

DIRECTIVE #14-046

TO: County Appraisers

SUBJECT: Scope of Work and Substantial Compliance

This Directive Supersedes Directive #92-002 and #92-003

This directive is adopted pursuant to the provisions of K.S.A. 79-505 and shall take effect and be in full force from and after its publication in the Kansas Register.

The following criteria and standards shall be used for appraisals developed in the 2014 valuation cycle (in preparation for January 1, 2015 valuation date) and subsequent years to determine whether a county is in substantial compliance with the statutory requirement to uniformly appraise real and personal property at its fair market value, as defined by K.S.A. 79-503a, and amendments thereto. In order to establish compliance or lack of compliance in each county, the Division of Property Valuation (PVD) shall conduct a ratio study to develop statistical performance measures as required by K.S.A. 79-1485 *et. seq.* PVD shall conduct a procedural audit in each county covering items deemed essential to establishing fair market value. PVD shall determine whether specific Kansas statutes pertaining to property taxation have been followed. In accordance with K.S.A. 79-1445, PVD will publish annually a list of the substantial compliance results for each county.

Criteria and Standards

The annual substantial compliance process uses an objective scoring system that PVD has developed to evaluate completion of key mass appraisal steps, accomplishment of assessment administration functions, and achievement of accuracy standards in each county. Points are awarded when a county meets minimum statistical performance measures, documentation is verified to confirm that mass appraisal procedures have been followed, and statutory requirements have been met. A maximum score of 100 is possible. A county must achieve a minimum score of 75 to attain substantial compliance. Any county achieving a score less than 75 shall be found in noncompliance and may be required to submit a detailed plan to correct areas of noncompliance.

Substantial compliance is based upon ratio study performance measures, an audit of procedural steps required to develop a credible mass appraisal, and verification that important statutory mandates have been met. The ratio study conducted by PVD is used to

verify that overall value conclusions meet minimum standards of reasonableness, consistency and accuracy. Refusal by county officials to cooperate in the ratio study may result in a noncompliance order. The procedural steps are tied to Kansas statutes and regulations, the International Association of Assessing Officers (IAAO) Standard on Mass Appraisal and the Uniform Standards of Professional Appraisal Practice (USPAP). Refusal by a county or district appraiser to perform any procedural step may result in a noncompliance order. Kansas statutes require critical functions to be performed and annual processing deadlines to be met by the county or district appraiser. Refusal to comply with any statutory requirement may result in a noncompliance order.

If a county is determined to be in noncompliance, the director may pursue all legal options, including, but not limited to, proceedings before the Kansas Court of Tax Appeals and/or the removal of the county or district appraiser from office. PVD may require the county to submit a detailed plan to correct areas of noncompliance. A PVD audit of all property tax functions and responsibilities may be initiated if the county does not implement its approved plan or the plan is ineffective in bringing the county back into compliance.

The director may include an administrative note on the final report if a county fails to achieve industry standard ratio study performance measures. Counties receiving an administrative note may be required to submit a plan to correct the area or areas not meeting the basic statistical standards.

The Compliance Scorecard along with the points possible follows:

Compliance Scorecard - Example of total points possible

Subclass	Appraised Value	Percent of Total Appraised Value
Residential		
Commercial/Industrial		
Total Appraised Value		

Subclass	Percent of Appraised Value (weighted)	Compliance Points Possible	Weighted Points	Points Received
1. Statistical Measures				
Residential				
Appraisal Level		25		
Appraisal Uniformity		25		
Commercial/Industrial				
Appraisal Level		25		
Appraisal Uniformity		25		
Statistical Compliance Points		50		

