

Ad Valorem/Mass Appraisal Specialty A New Beginning and Opportunity for the Real Property Discipline

By Micheal R. Lohmeier, FASA, Paul Roberts, ASA and David Kramer, ASA

The American Society of Appraisers' (ASA) Real Property Committee (RPC) continues to search for ways to better serve our members. We stay abreast of changes in the real property valuation discipline and areas of interest that affects our members. We also look for areas that would increase our members' opportunities and strengthen the public's acceptance and perception of our designations.

Every few years it is important to review our designations' requirements. This review is purposeful to ensure the requirements are meeting and/or exceeding contemporary market's demands for the highest level of a professional's skills, knowledge, education, experience and training. In 2009 and 2010 our RPC received communications from our designated ad valorem members, and other appraisers with an interest in joining ASA in the ad valorem and mass appraisal areas, that our ad valorem designation requirements were not in-line with contemporary market requirements and were too narrowly defined.

Based on these discussions, combined with a noticeable decrease in new ad valorem membership, in early 2011 the RPC recognized that its *ad valorem* specialty's requirements needed careful review. RPC Chair Sam Luceno, FASA assigned a special task force to review its existing requirements, and if necessary, make recommendations for any changes. The task force was Chaired by Micheal R. Lohmeier, FASA, with support of committee members Paul Roberts, ASA and David Kramer, ASA.

This paper is prepared to provide our members with a background for our committee's experience and the changes that have caused our specialty to evolve.

What is Ad Valorem?

The first thing our members should recognize is what ad valorem means as a specialty. There is a misnomer out there that if you provide work to an assessor than you are an ad valorem specialists. And although that may be true in some circles, that was not the intention of the ASA's ad valorem specialty. So let's begin by identifying what is meant by *ad valorem*.

Ad valorem means "according to value" and is associated with property taxation because assessed values are generally based on some jurisdictional level according to market value. Most ad valorem appraisers are referred to as "assessors", although

other titles are also recognized (e.g., auditor).

Ad valorem professionals prepare valuations involving a universe of properties as of a given time and most often use modern computer-assisted mass appraisal (CAMA) tools. They rely largely on mass appraisal models to value their universe of properties, because it is near impossible for most assessors to use singular valuation techniques as time, budget, and personnel constraints are too restrictive for valuing properties singularly every tax cycle.

Assessors rely on studying the contribution that individual characteristics have on property types in general, and not so much on a property-specific basis. Although grounded in the principles and procedures of valuation that our other real property members understand, these specialists live in a world where studying coefficients of variation, coefficients of dispersion and price-related differentials are the norm. The purpose of the ad valorem specialist's work is specific to property taxation and largely based on jurisdictional rules and policies promulgated from state, county or local levels.

The ad valorem specialist should not be confused with our other members providing appraisal reports for property tax appeal. Although the latter provides service in the ad valorem field, they are not ad valorem valuation specialists but serving in an area where a singular valuation approach is necessary rather than a mass assessment process.

Mass Appraisal Skills Go Beyond Ad Valorem Specialty

The ad valorem specialist is not alone in relying on mass appraisal skills to prepare its assessments. Many private practitioners rely on mass appraisal for other purposes, including:

- Financial reports
- Insurance purposes
- Determining depreciation
- Recognizing and measuring impairment
- Establishing listing prices for asset sales
- Determining buy agreements for portfolio purchases
- Preliminary damage assessments

The Uniform Standards of Professional Appraisal Practice (USPAP) provides mass appraisal as its own specialty through its STANDARD 6.¹ It defines mass appraisal as *“the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing.”*

The ad valorem specialty was originally designed to denote expertise in mass appraisal within jurisdictional constraints, so expanding the specialty to include those outside of

performing within property tax jurisdictional requirements was logical. This is how the title Ad Valorem/Mass Appraisal was born.

Requirements for Expanded Specialty

The next step the committee took was to review the requirements covered under the ad valorem specialty. The existing requirements were similar to that of our other real property designation and were grounded from the changes that took place by the Appraisers Qualification Board's (AQB) 2008 Real Property Appraiser criteria changes. Although these changes were relevant to the private appraiser seeking licensure/certification with states, it was not relevant to the ad valorem/mass appraisal specialist. To help in our review of what requirements would be necessary we looked in the following areas for guidance:

- We reviewed other ASA and AM designation requirements for different specialties, including those in different disciplines.
- We reviewed the intentions underlying the AQB's 2008 real property appraiser requirements.
- We reviewed the requirements proffered by a paper titled Mass Appraisal Qualifications, Mapping Our Own Future, published in Fair & Equitable, December 2007, an International Association of Assessing Officer (IAAO) publication.
- We reviewed the requirements of the IAAO for its designations.
- We reviewed the requirements for various state agencies pertaining to certifying assessing officers including Michigan, Arizona, Wisconsin, Minnesota, and the like.
- We reviewed the requirements of the Institute of Professionals in Taxation for its designations.
- We reviewed the qualifications published in recent advertisements for employment opportunities seeking experienced professionals in ad valorem/mass appraisal.
- We reviewed disciplinary action reports for both private and public appraisers to ascertain reasons for guilty findings.

