

Approved

March 12, 1992

Minutes of the House Committee on Taxation. The meeting was called to order by Joan Wagnon, Chairperson, at 9:10 a.m. on Monday, March 2, 1992 in room 519-S of the Capitol.

All members were present except:

Rep. Bill Reardon, excused; Rep. Bill Roy, excused; Rep. Rex Crowell, excused.

Committee staff present:

Tom Severn & Chris Courtwright, Legislative Research; Bill Edds and Don Hayward, Revisors; Linda Frey, Committee Secretary; Douglas E. Johnston, Committee Assistant.

Conferees appearing before the committee:

The public hearing on HB 3050 was opened.

The Chair said the bill was requested by the Register of Deeds Association.

Linda Fincham, Marshall County Register of Deeds and Co-Chairperson of the Register of Deeds Association Legislative Committee, testified in favor of HB 3050 (Attachment 1).

Pete Heaven, Legal Counsel to the Johnson County Register of Deeds, testified in favor of HB 3050 (Attachment 2).

Jo Ann Hamilton, Osage County Treasurer, testified in favor of HB 3050 as a representative of the County Treasurers Association.

Bev Bradley, Kansas Association of Counties, testified in favor of HB 3050.

The public hearing on HB 3050 was closed and the public hearing on HB 2944 was opened.

Representative Bob Vancrum testified in favor of HB 2944. He said the bill mandated the use of an income approach to the determination of fair market value. He thanked Rep. Crowell for his efforts in seeking solutions to determining fair market values. Rep. Vancrum said he was attempting to establish a presumption that appraisers would use the income approach as the preferable method for valuing commercial property. He said the bill would only apply when sufficient information was supplied by the property owner that would enable the appraiser to use the income approach. If that was not the case, other appraisal methodology would be used.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, State-house, at 9:10 a.m. on Monday, March 2, 1992.

It would place the burden of proof on the appraisers to show why they did not use the income approach. In response to a question, he said actual income with reasonable deductions would be used. He said a capitalization rate of 11% is included in the bill. Rep. Vancrum said the presumption required appraisers to use the income approach if at all possible. The burden of proof would lie with the appraiser.

Rep. Welshimer said the use of the income approach is currently available to appraisers. She suggested the responsibility should lie with the Property Valuation Department.

In response to a question, Rep. Vancrum said the 11% cap rate could be eliminated if the committee preferred, without effecting the main portion of the bill.

In response to a question about the bill's impact, Rep. Vancrum said he expected the bill would positively affect sales of property in the state. Generally city and county appraisers will oppose the bill, he said.

Bob Corkins, Kansas Chamber of Commerce and Industry, testified in favor of HB 2944 (Attachment 3).

In response to a question from the Chair, Corkins said taxpayers should be able to choose the method that would give taxpayers the ability to choose the appraisal method least expensive for them.

Jim Irish, representing the Greater Kansas Chapter of the Appraisal Institute, testified against HB 2944. He said seven different bills affecting the valuation process should be combined. He distributed information to the committee that he suggested as an amendment to the bill (Attachment 4).

The public hearing on HB 2944 was closed.

The Chair brought up HB 2874, Interest Rate on Delinquent Taxes, for discussion and action.

The Chair said the bill mandated a floating interest rate of the prime rate plus three percent. She said counties did not desire to have their interest rates on delinquent property taxes included.

Rep. Vancrum said the current interest rate on delinquent taxes is confiscatory.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, State-house, at 9:10 a.m. on Monday, March 2, 1992.

In response to a question, Bev Bradley, representing the Kansas Association of Counties, confirmed the statement of the Chair.

Rep. Smith recalled that the Legislature increased the delinquent taxes interest rate to 18% because the rising prime rate had made it more profitable for people to keep their money in certificates of deposit rather than pay taxes in a timely fashion.

Rep. Roe suggested combining portions of HB 2874 and SB 339.

Rep. Adam and Rep. Shore concurred with Rep. Roe, but requested time to prepare an amendment.

Bradley said her association did not want counties to become banks.

The Chair said a subcommittee of Reps. Adam, Roe, Smith, Harder and Shore would meet to work with the counties and treasurers on HB 2874 and SB 339 to develop a balloon amendment. Rep. Adam will chair the subcommittee.

