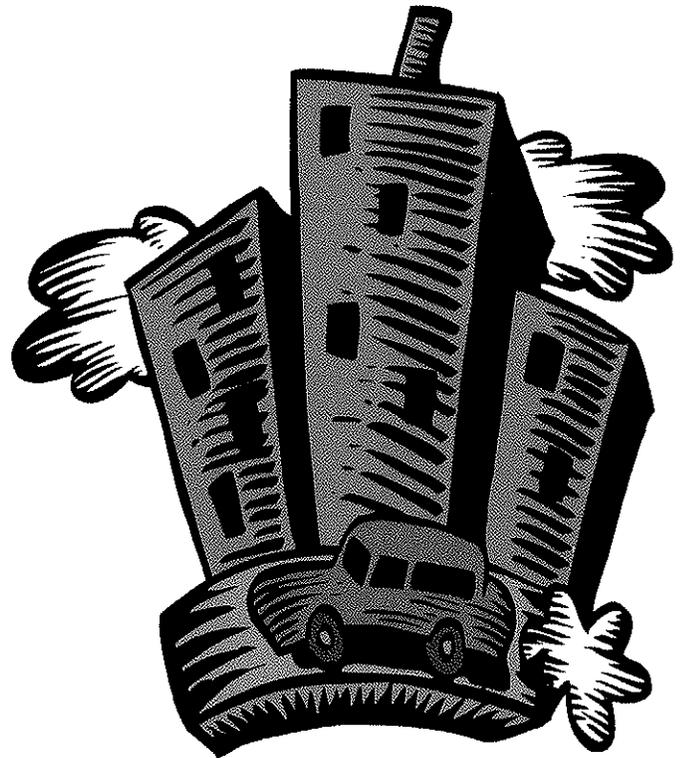


UPTON COUNTY APPRAISAL DISTRICT  
REAPPRAISAL PLAN  
FOR

TAX YEARS 2015 AND 2016

AS ADOPTED BY THE BOARD OF DIRECTORS

AUGUST 28th, 2014



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## EXECUTIVE SUMMARY

### TAX CODE REQUIREMENT

Passage of S.B. 1652 amended the Tax Code to require a written biennial reappraisal plan. The following details the changes to the Tax Code.

#### The Written Plan

Section 6.05, Tax Code, is amended by adding Subsection (i) to read as follows;

- (i) To ensure adherence with generally accepted appraisals practices, the Board of Directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10<sup>th</sup> day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. Not later than September 15<sup>th</sup> of each even numbered year, the board shall complete its hearings, make any amendments and by resolution finally approved the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

#### Plan for Periodic Reappraisal

Subsections (a) and (b), Section 25.18, Tax Code, are amended to read as follows:

- (a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i)
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:
  - (1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, survey, maps, and property sketches:
  - (2) Identifying and updating relevant characteristics of each property in the appraisal records:
  - (3) Defining market areas in the district:

- (A) The location and market area of the property;
- (B) Physical attributes of property, such as size, age, and condition;
- (C) Legal and economic attributes: and
- (D) Easements, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restriction:
- (4) Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics
- (5) Applying the conclusion reflected in the model to the characteristics of the properties being appraised: and
- (6) Reviewing the appraisal results to determine value:

### **REVALUATION DECISION (REAPPRAISAL/CYCLE)**

The UPTON CAD by policy adopted by the Chief Appraiser reappraises all property in the district once every three years.

### **REAPPRAISAL AND NON-REAPPRAISAL YEAR ACTIVITIES**

1. **Performance Analysis** the equalized values from the previous tax year are analyzed with ratio studies to determine the appraisal accuracy and appraisal uniformity overall and by market area, as appropriate within property reporting categories. Ratio studies are conducted in compliance with the current *Standard on Ratio Studies* of the International Association of Assessing Officers.
2. **Analysis of Available Resources** – staffing and budget requirements for tax year 2014 are detailed in the 2014 budget, as adopted by the Board of Directors and attached to the written biennial plan by reference. Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current are specified. Information Systems (IS) support is detailed with year specific functions identified and system upgrades scheduled. Existing maps and data requirements are specified and updates scheduled.
3. **Manning and Organization** – a calendar of key events with critical completion dates is prepared for each major work area. This calendar identifies all key events for appraisal, clerical, customer service, and information systems. A calendar is prepared for tax years 2015 and 2016. Production standards for field activities are calculated and incorporated in the planning and scheduling process.
4. **Mass Appraisal System** – Computer Assisted Mass Appraisal (CAMA) system revisions required are specified and scheduled with Information Systems. All computer forms and IS procedures are reviewed and revised as required.
5. **Data Collection Requirements** – field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include inspection of new construction, demolition, remodeling, re-inspection of problematic market areas, re-inspection of the universe of properties on a specific cycle (annually), and field or office verification of sales data and property characteristics.

6. Pilot study by tax year – new and/or revised mass appraisal models are tested each tax year. Ratio studies, by market area, are conducted on proposed values each tax year. Proposed values on each category are tested for accuracy and reliability in each market area as appropriate.
7. Valuation by tax year – using market analysis of comparable sales and locally tested cost data, valuation models are specified and calibrated in compliance with supplemental standards from the International Association of Assessing Officers and the Uniform Standards of Professional Appraisal Practice. The calculated values are tested for accuracy and uniformity using ratio studies.
8. The Mass Appraisal Report – each tax year the tax code required Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15<sup>th</sup>). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6-8 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the Chief Appraiser is compliant with STANDARD Rule 6-9 of USPAP. This written reappraisal plan is attached to the report by reference.
9. Value defense – evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is specified and tested.

## REVALUATION DECISION

The UPTON CAD by policy adopted by the Chief Appraiser reappraises all real property at least once every three years. The reappraisal year is complete appraisal of all properties in the district. Other activities include picking up new construction, adjusting for changes in property characteristics that affect value, and adjusting previous year values for equalization.

### TAX YEAR 2015

### TAX YEAR 2016

## PERFORMANCE ANALYSIS

In each tax year, 2015 and 2016, the previous tax year's equalized values are analyzed with ratio studies to determine appraisal accuracy and appraisal uniformity overall and by market area (as pertinent) within state property reporting categories. Ratio studies are conducted in compliance with the *current Standard on Ratio Studies* From the international Association of Assessing Officers. Mean, median, and weighted mean ratios are calculated for properties in each reporting category to measure the level of appraisal (appraisal accuracy). The mean ratio is calculated in each market area to indicate the level of appraisal (appraisal accuracy) by property reporting category. In each reappraisal year this analysis is used to develop the starting point for establishing the level and accuracy of appraisal performance. This analysis is also used to indicate the uniformity or equity of existing appraisals.

## **ANALYSIS OF AVAILABLE RESOURCES**

Staffing and budget requirements for tax year 2014 are detailed in the 2014 appraisal district budget, as adopted by the board of directors and attached to the written biennial plan by reference. This reappraisal plan is adjusted to reflect the available staffing in tax year 2014 and the anticipated staffing for tax year 2015. Staffing will impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2015 – 2016 time period.

Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current are specified. In each reappraisal year, real property appraisal depreciation tables and cost new tables are tested against verified sales data to ensure they represent current market data. The cap rate study by commercial real property type is updated from current market data, as available, and market rents are reviewed and updated from local published data. Personal property density schedules are tested and analyzed based on rendition and prior year hearing documentation.

Information Systems (IS) support is detailed with year specific functions identified and system upgrades scheduled. Computer generated forms are reviewed for revisions based on year and reappraisal status. Legislative changes are scheduled for completion and testing existing maps and data requirements are specified and updates scheduled.

The valuation of all Industrial, Mineral, Personal Property, Utilities, and Real Property with the exception of Agricultural Property, are contracted out to Pritchard & Abbott, Inc. of Ft Worth, Texas. The contract between the District and Pritchard & Abbott, Inc. Conforms to the Standard on Contracting for Assessment Services published by the International Association of Assessing Officers.

## **PLANNING AND ORGANIZATION**

A calendar of key events with critical completion dates is prepared for each major work area. This calendar identifies all key events for appraisal, clerical, customer service, and information systems. A separate calendar IS PREPARED FOR TAX YEARS 2015 AND 2016 Production standards for field activities are calculated and incorporated in the planning and scheduling process.

## **2015 CALENDAR OF KEY EVENTS**

**Prior to January 1<sup>st</sup>, a preliminary review of all schedules will be performed in comparison to available sales data. Areas needing significant adjustment or close review will be determined. It has already been determined that the main project for the 2015 year will be reappraisal of land by Pritchard & Abbott, Inc.**

**Field work will begin on January 1<sup>st</sup>, 2015 with when Pritchard & Abbott, Inc. will begin visually inspecting property with the county. All other property, including residential, mobile homes and business personal property will also be visually inspected and checked for new or removed property. Any new construction will be added to the roll. Business personal property account renditions will be reviewed as they are received and checked for accuracy.**

**The district employs Pritchard & Abbott Inc. of Ft Worth, Texas for all mineral and utility appraisal valuations. Pritchard & Abbott Inc. shall perform annually a full re-appraisal of all oil and gas, industrial, utility and pipeline accounts. Their work will begin on January 1, 2015 and be completed by May 1st, 2015. All other field work will also be completed by May 1st, 2015. An internal ratio study review of values will then be conducted by the Chief Appraiser to determine if further adjustments are needed to the schedules. When it has been determined that all schedules and field work are acceptable, 2015 appraisal roll be considered complete, and notices will be printed and mailed.**

**By May 30<sup>th</sup>, notices will have been mailed, and taxpayers will have 30 days to file a notice of protest if they feel it necessary to do so. During this time, staff appraisers will meet informally with tax payers to correct errors and determine if the protest can be settled during the informal protest period. If not, the tax payer will have option of requesting a formal hearing before the Appraisal Review Board.**

**The ARB dates will be set to hear any outstanding appeals approximately mid-July 2015. The exact date will be dependent on following prescribed periods of time allowed during the protest period, to ensure that tax payers have a minimum of 30 days from the date notices are mailed to file their protests. All ARB decisions will be final and binding, unless a tax payer chooses to further dispute his value with the legal system.**

**Once ARB hearings are completed, the roll will be certified, and sent to the taxing entities and the Upton County Tax Assessor/Collector for billing, which will occur on or about October 1<sup>st</sup>, 2015.**

## 2015 REAPPRAISAL SCHEDULE

### **January 1 through February 15<sup>th</sup>, 2015:**

Field inspections begin by Pritchard and Abbott on January 1. 2015 they will reappraise our land, (Category A1, C1, C2, C3, D1, D2, D3, D4 and F1) within the county. They will also check for new constructions and new mobile homes in the county and if a mobile home has left the county.