2. Procedures	Compliance Points Possible	Points Received
a. Scope of Work Appraisal Plan	4	
b. Sales File	4	
c. Parcel Maintenance Inspection	4	
d. Land Valuation Model Calibration	4	
e. Construction Cost Multiplier Analysis	4	
f. Depreciation Analysis	4	
g. Income Approach	4	
h. Comparable Sales Approach	4	
i. Final Review Process	4	
Total	36	
3. Agricultural Use Valuation	2	
4. Cadastral Mapping	2	
5. Statutory Compliance		
a. Trend Study and CVN Mailing	2	
b. Informal Hearings	2	
c. Appraised Value Certification	2	
d. Personal Property	2	
e. Preservation and Protection of Property Tax Records	2	
Total	10	
I. Total Points Possible	100	
II. Total Points Received		
III. Overall Score (II/I)*100		

1. STATISTICAL MEASURES COMPLIANCE REVIEW (50 points)

Statistical compliance for the *residential* and *commercial/industrial* subclasses shall be determined separately. A maximum of 50 ratio study compliance points are possible for a county that achieves the median ratio (25 points) and COD (25 points) performance goals through statistical point estimates in both subclasses. Subclass points shall be weighted by the percentage of appraised value within the combined subclasses, as derived from the most recent statistical abstract. The percentage of appraised value, divided between the residential and commercial/industrial subclass will be shown at the top of the form. These percentages will be used to develop the point weighting for each statistical measure in the two subclasses. Subclass weights are expected to vary from county to county and from year to year.

The following is an example of the weighting procedure:

Subclass	Appraised Value	Percent of Total Appraised Value
Residential	\$250,000,000	84.7
Commercial/Industrial	\$45,000,000	15.3
Total Appraised Value	\$295,000,000	100.0

Subclass	Percent of Appraised Value (weighted)	Compliance Points Possible	Weighted Points	Points Received
1. Statistical Measures				
Residential				
Appraisal Level	84.7	25	21.2	
Appraisal Uniformity	84.7	25	21.2	
Commercial/Industrial				
Appraisal Level	15.3	25	3.8	
Appraisal Uniformity	15.3	25	3.8	
Statistical Compliance Points			50.0	

1. Sum the residential and commercial/industrial appraised value
 (\$250,000,000 + \$45,000,000 = \$295,000,000)

2. Divide each subclass appraised value by the total appraised value.
 \$250,000,000/\$295,000,000 = 84.7 percent (Residential)
 \$45,000,000/\$295,000,000 = 15.3 percent (Commercial-Industrial)

3. Multiply the percent of appraised value (weighted) by the compliance points possible in each subclass for both the median ratio and COD.
 .847 times 25 = 21.2
 .847 times 25 = 21.2
 .153 times 25 = 3.8
 .153 times 25 = 3.8

If the statistical point estimate for the median ratio or COD does not meet the minimum ratio study performance goals, the 95% confidence intervals will be examined. If the 95% confidence interval fails to reach or overlap the statistical performance goal, the compliance points allocated to the subclass and statistical measure in question will be lost. If the confidence interval reaches or overlaps the minimum performance goal, the points allocated to the statistical measures for that subclass shall be subtracted from the total compliance points, thereby establishing a new base for total possible points. The total points assigned to a county shall be divided by the adjusted base, total possible, and multiplied by 100 to arrive at the total score used to determine substantial compliance. This method will shift more emphasis to the procedural review and statutory components.

The following sales ratio study review shall be used to establish whether the county's appraisal performance measures are in statistical compliance, pursuant to minimum standards established by the Division of Property Valuation (see Appendix A. Scoring Example).

a. Appraisal Level

The median ratio measure of central tendency must suggest the overall level of appraised value for a subclass falls between 90 and 110 percent.

If the median ratio point estimate does not fall within the compliance range, confidence interval estimates shall be developed to provide an indication of reliability. If, at the 95% level of confidence, the subclass reaches or overlaps a portion of the prescribed range, the appraisal level shall not be found out of statistical compliance.

For example:

Median ratio: 85.0 95% Confidence interval: 80.0 to 90.0 would be considered in statistical compliance because it reaches the lower end of the acceptable standard of 90.0 to 110.0 percent.

