

BEST PRACTICES IN U.S. ASSESSMENT IAAO TECHNICAL STANDARDS

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SUMMARY

This paper includes a high-level overview of best practices in the U.S. assessment system and how IAAO standards help to support fairness and equity in all property tax systems.

The U.S. assessment system is rooted in legal frameworks established by state constitutions, statutes, and oversight mechanisms. This report summarizes the key standards, methodologies, and practices promoted by the International Association of Assessing Officers (IAAO), including valuation approaches, data collection, appeal procedures, and quality assurance through ratio studies.

1. LEGAL FRAMEWORK

U.S. property assessment is grounded in state constitutions and statutes, ensuring uniformity, equity, market value, and due process.

Taxable property typically include residential, commercial, vacant and agricultural, while government-owned and charitable or religious properties are typically exempt.

Valuation is based on fair market value which is defined by the state. Typical definitions include language such as an open-market transaction between a willing buyer and a willing seller.

State laws govern assessor roles, jurisdiction size, and oversight by state revenue or taxation departments.

Taxpayer protections include valuation notices, open records, and the appeals processes. State laws also dictate whether an assessor is to be elected or appointed.

2. DATA COLLECTION

Many jurisdictions in the US require permitting to build or change the use of a property. Jurisdictions that require permitting use those permits to identify changes in use and

construction. Ideally jurisdiction that require permits can digitally import that information into assessment software saving the steps required to manually input data.

When it comes to maintaining data IAAO recommends reviewing property characteristics every 4–6 years, using in person inspections or digital inspections using ortho or oblique imagery. AI-based change detection technology is also gaining traction as a tool to identify property changes.

Sales price disclosure is something that IAAO recommends. Many states in the U.S. require a buyer or seller to disclose transaction prices. This required transparency helps ensure equitable valuations. Assessment jurisdictions also rely on sale and lease listings data from third party providers to validate sales and to keep current on property characteristics.

Income and expense data, vacancy data, and capitalization rates used in the development of the income approach to value are collected from various sources such as listings, through surveys, and during the appeals process.

These various sources of data are used to verify property characteristics and valuation model inputs.

3. VALUATION APPROACHES

Assessors in the U.S. commonly use three different approaches to value depending on the property type and availability of data. The three primary approaches used are the cost approach, sales comparison approach, and income approach.

3.1 COST APPROACH

The cost approach starts with the development of land values. Land values are typically derived based on grouping sales of similar property uses and sizes to create land models that will reflect market actions.

Market land values are subtracted from known improved property sales. The residual sales value is the remaining value attributable to the improvements. A replacement cost new for property improvements is estimated. The residual improvement value is subtracted from the replacement cost new to estimate the amount of depreciation. The depreciation amount can be divided by the replacement cost new to estimate the percentage of depreciation. The percentage of depreciation can be divided by the properties age or effective age to arrive at the average annual depreciation annually. Based on depreciation percentages for different groups of properties different depreciation models can be loaded into valuation software.

The application of the cost approach includes applying the developed land models to the subject properties. Developing a replacement cost new for each property and applying the

appropriate depreciation percentage to that replacement cost new figure based on the subjects actual or effective age and then adding the land value to the depreciated improvement value to arrive at the total cost value estimate.

The cost approach is typically developed on all real estate property types.

Strengths of the cost approach include:

- It works even when sales, and income and expense data are limited.
- It's a good method to use when land makes up the majority of the total value.
- A good option when valuing new construction.
- A preferred method to use on unique properties.
- The valuation process is easy to automate once property characteristics are updated.

3.2 SALES COMPARISON APPROACH

Comparing the sales of similar properties to a subject property is clearly the most direct and preferred method of valuation when sales data are available. Many U.S. assessment jurisdictions utilize automated valuation models or AVMs. These models are designed to automate the sales comparison approach. IAAO has a standard on automated valuation models that includes best practices in the implementation of AVMs. The sales comparison approach is the preferred approach for valuing single-family homes and other properties with ample sales of similar properties.

3.3 INCOME APPROACH

The income approach to value is meant to reflect the actions of investors in the market. The income approach capitalizes the annual net operating income attributable to the real estate.

The income approach takes the market annual rent amount, deducts for market vacancy and collection loss, and deducts for market expenses. The resulting amount is the net operating income or the NOI. The NOI is then divided by a capitalization rate that is developed from the market based on investor expectations. The result of this calculation is the income approach to value.

4. OVERSIGHT AGENCY RESPONSIBILITIES

Oversight bodies monitor compliance, support valuer education, investigate taxpayer complaints, and maintain uniform guidelines and standards.

IAAO's standard for oversight agencies, suggests that oversight agencies:

- Assist with the valuation of complex properties or properties that cross jurisdictional lines such as utilities.
- Create and provide education and certification of assessment professionals.
- Assist with financial needs, cost-sharing and budgeting.
- Provide taxpayer forms for consistency across the state.
- Create and provide guidelines, manuals and specifications.
- Investigate and research taxpayer complaints.
- Assist legislature with information requests.
- Perform performance evaluations and enforcement actions.

5. TESTING VALUES

Assessment accuracy and uniformity are evaluated using sales ratio studies, including measures such as appraisal level, Coefficient of Dispersion (COD), Price Related Differential (PRD), Price Related Bias (PRB), etc....

IAAO has a standard on sales ratios. The standard has suggested ranges for different tests include some of the following.

The appraisal level should be between 90% and 110% of median sales ratios. COD's should range from 5 to 25 depending on property type. PRD's should be between 0.98 and 1.03. PRB's should be between -0.05 and 0.05.

The testing of values as a part of model building and after values have been set is an important step to ensure valuation equity and accuracy.

6. APPEALS PROCESS

The appeals process is an important step in the assessment process as it gives the property owner the opportunity to voice concerns over their value. Most states offer a tiered appeals process with three or more levels of appeal.

The first level is an informal review where the valuer talks with the property owner and gathers evidence. The valuer then determines if any change in value is warranted.

The second level of appeal is typically a local or regional board review. At this level the property owner or their representative and a valuer from the local assessment office both state their opinions about the valuation and provide evidence to the board. The board then makes a ruling.

The third level of appeal is typically a quasi-judicial state board of tax appeals. This level of appeal is similar in that both sides will provide evidence and provide testimony. These boards typically allow for cross examination of witnesses.

If a taxpayer or jurisdiction is not satisfied with the judgement of the state board, they have an option to appeal on to district courts, appeals courts and then finally to the state supreme court.

7. CONCLUSION

Fair and equitable property valuation is central to IAAO's mission. By adhering to, legal frameworks, technical standards and best practices, jurisdictions can ensure transparency, accuracy, and taxpayer confidence.

BIOGRAPHICAL NOTES

William Healy, RES is the 2026 President of the International Association of Assessing Officers (IAAO), he also services as the Chief Assessor for the City of Lewiston, Maine, is the former Assessor for the Towns of Cumberland, Yarmouth, and Scarborough Maine.

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