Mineral and industrial personal property is done by Pritchard and Abbott and will also begin January 1<sup>st</sup>, 2015. Their reappraisal plan for the mineral and industrial personal property is attached at the end of our plan. All field and analysis work will be completed and we will have values in our hands for reappraisal notices by May 10<sup>th</sup>, 2015. We will have preliminary values by April 15<sup>th</sup>, 2015, in order to give Certified Preliminary Values to our entities by the 27<sup>th</sup>, of April 2015.

In January we will mail personal property rendition forms, overage exemption forms and any other required forms. We change ownership on property throughout the year and the exemption forms called for are sent at that time.

**February 16<sup>th</sup> through March 25<sup>th</sup>, 2015:** We will be doing analysis work, such as checking our square foot prices using sales analysis. We will be reworking our land schedules where needed. During this time we are adjusting schedules where needed and doing data entry on changes and new information.

**March 26<sup>th</sup> through April 30<sup>th</sup>, 2015:** We will be working on our Agriculture values, meeting with the Ag Advisory Committee. We will be doing any cleanup work that we might have. Also certified preliminary values will be sent to the entities by April 27<sup>th</sup>, 2015.

**May 1<sup>st</sup> through May 14<sup>th</sup>, 2015:** Appraisal records will be transferred to the Appraisal Review Board. We will publish an article advising of the appraisal notices coming out for the 2015 Tax Year in the May 14<sup>th</sup>, 2015 paper. Also in the 14<sup>th</sup> paper will be "Property Tax Protest and Appeal Procedures".

**May 15<sup>th</sup> through May 25<sup>th</sup>, 2015:** All data should be entered and we will begin processing our appraisal notices. The notices will be mailed May 22<sup>nd</sup>, 2015.

**May 26<sup>th</sup> through June 19<sup>th</sup>, 2015:** After mailing of appraisal notices then begin informal hearings, respond to property owners' inquiries and questions from the appraisal notice mailings. Set up hearings and mail notices of dates, time and place.

**June 20<sup>th</sup> through July 10<sup>th</sup>, 2015:** Continue the informal hearings and process protest. Protest hearings are July 8<sup>h</sup>, for real property and July 9<sup>th</sup> for minerals, industrial and all personal property.

**July 13<sup>th</sup> through July 24<sup>th</sup>, 2015:** Do any corrections that come from our hearings. Enter final mineral values and any corrections needed. Finish all data entry and certify to our entities. Run any appraisal rolls that are needed for our entities. Run an Appraisal Roll for our files.

**July 27<sup>th</sup> through July 31<sup>st</sup>, 2015** Work on effective tax rates for all of our entities and publish in 6<sup>th</sup> paper.

**August 6<sup>th</sup> through September 30<sup>th</sup>, 2015:** We are waiting on tax rates. This is a period of time for grunge work, filing, cleaning up things that have been on our desk for the last couple of months. When all tax rates are submitted we begin the processing of our tax statements.

**October 1st through December 31<sup>st</sup>, 2015:** Mail tax statements as soon as possible after October 1<sup>st</sup>, 2015. We collect for our entities so the collections begin. Ownership changes begin and our work start over again. During these months we begin looking for new property, new business and appraisers get a little bit of breathing room.

## **2016 CALENDAR OF KEY EVENTS**

Prior to January 1<sup>st</sup>, a preliminary review of all schedules will be performed in comparison to available sales data. Areas needing significant adjustment or close review will be determined. At this time, no special projects are scheduled for the 2016 year that would be considered out of the ordinary.

Field work will begin on January 1<sup>st</sup>, 2016 when Pritchard & Abbott, Inc. will begin visually inspecting each property within county. All property, residential, land, mobile homes and business personal property will also be visually inspected and checked for accuracy in class and depreciation. Business personal property account renditions will be reviewed as they are received and checked for accuracy.

The district employs Pritchard & Abbott, Inc. of Ft Worth, Texas for all mineral, utilities, business personal property, industrial, and real property with the exception of Agricultural Property, valuations. Pritchard & Abbott, Inc. shall perform annually a full re-appraisal of all oil and gas, industrial, utility and pipeline accounts. Their work will begin on January 1, 2016 and be completed by May 2nd, 2016. All other field work will also be completed by May 2nd, 2016. An internal ratio study review of values will then be conducted by the Chief Appraiser to determine if further adjustments are needed to the schedules. When it has been determined that all schedules and field work are acceptable, the 2016 appraisal roll will be considered complete, and notices will be printed and mailed.

By May 30<sup>th</sup>, notices will have been mailed, and tax payers will have 30 days to file a notice of protest if they feel it necessary to do so. During this time, staff appraisers will meet informally with tax payers to correct errors and determine if the protest can be settled during the informal protest period. If not, the tax payer will have the option of requesting a formal hearing before the Appraisal Review Board.

The ARB dates will be set to hear any outstanding appeals approximately mid-July 2016. The exact date will be dependent on following prescribed periods of time allowed during the protest period, to ensure that taxpayers have a minimum of 30 days from the date notices are mailed to file their protests. All ARB decisions will be final and binding, unless a tax payer chooses to further dispute his value within the legal system.

Once ARB hearings are completed, the roll will be certified, and sent to the taxing entities and the Upton County Tax Assessor/Collector for billing, which will occur on or about October 3rd, 2016.

## **2016REAPPRAISAL SCHEDULE**

**The same timetable and duties apply in each year.**

**In 2016 we will be reappraising our real property (Category A1, A2, B1, B2, E1, E2, E3, and M1) within the city limits of McCamey and Rankin. Also we will be reappraising the commercial property (Category F1) inside the city limits of McCamey and Rankin**

**Every year we pick up new construction and new mobile homes.**

**Pritchard and Abbott, Co., Inc . does all of our property with the exception of our Ag Land Appraisal.**

**The appraisal district completes the same duties each year the only thing that changes is the type of property to be appraised.**

**In 2015 we will be reappraising our real property outside the city limits, rural land and improvements. Also will do our commercial outside the cities.**

## **MASS APPRAISAL SYSTEM**

Computer Assisted Mass Appraisal (CAMA) system revisions are specified and scheduled with Information System. All computer forms and IS procedures are reviewed and revised as required. The following details these procedures as it relates to the 2015 and 2016 tax years.

### **REAL PROPERTY VALUATION**

Revisions to cost models, income models, and market models are specified, updated and tested each tax year.

Cost schedules are tested with market data (sales) to insure that the appraisal district is in compliance with Texas Property Tax Code, Section 23.011. Replacement cost new tables as well as depreciation tables are tested for accuracy and uniformity using ratio study tools and compared with cost data from recognized industry leaders, such as Marshall and Swift.

Land tables are updated using current market data (sales &/or cash rents, if available) and then tested with ratio study tools. Value modifiers are developed for property categories by market area, as necessary, and tested on a pilot basis with ratio study tools.

Income and expense data is gathered from 3<sup>rd</sup> party sources and locally, when possible. Cap rates are determined from industry sources.

### **PERSONAL PROPERTY VALUATION**

Density schedules are updated using data received during the previous tax year from renditions and hearing documentation. Valuation procedures are reviewed and modified as needed and tested. Business Personal Property is inspected onsite when a new business is picked up, or a radical change in a rendition.

### **NOTICING PROCESS**

25.19, appraisal notice forms are reviewed and edited for updates and changes signed off on by appraisal district management. Updates include the latest copy of Comptrollers Taxpayers Rights, Remedies, and Responsibilities.

### **HEARING PROCESS**

Protest hearing scheduling for informal and formal Appraisal Review Board hearings is reviewed and updated as required. Standards of documentation are reviewed and amended as required. The appraisal district hearing documentation is reviewed and updated to reflect the current valuation process. Production of documentation is tested and compliance with HB 201 is insured.

## **DATA COLLECTION REQUIREMENTS**

Field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include inspection of new construction, demolition, remodeling, re-inspection of problematic market areas, and re-inspection of the universe of properties on a specific cycle. We do this by Deeds of Trust, Mechanics Liens, by word of mouth, or just by neighbors tattling on each other. The market areas are defined by the county lines. We do not have neighborhoods, our neighborhood is our county.

### **NEW CONSTRUCTION/DEMOLITION**

New construction field and office review procedures are identified and revised as required. Field production standards are established and procedures for monitoring tested. System input procedures are identified. Process of verifying demolition of improvements is specified. This critical annual activity is projected and entered on the key events calendar for each tax year.

### **REMODELING**

Properties with extensive improvement remodeling are identified, verified and field activities scheduled to update property characteristic data. We do this as above with Deeds of Trust, Mechanics Liens, by word of mouth, or just by neighbors tattling on each other. Updates to valuation procedures are tested with ratio studies before finalized in the valuation modeling. This field activity when entered in the key events calendar must be monitored carefully.

### **RE-INSPECTION OF PROBLEMATIC MARKET AREAS**

Once again our market area is the county. Our county lines define the county and that is our neighborhood. Real property market areas, by property classification, should be tested for: low or high protest volumes; low or high sales ratios; or high coefficients of dispersion. Market areas that fail any or all of these tests are determined to be problematic. Field reviews are scheduled to verify and/or correct property characteristic data. Additional sales data is researched and verified. In the absence of adequate market data, normally neighborhood delineation is verified and neighborhood clusters are identified; however, due to the small size of the district, and an inactive market, it is impossible to delineate or distinguish between specific market areas and the entire county must be considered as a whole in general when defining the market area. In years past, further examination of the markets of McCamey ISD and Rankin ISD showed a variance between the two, or the existence of a separate market area. Recently, the market analysis have not borne this out. Currently, Upton CAD has only one market area and that is the county.

### **RE-INSPECTION OF THE UNIVERSE OF PROPERTIES**

The International Association of Assessing Officers, *Standard on Mass Appraisal of Real Property* specifies that the universe of properties should be re-inspected on a cycle of 4-6 years. The re-inspection includes

the re-measurement of at least two sides of each improved property. The annual re-inspection requirements for tax years 2015 and 2016 are identified by property type and property classification and scheduled on the key events calendar. The Upton County Appraisal District re-inspects all properties with the district at least once every 3 years.

### **FIELD OR OFFICE VERIFICATION OF SALES DATA AND PROPERTY CHARACTERISTICS**

Sales Information must be verified and property characteristic data contemporaneous with the date of sale captured. The sales ratio tools require that the property that sold must equal the property appraised in order that statistical analysis results will be valid.

### **PILOT STUDY**

New and/or revised mass appraisal models are tested on the appraisal records in lieu of market areas since none can be defined, as presented earlier. These modeling tests (sales ratio studies) are conducted each tax year. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested. The procedures used for model specification and model calibration are in compliance with *Uniform Standards of Professional Appraisal Practice*, STANDARD RULES 6.