Median ratio: 85.2 95% Confidence interval: 80.0 to 89.9 would not be considered in statistical compliance because it does not reach the lower end of the acceptable standard of 90.0 to 110.0 percent.

Median ratio: 97.7 95% Confidence interval: 80.0 to 115.0 would be considered in statistical compliance because the point estimate is within the required range and the confidence interval overlaps the entire acceptable range of 90.0 to 110.0 percent.

Median ratio: 114.9 95% Confidence interval: 110.0 to 120.0 would be considered in statistical compliance because the lower end reaches the acceptable range of 90.0 to 110.0 percent.

Median ratio: 115.2 95% Confidence interval: 110.1 to 120.0 would not be considered in statistical compliance because the lower end (110.1) does not reach the acceptable range of 90.0 to 110.0 percent.

b. Appraisal Uniformity

The average deviation of ratios about the median appraisal level shall be measured by the coefficient of dispersion (COD). The COD measure must suggest a deviation of 20.0 or less for the *residential* subclass and the *commercial/industrial* subclass to achieve statistical compliance. If a subclass fails to meet this goal, confidence interval estimates shall be developed about the COD. If the range estimate for the subclass includes a COD of 20.0 or less at the 95% level of confidence, appraisal uniformity shall not be found out of statistical compliance.

For example:

COD: 18.0 95% Confidence interval: 13.0 to 22.0

This example is not considered out of compliance because the COD point estimate is less than 20.0. The confidence interval does suggest, however, there is a small probability the true COD could actually be greater than 20.0, due to sampling error.

COD: 30.0 95% Confidence interval: 22.0 to 38.0

This example is considered out of compliance because the COD point estimate is 30.0 and the lower range of the 95% confidence interval does not fall below 20.0 (the maximum limit for compliance).

COD: 22.0 95% Confidence interval: 17.0 to 26.0

This example is not considered out of compliance although the COD point estimate is 22.0. Due to sampling error, it is probable that the true COD is somewhere within the range of 17.0 to 26.0 at the 95% level of confidence. The county would not fail the compliance test because of insufficient statistical confirmation. The lower end of the confidence interval does fall below 20.0 (the maximum limit for compliance).

c. Sample Size

If less than six valid sales are collected for a subclass during the study period, valid sales within the same subclass from the four previous study periods may be included to develop a larger and more reliable sample for analysis.

If less than five valid sales are available in a subclass sample, ratio study performance measures will not be used to determine statistical compliance. The points allocated to the statistical measures for that subclass shall be subtracted from the total compliance points, thereby establishing a new base of total possible points.

If more than half the sales in a subclass sample have been validated from a previous appraisal year ratio study, performance measures will not be used to determine statistical compliance. The points allocated to the statistical measures for that subclass shall be subtracted from the total compliance points, thereby establishing a new base of total possible points.

2. PROCEDURAL COMPLIANCE REVIEW (36 points)

The following procedural review is designed to establish whether the county's appraisal performance meets the substantial compliance standards. The county or district appraiser must be competent to perform the required appraisal functions required by Kansas statutes, the Uniform Standards of Professional Appraisal Practice, PVD manuals, PVD guidelines and PVD directives. Selection of a private firm whose services are necessary to perform mass appraisal assignments, develop components of a mass appraisal, provide technical appraisal services, or complete project maintenance phases must be made from a list of approved firms supplied by the director of property valuation in accordance with Directive #12-045 (see Appendix A. Scoring Example).

a. Scope of Work Appraisal Plan (4 points)

The county or district appraiser shall prepare an annual Scope of Work (SOW) appraisal maintenance plan. A copy of the preliminary plan shall be submitted electronically to the Division of Property Valuation by April 30 of each year, detailing the maintenance plan for the current calendar year and in accordance with the Revaluation Maintenance Specifications. The preliminary plan must include a copy of the budget that supports the project.