Revisor Bill Edds will work with the subcommittee.

The Chair brought up HB 2821 for discussion and action.

Rep. Roe moved and Rep. Shore seconded, to report HB 2821 adversely.

Rep. Roe said he was sympathetic to taxpayers unable to make complete property tax payments in one lump sum, but that the bill would result in taxpayer confusion. He said the proposed change would only decrease the December payment by 16 and 2/3 percent.

Rep. Shore reiterated concerns of county conferees that the payment schedule change could result in cash flow problems.

The motion to report HB 2821 adversely carried.

The Chair brought up HB 2938 for discussion and action.

Rep. Adam made a motion to decrease the total production capacity requirement amount of 90% to 70%. Rep. Harder seconded the motion which carried.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Taxation, room 519-S, State-house, at 9:10 a.m. on Monday, March 2, 1992.

Rep. Adam made a motion to change the reporting date from 1997 to 1994. Seconded by Rep. Harder, the motion carried.

Rep. Adam moved, seconded by Rep. Harder, to report HB 2938 favorable for passage.

Rep. Grotewiel stated his concern that the tax credit be clearly linked to post-consumer waste recycling. Revisor Hayward said the link was in the definition of post-consumer waste.

Rep. Smith reiterated a request from the Kansas Chamber of Commerce and Industry that manufacturers scrap should be included in the tax credit.

Rep. Charlton said manufacturers scrap should not be included because it is not post-consumer and the machinery used to recycle it is often already subject to property tax abatements and credits.

Rep. Vancrum expressed his concern that the tax credit could eliminate a taxpayer's income tax liability. He suggested the committee limit the credit to 50% of income tax liability.

Rep. Snowbarger raised the question of whether or not hazardous waste recycling (of solvents and oils) would be included in the bill. Rep. Grotewiel said solvents are not included as defined by federal law.

The motion to report HB 2938, as amended, favorable for passage carried.

The Chair brought up HB 3050 for discussion and action.

Rep. Vancrum made a motion to adopt a technical amendment to HB 3050. Rep. Snowbarger seconded the motion which carried.

Rep. Vancrum made a motion to report HB 3050 favorable for passage as amended. Rep. Larkin seconded the motion which carried.

The Chair brought up HB 2736 for discussion and action.

Rep. Smith made a motion to report HB 2736 adversely. Rep. Larkin seconded the motion which carried.

The meeting adjourned at 10:55 a.m. The next meeting will be March 3.

GUEST LIST

COMMITTEE: House of Representatives

DATE: 3/2/92

NAME (PLEASE PRINT)	ADDRESS	COMPANY/ORGANIZATION
Alan Steppat	Topeka	Pete McBill & Associates
Mary Ann Holsapple	Seneca, Ks.	Pres. ROD Assoc.
Rose Ann Rupp	Hays, Kansas	ROD Assoc.
Lindy Fincham	Marysville, Ks.	ROD Assoc.
Paul Roberts	Topeka	KS Lodging Assn
BEV BRADLEY	TOPEKA	KS ASSOC. of Counties
Chris Steineger	KC, KS	K.C. K.S.
FRANCES Kastner	Topeka	Ks Feed Dealers Assn.
Jim Irish	Topeka	Greater Kansas Chapter APPRAISAL INSTITUTE
Ann Papay	Misses	Co. Appraiser
Tom Tunnell	Joplin	Ks Grain & Feed Assn
Art Brown	KC	KS LHA dealer KSI
Cheryl Stoms	Topeka	ICBA
Karlus Miller	"	"
Tom Carney	O.P.	Rep - 10th Dist
BRAD SMOOT	Topeka	Bank IV
John Blythe	Manhattan	Self
KAREN FRANCE	TOPEKA	KAR
JANICE MARCUM	TOPEKA	KDOR
Bill Waters	Topeka	PVD KDOR
JOAN HAMILTON	LYNDON	KS CO TREAS ASSOC

REGISTER OF DEEDS

KANSAS

ASSOCIATION

PRESIDENT Mary Ann Holsapple, Nemaha County
VICE-PRESIDENT Charlotte Shawver, Riley County

Janice Gillispie, Thomas Co. SECRETARY
Rose Ann Rupp, Ellis Co. TREASURER

H.B. 3050

Madam Chairman, and members of the committee, I am Linda Fincham, Marshall County Register of Deeds and Co-Chairperson of the Register of Deeds Association Legislative Committee. The Kansas Register of Deeds Association supports H.B. 3050. This legislation addresses two statutes, one dealing with multi-county mortgages and one dealing with multi-state registration. This bill will allow for the equitable allocation of mortgaged property in both the multi-county and multi-state mortgages.