### **VALUATION BY TAX YEAR**

Valuation by tax year – using market analysis of comparable sales and locally tested cost data, market area specific income and expense data, valuation models are specified and calibrated in compliance with the supplemental standards from the International Association of Assessing Officers and the *Uniform Standards of Professional Appraisal Practice*. The calculated values are tested for accuracy and uniformity using ratio studies. Performance standards are those as established by the *IAAO Standard on Ratio Studies*. Property values in upton county are updated each reappraisal year, which is done once every 3 year period. Property characteristics that are inspected and or updated through our reappraisal are construction type, construction quality, condition, actual (if available) and effective age, size, dimensions, location, obsolescence, new construction, demolition, renovation, rehabilitation, deterioration, and zoning.

### **RESIDENTIAL REAL PROPERTY**

A Hybrid Cost-Specified Market Approach is primarily used to value all Residential Real Property within the district, as there are not sufficient sales annually to strictly use the Sales Comparison Approach. In this hybrid method, benchmark replacement costs are adjusted with local comparable sales data to derive schedules for each class of residential properties.

### **SPECIAL INVENTORY RESIDENTIAL PROPERTY**

A Hybrid Cost-Specified Market Approach is primarily used to value all Special Inventory Residential Real Property within the district, as there are not sufficient sales annually to strictly use the Sales Comparison

**Approach. In this hybrid method, benchmark replacement costs are adjusted with local comparable sales data to derive schedules for each class of residential properties.**

### **MULTIFAMILY RESIDENTIAL PROPERTY**

**A Hybrid Cost-Specified Market Approach is primarily used to value all Residential Real Property within the district, as there are not sufficient sales annually to strictly use the Sales Comparison Approach. In this hybrid method, benchmark replacement costs are adjusted with local comparable sales data to derive schedules for each class of residential properties. Income and expense data is utilized, as available, appropriate, and reliable, to determine a value through the income approach. The Chief Appraiser will consider this value when determining final appraised value.**

### **COMMERCIAL REAL PROPERTY**

**A Hybrid Cost-Specified Market Approach is primarily used to value all Commercial Real Property with the district, as there are not sufficient sales annually to strictly use the Sales Comparison Approach. In this hybrid method, benchmark replacement costs are adjusted with local comparable sales data to derive schedules for each class of commercial real property. Income and expense data is utilized, as available, appropriate, and reliable, to determine a value through the income approach. The Chief Appraiser will consider this value when determining final appraised value.**

### **VACANT REAL PROPERTY**

**The Sales Comparison Approach to value is primarily used to value vacant real property with the district.**

### **INDUSTRIAL REAL PROPERTY**

**The valuation of all industrial Real Property within the district is contracted out to Pritchard & Abbott Inc. of Ft Worth, Texas. The appropriate method of valuation is determined by Pritchard & Abbott Inc. and may include the Sales, Cost or Income Approaches as necessary and appropriate for the specific property class. All properties with the same class are valued by the same method for uniformity and equality.**

### **UTILITIES**

**The valuation of all Utilities within the district is contracted out to Pritchard & Abbott Inc. of Ft Worth, Texas. The appropriate method of valuation is determined by Pritchard & Abbott Inc. and may include the Sales, Cost or Income approaches as necessary and appropriate for the specific property class. All properties with the same class are valued by the same method for uniformity and equality.**

## **MINERALS**

The valuation of all Mineral Property within the district is contracted out to Pritchard & Abbott Inc. of Ft Worth, Texas. The appropriate method of valuation is determined by Pritchard & Abbott Inc. and may include the Sales, Cost or Income approaches as necessary and appropriate for the specific property class. All properties with the same class are valued by the same method for uniformity and equality.

## **SPECIAL VALUATION PROPERTIES**

**AGRICULTURAL USE** – The district has in place an Agricultural Board which meets periodically throughout the year. Annually, this Ag Board reviews local cash rents, which are then capitalized into a valuation schedule used to value all Agricultural Use Properties.

**WILDLIFE MANAGEMENT** – The district has a separate Wildlife Management policy in place. This policy is reviewed by the Ag Board and adjustments made to the valuation of properties falling under the Wildlife Management Program if it is determined by the Ag Board that adjustments are necessary to all agricultural use properties.

## **BUSINESS TANGIBLE PERSONAL PROPERTY**

Business Tangible Personal Property is inspected once every 3 years, and valued primarily according to the depreciated Cost Approach to Value. Standard depreciation and density tables are used and can be found in the district's Field Appraiser's manual.

## **INDUSTRIAL TANGIBLE PERSONAL PROPERTY**

The valuation of all Industrial Tangible Personal Property within the district is contracted out to Pritchard & Abbott Inc. of Ft Worth, Texas. The appropriate method of valuation is determined by Pritchard & Abbott Inc. and may include the Sales, Cost or Income approaches as necessary and appropriate for the specific property class. All properties with the same class are valued by the same method for uniformity and equality.

## **CALCULATION OF PRELIMINARY VALUE**

After all field, analysis, and data entry work has been done we begin looking at our preliminary values. These are calculated, tested for accuracy and uniformity. This is all done according to Standard Rule 6 – 8 of USPAP.

## **THE MASS APPRAISAL REPORT**

Each tax year the tax code required Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about June 1). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6-8 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the Chief Appraiser is compliant with STANDARD RULE 6-9 of USPAP. This written reappraisal plan is attached to the Mass Appraisal Report by reference.

## **VALUE DEFENSE**

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is specified and tested. *Note: Each appraisal district identifies the evidence to be used in informal and formal hearings by property type and the steps to be taken to insure compliance with HB 201.*

Value defense of properties that were valued by outside contracting firms will be defended during the informal and formal appraisal review board hearings by the contracting firm, under the supervision of the district Chief Appraiser.

**RESIDENTIAL PROPERTY**

**SPECIAL INVENTORY RESIDENTIAL PROPERTY**

**MULTIFAMILY RESIDENTIAL PROPERTY**

**COMMERCIAL REAL PROPERTY**

**VACANT REAL PROPERTY**

**INDUSTRIAL REAL PROPERTY**

**UTILITIES**

**MINERAL INTEREST**

**SPECIAL VALUATION PROPERTIES**

**BUSINESS TANGIBLE PERSONAL PROPERTY**

**INDUSTRIAL TANGIBLE PERSONAL PROPERTY**

**UPTON COUNTY APPRAISAL DISTRICT**

**2014 MASS APPRAISAL REPORT**

## 2014 MASS APPRAISAL PLAN

### PERSONNEL RESOURCES

The Office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. We are responsible for the appraising of our Ag Land; real property, small Mom and Pop business (real and personal property), minerals, industrial property, and utilities are appraised by an outside firm of Pritchard & Abbott Inc. The district's appraiser, in house and outside appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Department of Licensing and Regulation. Support functions including records maintenance, information and assistance to property owners, and hearings support are supplied by the Appraisal District with the help of the Comptroller's Office and our Tax Attorneys.

The appraisal district staff consists of four employees including the chief appraiser with the following classifications:

- 1 1 Official/Administrator (Executive level administration)
- 2 1 Professional (Supervisory and Management)
- 3 1 Technician (Appraiser)
- 4 1 Administrative Support (clerical)

All four employees have RPA's, RTA's and one also has a RTC.

### DATA

The district is responsible for establishing and maintaining 102,078 accounts. There are 94726 mineral accounts, 5765 real property and mobile home accounts and 1587 personal property accounts covering 1241.8 square miles within Upton County. This data includes property characteristic and ownership and exemption information. Property characteristic data on new construction is updated through an annual field effort; existing property data is maintained through a field review that is prioritized by last field inspection date-sales are routinely validated during a separate field effort; however, numerous sales are validated as part of the new construction and data review field activities. General trends in employment, interest rates, new construction trends, and cost and market data are acquired through various sources, including internally generated questionnaires to buyer and seller.

### INFORMATION SYSTEM

The Upton CAD has a DELL POWEREDGE 2900 data base server. Our software is supported by True Automation a part of Harris Computers located in Plano, Texas. We have a records side, APPRAISAL, where all our property information is stored, and a COLLECTION side.

## **INDEPENDENT PERFORMANCE TEXAS**

The Comptroller of Public Accounts conducts a property value study (PVS) of each Texas school district and each appraisal district every two years. As a part of this study, the code also requires the Comptroller to: use sales and recognized auditing and sampling techniques; test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. This study utilizes statistical analysis of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting.

The preliminary results of this study are released in January in the year following the year of appraisal. The final results of this study are certified to the Education Commissioner of Texas Education Agency (TEA) in the following July of each year for the year of appraisal. This outside (third party) ratio study provides additional assistance to the CAD in determining areas of market activity or changing market conditions.

The Comptroller of Public Accounts also every two years conducts a Methods and Assistance Program Review (MAP), PVS one year and MAP the next. This is a review of the governance of each appraisal district, taxpayer assistance provided, and the operating and appraisal standards, procedures, and methodology used by each appraisal district to determine compliance with generally accepted standards, procedures, and methodology.

## **APPRAISAL ACTIVITIES**

### **APPRAISAL RESPONSIBILITIES**

The field appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes. Accurate valuation of real personal property by any method requires physical description of personal property, land and building characteristics. This appraisal activity is responsible for administering, planning and coordinating all activities involving data collection and maintenance of all residential, personal property, mobile homes, and Mom and Pop small business types which are located within the boundaries of Upton County. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system.

## **APPRAISAL RESOURCES**

**Personnel** – The appraisal activities consists of one appraiser and one clerical personnel. **Data** – The data used by field appraisers included the existing property characteristic information contained in our computer system. The data is printed on an appraisal card. Other data used includes sales data, photos and actual field information. **NOTE:** All property in Upton County is appraised by the firm of, Pritchard & Abbott, Inc., with the exception of Agricultural values.

## **DATA COLLECTION/VALIDATION**

Data collection of real property involves maintaining data characteristics of the property on our computer. The information contained includes site characteristics, such as land size, improvement data, such as square foot of living area, year built, quality of construction and condition. Field appraisers use listing manuals that establish uniform procedures for the correct listing of real property. All properties are coded according to these manuals and the approaches to value are structured and calibrated based on this coding system. The field appraisers use these manuals as a guide in the field inspection of properties. Data collection for personal property involves maintaining information on the personal property system on the computer. The type of information contained includes personal property such as business inventory, furniture and fixtures, machinery and equipment, cost and location. The field appraisers conducting onsite inspections will use a personal property manual as a guide to correctly list all personal property that is taxable.

The listing procedure manuals that are utilized by the field appraisers are located in the district office.

