

Property Tax Appraisal Issues for the MTS Appraiser

Objectives, Issues and Strategies

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Agenda

1. **The Property Tax Appraisal Arena**
2. **Complexities of Business Personal Property (BPP) Assessment Valuations Compared to Real Property**
3. **Fee Appraisals and Assessment Appraisals – Frequent Comparative Issues**
4. **Issue Examples**
 - Count and Value Appraisal Challenges
 - Level of Trade Interpretations
 - Economic Obsolescence Positions
 - Assemblage Costs Debate and Confusion
5. **Appraisal Recommendations and Strategies**
6. **Questions/Comments**

The Property Tax Appraisal Arena

- Determined by Mass Appraisal methods due to resource and feasibility reasons – thousands of properties
- Mass Appraisal is generic by definition – “Universe of Properties” and not specific to the individual property’s asset or assets
- It can be a very tough experience for Fee Appraisers – definitely challenging compared to some other appraisal assignments
 - With few exceptions, the appraisal report will be highly scrutinized and challenged, in many cases vigorously. **It should be prepared in anticipation of judicial litigation.**

Complexities of BPP Assessments Compared to Real Property Assessments

Real Estate

Recorded Deed Sales -
Buyer and seller information



Business Personal Property

No recorded deed sales, buyer and seller interpretation issues...

Annual Data Collection and Modeling by Assessors



Generally no annual data collection

Income Approach



Generally no income approach

Assessment Fair Market Value Definitions:

Florida: "The price at which a property, if offered for sale in the open market, with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent," (Fla Administrative Code (12D-1.002)

Georgia: "the amount a knowledgeable buyer would pay for the property and a willing seller would accept for the property at an arm's length, bona fide sale"... (§48-5-2(3))

Texas : "the price at which a property would transfer for cash or _____ its equivalent both the seller and purchaser"(Sec.1.04)

ASA Textbook (excerpt): "an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and willing seller..." - FMV Installed

All Describe the Value of a Buyer and Seller Transaction

My First Property Tax Appraisal Experience

As a consultant: - the client was an insurance company with office furniture and equipment assets

- ASA Senior Accredited Appraiser
- Appraisal Conformed with USPAP
- Appraisal met ASA - M&E equipment appraisal standards
- Definition was Fair Market Value, Removal, Sales Comparison Approach
- **Appraisal value was approximately 40% less than the assessment**

Result: Appraisal angered the Assessor, created complicated arguments, confusion and debate at the administrative hearing before the Special Magistrate. Arguments took too long, the appraisal value was ultimately rejected. **Unhappy client and appraiser**

What Happened?

Simple reason: I did not fully understand or appreciate the arena I was operating in and the importance of understanding the major issues from three perspectives:

- the Assessor's
- the Fee Appraiser I hired
- the Special Magistrate

The appraisal was correct; yet the assessment remained. I repeated my mistakes for several cases over the next couple of years until I decided to adapt to the ad valorem environment. I began taking appraisal classes from the ASA to better understand appraisal practices. The following are some of the issues I needed to understand and work through, with and around:

Assessor and Fee Appraiser Responsibilities

Assessor

- Receive Tax Return that includes list of assets, asset costs and purchase dates (usually categories included)
- Estimate RCN
- Assign assets to a depreciation schedule to arrive at Fair Market Value
- Equally and Uniformly Assess comparable property

Fee Appraiser

- Receive a list of assets (usually)
- Inspect the property
- Determine the best method to arrive at Fair Market Value considering the 3 recognized ASA approaches /methodologies: Sales Comparison, Cost Approach and Income Approach
- Comply with Accepted Appraisal Methodology
- Comply with USPAP

