



March 31, 2004

International Valuation Standards Committee
12 Great George Street
London SW1P 3AD, UK

Re: Guidance Note on Mass Appraisal for Property Taxation

Dear Committee Members,

The framers of the mass appraisal guidance note that is now offered for international comment are to be congratulated for the excellent job they have performed in sifting through the myriad issues that confused earlier efforts. In particular, we applaud their focus on “Mass Appraisal for Property Taxation” rather than broader non-tax applications that have been attributed to the concept of “mass appraisals.”

We also congratulate the IVSC for its emphasis in this exposure draft on brevity and the concise way in which each of the concepts is expressed. It is our view that by emphasizing *guidance* rather than supplying a tutorial on this or any other guidance topic, the IVSC truly speaks to standards affecting professional valuers, their clients, and other users of valuation services rather than to those who may confuse guidance with methodological advice.

The following comments and suggestions are offered for your consideration in finalizing the exposure draft into an IVSC Guidance Note:

1. The term “calibrating” a model structure appears to have reference only to the “contribution of the individual property features affecting value.” For those who use statistical techniques such as multiple regression analysis, this may be interpreted as a calibration of beta coefficients in the context of a given model. We recommend that more thought be given to the concept of calibration and that the definition of “calibration” and/or “calibrating” be included in Section 3.0. With regard to Section 1.4 (c), the current language might say, “...calibrating the model structure to determine, for example, the contribution of individual property features affecting value.” This will permit recognition that such factors as neighborhood or locational features that may make up a model must also survive the calibration process.
2. Calibration is customarily understood to occur in a fashion so as to accomplish validation of a process, model, measurement, or other reading, which is to be compared against a base line or norm. The process of calibration is also a “validation” process. We urgently recommend that the process of validation be added as a part of the “Mass Appraisal Process,” and that validation be understood as an important step in the development and ultimate application of valuation models

for ad valorem taxation processes. In short, validation may be viewed as a continuing process and/or as a staged process in which validity and/or reliability are measured at specified points in the process. We recommend that it be viewed both ways, particularly because statistical processes provide many opportunities for various validation tests.

3. We have some concern that there is no statement of more specific standards for the use of statistical processes. It is widely recognized that fraudulent or otherwise inappropriate use of pseudo-scientific or statistical processes is not uncommon in the ad valorem field. Accordingly, we recommend that a more definitive basis for judging statistical processes be established. (*The Reference Manual on Scientific Evidence* published by the Federal Judicial Center in the U.S. is an example, but better sources are likely available.)
4. Section 1.5 refers to a “divergence from *Market Value*.” One does not “diverge” when one applies processes that comply with law and/or regulation. We recommend that the sentence in question be reworded to the effect, “If instructions and applicable legal bases for the valuation require a valuation basis other than market value, valuers should disclose that the results are not market value and should apply relevant and pertinent methods that will otherwise accomplish the objectives of IVSC standards.”

1.5

The valuation basis for Mass Appraisal is *Market Value* as defined in *IVS 1, Section 3*, subject to any modification of the concept as specified under relevant instructions or legislation. If these instructions or legislation create a divergence from *Market Value* as defined above, the estimation of such newly defined values may require application of methods that produce results other than *Market Value*.

5. Section 2.1 refers to “enabling legislation.” In the United States, enabling legislation may or may not establish the basis for ad valorem valuations, that basis possibly being established by regulations or other requirements that more explicitly accomplish the intent of legislation. The same may be true in at least some other countries. Accordingly, we recommend that the Guidance be directed to the provisions “established by law in the ad valorem taxing jurisdiction,” to provide for a variety of possible legal systems.

2.1

The professional responsibility of Valuers is, in most instances, prescribed by statute or regulations affecting Mass Appraisal assignments. It is the professional duty of the Valuer to be familiar with, adhere to, and administer the provisions of any enabling legislation.

6. Section 3.0. Because this Guidance Note is directed to Mass Appraisal for Property Taxation, and because Section 1.4 sets forth a “Mass Appraisal process,” we recommend that the term “Mass Appraisal Process” be defined and added to Section 3.0.

3.0 Definitions

- 3.1 *Ad Valorem Property Taxation.* A revenue-raising procedure, based on the assessed value of property related to a scale of charges defined by statute within a specified time frame.
- 3.2 *Mass Appraisal.* The practice of appraising multiple properties as of a given date by a systematic and uniform application of appraisal methods and techniques that allow for statistical review and analysis of results.

- 7. Section 4.0 establishes that Mass Appraisal does not fall under the governance of national or international accounting standards, but this could change at some point. Whether it does or not, there is a possibility that confusion or misunderstanding may exist when financial reporting valuations are used in the marketplace in the form of Balance Sheet representations and transactions of securities occur with such valuations forming at least a portion of the price paid. To avoid misunderstandings and to further more explicit distinctions, we recommend that Section 4.0 include text substantially to the effect: “Valuations for financial reporting as recognized under accounting principles and related regulations should be understood as valuations for a purpose that is different than those performed for Mass Appraisals. Consistency and reliability in the Mass Appraisal Process require that valuations for Mass Appraisal purposes be made in the context of such applications and not drawn from valuations that may be made under other premises and/or other purposes than for ad valorem tax purposes.”

4.0 Relationship to Accounting Standards

- 4.1 Mass Appraisal does not fall under the governance of national or international accounting standards.
- 4.2 Valuers should be aware that revaluation procedures for financial reporting purposes are unrelated to Mass Appraisal procedures for *Ad Valorem Property Taxation*.

- 8. We believe that the Departure provision (Section 5.6 as currently signified) should be shown as a separate Section 6.0, with the remaining section shown as Section 7.0.

5.6 Departure

- 5.6.1 Departure from the instructions in this Guidance Note should only result from the provisions of statutory provisions, administrative instructions, or the agreed or amended terms of appraisal contracts.
- 5.6.2 Further discussion on Departure provisions is set out in section 6.8 of the International Valuation Standards Code of Conduct.

Once again we applaud the IVSC for its work in this arena. We feel this Guidance Note provides important clarifications on matters of tax assessment.

Thank you for considering our comments and requests. Should you have any questions, please contact Don Kelly, Vice President of Public Affairs, Appraisal Institute, at 202-298-5583 or dkelly@appraisalinstitute.org; or Doug Slothower, Executive Vice President, American Society of Farm Managers and Rural Appraisers, at 303-758-3513 or dslothower@agri-associations.org.

Sincerely,



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