## **SOURCES OF DATA**

The sources of data collection are through data review/re-list field effort, hearings, sales validation, commercial sales verification, newspapers and publications and property owner correspondence. A principal source of data comes from the clerk's office, as we get a listing of sold properties two to three times a year, then send a letter to the seller as well as the buyer asking for information.

Appraisers will drive the towns to review the accuracy of our data and identify properties that have to be relisted. The sales validation effort in real property pertains to the collection of data of properties that have sold. In residential, the sales validation effort involves on-site inspection by field appraisers to verify the accuracy of our data and to get confirmation of the sales price from our questionnaires to the seller and buyer.

## **UPTON COUNTY APPRAISAL DISTRICT 2014 MASS APPRAISAL REPORT**

The Upton County Appraisal District has prepared this report as it is mandated by the state.

The Upton County Appraisal District is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. A member board of directors, appointed by the taxing units within the boundaries of Upton County, constitutes the district's governing body. The chief appraiser, appointed by the board of directors, is the chief administrator and chief executive officer of the appraisal district.

The appraisal district is responsible for local property tax appraisal and exemption administration for 10 jurisdictions or taxing units in the county. Each taxing unit, such as the county, cities, water district, emergency service districts, hospital districts, and school districts set their own tax rates to generate revenue to pay for such things as fire protection, public schools, road and street maintenance, courts, water, and other public services. Appraisals established by the appraisal district allocate the year's tax burden on the basis of each taxable property January 1<sup>st</sup> market value. We also determine eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, and charitable and religious organizations.

Except as otherwise provided by the Property Tax Code, all taxable property is appraised at its "market value" as of January 1<sup>st</sup>. Under the tax code, "market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

1. Exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
2. Both the seller and the buyer know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use, and;
3. Both the seller and buyer seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

The law requires that in determining the market value of property, the chief appraiser must consider the cost, income, and market data comparison methods of appraisal and use the most appropriate method. These methods, however, are not exclusive; the chief appraiser may use other methods or a combination of methods so long as they produce defensible market value.

### **a. Market Data Comparison Approach**

1. identify recently sold properties similar to the subject
2. list important attributes of subject and sold properties
3. adjust prices of sold properties for important differences from subject
4. reconcile the various adjusted sale prices into a single value estimate for the subject

### **b. Cost Approach**

1. estimate land value (as though vacant) (available for development at highest and best use)
2. estimate replacement cost new (RCN) of improvements

3. estimate and deduct accrued depreciation (RCNLD)
4. add land value

**c. Income approach**

1. estimate net operating income (market rent not contract rent) (typical market expenses)
2. estimate an overall capitalization rate
3. capitalize income to produce a value estimate

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), PRODUCTIVITY (Sec. 23.41), real property inventory (Sec. 23.123), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), and nominal (Sec 23.18) or restricted use properties (Sec 23.83). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1<sup>st</sup> of the year preceding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1<sup>st</sup>.

The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real and personal property at least once every three years. Appraised values are reviewed annually and are subject to change for purposes of equalization. Personal property, industrial property, complex commercial property, utility property and mineral values are reappraised every year.

The appraised value of real estate is calculated using specific information about each property. Using computer-assisted appraisal programs, and recognized appraisal methods and techniques, we compare that information with the data for similar properties, and with recent market data. The district follows the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures, and subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP) to the extent they are applicable. In cases where the appraisal district contracts for professional valuation services, the contract that is entered into by each appraisal firm requires adherence to similar professional standards.

## STAFF PROVIDING SIGNIFICANT MASS APPRAISAL ASSISTANCE

NAME	TITLE	TDLR#	TYPE OF ASSIST
Sheri Stephens	C.A.	63736	Director of Appr Oper
Linda Zarate	D.C.A.	69110	Mineral Data Collection & Final Value
Bridgite Black	Appraiser	69718	Supervised Data Collection & Final Value
Roberta Hollingsworth	Mom & Pop Pers Prop	62207	Data Collection
Mack Jourdan	Engineer	62118	Oil Values
Jay Jones	Appraiser	72837 (class 3)	Industrial Values

One of the sources that will generate a field check in both real and personal property is from a property owner.

## **DATA COLLECTION PROCEDURES**

Field data collection requires organization, planning and supervision of the field effort. Data collection procedures have been established for residential, commercial, and personal property. The appraisers are assigned throughout Upton County to conduct field inspections. Appraisers conduct field inspections and record information either on an appraisal card or a personal property data sheet.

The quality of the data used is extremely important in establishing accurate values of taxable property. While production standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. A quality assurance process exists through supervision to review the work being performed by all the field appraiser. The quality assurance supervision is charged with the responsibility of ensuring that appraisers follow listing procedures.

## **DATA MAINTENANCE**

The field appraiser's with Pritchard & Abbott bring the district their findings and the CAD enters the data into the computer file. Any field work done by the CAD it is the responsibility of the appraiser to enter their findings.

## **FIELD REVIEW**

The date of last inspection and the CAD appraiser responsible are listed on the records side of the computer. If a property owner or jurisdiction dispute CAD's records concerning this data the records may be altered based on the evidence provided. Typically, a field inspection is requested to verify this evidence for the current year's valuation or for the next year's valuation. Every year a field review of certain areas in the jurisdiction is done during the data review/re-list field effort.

## **OFFICE REVIEW**

Office reviews are completed on properties where information has been received from the owner of the property. Letters, sent in masse, or at the request of the property owner, frequently verify the property characteristics or current condition of the property. When the property data is verified in this manner, field inspections are not required.

## **PERFORMANCE TEST**

**A ratio study is conducted in house and comparative analysis.**

**Field Appraisers, may conduct field inspections to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics.**

## **RESIDENTIAL VALUATION PROCESS**

### **SCOPE OF RESPONSIBILITY**

The Residential Valuation appraisers are responsible for developing equal uniform market values for residential improved and vacant property. There are approximately 5222 residential improved parcels and 454 vacant residential properties in Upton County.

### **APPRAISAL RESOURCES**

1. **Personnel** – The Residential Valuation appraisal staff consists of one appraiser. The following appraiser is responsible for determining residential values: Bridgite Black. The appraising is done by Pritchard & Abbott and Ms. Black does the data entry and is the consultant for P&A.
2. **Data** – A common set of data characteristics for each residential dwelling in Upton County is collected in the field and data entered to the computer. The property characteristic data drives the computer-assisted mass appraisal.

### **VALUATION APPROACH**

#### **AREA ANALYSIS**

Data on economic forces such as employment and income patterns, general trends in real property prices and rents, interest rates trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources. Information is gleaned from real estate sales and sources such as Continuing Education in the form of IAAO, Comptroller's Office and TAAO classes. They provide the appraisers a current economic outlook on real estate market.

#### **NEIGHBORHOOD AND MARKET ANALYSIS**

The Upton County Appraisal District does not use neighborhood analysis as the three very small towns that are in Upton County do not have well defined neighborhoods. We use the Market Analysis more than anything else as that fits our county.

In using the market analysis we use the sale of real estate and we examine how physical, economic, governmental and social forces influences affect property values. We also use these forces to identify, classify, and stratify comparable properties. Residential valuation is conducted on each of the political entities known as Independent School Districts.

## **HIGHEST AND BEST USE ANALYSIS**

The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to its maximum. The highest and best use of residential property is normally its current use. Residential valuation undertakes reassessment of highest and best use in areas of mixed residential and commercial use. In areas of mixed residential and commercial use, the appraiser reviews properties in these areas on a periodic basis to determine if changes in the real estate market require reassessment of the highest and best use of a select population of properties.

The market value of a residence homestead shall be determined solely on the basis of the property's value as a residence homestead, regardless of whether the residential use of the property by the owner is considered to be the highest and best use of the property.

## **DATA COLLECTION/VALIDATION**

### **SOURCES OF DATA**

The district's property characteristic data was originally received from the entities in McCamey and Rankin in 1980. The Southwestern Appraisal Firm did a total re-appraisal of Upton County Real Property. We do a re-appraisal once every 3 years and view the property for changes and new construction every year.

## **VALUATION AND STATISTICAL ANALYSIS**

### **COST SCHEDULES**

All residential parcels in the district are valued from identical cost schedules using a comparative unit method. The district's residential cost schedules, originally adopted from Marshall & Swift, have been customized to fit Upton County's local residential building and labor market.

An extensive review and revision of the residential cost schedule was performed for the 2011 tax year. We hired Pritchard & Abbott, Inc. to begin appraising our real property and Mom and Pop personal property. They rebuilt our schedules with correlation of quality of construction factors from us and Marshall & Swift. Our re-appraisal 2014 checked these schedules using the market place for sales and updated our schedules accordingly.

### **SALES INFORMATION**

A sale file is kept for sales data at the time of the sale. Residential vacant land and pasture land is kept in a separate file and commercial vacant land in another. The commercial sales of improved land has yet

another file. All of our sales data is collected from district questionnaires sent to buyer and seller, field discovery, protest hearings, and realtors. We generate ratio reports, for the two school districts, that we have to check ourselves.

## **LAND ANALYSIS**

We drive our county and look for changes in land – whether an improvement has been added, livestock or the land has been planted with farm crops. When the appraisal district was formed we hired an appraisal firm and they appraised everything in the county and did all of the schedules and the land prices by setting prices on lots and by the acre as though vacant. We have maintained this over the years by the Market Analysis process.

## **STATISTICAL ANALYSIS**

Ratio studies are conducted on each of our residential communities to judge the two primary aspects of mass appraisal accuracy – level and uniformity of value. Appraisal statistics of central tendency and dispersion generated from sales ratios are available for each stratified school district. These statistics including, but not limited to, the weighted mean, median, standard deviation, coefficient of variation, and coefficient of dispersion provide the appraisers a tool by which to determine both the level and uniformity of appraised value.

Every one of the town in our county is reviewed annually by the appraisal district through the sales ratio analysis process. The sales are studied and determined as to whether or not they are arms length transactions and meet the definition of “Market Value”. The ratio studies that we do affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the sales.

## **MARKET ADJUSTMENT OR TRENDING FACTORS**

Market adjustment factors are developed from appraisal statistics provided from ratio studies and are used to ensure that estimated values are consistent with the market. The district’s primary approach to the valuation of residential properties is a cost-sales comparison approach.