Fee Appraisals and Assessment Appraisals - Frequent Comparative Issues

1. "Count and Value" appraisal reconciliation to tax return asset list; "missed assets" or does not address assets filed on the tax return. Often no RCN in the appraisal
2. Questionable taxable assets – often related to "Count and Value" (i.e. cabling/consulting/software/leasehold improvements, consulting fees, etc.)
3. Differing value interpretations, especially debate over "Value in Use to the user" – non-transactional interpretation of FMV
4. Level of trade (liquidation market versus retail market – confusion regarding secondary market)
5. Economic Obsolescence issue consideration (or lack of)
6. Freight, Installation and Sales Tax issues (Assemblage Costs)
7. Insufficient detail/backup
8. Market Approach vs Cost Approach Issue (belief Cost Approach is always higher value)
9. New or nearly new equipment is an "outlier" therefore not relevant
10. Ghost Assets from the return – not appraised, but assessed

9

Issue Examples: Count and Value Appraisal Challenges

How Does the Fee Appraiser Reconcile to These Assets Reported On the Return (Or Does She)?

Actual Client Tax Return Asset Listing

Randall Kahn	FF&E	10	2008	5	14,846.25	
Randall Kahn - Cubicals	FF&E	10	2008	5	\$85,498.45	
Scissor Lift - Fork Lift	FF&E	10	2004	9	4,173.00	
Sears - KN, Ref 27 CF (2)	FF&E	10	2012	1	4,198.74	
South Atlantic - Rivet Rack Material & Instal	FF&E	10	2011	2	10,051.40	Where is this on the appraisal report
Southpoint Cabling	FF&E	10	2011	2	39,023.72	
Spot Coolers	FF&E	10	2009	4	5,577.05	
Total Office Products	FF&E	10	2010	3	2,273.75	
Uline Dept. Expansions	FF&E	10	2011	2	76,274.10	
Uline Shipping	FF&E	10	2010	3	57,052.26	
Warehouse cabling & equipment	FF&E	10	2010	3	83,290.44	

Comment: Unless there is some attempt at reconciling, legitimate doubt is created regarding whether the Fee Appraisal identified these and valued them, or should have valued them (some capitalized assets are not supposed to be taxed/erroneously reported by taxpayer)

10

How Does the Assessor Reconcile These Assets in the Appraisal Report?

Item	Location	Condition	Value	Qty	Total Value
6x7 workstations	1 st floor	Good	\$700	50	\$35,000
7 x 10 workstations	2 nd floor	Good	\$800	20	\$16,000
Cooler	Lab	VG	\$1,200	2	\$ 2,400
Uline Shipping Machines	Freight Rm	VG	\$10,000	2	\$ 20,000

Level of Trade Interpretations: Perception That the Only Market for Used Equipment is the Liquidation Market

Assessors frequently believe sales comparables found in the marketplace are ONLY from the liquidation or salvage market, and therefore an incorrect level of trade and not credible.

Economic Obsolescence Positions: One of the most debated, argued, misunderstood, resisted issues in the BPP property tax arena

ASA Textbook Definition: "The appraiser starts with the current replacement cost new (or in some cases the reproduction cost new) of the property being appraised and then deducts for the loss in value caused by physical deterioration, functional obsolescence and economic obsolescence. The logic behind the cost approach is the principle of substitution: a prudent buyer will not pay more for a property than the cost of acquiring a substitute property of equivalent utility. -"Definitions of Value Relating to MTS Assets" page 13.

Real World Example – The Automobile

2014 new car sells for \$25,000

Dealer has a 6 month old identical car for sale with 4,000 miles, in excellent condition, same model year as current new

RCN: \$25,000

Physical Deterioration/Depreciation very minimal: 4,000 miles - estimate 4% = \$1,000

Remaining Value: \$24,000

Functional Obsolescence: 0% (identical technology and functionality compared to RCN)

Remaining Value: \$24,000

Does (or should) the appraiser seeking Fair Market Value (willing buyer and seller) stop here?

13

Economic Obsolescence (Continued)

Dealer research reveals comparable same model year, low mileage car(s) for sale at \$21,000

How do we define this additional value loss in the Cost Approach?