The SOW is an ongoing process in a mass appraisal assignment. Significant changes during the assignment should be noted in the working SOW document. A copy of the final SOW document, including the signed SOW certification shall be submitted electronically to the Division of Property Valuation within 30 days of the appraiser's certification of the appraisal roll to the county clerk as mandated in K.S.A. 79-1466.

b. Sales File (4 points)

PVD shall verify that the county has a sales file that documents the validity of sales, field inspection of data and sales price adjustments in accordance with the Revaluation Maintenance Specifications and PVD sales validation guidelines. Both physical and computer files must be continually maintained and updated on a regular basis.

c. Parcel Maintenance Inspection (4 points)

PVD shall verify the county has performed the required data collection reinspection in accordance with the Revaluation Maintenance Specifications. Field review documentation must be detailed on the field review document showing the data collection changes, quality assignment, and depreciation application. Quality control activities must also be documented.

All reinspection activity must have an inspection history record entered into the CAMA system showing the reviewer name, inspection date, and process code to adequately indicate the purpose of the review.

d. Land Valuation Model Calibration (4 points)

PVD shall verify that the county has developed and calibrated land valuation models in accordance with the Revaluation Maintenance Specifications. Neighborhood analysis forms, analysis documentation, and data summary must be complete to be considered in compliance. PVD shall also confirm land pricing tables have been updated. A market analysis for agricultural land must also be documented. Deviations from model assignments must be documented.

e. Construction Cost Multiplier Analysis (4 points)

If the county deviates from the current cost valuation system, PVD shall verify the county has a current residential and/or commercial/agricultural construction cost multiplier analysis in accordance with the Revaluation Maintenance Specifications. If the county recognizes a deviation from the current cost valuation system, cost tables must be updated to reflect the study. Deviation from the current cost valuation system without documentation will result in the loss of two points for the applicable property type. Two points for residential and two for commercial/agricultural are possible and are evaluated independently.

Sales of newly constructed properties may be used in the analysis for actual construction cost when appropriate.

f. Depreciation Analysis (4 points)

PVD shall verify the county has developed a depreciation analysis in accordance with the Revaluation Maintenance Specifications and PVD sales validation guidelines that utilizes all available valid sales. The county must include appropriate statistics, graphics reports and statistical analyses to test percent good calibration assignments. All forms of depreciation must be documented. The county must update percent good tables, if appropriate, with the results of the yearly analysis. Deviations from model assignments must be documented. Two points for residential and two for commercial/agricultural are possible and are evaluated independently.

g. Income Approach (4 points)

PVD shall verify that the county has developed or attempted to develop an income approach to value appropriate properties. The appraiser must document all income approach analysis and conclusions in accordance with the Revaluation Maintenance Specifications. Updated income and expense model calibration must be completed. Deviations from model assignments must be documented.

h. Comparable Sales Approach (4 points)

PVD shall verify the county has developed a sales comparison approach to value by analyzing the relationship between the sales prices and the real property characteristics. The county must document all sales approach analysis, model specification, model calibration and conclusions in accordance with the Revaluation Maintenance Specifications. Deviations from model assignments must be documented.

i. Final Review Process (4 points)

PVD shall verify that the county has performed the final review of values in accordance with the Revaluation Maintenance Specifications. The county must document the date and person performing the final review.

3. AGRICULTURAL USE VALUATION (2 points)

PVD shall verify that the county has met the review/inspection requirements for current agricultural use and influence factors in accordance with the Revaluation Maintenance Specifications. The county must identify current use of agricultural land, which includes cropland, grassland, irrigated land, waterways, non-productive land, and farm home sites. Agricultural use values issued annually by PVD must be updated into the CAMA system (see Appendix A. Scoring Example).

4. CADASTRAL MAPPING (2 points)

PVD shall verify that accurate property ownership maps are being maintained in accordance with the Revaluation Maintenance Specifications. Updated field maps (showing new plats, splits, and combinations), an updated assessment administration file and adherence to the parcel definition must be maintained (see Appendix A. Scoring Example).