The following equation denotes the model used:

$$MC = MA[LV + (RCN-D)]$$

1. Whereas, the market value equals the market adjustment factor times the land value plus the replacement cost new less depreciation. As the cost approach separately estimates both land and building values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values are needed to bring the level of appraisal to an acceptable standard. If a class is to be updated, the appraiser uses a cost ratio study that compares recent sales prices of properties with the properties’ actual cost value. The calculated ratio

derived from the sum of the sold properties' cost value divided by the sum of the sales prices indicate the class level of value based on the unadjusted cost value for the sold properties. This cost-to-sales ratio is compared to the appraisal-to-sale ratio to determine the market adjustment factor for each class. This market adjustment factor is needed to trend the values obtained through the cost approach closer to the actual market evidenced by recent sales prices within a given class, the sales used to determine the market adjustment factor will reflect the market influences and conditions only for the specified class, thus producing more representative and supportable values. The market adjustment factor calculated for each update class is applied uniformly to all properties within a class. Once the market-trend factors are applied, a second set of ratio studies is generated that compares recent sales prices with the proposed appraised values for these sold properties. From this set of ratio studies, the appraiser judges the appraisal level and uniformity in both update and non-update classes.

## **TREATMENT OF RESIDENCE HOMESTEADS**

Beginning in 2008, the State of Texas implemented a constitutional classification scheme concerning the appraisal of residential property that receives a residence homestead exemption. Under the new law, notwithstanding the requirements of Section 25.18 and regardless of whether the appraisal office has appraised the property and determined the market value of the property for the tax year, an appraisal office may increase the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of

1. The market value of the property for the most recent tax year that the market value was determined by the appraisal office; or
2. The sum of: (A) 10 percent of the appraised value of the property for the preceding tax year (B) the appraised value of the property for the preceding tax year; and (C) the market value of all new improvements to the property.

Values of capped properties must be computed annually. If a capped property sells, the cap automatically expires as of January 1 of the following year. In that following year, that home is reappraised at its market value to bring its appraisal into uniformity with other properties.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### **FIELD REVIEW**

The appraiser identified individual properties in critical need of field review through sales ratio analysis. Sold properties with a high variance in sales ratio are field reviewed as needed to check for accuracy of data characteristics. The appraiser frequently field reviews subjective data items such as quality of construction, condition, and physical, functional and economic obsolescence, factors contributing significantly to the market value of the property. During this review, the appraiser is able to physically inspect both sold properties and unsold properties for comparability and consistency of values.

### **PERFORMANCE TESTS**

### **SALES RATIO STUDIES**

The primary analytical tool used by the appraisers to measure and improve performance is the ratio study. We produce a sales ratio for each school district each year to review general market trends and provide an indication of market appreciation.

### **MANAGEMENT REVIEW PROCESS**

Once the proposed value estimates are finalized, the appraiser reviews the sales ratios by class as well as all classes by school district. The primary objective of this review is to ensure that the proposed values have met preset appraisal standards.

An independent test of the appraisal performance of the district is conducted by the State of Texas Comptroller's Office through the annual property value study. The study determines the degree of uniformity and the median level of appraisals by the appraisal district within each major kind of property. The comptroller publishes a report of the findings of the study for each category of property, including the median appraisal levels, the coefficient of dispersion, and any other standard statistical measures that the comptroller considers appropriate. This is done 1 year then the MAPS review is done the next. So every other year we have the ratio study.

## **BUSINESS PERSONAL PROPERTY**

### **APPRAISAL RESPONSIBILITY**

Pritchard & Abbott, Inc. appraises all of our properties except the Agricultural Land.

### **APPRAISAL RESOURCES**

1. Personnel – The personal property staff is provided by P & A
2. Data – A common set of data characteristics for each personal property account in Upton County is collected in the field and data entered into the district's computer. The field data is collected by Prichard & Abbott employees.

### **VALUATION APPROACH**

We use Standard Industrial Classification (SIC) codes that were developed by the federal government. These classifications are used as a way to classify personal property by business type.

### **HIGHEST AND BEST USE ANALYSIS**

The highest and best use of property is the reasonable and probably use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to its maximum. The highest and best use of personal property is normally its current use.

### **DATA COLLECTION/VALIDATION**

### **DATA COLLECTION PROCEDURES**

We send out renditions and also go into the field to look for new businesses, we also use comptroller's sales tax listing.

### **SOURCE OF DATA**

#### **Business Personal Property**

The district's property characteristic data was originally received from the different entities located in Upton County. Publication of the state sales tax listings are used as a discovery tool for business personal property. The public is a very good source for discovery.

## **VEHICLES**

The vehicles taxed in Upton County are oil related and picked up and appraised by Pritchard & Abbott Inc. Vehicles that are leased by nonrelated oil use but business vehicles are picked up by renditions and field inspection.

## **VALUATION AND STATISTICAL ANALYSIS**

### **COST SCHEDULES**

We use the Upton County Appraisal District Personal Property Appraisal Guide, applying factors when necessary.

### **DEPRECIATION SCHEDULE AND TRENDING FACTORS**

We use the depreciation schedule provided by the Comptroller's Office.

We have so few personal property accounts that we appraise, we mainly use the rendition that the owner sends and then go in the field and view the property. If when we apply the schedule and it comes within a \$1000 of the rendition we use the rendition value.

### **LIMITING CONDITIONS**

The appraised value estimates provided by the district are subject to the following conditions:

1. The appraisals were prepared exclusively for ad valorem tax purposes.
2. The property characteristic data upon which the appraisals are based is assumed to be correct. Exterior inspections of the property appraised were performed as staff resources and time allowed.
3. Validation of sales transactions was attempted through questionnaires to buyer and seller, telephone survey and field review. In the absence of such confirmation, residential sales data obtained from vendors was considered reliable.
4. I have attached a list of those providing significant mass appraisal assistance to the person signing this certification.

## CERTIFICATION STATEMENT

I, Sheri Stephens, Chief Appraiser for the Upton County Appraisal District, Solemnly swear that I have made or caused to be made a diligent inquiry to ascertain all property in the district subject to appraisal by me, and that I have included in the records all property that I am aware of at an appraised value which, to the best of my knowledge and belief, was determined as required by law.

Sheri Stephens  
Signature

July 11, 2014  
Date

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#### Statements on Appraisal Standards

Statements on Appraisal Standards (SMT) are authorized by the by-laws of The Appraisal Foundation and are specifically for the purposes of clarification, interpretation, explanation, or elaboration of the *Uniform Standards of Professional Appraisal Practice* (USPAP). Statements have the full weight of a Standards Rule and can be adopted by the Appraisal Standards Board only after exposure and comment.

Each Statement is labeled as to its applicability to the various appraisal disciplines. The abbreviations are:

- Real Property – RP
- Personal Property – PP
- Intangible Property – IP (includes business interests)
- All disciplines – ALL

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## UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

as promulgated by the  
Appraisal Standards Board of  
The Appraisal Foundation

## DEFINITIONS

For the purpose of the *Uniform Standards of Professional Appraisal Practice* (USPAP), the following definitions apply:

**APPRAISAL:** (noun) the act or process of developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

Comment: An appraisal must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

**APPRAISAL PRACTICE:** valuation services performed by an individual acting as an appraiser, including but not limited to appraisal and appraisal review.

Comment: *Appraisal practice* is provided only by appraisers, while *valuation services* are provided by a variety of professionals and others. The terms *appraisal* and *appraisal review* are intentionally generic and are not mutually exclusive. For example, an opinion of value may be required as part of an appraisal review assignment. The use of other nomenclature for an appraisal or appraisal review assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the *Uniform Standards of Professional Appraisal Practice*.

**APPRAISAL REVIEW:** the act or process of developing and communicating an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment.

Comment: The subject of an appraisal review assignment may be all or part of a report, workfile, or a combination of these.

**APPRAISER:** one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

Comment: Such expectation occurs when individuals, either by choice or by requirement placed upon them or upon the service they provide by law, regulation, or agreement with the client or intended users, represent that they comply.<sup>1</sup>

**APPRAISER'S PEERS:** other appraisers who have expertise and competency in a similar type of assignment.

**ASSIGNMENT:** 1) An agreement between an appraiser and a client to provide a valuation service; 2) the valuation service that is provided as a consequence of such an agreement.

**ASSIGNMENT RESULTS:** An appraiser's opinions or conclusions developed specific to an assignment.

Comment: Assignment results include an appraiser's:

<sup>1</sup> See PREAMBLE and Advisory Opinion 21, *USPAP Compliance*.

## DEFINITIONS

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- 37           • opinions or conclusions developed in an appraisal assignment, not limited to value;
- 38           • opinions or conclusions, developed in an appraisal review assignment, not limited to an opinion  
39           about the quality of another appraiser's work; or
- 40           • opinions or conclusions developed when performing a valuation service other than an appraisal or  
41           appraisal review assignment.

42   **ASSUMPTION:** that which is taken to be true.

43   **BIAS:** a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an  
44   assignment.

45   **BUSINESS ENTERPRISE:** an entity pursuing an economic activity.

46   **BUSINESS EQUITY:** the interests, benefits, and rights inherent in the ownership of a business enterprise or a  
47   part thereof in any form (including, but not necessarily limited to, capital stock, partnership interests,  
48   cooperatives, sole proprietorships, options, and warrants).

49   **CLIENT:** the party or parties who engage, by employment or contract, an appraiser in a specific assignment.

50           Comment: The client may be an individual, group, or entity, and may engage and communicate with  
51           the appraiser directly or through an agent.

52   **CONFIDENTIAL INFORMATION:** information that is either:

- 53           • identified by the client as confidential when providing it to an appraiser and that is not available  
54           from any other source; or
- 55           • classified as confidential or private by applicable law or regulation\*.

56   \*NOTICE: For example, pursuant to the passage of the Gramm-Leach-Bliley Act in November 1999, some  
57   public agencies have adopted privacy regulations that affect appraisers. As a result, the Federal Trade  
58   Commission issued a rule focused on the protection of "non-public personal information" provided by  
59   consumers to those involved in financial activities "found to be closely related to banking or usual in connection  
60   with the transaction of banking." These activities have been deemed to include "appraising real or personal  
61   property." (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information;  
62   Final Rule, 16 CFR Part 313.)

63   **COST:** the amount required to create, produce, or obtain a property.

64           Comment: *Cost* is either a fact or an estimate of fact.

65   **CREDIBLE:** worthy of belief.

66           Comment: Credible assignment results require support, by relevant evidence and logic, to the  
67           degree necessary for the intended use.

68   **EXPOSURE TIME:** estimated length of time that the property interest being appraised would have been  
69   offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of  
70   the appraisal.

71           Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a  
72           competitive and open market.

73 **EXTRAORDINARY ASSUMPTION:** an assumption, directly related to a specific assignment, as of the  
74 effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or  
75 conclusions.

76 Comment: Extraordinary assumptions presume as fact otherwise uncertain information about  
77 physical, legal, or economic characteristics of the subject property; or about conditions  
78 external to the property, such as market conditions or trends; or about the integrity of data  
79 used in an analysis.

80 **FEASIBILITY ANALYSIS:** a study of the cost-benefit relationship of an economic endeavor.