- It's not Physical Deterioration – barely used
- It's certainly not Functional Obsolescence – same model year and technology
- The only other remaining observation is Economic Obsolescence. Sometimes referred to a Remaining Obsolescence Factor (ROF)
- **Comment:** The Appraiser has an obligation to the client and profession to use professional appraisal methodology to estimate FMV. Without researching and recognizing the Economic Obsolescence factor, the appraisal would erroneously estimate that there is essentially no difference in value between new and used in this example.

14

Assemblage Costs Debate and Confusion Freight, Sales Tax and Installation Issue

How Should They Be Addressed and Valued In The Appraisal?

Actual Client

Asset Reported on Return from Fixed Asset Listing:

Office Furniture: \$82,868.17

Invoice Search Reveals:

Product(s) Cost: \$73,448.05

Freight: \$4,705.88

Sales Tax: \$4,714

True Asset Cost is **\$9,424** (11%) less than the actual cost of the furniture

Total # of Assets on Tax Return: 3,200

To Depreciate or Not Depreciate Assemblage Costs in the Appraisal?

Not Depreciate:

Segregate existing assemblage costs from tax return then estimate current assemblage costs

Depreciate:

Depreciate the indexed assemblage costs reported on the tax return

ASA Textbook 3rd Edition Cites – pages 106 and 107

“Whether and when assemblage costs (i.e. freight taxes installations and other such costs) should or should not be depreciated continues to be a matter of debate even amongst members of the MTS Committee of the American Society of Appraisers”.

“...assemblage costs should be depreciated and that is the opinion consistently adopted in this text”.

“Most appraisers agree that when an owner sells assets on an “in-continued” use basis or when a potential buyer of those assets purchases on that basis, the transaction entails used assets and the used assemblage costs and therefore the assemblage costs should be depreciated along with the asset itself”.

Presenter Comment: Especially appropriate method when appraising for property tax purposes.

Assessors Apply a Single Depreciation Factor to All Reported Costs Which Includes RCN Indexed Freight, Sales Tax and Installation Expenses

In the assessment appraisal, the sales tax, freight, and installation costs are depreciated together with the asset depreciation.

The Fee Appraiser can also depreciate these costs for appraisals with thousands of assets.

ASA Textbook, 3rd Edition

“The appraiser still needs to calculate the loss in value of the assemblage costs by depreciating the replacement cost new of the assemblage costs, using the same techniques described in the cost approach”.

- ASA Textbook, 3rd Edition pgs. 106 and 107

What is the Method Most Assessors Use to Estimate Fair Market Value?

A "one factor" application that is charged with estimating the statutory definition of Fair Market Value - between a willing buyer and willing seller

- Is it the Cost Approach?
- The Market Approach?
- Certainly Not the Income Approach

UNTRENDED DEPRECIATION SCHEDULE (FOR USE ON REPLACEMENT COST NEW)

Effective Age in Years	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	25	30	Effective Age in Years
1	83%	85%	87%	89%	90%	91%	92%	93%	94%	94%	95%	95%	96%	96%	97%	97%	98%	98%	98%	1
2	65%	69%	73%	76%	79%	82%	84%	86%	87%	88%	89%	90%	91%	91%	92%	93%	93%	93%	93%	2
3	43%	52%	57%	62%	67%	72%	76%	78%	80%	82%	84%	85%	86%	87%	88%	89%	90%	93%	95%	3
4	24%	34%	41%	48%	54%	61%	67%	70%	73%	75%	77%	79%	81%	82%	83%	85%	86%	90%	93%	4
5	18%	23%	30%	37%	43%	51%	58%	62%	66%	69%	71%	73%	75%	77%	79%	81%	82%	87%	91%	5
6	18%	23%	28%	33%	41%	49%	54%	58%	62%	65%	68%	71%	73%	75%	77%	78%	84%	89%	8	6
7	19%	23%	26%	33%	39%	45%	50%	54%	58%	62%	65%	68%	70%	72%	74%	81%	89%	7	7	
8	20%	22%	26%	30%	37%	43%	47%	51%	55%	58%	62%	65%	68%	70%	78%	84%	8	8		
9	20%	22%	24%	30%	36%	41%	45%	49%	53%	57%	60%	63%	65%	75%	82%	9	9			
10	20%	21%	25%	29%	34%	39%	43%	47%	51%	54%	57%	60%	71%	79%	10	10				
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12	20%	22%	25%	28%	31%	36%	40%	44%	47%	50%	64%	74%	12	12						
13	20%	22%	24%	28%	31%	35%	39%	42%	45%	60%	71%	13	13							
14	20%	22%	23%	27%	31%	34%	37%	40%	58%	68%	14	14								
15	20%	21%	24%	28%	31%	33%	35%	52%	65%	15	15									
16	20%	22%	25%	27%	29%	31%	48%	61%	16	16										
17	20%	21%	23%	25%	27%	44%	58%	17	17											
18	20%	22%	23%	24%	39%	54%	18	18												
19	20%	21%	22%	34%	51%	19	19													
20	20%	21%	30%	47%	20	20														
22	20%	26%	40%	22	22															
24	23%	34%	24	24																
26	21%	28%	26	26																
28	23%	28	28	28																
30	21%	30	30	30																
32	20%	32	32	32																