Similar to private singular appraisal professionals we recognize that the ad valorem/mass appraiser also differentiates between general and residential specialties. Because of this we have created two tracks of designation, being:

1. Ad Valorem/Mass Appraisal - General
2. Ad Valorem/Mass Appraisal - Residential

ASA Ethics Examination

We believe that the ASA Ethics examination is still a good attribute for our professionals to take when they first become candidates.

Professional Experience

We believe the five years experience for an ASA and two years for AM requirements are still relevant for this specialty. However we would require that for the AM that the two years be dedicated in the specialty category. Therefore, to earn the AM as a General practitioner than the two years would have to be attributed to that area; while the Residential practitioner would have to earn its experience in residential.

For the five years experience to be qualified for ASA achievement, at least 75% of the candidate's time must be in its particular area of specialty (i.e., 75% of time required in general field for General specialty; while 75% of time required in residential field for Residential specialty).

In addition, we would limit that only 2,600 hours of experience would be allowed to be cumulated within any calendar year leading to its experience. This equates to 50 hours per week for 52 weeks per year. This is consistent to the hours provided in a typical administrator's work year. Therefore no candidate could claim entire experience hours less than the two, or five, year calendar period required. Many states have a minimum and maximum experience calendar as well for the public practitioner, so this seems a logical extension.

College Degree Requirement

A college degree is considered a very important part of any professional's ability to reason. We suggest a two-year degree is required for the AM designation and four-year college degree is required for the ASA. In absence of a degree, which is quite familiar in the public ad valorem appraisal industry, we propose that for every year absent towards a college degree, that two additional years of experience is required.

Education Change to Relevant Ad Valorem/Mass Appraisal

One attribute we noticed in our ASA's designations is that the requirements imposed are based on the Appraiser Qualifications Board's (AQB) 2008 Real Property Certification Requirements. Although the AQB requirements are uncontested as the floor for real property appraisers providing singular valuation services, in which state licensing is imposed, this seems to be out of line with that which should be required of an *ad valorem* specialist.

We reviewed related association and state requirements and came up with two sets of education requirements.

Ad Valorem/Mass Appraisal – General

The following hours reflects what we suggest as a minimum for tested hours of education topics, with the hours (which includes exam) listed at the far right.

Professional Education

The candidate must have received credit for the following educational courses, or their equivalents.

Basic appraisal principles and procedures	30
The 15-Hour National USPAP Course	15
Income Approach to Valuation	30
Assessment Administration or Government Budget/Management	30
Advanced Income Approach to Valuation (Income Approach II)	30
Valuation Modeling	30
Statistics in Assessment/Appraisal	15
Narrative Report Writing	15
Public Speaking	15
Computer Use or Financial Calculator	<u>15</u>
	225

Ad Valorem/Mass Appraisal – Residential

The following hours reflects what we suggest as a minimum for tested hours of education topics, with the hours (which includes exam) listed at the far right.

Professional Education

The candidate must have received credit for the following educational courses, or their equivalents.

Basic appraisal principles and procedures	30
The 15-Hour National USPAP Course	15
Valuation Modeling	30
Statistics in Assessment/Appraisal	15
Report Writing	15
Public Speaking	15
Computer Use or Financial Calculator	<u>15</u>
	135

It should be noted that the above education represent what we believe are minimums to ensure the education underlying a professional is sufficient.

Work Quality Assurance

The type of work that should be provided for consideration is also something we believe continues to be important.

The following represents what we believe is fair, and representative of the ad valorem/mass appraisal industry. We broke this into the General and Residential areas as follows.

Ad Valorem/Mass Appraisal - General

Project Requirement

Candidate must have completed credit for two (2) projects; one **residential** real property and one **commercial/industrial** real property project. One project must be a improved single-property appraisal report demonstrating all forms of depreciation, including functional and external obsolescence.