81 **HYPOTHETICAL CONDITION:** a condition, directly related to a specific assignment, which is contrary to  
82 what is known by the appraiser to exist on the effective date of the assignment results, but is used for the  
83 purpose of analysis.

84 Comment: Hypothetical conditions are contrary to known facts about physical, legal, or  
85 economic characteristics of the subject property; or about conditions external to the property,  
86 such as market conditions or trends; or about the integrity of data used in an analysis.

87 **INTANGIBLE PROPERTY (INTANGIBLE ASSETS):** nonphysical assets, including but not limited to  
88 franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from  
89 physical assets such as facilities and equipment.

90 **INTENDED USE:** the use or uses of an appraiser's reported appraisal or appraisal review assignment opinions  
91 and conclusions, as identified by the appraiser based on communication with the client at the time of the  
92 assignment.

93 **INTENDED USER:** the client and any other party as identified, by name or type, as users of the appraisal or  
94 appraisal review report by the appraiser on the basis of communication with the client at the time of the  
95 assignment.

96 **JURISDICTIONAL EXCEPTION:** an assignment condition established by applicable law or regulation,  
97 which precludes an appraiser from complying with a part of USPAP.

98 **MARKET VALUE:** a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right  
99 of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition  
100 of the term identified by the appraiser as applicable in an appraisal.

101 Comment: Forming an opinion of market value is the purpose of many real property appraisal  
102 assignments, particularly when the client's intended use includes more than one intended user.  
103 The conditions included in market value definitions establish market perspectives for  
104 development of the opinion. These conditions may vary from definition to definition but  
105 generally fall into three categories:

- 106 1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
- 107 2. the terms of sale (e.g., cash, cash equivalent, or other terms); and
- 108 3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time  
109 prior to sale).

110 *Appraisers are cautioned to identify the exact definition of market value, and its authority,  
111 applicable in each appraisal completed for the purpose of market value.*

112 **MASS APPRAISAL:** the process of valuing a universe of properties as of a given date using standard  
113 methodology, employing common data, and allowing for statistical testing.

## DEFINITIONS

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114 **MASS APPRAISAL MODEL:** a mathematical expression of how supply and demand factors interact in a  
115 market.

116 **PERSONAL PROPERTY:** identifiable tangible objects that are considered by the general public as being  
117 “personal” - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and  
118 equipment; all tangible property that is not classified as real estate.

119 **PRICE:** the amount asked, offered, or paid for a property.

120 Comment: Once stated, *price* is a fact, whether it is publicly disclosed or retained in private.  
121 Because of the financial capabilities, motivations, or special interests of a given buyer or  
122 seller, the price paid for a property may or may not have any relation to the *value* that might  
123 be ascribed to that property by others.

124 **REAL ESTATE:** an identified parcel or tract of land, including improvements, if any.

125 **REAL PROPERTY:** the interests, benefits, and rights inherent in the ownership of real estate.

126 Comment: In some jurisdictions, the terms *real estate* and *real property* have the same legal  
127 meaning. The separate definitions recognize the traditional distinction between the two  
128 concepts in appraisal theory.

129 **REPORT:** any communication, written or oral, of an appraisal or appraisal review that is transmitted to the  
130 client upon completion of an assignment.

131 Comment: Most reports are written and most clients mandate written reports. Oral report  
132 requirements (see the RECORD KEEPING RULE) are included to cover court testimony and  
133 other oral communications of an appraisal or appraisal review.

134 **SCOPE OF WORK:** the type and extent of research and analyses in an appraisal or appraisal review  
135 assignment.

136 **SIGNATURE:** personalized evidence indicating authentication of the work performed by the appraiser and the  
137 acceptance of the responsibility for content, analyses, and the conclusions in the report.

138 **VALUATION SERVICES:** services pertaining to aspects of property value.

139 Comment: Valuation services pertain to all aspects of property value and include services  
140 performed both by appraisers and by others.

141 **VALUE:** the monetary relationship between properties and those who buy, sell, or use those properties.

142 Comment: *Value* expresses an economic concept. As such, it is never a fact but always an  
143 opinion of the worth of a property at a given time in accordance with a specific definition of  
144 value. In appraisal practice, value must always be qualified - for example, market value,  
145 liquidation value, or investment value.

146 **WORKFILE:** documentation necessary to support an appraiser’s analyses, opinions, and conclusions.

387 SCOPE OF WORK RULE<sup>3</sup>

388 For each appraisal and appraisal review assignment, an appraiser must:

- 389 1. identify the problem to be solved;
- 390 2. determine and perform the scope of work necessary to develop credible assignment results; and
- 391 3. disclose the scope of work in the report.

392 An appraiser must properly identify the problem to be solved in order to determine the appropriate  
 393 scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to  
 394 produce credible assignment results.

395 Comment: Scope of work includes, but is not limited to:

- 396 • the extent to which the property is identified;
- 397 • the extent to which tangible property is inspected;
- 398 • the type and extent of data researched; and
- 399 • the type and extent of analyses applied to arrive at opinions or conclusions.

400 Appraisers have broad flexibility and significant responsibility in determining the appropriate  
 401 scope of work for an appraisal or appraisal review assignment.

402 Credible assignment results require support by relevant evidence and logic. The credibility of  
 403 assignment results is always measured in the context of the intended use.

404 **Problem Identification**

405 An appraiser must gather and analyze information about those assignment elements that are necessary to  
 406 properly identify the appraisal or appraisal review problem to be solved.

407 Comment: The assignment elements necessary for problem identification are addressed in the  
 408 applicable Standards Rules (i.e., SR 1-2, SR 3-2, SR 6-2, SR 7-2 and SR 9-2). In an appraisal  
 409 assignment, for example, identification of the problem to be solved requires the appraiser to  
 410 identify the following assignment elements:

- 411 • client and any other intended users;
- 412 • intended use of the appraiser's opinions and conclusions;
- 413 • type and definition of value;
- 414 • effective date of the appraiser's opinions and conclusions;
- 415 • subject of the assignment and its relevant characteristics; and
- 416 • assignment conditions.

417 This information provides the appraiser with the basis for determining the type and extent of  
 418 research and analyses to include in the development of an appraisal. Similar information is  
 419 necessary for problem identification in appraisal review assignments.

420 Communication with the client is required to establish most of the information necessary for  
 421 problem identification. However, the identification of relevant characteristics is a judgment  
 422 made by the appraiser that requires competency in that type of assignment.

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<sup>3</sup> See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

## SCOPE OF WORK RULE

423 Assignment conditions include assumptions, extraordinary assumptions, hypothetical  
424 conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the  
425 scope of work. Laws include constitutions, legislative and court-made law, administrative  
426 rules, and ordinances. Regulations include rules or orders, having legal force, issued by an  
427 administrative agency.

### 428 Scope of Work Acceptability<sup>4</sup>

429 **The scope of work must include the research and analyses that are necessary to develop credible**  
430 **assignment results.**

431 Comment: The scope of work is acceptable when it meets or exceeds:

- 432 • the expectations of parties who are regularly intended users for similar assignments; and
- 433 • what an appraiser's peers' actions would be in performing the same or a similar  
434 assignment.

435 Determining the scope of work is an ongoing process in an assignment. Information or  
436 conditions discovered during the course of an assignment might cause the appraiser to  
437 reconsider the scope of work.

438 An appraiser must be prepared to support the decision to exclude any investigation,  
439 information, method, or technique that would appear relevant to the client, another intended  
440 user, or the appraiser's peers.

441 **An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the**  
442 **assignment results are not credible in the context of the intended use.**

443 Comment: If relevant information is not available because of assignment conditions that limit  
444 research opportunities (such as conditions that place limitations on inspection or information  
445 gathering), an appraiser must withdraw from the assignment unless the appraiser can:

- 446 • modify the assignment conditions to expand the scope of work to include gathering the  
447 information; or
- 448 • use an extraordinary assumption about such information, if credible assignment results  
449 can still be developed.

450 **An appraiser must not allow the intended use of an assignment or a client's objectives to cause the**  
451 **assignment results to be biased.**

### 452 Disclosure Obligations

453 **The report must contain sufficient information to allow intended users to understand the scope of work**  
454 **performed.**

455 Comment: Proper disclosure is required because clients and other intended users rely on the  
456 assignment results. Sufficient information includes disclosure of research and analyses  
457 performed and might also include disclosure of research and analyses not performed.

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<sup>4</sup> See Advisory Opinion 29, *An Acceptable Scope of Work*.

1143 **STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING**

1144 **In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those**  
 1145 **recognized methods and techniques necessary to produce and communicate credible mass appraisals.**

1146 Comment: STANDARD 6 applies to all mass appraisals of real or personal property  
 1147 regardless of the purpose or use of such appraisals.<sup>34</sup> STANDARD 6 is directed toward the  
 1148 substantive aspects of developing and communicating credible analyses, opinions, and  
 1149 conclusions in the mass appraisal of properties. Mass appraisals can be prepared with or  
 1150 without computer assistance. The reporting and jurisdictional exceptions applicable to public  
 1151 mass appraisals prepared for ad valorem taxation do not apply to mass appraisals prepared for  
 1152 other purposes.

1153 A mass appraisal includes:

- 1154 1) identifying properties to be appraised;
- 1155 2) defining market area of consistent behavior that applies to properties;
- 1156 3) identifying characteristics (supply and demand) that affect the creation of value in  
 1157 that market area;
- 1158 4) developing a model structure that reflects the relationship among the characteristics  
 1159 affecting value in the market area;
- 1160 5) calibrating the model structure to determine the contribution of the individual  
 1161 characteristics affecting value;
- 1162 6) applying the conclusions reflected in the model to the characteristics of the  
 1163 property(ies) being appraised; and
- 1164 7) reviewing the mass appraisal results.

1165 The JURISDICTIONAL EXCEPTION RULE may apply to several sections of STANDARD  
 1166 6 because ad valorem tax administration is subject to various state, county, and municipal  
 1167 laws.

1168 **Standards Rule 6-1**

1169 **In developing a mass appraisal, an appraiser must:**

- 1170 (a) **be aware of, understand, and correctly employ those recognized methods and techniques**  
 1171 **necessary to produce a credible mass appraisal;**

1172 Comment: Mass appraisal provides for a systematic approach and uniform application of  
 1173 appraisal methods and techniques to obtain estimates of value that allow for statistical review  
 1174 and analysis of results.

1175 This requirement recognizes that the principle of change continues to affect the manner in  
 1176 which appraisers perform mass appraisals. Changes and developments in the real property and  
 1177 personal property fields have a substantial impact on the appraisal profession.

1178 To keep abreast of these changes and developments, the appraisal profession is constantly  
 1179 reviewing and revising appraisal methods and techniques and devising new methods and  
 1180 techniques to meet new circumstances. For this reason it is not sufficient for appraisers to  
 1181 simply maintain the skills and the knowledge they possess when they become appraisers.