Multi-county mortgages are currently apportioned on the basis of assessed value of the real estate in each county. This bill would allow for the apportionment to be based on appraised value of each county rather than assessed value. This means that the portion of the mortgage registration tax due to each county would be based on the appraised value before the classification percentages are applied. This is a more equitable way of apportionment. Commercial property would be on the same plane as residential and agriculture. The multi-county apportionment would follow the same logic as suggested for multi-state apportionment.

Multi-state mortgages are currently apportioned on the basis of assessed value of the real estate in each state. This has presented numerous problems since not all states have assessed value, or in many cases the assessed value is determined by formulas different than those used by Kansas. In addition their assessed value may be based on appraisals that are far out of date. H.B. 3050 would allow for the apportionment to be made on the basis of fair market value or the appraised value of the properties involved. This again would give a much clearer indication of the true value of the properties being mortgaged and the apportionment due to the state of Kansas would be comparing like values.

We fully support this bill and would be happy to answer any questions. Thank you for the opportunity to appear before this committee

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TESTIMONY

House Bill 3050
March 2, 1992

Mr. Chairman and members of the Committee:

My name is Lewis A. Heaven, Jr. and I am an attorney with the law firm of Holbrook, Heaven & Fay, P.A. Our offices are located at 757 Armstrong, Kansas City, Kansas and 6700 Antioch, Merriam, Kansas. I appear before you today as counsel to Sara F. Ullmann, Register of Deeds of Johnson County, Kansas. Mrs. Ullmann has been called away on business to Washington, D.C. and expresses her regrets for not being able to appear before you.

The purpose of House Bill 3050 is to amend K.S.A. 79-3105 and 3106, dealing with the assessment of Mortgage Registration Fees. It is our hope that the proposed amendments will modernize the basis upon which Mortgage Registration Fees are calculated and collected, and reflect the practicalities of modern real estate transactions.

As you are aware, Mortgage Registration Fees are designed to take the place of intangibles tax and are charged upon mortgages tendered for recording in the Offices of the Register of Deeds. The fee is based upon the amount secured by the mortgage and is assessed and collected at the time of recording.

Throughout the state, Registers of Deeds are frequently confronted with what are known as "multi-state" or "multi-county" mortgages and are asked to record same. In such instances, a single mortgage is granted to secure a loan, however the mortgage encumbers real property located in Kansas and other states and/or real property located in more than one Kansas county. In such instances, fairness dictates that the Mortgage Registration Fee be assessed only upon the portion of indebtedness secured by the Kansas real property and the fee apportioned among Kansas counties in multi-county situations. To accomplish this, K.S.A. 79-3105 and 79-3106 were enacted.

K.S.A. 79-3105 provides that in the multi-county transactions, the Register of Deeds where the mortgage is first filed collects the entire Registration Fee and the County Treasurer apportions the fee among the counties where the real property is situated in proportion to the relative assessed valuations of the properties. To determine the assessed valuations, it is common for the filer to tender an affidavit setting forth such assessed valuations, which are confirmed by the County Treasurer.

In multi-state transactions, K.S.A. 79-3106 provides that the Register of Deeds must determine the relative assessed valuations of the properties located within and without Kansas, and charge a Registration Fee based upon the assessed valuation of the Kansas

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property as it compares to the assessed valuation of all properties. To do this, it is commonly required that the filer provide an affidavit setting forth the assessed valuations of all properties to be encumbered by the mortgage so that the Register of Deeds may perform the mathematical calculations.

Many problems have arisen in connection with multi-state transactions. And since it is the intention of K.S.A. 79-3106 to provide that Kansas receive neither less nor more than its fair share of the Registration Fee, it is critical that apportionment be made upon a uniform basis. I will note several problem areas in utilizing existing K.S.A. 79-3106.

