

# Ad Valorem vs. Fee Appraiser

by Arthur L. Gough

Mr. Gough is unit supervisor, appraisal services, for the Arizona Department of Property and Special Taxes, Phoenix.

*Editorial note—This article is reprinted with permission from The Appraisal Review, published by the National Association of Independent Fee Appraisers, St. Louis, Missouri.*

The independent fee appraiser looks at the appraisal problem through a different pair of glasses than does the ad valorem tax appraiser (i.e., assessor within a city or state jurisdiction). Although they both are doing a similar job, how they go about it is the difference.

*The mass valuation technique requires ad valorem appraisers to make a physical inspection in a uniform and detailed manner.*

① The ad valorem appraiser's primary job is to see that the tax burden is distributed equally among all the property owners. The fee appraiser's primary job is to see that his client receives an appraisal which is accurate and professional, and contains the information the client requested. At this point, both the fee appraiser and the ad valorem appraiser are performing the same task, appraising property. The difference is that the fee appraiser is making an appraisal on one property, while the ad valorem tax appraiser is making appraisals on masses of properties.

② An important point to remember is that the fee appraiser or assessor does not create market value. They both interpret the activities of buyers and sellers. Since the ad valorem tax is a capital tax and is not an income tax, value estimates for tax purposes must be based on "physical wealth of the property" rather than on the owner's ability to pay. Therefore, the purpose for which the ad valorem appraisal is made requires uniformity of treatment within and between classes of property, since tax rates are fixed by annual budget requirements and applied to all taxable property in the same political subdivision. The fee appraiser must make his appraisal based on his client's needs, and it could be used for insurance or for the purchasing or selling of the property in question.

The mass valuation technique, applicable to residential, rural, commercial, and industrial properties, requires ad valorem appraisers to make a physical inspection of the neighborhood and the subject property in a uniform and detailed manner, as would a fee appraiser. It follows, therefore, that the tax appraiser must select one method of valuing property that can be used on all of the property to be appraised, after a land value has been established using standard appraisal methods and techniques. Mass appraisal for property tax purposes lends itself best to multiple regression analysis, which is basically a refined and automated application of the sales comparison approach to value. As has been stated before, it is the assessor's responsibility and duty to ensure that all property on the roll represents current market value. Therefore, it is necessary for the assessor to turn to multiple regression analysis.

In order for an assessor to develop this system, an adequate data file must be established. Most fee appraisers would not find it feasible to establish such a file. They rely on outside sources, or the assessor, in order to obtain information. Although the income approach does not lend itself readily to ad valorem appraising, it is used by assessors to substantiate the value produced by the cost approach or multiple regression.

③ While the fee appraiser has the luxury of preparing a few appraisals at any given time, the assessor has the enormous task of preparing thousands of appraisals each year. These appraisals are not for just one type of property, but run the gauntlet of all types of property existing in the geographical area being assessed.

In most cases, when the fee appraiser completes his appraisal, he turns it over to his client and his task has been completed. However, when the assessor completes his appraisal, his task is only partially completed. After the assessor sets the value, normally, the property owner is notified. In addition, the assessor may be required to notify various governmental agencies of the total value he has established.

④ Once the tax roll is certified, it is then turned over to the appropriate agency so that the tax rate can be set by the various municipalities. Before the roll is certified, the property owner has a chance to be heard. In the State of Arizona, the property owner may request a review of his property assessment at the assessor's level. At this stage, the value can be changed by the assessor. If the property owner is not satisfied

with the assessor's decision, he may then appeal this value to the county board of equalization. If displeased with the board of equalization's ruling, the property owner can appeal, this time to the State Board of Tax Appeals. The property owner can also appeal to the courts if dissatisfied with any of the decisions rendered in his appeals. It is not until all the appeals are made and all decisions are received that the assessor can close his roll for the current year.

As has been stated previously, the ad valorem appraiser has used the income approach as a back-up to the cost approach. At this time, I would like to compare how the fee appraiser uses the income approach to value, as opposed to how the ad valorem appraiser uses the same approach.

The fee appraiser has to go to the market in order to arrive at the economic rent of the property, which is the first step in arriving at the potential gross income (the economic rent for the property at 100 percent occupancy). Obtaining this information requires a careful study of comparable properties in the area.

The assessor must also make a careful study of the area, in order to arrive at the economic rent of the property in question. In many cases, this information is supplied to him by the property owner during the filing of the protest. Although income information is often confidential, the assessor can generally use the information supplied if the source of information is not disclosed.

*The assessor uses one of the three capitalization methods to arrive at value.*

The assessor follows the same steps as the fee appraiser to arrive at value, by using one of the three capitalization methods—straight-line, sinking fund, or annuity. I would now like to give a brief overview of the mass appraisal process as used by the ad valorem appraiser and how it can aid the fee appraiser.

⑤ The mass appraisal is the process of valuing an enormous amount of properties as of a given date, with some uniformity, using standard methods. The mass appraisal ha

been criticized in the past, as it will be in the future. The criticism stems from the interim value adjustments made each year. These adjustments are made for the purpose of equalization between property classes and to comply with statutory requirements.

Such criticism of mass appraisal is unwarranted, however. The assessor's office has been, and will continue to be, a very good source of property-related data to the fee appraiser. Budgetary limitations and the law usually decree just how much sophistication can be built into the mass appraisal system. Most authorities agree that fee appraisal techniques, if used by the ad valorem appraiser, would provide an overabundance of information, and the cost to the taxpaying public would be astronomical.

---

*The mass appraisal system, as used by most assessors, provides a good valuation estimate that can be discussed with the taxpayer.*

---

The mass appraisal system, as used by most assessors, provides a good valuation estimate quickly, and the value is produced on forms or appraisal records that can be reasonably discussed with the taxpayer, if necessary. The assessor's office must be capable of responding to today's fluctuating market. With the inflation of today's market, the property tax can become an extremely sensitive area, and the assessor must be able to respond to market change. With the mass appraisal system, he can do this each and every year.

In conclusion, the fee appraiser needs the ad valorem appraiser, just as the ad valorem appraiser needs the fee appraiser. The fee appraiser looks to the assessor for needed information in order to do a complete and professional job. In the same vein, the assessor needs the fee appraiser to supply the expertise that is needed in court cases or other technical hearings. ■

---