin 2010 Commercial Field Reappraisal - Remainder of 905 ISD
 - * Texas A & M Legal Seminar On Ad Valorem Taxation-San Antonio Texas
 - * Sept. 15 - Statutory Deadline For TAD Board of Directors To Approve 2010 Budget
 - * Begin Residential 2010 Land Value Review
- October-09**
- * Taxing Units Mail 2009 Tax Bills - Appraisal Support For Phones & Customer Service
 - * Supervisory Review of Commercial Market & Preliminary In-House Land Ratio Study
 - * Residential Begins Review of Neighborhood Delineations
 - * Comptrollers Annual Conference on Property Taxation-Austin TX
 - * 4 Day Board of Tax Professional Examiners (BTPE) In-House Appraisal Course -TAD Instructors
- November-09**
- * TAD Managers & Supervisors Receive 2009 Employee Performance Review Packets
 - * 5 Day BTPE In-House Appraisal Course - With TAD Instructors
 - * Complete 2010 Commercial/BPP Field Reappraisal -Managers Review QC Edits
 - * Appraiser In-House Training For 2010 Land Reappraisal
 - * Thanksgiving Holiday-TAD Closed
 - * Begin 2010 Commercial Land Reappraisal/Permits Field Review
 - * Review & Return PTD Clerical Error Report For 2009 Property Value Study
- December-09**
- * 2009 Employee Performance Reviews-Discussions With Staff
 - * 5 Day BTPE In-House Appraisal Course - With TAD Instructors
 - * Christmas Holiday - TAD Closed
 - * Mail Business Personal Property Rendition Forms

<u>PROJECTED DATE</u>	<u>2010 REAPPRAISAL - RELATED ACTIVITY OF EVENT</u>
January-10	<ul style="list-style-type: none"> * New Years Day-TAD Closed * Jan. 1 - Statutory Appraisal Date For Most Categories Of Taxable Property * Residential & Commercial Market & Statistical Analysis Begins * Martin Luther King Day-TAD Closed * 4 Day BTPE In-House Appraisal Course - With TAD Instructors * Long Range Planning Session - TAD Managers & Supervisors * Complete 2010 Commercial Land Reappraisal-Managers Review Edits * Analysis & Preparation For Final Value Edits - Personal Property & Commercial * Receive 2009 Property Value Study Results from Property Tax Division Begin Appeals Preparation
February-10	<ul style="list-style-type: none"> * Begin Application of Residential Neighborhood Market Adjustments * 4 Day BTPE In-House Appraisal Course - With TAD Instructors * TAD/Tarrant County Tax Office Roundtable Discussion * Texas Association Of Appraisal Districts (TAAD) Annual Conference Austin TX * President's Day-TAD Closed * Business Personal Property Wrap-up Of Field Verification Activities * Begin Working 2010 Business Personal Property Renditions
March-10	<ul style="list-style-type: none"> * 4 Day BTPE In-House Appraisal Course - With TAD Instructors * Deadline to Submit 2009 Value Study Appeals Evidence * Appraisal Level III and RPA Exams In Dallas
April-10	<ul style="list-style-type: none"> * Begin Preparation Of 2011 Budget and 2011-2012 Reappraisal Plan * Finalize Residential Changes Prior To First Value Notice Run * Complete Commercial Final Value Edits-Managers Review Reports * April 15 - Business Personal Property Rendition Deadline * Finalize Commercial & BPP Changes Prior To First Value Notice Run * April 30 - Deadline To File Abatement Application
May-10	<ul style="list-style-type: none"> * First Mailing of 2010 Value Notices * Begin Informal Appeals * 2009 Property Value Study Appeal Hearings-Austin TX * BPP Rendition Extension Deadline on 15th * Mineral Property First Notice Run * Memorial Day-TAD Closed * Statutory Deadline To File Appraisal Review Board Protest
June-10	<ul style="list-style-type: none"> * Chief Appraiser Submits 2010 Completed Appraisal Records To ARB * 2010 Appraisal Review Board Hearings Begin
July-10	<ul style="list-style-type: none"> Appraisal Review Board (ARB) Approves Appraisal Records-Creates Appraisal Roll Chief Appraiser Certifies 2010 Appraisal Roll To Taxing Units Chief Appraiser Prepares 2010 Mass Appraisal Report

Appendix B. Key Appraisal Personnel in Reappraisal Plan Implementation

<u>DEPARTMENT</u>	<u>EMPLOYEE</u>	<u>POSITION</u>
	JEFFERY D. LAW	EXECUTIVE DIRECTOR/CHIEF APPRAISER
ADMINISTRATION	STU BACH	DIRECTOR OF ADMINISTRATION
RESIDENTIAL	RANDY ARMSTRONG	DIRECTOR OF RESIDENTIAL APPRAISAL
	VICKI WILKIE	REGIONAL APPRAISAL MANAGER
	SHERYL ADAIR	REGIONAL APPRAISAL MANAGER
	JESSIE KALBA	REGIONAL APPRAISAL MANAGER
	JANIS TURNER	REGIONAL APPRAISAL MANAGER
	DAVID MUSIL	RESEARCH MANAGER
	DALE RECTOR	AGRICULTURAL APPRAISAL SPECIALIST
COMMERCIAL	DAVID LAW	DIRECTOR OF COMMERCIAL APPRAISAL
	WILLIE BRAND	COMMERCIAL/COMPLEX PROPERTIES MANAGER
	DEBBIE CABELLO	RESEARCH AND REPORTING MANAGER
	LONNIE RICHARDSON	LITIGATION MANAGER
	ROY SMITH	REGIONAL SUPERVISOR
	TERRY SPRADLIN	REGIONAL SUPERVISOR
	MATT TRACY	RESEARCH AND REPORTING SUPERVISOR
	CHARLIE BRATCHER	COMPLEX PROPERTIES SUPERVISOR
BPP, MINERALS, UTILITIES	JEFF CRAIG	DIRECTOR OF BPP, MINERALS, UTILITIES
	RANDY WATKINS	APPRAISAL SUPERVISOR
	DJ WHITEHEAD	SENIOR RESEARCH SPECIALIST
SUPPORT SERVICES	DIANE COLLINS	DIRECTOR OF SUPPORT SERVICES
	DONNA PERLICK	LAND MANAGEMENT/RECORDS SUPERVISOR
	WOODY BOYKIN	LAND MANAGEMENT/GIS MANAGER
	LINDA SMITH	ARB SUPERVISOR
	KATHY TIBBET	CUSTOMER SERVICE SUPERVISOR
	CINDY HOWARD	EXEMPTIONS SUPERVISOR
INFORMATION SYSTEMS TECHNOLOGY	BOB TAROLA	DIRECTOR OF INFORMATION SYSTEMS
	ROBERT HALL	ASSOCIATE DIRECTOR
	GENE WOODALL	APPLICATIONS PROGRAMMING MANAGER
	LORETTA BASLEE	DATA SERVICES MANAGER
	GINNY EVANS	ASST DATA SERVICES MANAGER
	CHARLIE COX	COMPUTER OPERATIONS MANAGER