First, the term "assessed valuation" in Kansas is calculated by taking the fair market value of the property and multiplying it times a percentage based upon classification. For example, a commercial property with a fair market value of \$100,000.00 has an assessed valuation of \$30,000.00. This is because commercial property is taxed at 30% of its fair market value. In other states using "assessed valuation" as a basis for taxation, the classification multiplier may be dramatically different. Thus, if another state uses a multiplier of 50% of fair market value, and the property involved has a value of \$100,000.00, the assessed valuation would be \$50,000.00. Revisiting my first example of Kansas property worth \$100,000.00 and comparing it to the example above, the registration fee charged in a multi-state transaction would be $\frac{3}{8}$ of the Registration Fee normally due, however both properties involved have an equal value and the fee should be 50%.

Second, we have learned that many states do not recognize or utilize the term "assessed valuation" in connection with real property taxation. Other terminology is used or we have been told in some cases full market value is the basis for tax. As a result, differences in terminology have created confusion and a virtual impossibility to apply K.S.A. 79-3106 in certain transactions.

Third, in connection with the financing of certain utilities, the land and easements pledged as collateral in the mortgage are not subject to ad valorem taxation and thus, no "assessed valuation" is available.

Finally, in large multi-state transactions, determining the assessed valuation of the various properties is both cumbersome and difficult, particularly when hundreds of properties may be involved.

Our proposed modifications to K.S.A. 79-3106 would change the basis for calculation from assessed valuation to fair market or appraised values. While admittedly, fair market or appraised values may vary due to methodology, they are commonly used throughout the United States and carry with them a uniform connotation. Further, in connection with commercial financing or refinancing, an appraisal is required by the lender of all properties and information concerning value will be both recent and

readily ascertainable.

In addition, the proposed amendment makes clear that the values to be utilized in performing the calculations shall be by affidavit; existing K.S.A. 79-3106 makes it incumbent upon the Register of Deeds to determine values, however it gives no guidance as to how those values are to be obtained. If an affidavit is required, and the values given are either erroneous or intentionally understated, the criminal laws provide a remedy to the County.

The proposed amendments to K.S.A. 79-3105, dealing with multi-county transactions, makes the statute consistent with K.S.A. 79-3106, as amended. With the current requirements of real property taxation, the registers of deeds can be assured that appraised values will be current and reflective of the actual value of property. Further, the amendments will eliminate the disparities involved in using assessed valuation. Whether the mortgage is secured by commercial property or residential property should make no difference to the apportionment of the Registration Fee. Currently, if a mortgage encumbers residential property in one county and commercial property in another county, and each property is of equal value, classification (30% / 12%) makes a substantial difference in the amount of fee each county receives.

In conclusion, we believe that the proposed amendments will add clarity and uniformity to taxation of mortgages secured by multiple properties. This should benefit not only the Registers of Deeds and County Treasurers, but also lenders, title insurance companies and borrowers.

On behalf of Mrs. Ullmann and myself, thank you for your consideration of this bill, and if you have questions or additional information, please do not hesitate to contact me.

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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

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A consolidation of the
Kansas State Chamber
of Commerce,
Associated Industries
of Kansas,
Kansas Retail Council

HB 2944

March 2, 1992

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the
House Committee on Taxation

by

Bob Corkins
Director of Taxation

Madam Chairman and members of the Committee:

Thank you for the opportunity to address you today on the subject of HB 2944. My name is Bob Corkins, director of taxation for the Kansas Chamber of Commerce and Industry. KCCI supports this proposal regarding the "income approach" to property valuation with the inclusion of amendments I explain below.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 55% of KCCI's members having less than 25 employees, and 86% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

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The concept of this approach first received a good deal of publicity over two years ago during the December 1989 Special Legislative Session. SCR 1605 (1989) was adopted at that time, directing the Property Valuation Division to place more emphasis on this method and educate county appraisers accordingly. KCCI supported that measure, but recognized its limitations.

Since then, KCCI has adopted policies which support legislation designed to better guarantee accurate fair market value appraisals. We believe that HB 2944 would be a meaningful step in that direction, but should be amended to account for a couple of business concerns.