Typically, Assessors Use a Single Depreciation Factor as a Percent of RCN to Arrive at FMV

These percentages should be applied to historical cost after it has been factored upward (trended) to the current year's Replacement Cost New (RCN). Trending of historical cost may not be appropriate when assets' replacement costs are decreasing due to emerging technologies. See section VII.G. for discussion.
Factors indicate the remaining percentage of economic life.
This table is based on equipment in average condition.
If the county property appraiser determines that the application of another comparable table, designed specifically for ad valorem tax purposes more accurately reflects the just value of the personal property within the county they may utilize such table, on a county-wide basis, in lieu of the table above.
Source: 1997 Florida Department of Revenue, Property Tax Administration (Based on Marshall Valuation Service, Depreciation-Fixtures & Equipment', Normal Depreciation, Sec. 97, p. 16, January 1996)

Aligning Fee Appraisal with Assessor Appraisal Methodology

Assessor:

Starts with tax return asset list

Assigns Economic Life tables depending on asset categories

Applies costs to index table (BLS) to estimate RCN

Applies single depreciation factor to arrive at FMV estimate

Fee Appraiser:

Starts with tax return asset list

Assigns Economic Life tables depending on asset categories

Applies costs to index table (BLS) to estimate RCN

Applies single depreciation factor to arrive at FMV estimate

Percent of Cost New Ratio Appraisal Method

“This technique establishes a ratio between the selling price and the current cost new of a property []” assuming the analysis suggests that selling prices of engine lathes with an age and condition similar to the subject are in the range of 40-50% of its current cost new, it would be logical to conclude that the subjects value falls somewhere 40% and 50% of its current cost new”.

- ASA Text, Sales Comparison Approach Section, pg. 98

Examples: Market Research for Percent of Cost Method Truncated for Presentation

Category	Company	Source	Topic	% of Cost	Age
Individual	xxx	Tommy _____, President	Depreciation 1 year old ref case that sells new for \$5,000 he sold for \$3,000	60%	1
Individual	xxx	Carlos _____, President	Depreciation Madix Shelving new: \$60 per lineal foot = \$240 for 4 ft typical section, \$35 per foot at one year , then slow depreciation thereafter: junk \$15 to \$20 at 10	58% 59%	1 1
Individual	xxx	Bill _____, Sales Mgr.	Depreciation Piecemeal sale age 3 sells in the neighborhood of 50% +/- of RCN	50%	3
Individual	xxx	Carlos _____, President	Depreciation New Hill Phoenix 5 dr case: \$5,000, sold comp age 3 for \$3,600 , 6 yr: \$1,800, 10 yr maybe \$1,000	72%	3
Individual	xxx	Robert _____, Owner	Depreciation Balers: new 8-9k, age 3: 5k, age 6: 3k, age 10 maybe \$1,400	56%	3
Individual		John _____, Owner	Depreciation Rotisserie Oven New: \$7,000, age 3 : \$3,500, 6: \$1,800, 10 needs refurb with new mtr: \$1,100	50%	3
Individual	xxx	Stan _____, Sales Rep	Depreciation Age 3	25% 51%	3 3
Individual	xxx	John _____, President	Depreciation 6 yr: 2 Door Ref Display: RCN \$5,000/Used \$1,800	36%	6
Individual	xxx	Mark _____, Owner	Depreciation Knoll Cubicles 6 x 7 New \$3,500 age 6: \$995	28% 32%	6 6