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<sup>34</sup> See Advisory Opinion 32, *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*.

## STANDARD 6

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1182 Each appraiser must continuously improve his or her skills to remain proficient in mass  
1183 appraisal.

1184 (b) **not commit a substantial error of omission or commission that significantly affects a mass**  
1185 **appraisal; and**

1186 Comment: An appraiser must use sufficient care to avoid errors that would significantly affect  
1187 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,  
1188 conditions, data, and other information that would have a significant effect on the credibility  
1189 of the assignment results.

1190 (c) **not render a mass appraisal in a careless or negligent manner.**

1191 Comment: Perfection is impossible to attain, and competence does not require perfection.  
1192 However, an appraiser must not render appraisal services in a careless or negligent manner.  
1193 This Standards Rule requires an appraiser to use due diligence and due care.

### 1194 Standards Rule 6-2

1195 **In developing a mass appraisal, an appraiser must:**

1196 (a) **identify the client and other intended users;**<sup>35</sup>

1197 (b) **identify the intended use of the appraisal;**<sup>36</sup>

1198 Comment: An appraiser must not allow the intended use of an assignment or a client's objectives to  
1199 cause the assignment results to be biased.

1200 (c) **identify the type and definition of value, and, if the value opinion to be developed is market**  
1201 **value, ascertain whether the value is to be the most probable price:**

1202 (i) **in terms of cash; or**

1203 (ii) **in terms of financial arrangements equivalent to cash; or**

1204 (iii) **in such other terms as may be precisely defined; and**

1205 (iv) **if the opinion of value is based on non-market financing or financing with unusual**  
1206 **conditions or incentives, the terms of such financing must be clearly identified and the**  
1207 **appraiser's opinion of their contributions to or negative influence on value must be**  
1208 **developed by analysis of relevant market data;**

1209 Comment: For certain types of appraisal assignments in which a legal definition of market  
1210 value has been established and takes precedence, the JURISDICTIONAL EXCEPTION  
1211 RULE may apply.

1212 (d) **identify the effective date of the appraisal;**<sup>37</sup>

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<sup>35</sup> See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

<sup>36</sup> See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

<sup>37</sup> See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

- 1213 (e) **identify the characteristics of the properties that are relevant to the type and definition of value**  
 1214 **and intended use,<sup>38</sup> including:**
- 1215 (i) **the group with which a property is identified according to similar market influence;**  
 1216 (ii) **the appropriate market area and time frame relative to the property being valued; and**  
 1217 (iii) **their location and physical, legal, and economic characteristics;**
- 1218 Comment: The properties must be identified in general terms, and each individual property in  
 1219 the universe must be identified, with the information on its identity stored or referenced in its  
 1220 property record.
- 1221 When appraising proposed improvements, an appraiser must examine and have available for  
 1222 future examination, plans, specifications, or other documentation sufficient to identify the  
 1223 extent and character of the proposed improvements.<sup>39</sup>
- 1224 Ordinarily, proposed improvements are not appraised for ad valorem tax. Appraisers,  
 1225 however, are sometimes asked to provide opinions of value of proposed improvements so that  
 1226 developers can estimate future property tax burdens. Sometimes units in condominiums and  
 1227 planned unit developments are sold with an interest in un-built community property, the pro  
 1228 rata value of which, if any, must be considered in the analysis of sales data.
- 1229 (f) **identify the characteristics of the market that are relevant to the purpose and intended use of the**  
 1230 **mass appraisal including:**
- 1231 (i) **location of the market area;**  
 1232 (ii) **physical, legal, and economic attributes;**  
 1233 (iii) **time frame of market activity; and**  
 1234 (iv) **property interests reflected in the market;**
- 1235 (g) **in appraising real property or personal property:**
- 1236 (i) **identify the appropriate market area and time frame relative to the property being**  
 1237 **valued;**
- 1238 (ii) **when the subject is real property, identify and consider any personal property, trade**  
 1239 **fixtures, or intangibles that are not real property but are included in the appraisal;**
- 1240 (iii) **when the subject is personal property, identify and consider any real property or**  
 1241 **intangibles that are not personal property but are included in the appraisal;**
- 1242 (iv) **identify known easements, restrictions, encumbrances, leases, reservations, covenants,**  
 1243 **contracts, declarations, special assessments, ordinances, or other items of similar nature;**  
 1244 **and**

<sup>38</sup> See Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*, if applicable.

<sup>39</sup> See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*, if applicable.

## STANDARD 6

- 1245 (v) **identify and analyze whether an appraised fractional interest, physical segment or**  
1246 **partial holding contributes pro rata to the value of the whole;**

1247 Comment: The above requirements do not obligate the appraiser to value the whole  
1248 when the subject of the appraisal is a fractional interest, physical segment, or a  
1249 partial holding. However, if the value of the whole is not identified, the appraisal  
1250 must clearly reflect that the value of the property being appraised cannot be used to  
1251 develop the value opinion of the whole by mathematical extension.

- 1252 (h) **analyze the relevant economic conditions at the time of the valuation, including market**  
1253 **acceptability of the property and supply, demand, scarcity, or rarity;**

- 1254 (i) **identify any extraordinary assumptions and any hypothetical conditions necessary in the**  
1255 **assignment; and**

1256 Comment: An extraordinary assumption may be used in an assignment only if:

- 1257 • it is required to properly develop credible opinions and conclusions;
- 1258 • the appraiser has a reasonable basis for the extraordinary assumption;
- 1259 • use of the extraordinary assumption results in a credible analysis; and
- 1260 • the appraiser complies with the disclosure requirements set forth in USPAP for  
1261 extraordinary assumptions.

1262 A hypothetical condition may be used in an assignment only if:

- 1263 • use of the hypothetical condition is clearly required for legal purposes, for purposes  
1264 of reasonable analysis, or for purposes of comparison;
- 1265 • use of the hypothetical condition results in a credible analysis; and
- 1266 • the appraiser complies with the disclosure requirements set forth in USPAP for  
1267 hypothetical conditions.

- 1268 (j) **determine the scope of work necessary to produce credible assignment results in accordance with**  
1269 **the SCOPE OF WORK RULE.<sup>40</sup>**

### 1270 Standards Rule 6-3

1271 **When necessary for credible assignment results, an appraiser must:**

- 1272 (a) **in appraising real property, identify and analyze the effect on use and value of the following**  
1273 **factors: existing land use regulations, reasonably probable modifications of such regulations,**  
1274 **economic supply and demand, the physical adaptability of the real estate, neighborhood trends,**  
1275 **and highest and best use of the real estate; and**

1276 Comment: This requirement sets forth a list of factors that affect use and value. In considering  
1277 neighborhood trends, an appraiser must avoid stereotyped or biased assumptions relating to  
1278 race, age, color, gender, or national origin or an assumption that race, ethnic, or religious  
1279 homogeneity is necessary to maximize value in a neighborhood. Further, an appraiser must  
1280 avoid making an unsupported assumption or premise about neighborhood decline, effective  
1281 age, and remaining life. In considering highest and best use, an appraiser must develop the  
1282 concept to the extent required for a proper solution to the appraisal problem.

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<sup>40</sup> See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

1283 (b) **in appraising personal property: identify and analyze the effects on use and value of industry**  
 1284 **trends, value-in-use, and trade level of personal property. Where applicable, analyze the current**  
 1285 **use and alternative uses to encompass what is profitable, legal, and physically possible, as**  
 1286 **relevant to the type and definition of value and intended use of the appraisal. Personal property**  
 1287 **has several measurable marketplaces; therefore, the appraiser must define and analyze the**  
 1288 **appropriate market consistent with the type and definition of value.**

1289 Comment: The appraiser must recognize that there are distinct levels of trade and each may  
 1290 generate its own data. For example, a property may have a different value at a wholesale level  
 1291 of trade, a retail level of trade, or under various auction conditions. Therefore, the appraiser  
 1292 must analyze the subject property within the correct market context.

1293 **Standards Rule 6-4**

1294 **In developing a mass appraisal, an appraiser must:**

1295 (a) **identify the appropriate procedures and market information required to perform the appraisal,**  
 1296 **including all physical, functional, and external market factors as they may affect the appraisal;**

1297 Comment: Such efforts customarily include the development of standardized data collection  
 1298 forms, procedures, and training materials that are used uniformly on the universe of properties  
 1299 under consideration.

1300 (b) **employ recognized techniques for specifying property valuation models; and**

1301 Comment: The formal development of a model in a statement or equation is called model  
 1302 specification. Mass appraisers must develop mathematical models that, with reasonable  
 1303 accuracy, represent the relationship between property value and supply and demand factors, as  
 1304 represented by quantitative and qualitative property characteristics. The models may be  
 1305 specified using the cost, sales comparison, or income approaches to value. The specification  
 1306 format may be tabular, mathematical, linear, nonlinear, or any other structure suitable for  
 1307 representing the observable property characteristics. Appropriate approaches must be used in  
 1308 appraising a class of properties. The concept of recognized techniques applies to both real and  
 1309 personal property valuation models.

1310 (c) **employ recognized techniques for calibrating mass appraisal models.**

1311 Comment: Calibration refers to the process of analyzing sets of property and market data to  
 1312 determine the specific parameters of a model. The table entries in a cost manual are examples  
 1313 of calibrated parameters, as well as the coefficients in a linear or nonlinear model. Models  
 1314 must be calibrated using recognized techniques, including, but not limited to, multiple linear  
 1315 regression, nonlinear regression, and adaptive estimation.

1316 **Standards Rule 6-5**

1317 **In developing a mass appraisal, when necessary for credible assignment results, an appraiser must:**

1318 (a) **collect, verify, and analyze such data as are necessary and appropriate to develop:**

1319 (i) **the cost new of the improvements;**

1320 (ii) **accrued depreciation;**

1321 (iii) **value of the land by sales of comparable properties;**

## STANDARD 6

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- 1322 (iv) value of the property by sales of comparable properties;
- 1323 (v) value by capitalization of income or potential earnings - i.e., rentals, expenses, interest  
1324 rates, capitalization rates, and vacancy data;

1325 Comment: This Standards Rule requires appraisers engaged in mass appraisal to take  
1326 reasonable steps to ensure that the quantity and quality of the factual data that are collected  
1327 are sufficient to produce credible appraisals. For example, in real property, where applicable  
1328 and feasible, systems for routinely collecting and maintaining ownership, geographic, sales,  
1329 income and expense, cost, and property characteristics data must be established. Geographic  
1330 data must be contained in as complete a set of cadastral maps as possible, compiled according  
1331 to current standards of detail and accuracy. Sales data must be collected, confirmed, screened,  
1332 adjusted, and filed according to current standards of practice. The sales file must contain, for  
1333 each sale, property characteristics data that are contemporaneous with the date of sale.  
1334 Property characteristics data must be appropriate and relevant to the mass appraisal models  
1335 being used. The property characteristics data file must contain data contemporaneous with  
1336 the date of appraisal including historical data on sales, where appropriate and available. The  
1337 data collection program must incorporate a quality control program, including checks and  
1338 audits of the data to ensure current and consistent records.