Taxpayers should have greater leverage in insisting upon this approach when it leads to fairer appraisals. However, KCCI acknowledges that the income approach will not always lead to true fair market value. Consequently, KCCI makes the following recommendations for amending HB 2944:

1. The income approach to valuation should be "mandated," i.e. it becomes the dominant and preferred method of first resort, *only when that method is requested by a given taxpayer* (retain the exceptions for cases in which the taxpayer does not supply the necessary income information or when "substantial and compelling" reasons justify a different method).
2. County appraisers should supply easily understandable "worksheets" to commercial taxpayers for their use in determining what their property valuation would be under the income approach.

Our purpose with these amendments is twofold. First, we do not want to have businesses "locked in" to the income approach before they have some idea what the valuation result would be. Second, we would like to better protect the confidentiality of income information supplied prior to the taxpayer's commitment to that approach.

KCCI believes these amendments would not contradict the intentions of the sponsors of HB 2944. They simply would provide another safeguard and better educate taxpayers regarding their options.

We hope that this committee will endorse our suggestions and recommend the amended proposal favorably for passage. Thank you for your consideration of these views.

12 USC 3339.

SEC. 1110. FUNCTIONS OF THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES RELATING TO APPRAISAL STANDARDS.

Each Federal financial institutions regulatory agency and the Resolution Trust Corporation shall prescribe appropriate standards for the performance of real estate appraisals in connection with federally related transactions under the jurisdiction of each such agency or instrumentality. These rules shall require, at a minimum—

(1) that real estate appraisals be performed in accordance with generally accepted appraisal standards as evidenced by the appraisal standards promulgated by the Appraisal Standards Board of the Appraisal Foundation; and

(2) that such appraisals shall be written appraisals.

Each such agency or instrumentality may require compliance with additional standards if it makes a determination in writing that such additional standards are required in order to properly carry out its statutory responsibilities.

12 USC 3340.

SEC. 1111. TIME FOR PROPOSAL AND ADOPTION OF STANDARDS.

Appraisal standards established under this title shall be proposed not later than 6 months and shall be adopted in final form and become effective not later than 12 months after the date of the enactment of this Act.

12 USC 3341.

SEC. 1112. FUNCTIONS OF THE FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES RELATING TO APPRAISER QUALIFICATIONS.

Each Federal financial institutions regulatory agency and the Resolution Trust Corporation shall prescribe, in accordance with sections 1113 and 1114 of this title, which categories of federally related transactions should be appraised by a State certified appraiser and which by a State licensed appraiser under this title.

12 USC 3342.

SEC. 1113. TRANSACTIONS REQUIRING THE SERVICES OF A STATE CERTIFIED APPRAISER.

In determining whether an appraisal in connection with a federally related transaction shall be performed by a State certified appraiser, an agency or instrumentality under this title shall consider whether transactions, either individually or collectively, are of sufficient financial or public policy importance to the United States that an individual who performs an appraisal in connection with such transactions should be a State certified appraiser, except that—

(1) a State certified appraiser shall be required for all federally related transactions having a value of \$1,000,000 or more; and

(2) 1-to-4 unit, single family residential appraisals may be performed by State licensed appraisers unless the size and complexity requires a State certified appraiser.

Housing.

12 USC 3343.

SEC. 1114. TRANSACTIONS REQUIRING THE SERVICES OF A STATE LICENSED APPRAISER.

All federally related transactions not requiring the services of a State certified appraiser shall be performed by either a State certified or licensed appraiser.

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(C) the use of real property or interests in property as security for a loan or investment, including mortgage-backed securities.

(6) **FEDERAL FINANCIAL INSTITUTIONS REGULATORY AGENCIES.**—The term “Federal financial institutions regulatory agencies” means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporations, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration.

(7) **FINANCIAL INSTITUTION.**—The term “financial institution” means an insured depository institution as defined in section 3 of the Federal Deposit Insurance Act or an insured credit union as defined in section 101 of the Federal Credit Union Act.

(8) **CHAIRPERSON.**—The term “Chairperson” means the Chairperson of the Appraisal Subcommittee selected by the council.

(9) **FOUNDATION.**—The terms “Appraisal Foundation” and “Foundation” means the Appraisal Foundation established on November 30, 1987, as a not for profit corporation under the laws of Illinois.

(10) **WRITTEN APPRAISAL.**—The term “written appraisal” means a written statement used in connection with a federally related transaction that is independently and impartially prepared by a licensed or certified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by presentation and analysis of relevant market information.