23

Examples: Secondary Market Data Points



Beverage Air Salad Prep with under counter Ref
3 yrs. old: New \$3,500, asking \$1,650 (47% or RCN)

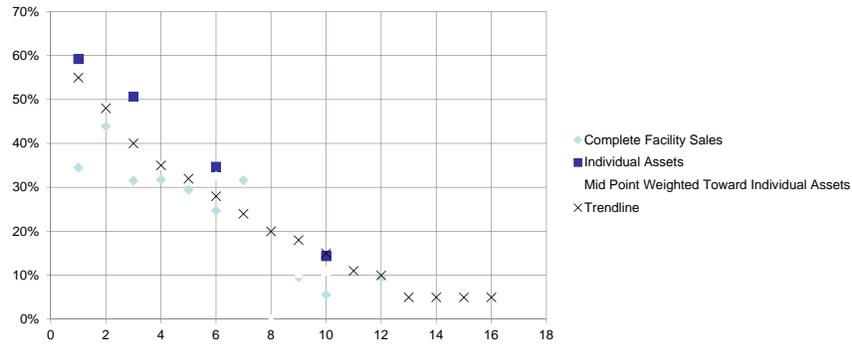


Traulsen Refrigerator " Nearly New "\$7,168 New, \$2,491 Ask

24

Used Price Percentage of RCN

2012 Research Graph



25

Market Based Depreciation Example: Percent of Replacement Cost Method

Year	Furn	Lab & Test	Medical Tooling
2013	60%	55%	55%
2012	55%	45%	45%
2011	50%	42%	40%
2010	40%	40%	35%
2009	35%	35%	25%

26



2012 Appraisal Administrative Hearing Decision – Using Percent of Cost/Ratio Method

To substantiate this claim, the petitioner placed into evidence an appraisal prepared by Jack West, ASA. Mr. West holds the ASA designation in the Machinery and Technical Specialties Discipline awarded by the American Society of Appraisers. Mr. West attended the hearing and testified he analyzed specific asset classifications commonly found in the taxpayer's pool of assets...Based on Mr. West's analysis, the depreciation curve was steeper than the tables indicated and the petitioned revisions in the assessments reflect the findings contained in the West report".