1. Residential project may consist of one of the following:

- a. a appraisal report, using all recognized approaches to value, on an improved single family residence, or
- b. an appraisal report on the computer assisted valuation of a group of improved residential properties.

1. Commercial/Industrial project may consist of one of the following:

- a. a real property appraisal report, using all recognized approaches to value, on a commercial/industrial improved property, or
- b. an appraisal report on the computer assisted valuation of a group of improved commercial/industrial properties.

Ad Valorem/Mass Appraisal – Residential

Project Requirement

Candidate must have completed credit for one **residential** real property project.

1. Residential project may consist of one of the following:

- a. a appraisal report, using all recognized approaches to value, on an improved single family residence demonstrating all forms of depreciation, including functional and external obsolescence, or
- b. an appraisal report on the computer assisted valuation of a group of improved residential properties.

Comprehensive Valuation Examinations

The comprehensive examination for the ASA and AM designations are still considered invaluable attributes to signify that the candidate has contemporary valuation knowledge. Although for the ad valorem/mass appraisal specialties a different exam should be created. We suggest the following.

Ad Valorem/Mass Appraisal - General

An eight (8) hour comprehensive examination on general assessment practices. This examination is prepared to test the candidate's knowledge of fundamental singular and mass valuation principles and techniques as well as assessment theory, practice, and procedures. The examination is given only after all education and project requirements have been satisfactorily completed. This examination may be administered by a proctor at any location and on any date but it is preferred that the proctor be a ASA or AM designee. An oral examination may be required at the discretion of the Real Property Committee. A candidate who fails this comprehensive examination is permitted to retake the examination again after thirty (30) days.

Ad Valorem/Mass Appraisal – Residential

A four (4) hour comprehensive examination on residential assessment practices. This examination is prepared to test the candidate's knowledge of fundamental singular and mass valuation principles and techniques as well as assessment theory, practice, and procedures. The examination is given only after all education and project requirements have been satisfactorily completed. This examination may be administered by a proctor at any location and on any date but it is preferred that the proctor be an ASA or AM designee. An oral examination may be required at the discretion of the Real Property Committee. A candidate who fails this comprehensive examination is permitted to retake the examination again after thirty (30) days.

The committee is currently working on the comprehensive examinations, which is due for delivery early summer.

Reciprocity

Our committee provided some suggestions for reciprocity for those professionals holding certifications and/or designations that substantively meet our requirements. This includes those assessor certifications reviewed that were considered to meet contemporary requirements. The reciprocity will be considered on a case-by-case basis and will only waive our denoted education and experience requirements. Even when reciprocity is provided, the candidate is still required to take ASA's Ethics examination and the respective comprehensive examination. But reciprocity of the other requirements should provide a more time-efficient process for obtaining our Ad Valorem/Mass Appraisal specialty designation.

We recognize the hard work that goes through in obtaining a related certification and do not wish to create additional burdens on a professional that has already met our requirements. When applying for reciprocity, a candidate will simply need to provide proof of his/her certification with the accompanying syllabus of requirements it met to achieve the certification.

As examples of the certifications/designations we concluded meets our education and experience requirements are

1. Michigan State Tax Commission's *Michigan Advanced Assessing Officer (3)* certification, which meets the Ad Valorem/Mass Appraisal – General requirements.
2. Michigan State Tax Commission's *Michigan Master Assessing Officer (4)* certification, which meets the Ad Valorem/Mass Appraisal – General requirements.
3. International Association of Assessing Officers' CAE designation, which meets the Ad Valorem/Mass Appraisal – General requirements.
4. International Association of Assessing Officers' RES designation, which meets the Ad Valorem/Mass Appraisal – Residential requirements.

Conclusion

In early 2012, our committee's recommendations were submitted to RPC. RPC unanimously approved our recommendations. It then went before ASA's Board of Governors who also approved our recommendations.

ASA currently has 129 members designated in the prior ad valorem specialty. They will maintain their ASA or AM Ad Valorem designation and in the future this designation will not be issued. Those that write narrative appraisal reports for tax appeal purposes may obtain the ASA or AM Real Property (formerly Urban) designation. With the requirements changed to meet contemporary market demands, and expanded to include the private mass appraiser, we have hopes that this revised and expanded Ad Valorem/Mass Appraisals specialty will attract other professionals that are searching for a society to call home, and enable us to continue to grow in this area.

The RPC has intentions on creating additional courses and seminars in this specialty area of valuation. Please watch our website and the RPC e-Journal for future educational offerings in this exciting area.

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ⁱ USPAP, 2012-13 Ed., (Washington, D.C., The Appraisal Foundation).