USC 3351.

SEC. 1122. MISCELLANEOUS PROVISIONS.

(a) **TEMPORARY PRACTICE.**—A State appraiser certifying or licensing agency shall recognize on a temporary basis the certification or license of an appraiser issued by another State if—

(1) the property to be appraised is part of a federally related transaction,

(2) the appraiser's business is of a temporary nature, and

(3) the appraiser registers with the appraiser certifying or licensing agency in the State of temporary practice.

(b) **SUPPLEMENTAL FUNDING.**—Funds available to the Federal financial institutions regulatory agencies may be made available to the Federal Financial Institutions Examination Council to support the council's functions under this title.

(c) **PROHIBITION AGAINST DISCRIMINATION.**—Criteria established by the Federal financial institutions regulatory agencies, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the Resolution Trust Corporation for appraiser qualifications in addition to State certification or licensing shall not exclude a certified or licensed appraiser for consideration for an assignment solely by virtue of membership or lack of membership in any particular appraisal organization.

(d) **OTHER REQUIREMENTS.**—A corporation, partnership, or other business entity may provide appraisal services in connection with federally related transactions if such appraisal is prepared by individuals certified or licensed in accordance with the requirements of this title. An individual who is not a State certified or licensed appraiser may assist in the preparation of an appraisal if—

(1) the assistant is under the direct supervision of a licensed or certified individual; and

STANDARD 6 (continued)

Standards Rule 6-2 (continued)

Comment: Analogous considerations to those set forth in S.R. 6-2(a) apply to personal property. S.R. 6-3 and S.R. 6-4(a), 6-4(f), and 6-4(h) do not apply to personal property.

In mass appraisal, fee simple interests in property are assumed and appraisers need only identify the real property interest under consideration explicitly when that assumption is not met.

Similarly, the purpose, intended use, and scope of appraisals are assumed to be for ad valorem taxation, which facts do not need to be explicitly defined unless there is an intent to use an appraisal for ad valorem tax purposes for another function. With respect to special limiting conditions, appraisers for ad valorem tax purposes generally operate under pronounced cost constraints. Politically acceptable expenditure levels for assessment administration are a function of a number of factors, including the value of the property being taxed and the relative reliance of the client governmental bodies on the property tax. As a result, expenditure levels may be considerably lower than the suggested levels in many areas. Sacrifices in data completeness and accuracy, valuation methods, and valuation accuracy are an inevitable consequence of such fiscal constraints. Appraisers should not be held accountable for constraints that are beyond their control.

(b) define the value being considered;

if the value to be estimated is market value, the appraiser must clearly indicate whether the estimate is the most probable price:

- (i) in terms of cash; or**
- (ii) in terms of financial arrangements equivalent to cash; or**
- (iii) in such other terms as may be precisely defined;**

Comment: The definition of value for ad valorem tax purposes usually is stated in legislation, regulations, or court decisions and may vary with property use. Appraisers for ad valorem tax purposes must determine whether a stated legal definition differs materially from the general requirements of this rule and govern themselves accordingly. However, in mass appraisal it is not necessary for appraisers to define the value being considered explicitly in writing.

- (c) when applicable and when the information is available to the appraiser in the normal course of business, consider easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of similar nature;**
- (d) consider whether an appraised fractional interest, physical segment, or partial holding contributes pro rata to the value of the whole, if applicable;**
- (e) identify and consider any personal property, fixtures or intangible items that are not real property but are included in the appraisal.**

Standards Rule 6-3

In developing a mass appraisal for ad valorem tax purposes, an appraiser must:

- (a) consider the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such land use regulations, economic demand, the physical adaptability of the property, neighborhood trends, and the highest and best use of the property;**

Comment: S.R. 6-3(a) is identical in scope and purpose to S.R. 1-3(a).

STANDARD 6 (continued)

Standards Rule 6-1 (continued)

property characteristic. The property characteristics data file should contain data contemporaneous with the date of appraisal as well as current data. It may contain historical data on sales. The property-characteristics data collection system should provide for periodic reinspection of all properties and special inspections of properties for which building permits have been issued. Data collectors should be trained, and they should use data. The data collection program should incorporate checks and audits to ensure that data are recorded correctly and consistently.