Many of the Issues Referenced Today Were Issues at This Hearing

Assessment: \$48,278,381
My Appraisal: \$32,823,574

VAB PETITION #	ACCOUNT #	PROPERTY APPRAISER'S ASSESSMENTS	ASSESSMENT REDUCTIONS	% REDUCTION	VAB PETITION #	ACCOUNT #	PROPERTY APPRAISER'S ASSESSMENTS	PETITIONED ADJUSTMENTS TO THE ASSESSMENTS	% REDUCTION
3427	817814-0000	\$ 12,752,435.00	\$ 9,800,742.00	-23%	3443	902605-0000	\$ 1,065,545.00	\$ 651,560.00	-39%
3428	800595-0000	\$ 281,631.00	\$ 211,219.00	-25%	3444	817820-0000	\$ 732,720.00	\$ 459,947.00	-37%
3429	827164-0000	\$ 619,808.00	\$ 398,303.00	-36%	3445	923879-0000	\$ 669,185.00	\$ 407,639.00	-39%
3430	830886-0000	\$ 778,922.00	\$ 478,949.00	-39%	3446	839272-0000	\$ 1,134,508.00	\$ 687,792.00	-39%
3431	924153-1000	\$ 1,433,576.00	\$ 920,185.00	-36%	3447	807258-0000	\$ 1,205,419.00	\$ 739,034.00	-39%
3432	915300-0000	\$ 1,163,927.00	\$ 694,085.00	-40%	3448	902606-0000	\$ 900,613.00	\$ 518,889.00	-42%
3433	902132-0000	\$ 1,088,007.00	\$ 659,322.00	-39%	3449	830044-0000	\$ 1,130,893.00	\$ 691,916.00	-39%
3434	817830-0000	\$ 1,098,254.00	\$ 672,356.00	-39%	3450	829296-0000	\$ 1,039,483.00	\$ 619,230.00	-40%
3435	902607-0000	\$ 997,538.00	\$ 622,479.00	-38%	3451	802857-0000	\$ 1,187,891.00	\$ 693,768.00	-42%
3436	886106-0000	\$ 918,615.00	\$ 531,893.00	-42%	3452	831914-0000	\$ 1,246,810.00	\$ 713,916.00	-43%
3437	863127-0000	\$ 1,222,463.00	\$ 760,375.00	-38%	3453	817819-0000	\$ 1,150,995.00	\$ 713,400.00	-38%
3438	891447-0000	\$ 1,328,065.00	\$ 776,057.00	-42%	3454	833007-0000	\$ 609,344.00	\$ 391,989.00	-36%
3439	850105-0000	\$ 1,280,319.00	\$ 794,154.00	-38%	3455	925118-9000	\$ 428,032.00	\$ 328,451.00	-23%
3440	843660-0000	\$ 1,136,216.00	\$ 669,259.00	-41%	3456	925672-0000	\$ 78,791.00	\$ 55,282.00	-30%
3441	817817-0000	\$ 1,188,122.00	\$ 714,882.00	-40%	3457	846616-0000	\$ 2,322,532.00	\$ 1,821,681.00	-22%
3442	828958-0000	\$ 1,122,261.00	\$ 683,240.00	-39%	3458	924270-6000	\$ 4,965,461.00	\$ 3,941,580.00	-21%
					TOTALS>		\$ 48,278,381.00	\$ 32,823,574.00	-32%

Appraisal Recommendations and Strategies

There are many successful methods that appraisers use in their practices for property tax assignments. This presentation represents just one method. Every appraiser has her or his own method and style for obtaining successful results. What works for one appraiser may not be the approach another appraiser has success with or is comfortable using. The following are a few of the important and successful strategies I try to incorporate when producing an appraisal for property tax purposes:

1. Make sure the client and intended users understand the rationale used.

"An appraiser must provide sufficient information to enable the client and intended users to understand the rationale for the opinion and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 7-6" .

-USPAP Comment to Standard Rule 8 2 (a & b) viii - Personal Property Appraisal Reporting

2. Address the appraisal-to-tax return asset list reconciliation issue.

3. Address the statutory definitions, rules and recommendations that assessments and assessors must abide by.

29

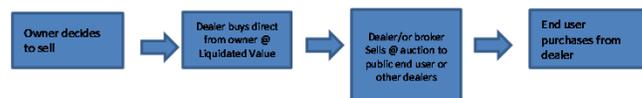
4. Try to know your time limit for presenting your report. Prepare to briefly and simply present your appraisal. Get to the most compelling evidence as quickly as possible – discussing and over-demonstrating your knowledge of complexities can create problems.

5. Address assets that are debatable regarding whether to appraise (such as leasehold expenses, certain software, repair expenses, etc.). Consider placing them in a segregated area with values should the trier of fact decide that they are to be assessed.

6. Preemptively explain or define expected or difficult issues if possible in the report. For example: regarding the marketplace, define **prominently** in the appraisal that sales comparables and values are to **end users** – companies that are the users of the equipment rather than dealers who buy the equipment to sell to end users. *Excerpt from appraisal:*

3. How Many Assets Are Sold to End Users

The level of trade market supply chain has a few variations, but essentially the following diagram illustrates how used equipment enters the marketplace:



30

7. Recommend to client that appraisal report be completed as early as possible.
8. Prepare the report for litigation possibility

Questions/Comments