5. STATUTORY COMPLIANCE (10 points)

The following review areas are to establish whether the county is following Kansas statutes not previously covered (see Appendix A. Scoring Example).

- a. A real estate value trend study is published at least five business days prior to the mailing of the CVN's (K.S.A. 79-1460A). Change of value notices are mailed on or before the statutory deadline, provided an extension has not been granted pursuant to K.S.A. 79-1404, *Seventeenth*, or an alternate form of notification approved pursuant to K.S.A. 79-1460 (K.S.A. 79-1460).
- b. Informal hearings are held within statutory timeframe, provided an extension has not been granted pursuant to K.S.A. 79-1404, *Seventeenth* (K.S.A. 79-1448).
- c. Values are certified to county clerk by statutory deadline, provided an extension has not been granted pursuant to K.S.A. 79-1404, *Seventeenth* (K.S.A. 79-1466 and 79-1467).

- d. Personal property is listed as required and penalties applied where applicable (K.S.A. 79-306 and 79-1422; K.S.A. 79-332a).
- e. The preservation and protection of all property tax records (K.S.A. 45-403).

Approved: June 3, 2014



David N. Harper
Director of Property Valuation

APPENDIX A. Scoring Example

The scorecard on the following page demonstrates the scoring process based on the following information.

- The residential subclass failed to meet the required level of appraisal statistical standards and did not receive the 21.2 points possible.
- The commercial subclass had less than six sales; therefore, there were zero points possible for the commercial/industrial subclass. The total weighted points possible for statistical analysis changed to 42.4.
- A total of 50 points were possible for procedures, agricultural use valuation, cadastral mapping and statutory compliance.
- Compliance points possible total 92.4.
- The county deviated from the default residential construction cost multiplier and did not do a residential construction cost analysis. The county used the default commercial cost multiplier. Therefore 2 of the 4 possible points for the construction cost multiplier were deducted for failure to provide documentation to support deviation from the use of the residential default construction cost multiplier.
- The total points received for procedures totals 34 out of a possible 36.
- The county failed to mail their change of value notices before the statutory deadline and lost two points. Eight of a possible 10 points were earned for procedural compliance.
 - Total compliance points possible 92.4
 - Total points received 67.2

Total points received (67.2) divided by the total points possible (92.4) = final substantial compliance score (72.7 percent).

The county failed substantial compliance because the county did not reach the passing score of 75.0 percent.

Compliance Scorecard
Example

Subclass	Appraised Value	Percent of Total Appraised Value
Residential	\$250,000,000	84.7
Commercial/Industrial	45,000,000	15.3
Total Appraised Value	\$295,000,000	100.0

Subclass	Percent of Appraised Value (weighted)	Compliance Points Possible	Weighted Points	Points Received
1. Statistical Measures				
Residential				
Appraisal Level	84.7	25	21.2	0
Appraisal Uniformity	84.7	25	21.2	21.2
Commercial/Industrial				
Appraisal Level	15.3	25		
Appraisal Uniformity	15.3	25		
Statistical Compliance Points		50	42.4	21.2

2. Procedures	Compliance Points Possible	Points Received
a. Scope of Work Appraisal Plan	4	4
b. Sales File	4	4
c. Parcel Maintenance Inspection	4	4
d. Land Valuation Model Calibration	4	4
e. Construction Cost Multiplier Analysis	4	2
f. Depreciation Analysis	4	4
g. Income Approach	4	4
h. Comparable Sales Approach	4	4
i. Final Review Process	4	4
Total	36	34
3. Agricultural Use Valuation		
	2	2
4. Cadastral Mapping		
	2	2
5. Statutory Compliance		
a. Trend Study and CVN Mailing	2	0
b. Informal Hearings	2	2
c. Appraised Value Certification	2	2
d. Personal Property	2	2
e. Preservation and Protection of Property Tax Records	2	2
Total	10	8
I. Total Points Possible		
	92.4	
II. Total Points Received		
		67.2
III. Overall Score (II/I)*100		
		72.7