For personal property, systems for routinely collecting and maintaining situs and ownership data, market data (e.g., cost, price, sales and income and expense), and property characteristics data should be established. Personal property data collection systems usually rely heavily on reports of taxable property holdings filed by owners and agents, but appraisers should have systems for verifying and auditing those reports and for discovering unreported taxable property.

(e) employ those recognized techniques for formulating and calibrating mass appraisal models; and

Comment: Appraisers for ad valorem tax purposes engaged in mass appraisal must develop mass appraisal models that with reasonable accuracy represent the mathematical relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. Models should be calibrated using generally recognized mass appraisal techniques, including multiple regression analysis and the adaptive estimation procedure, for applying the sales comparison, income, and cost approaches to value. Whenever feasible or appropriate, more than one method should be used in appraising a group of properties.

Since personal property items generally are more homogeneous than real property parcels, personal property valuation models generally are simpler than real property valuation models.

(f) employ those recognized mass appraisal testing procedures and techniques that are necessary to ensure that standards of accuracy are maintained.

Comment: It is implicit in mass appraisal that, even when well-formulated and well-calibrated mass appraisal models are used, some individual value estimates will not meet standards of reasonableness, consistency, and accuracy. However, appraisers for ad valorem tax purposes engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value estimates that meet attainable standards of accuracy. This responsibility requires appraisers to evaluate the performance of models, using, as appropriate, goodness of fit statistics, hold-out samples, analysis of residuals, and assessment-ratio data. They also should review individual value estimates before the decision to use those estimates as the basis for assessment is made.

Standards Rule 6-2

In developing a mass appraisal for ad valorem tax purposes, an appraiser must:

- (a) adequately identify the real estate, identify the real property interest under consideration, define the purpose and intended use of the appraisal, consider the scope of the appraisal, describe any special limiting conditions, and identify the effective date of the appraisal;

STANDARD 6

In developing and reporting a mass appraisal for ad valorem tax purposes, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce and communicate credible appraisals within the context of the property tax laws.

Comment: Standard 6 is directed toward the substantive aspects of developing and communicating competent analyses, opinions, and conclusions for ad valorem tax purposes. Two types of appraisals are made for ad valorem tax purposes: individual property appraisals and mass appraisals. Individual property appraisals usually are made when a mass appraisal is being contested. Generally, individual property appraisals should conform to Standard 1 and/or 7. Mass appraisals, which often are developed by teams of people, some of whom may not be appraisers, are the subject of this Standard.

Although appraisal is an important aspect of ad valorem tax administration, other important aspects, including locating and describing property, identifying ownership, determining taxability, making assessments, maintaining cadastral record systems, and satisfying a variety of information needs, result in appraiser-client relationships that are distinctly different from the usual relationships between appraisers and clients.

Standards Rule 6-1

In developing a mass appraisal for ad valorem tax purposes, an appraiser must:

- (a) **be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal;**

Comment: S.R. 6-1(a) is identical in scope and purpose to S.R. 1-1(a). Changes in regional economies, development patterns, and property tax legislation have a substantial impact on property assessment.

- (b) **not commit a substantial error of omission or commission that significantly affects an appraisal;**

Comment: S.R. 6-1(b) is identical in scope and purpose to S.R. 1-1(b) when making an individual property appraisal. S.R. 6-1(d) applies in mass appraisal.

- (c) **not render an appraisal in a careless or negligent manner;**

Comment: S.R. 6-1(c) is identical in scope and purpose to S.R. 1-1(c)

- (d) **employ those recognized mass appraisal procedures and techniques that are necessary to minimize errors in the data and analyses;**

Comment: This rule requires appraisers for ad valorem tax purposes engaged in mass appraisal to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. The requirements for real and personal property differ.

For real property, systems for routinely collecting and maintaining ownership, geographic, sales income and expense, cost, and property characteristics data should be established. Geographic data should be contained in a complete set of cadastral maps compiled according to current standards of detail and accuracy. Sales data should be collected, confirmed, screened, adjusted, and filed according to current standards of practice. The sales file should be separate from the property record file and should contain, for each sale, property characteristics data that are contemporaneous with the date of sale. Property characteristics data should be appropriate to the mass appraisal models being used, the requirements of classification and property tax policy, the requirements of other government and private users, and the marginal benefits and costs of collecting and maintaining each particular