- 1339 (b) base estimates of capitalization rates and projections of future rental rates and/or potential  
1340 earnings capacity, expenses, interest rates, and vacancy rates on reasonable and appropriate  
1341 evidence;<sup>41</sup>

1342 Comment: This requirement calls for an appraiser, in developing income and expense  
1343 statements and cash flow projections, to weigh historical information and trends, current  
1344 market factors affecting such trends, and reasonably anticipated events, such as competition  
1345 from developments either planned or under construction.

- 1346 (c) identify and, as applicable, analyze terms and conditions of any available leases; and

- 1347 (d) identify the need for and extent of any physical inspection.<sup>42</sup>

### 1348 Standards Rule 6-6

1349 When necessary for credible assignment results in applying a calibrated mass appraisal model an  
1350 appraiser must:

- 1351 (a) value improved parcels by recognized methods or techniques based on the cost approach, the  
1352 sales comparison approach, and income approach;

- 1353 (b) value sites by recognized methods or techniques; such techniques include but are not limited to  
1354 the sales comparison approach, allocation method, abstraction method, capitalization of ground  
1355 rent, and land residual technique;

- 1356 (c) when developing the value of a leased fee estate or a leasehold estate, analyze the effect on value,  
1357 if any, of the terms and conditions of the lease;

1358 Comment: In ad valorem taxation the appraiser may be required by rules or law to appraise  
1359 the property as if in fee simple, as though unencumbered by existing leases. In such cases,

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<sup>41</sup> See Statement on Appraisal Standards No. 2, *Discounted Cash Flow Analysis*.

<sup>42</sup> See Advisory Opinion 2, *Inspection of Subject Property*.

1360 market rent would be used in the appraisal, ignoring the effect of the individual, actual  
1361 contract rents.

1362 **(d) analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or**  
1363 **component parts of a property; the value of the whole must not be developed by adding together**  
1364 **the individual values of the various parcels, divided interests, or component parts; and**

1365 Comment: When the value of the whole has been established and the appraiser seeks to value  
1366 a part, the value of any such part must be tested by reference to appropriate market data and  
1367 supported by an appropriate analysis of such data.

1368 **(e) when analyzing anticipated public or private improvements, located on or off the site, analyze**  
1369 **the effect on value, if any, of such anticipated improvements to the extent they are reflected in**  
1370 **market actions.**

1371 **Standards Rule 6-7**

1372 **In reconciling a mass appraisal an appraiser must:**

1373 **(a) reconcile the quality and quantity of data available and analyzed within the approaches used and**  
1374 **the applicability and relevance of the approaches, methods and techniques used; and**

1375 **(b) employ recognized mass appraisal testing procedures and techniques to ensure that standards of**  
1376 **accuracy are maintained.**

1377 Comment: It is implicit in mass appraisal that, even when properly specified and calibrated  
1378 mass appraisal models are used, some individual value conclusions will not meet standards of  
1379 reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal  
1380 have a professional responsibility to ensure that, on an overall basis, models produce value  
1381 conclusions that meet attainable standards of accuracy. This responsibility requires appraisers  
1382 to evaluate the performance of models, using techniques that may include but are not limited  
1383 to, goodness-of-fit statistics, and model performance statistics such as appraisal-to-sale ratio  
1384 studies, evaluation of hold-out samples, or analysis of residuals.

1385 **Standards Rule 6-8**

1386 **A written report of a mass appraisal must clearly communicate the elements, results, opinions, and value**  
1387 **conclusions of the appraisal.**

1388 **Each written report of a mass appraisal must:**

1389 **(a) clearly and accurately set forth the appraisal in a manner that will not be misleading;**

1390 **(b) contain sufficient information to enable the intended users of the appraisal to understand the**  
1391 **report properly;**

1392 Comment: Documentation for a mass appraisal for ad valorem taxation may be in the form of  
1393 (1) property records, (2) sales ratios and other statistical studies, (3) appraisal manuals and  
1394 documentation, (4) market studies, (5) model building documentation, (6) regulations, (7)  
1395 statutes, and (8) other acceptable forms.

1396 **(c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical**  
1397 **conditions, and limiting conditions used in the assignment;**

## STANDARD 6

1398 Comment: The report must clearly and conspicuously:

- 1399           • state all extraordinary assumptions and hypothetical conditions; and  
1400           • state that their use might have affected the assignment results.

1401 **(d) state the identity of the client and any intended users, by name or type;**<sup>43</sup>

1402 **(e) state the intended use of the appraisal;**<sup>44</sup>

1403 **(f) disclose any assumptions or limiting conditions that result in deviation from recognized methods**  
1404 **and techniques or that affect analyses, opinions, and conclusions;**

1405 **(g) set forth the effective date of the appraisal and the date of the report;**

1406 Comment: In ad valorem taxation the effective date of the appraisal may be prescribed by law.  
1407 If no effective date is prescribed by law, the effective date of the appraisal, if not stated, is  
1408 presumed to be contemporaneous with the data and appraisal conclusions.

1409 The effective date of the appraisal establishes the context for the value opinion, while the date  
1410 of the report indicates whether the perspective of the appraiser on the market and property as  
1411 of the effective date of the appraisal was prospective, current, or retrospective.<sup>45</sup>

1412 **(h) state the type and definition of value and cite the source of the definition;**

1413 Comment: Stating the type and definition of value also requires any comments needed to  
1414 clearly indicate to intended users how the definition is being applied.<sup>46</sup>

1415 When reporting an opinion of market value, state whether the opinion of value is:

- 1416           • In terms of cash or of financing terms equivalent to cash; or  
1417           • Based on non-market financing with unusual conditions or incentives.

1418 When an opinion of market value is not in terms of cash or based on financing terms  
1419 equivalent to cash, summarize the terms of such financing and explain their contributions to  
1420 or negative influence on value.

1421 **(i) identify the properties appraised including the property rights;**

1422 Comment: The report documents the sources for location, describing and listing the property.  
1423 When applicable, include references to legal descriptions, addresses, parcel identifiers,  
1424 photos, and building sketches. In mass appraisal this information is often included in property  
1425 records. When the property rights to be appraised are specified in a statute or court ruling, the  
1426 law must be referenced.

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<sup>43</sup> See Statement on Appraisal Standards No. 9, *Identification of the Intended Use and Intended Users*.

<sup>44</sup> See Statement on Appraisal Standards No. 9, *Identification of the Intended Use and Intended Users*.

<sup>45</sup> See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

<sup>46</sup> See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Opinions of Value*. See also Advisory Opinion 7, *Marketing Time Opinions*.

- 1427 (j) describe the scope of work used to develop the appraisal;<sup>47</sup> exclusion of the sales comparison  
1428 approach, cost approach, or income approach must be explained;

1429 Comment: Because intended users' reliance on an appraisal may be affected by the scope of  
1430 work, the report must enable them to be properly informed and not misled. Sufficient  
1431 information includes disclosure of research and analyses performed and might also include  
1432 disclosure of research and analyses not performed.

1433 When any portion of the work involves significant mass appraisal assistance, the appraiser  
1434 must describe the extent of that assistance. The signing appraiser must also state the name(s)  
1435 of those providing the significant mass appraisal assistance in the certification, in accordance  
1436 with Standards Rule 6-9.<sup>48</sup>

- 1437 (k) describe and justify the model specification(s) considered, data requirements, and the model(s)  
1438 chosen;

1439 Comment: The appraiser must provide sufficient information to enable the client and  
1440 intended users to have confidence that the process and procedures used conform to accepted  
1441 methods and result in credible value conclusions. In the case of mass appraisal for ad valorem  
1442 taxation, stability and accuracy are important to the credibility of value opinions. The report  
1443 must include a discussion of the rationale for each model, the calibration techniques to be  
1444 used, and the performance measures to be used.

- 1445 (l) describe the procedure for collecting, validating, and reporting data;

1446 Comment: The report must describe the sources of data and the data collection and validation  
1447 processes. Reference to detailed data collection manuals must be made, as appropriate,  
1448 including where they may be found for inspection.

- 1449 (m) describe calibration methods considered and chosen, including the mathematical form of the  
1450 final model(s); describe how value conclusions were reviewed; and, if necessary, describe the  
1451 availability of individual value conclusions;

- 1452 (n) when an opinion of highest and best use, or the appropriate market or market level was  
1453 developed, discuss how that opinion was determined;

1454 Comment: The mass appraisal report must reference case law, statute, or public policy that  
1455 describes highest and best use requirements. When actual use is the requirement, the report  
1456 must discuss how use-value opinions were developed. The appraiser's reasoning in support of  
1457 the highest and best use opinion must be provided in the depth and detail required by its  
1458 significance to the appraisal.

- 1459 (o) identify the appraisal performance tests used and set forth the performance measures attained;

- 1460 (p) describe the reconciliation performed, in accordance with Standards Rule 6-7; and

- 1461 (q) include a signed certification in accordance with Standards Rule 6-9.

<sup>47</sup> See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure* and Advisory Opinion 29, *An Acceptable Scope of Work*.

<sup>48</sup> See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

STANDARD 6

1462 Standards Rule 6-9

1463 Each written mass appraisal report must contain a signed certification that is similar in content to the  
1464 following form:

1465 I certify that, to the best of my knowledge and belief:

- 1466 — the statements of fact contained in this report are true and correct.
- 1467 — the reported analyses, opinions, and conclusions are limited only by the reported  
1468 assumptions and limiting conditions, and are my personal, impartial, and unbiased  
1469 professional analyses, opinions, and conclusions.
- 1470 — I have no (or the specified) present or prospective interest in the property that is the  
1471 subject of this report, and I have no (or the specified) personal interest with respect to  
1472 the parties involved.
- 1473 — I have performed no (or the specified) services, as an appraiser or in any other capacity,  
1474 regarding the property that is the subject of this report within the three-year period  
1475 immediately preceding acceptance of this assignment.
- 1476 — I have no bias with respect to any property that is the subject of this report or to the  
1477 parties involved with this assignment.
- 1478 — my engagement in this assignment was not contingent upon developing or reporting  
1479 predetermined results.
- 1480 — my compensation for completing this assignment is not contingent upon the reporting  
1481 of a predetermined value or direction in value that favors the cause of the client, the  
1482 amount of the value opinion, the attainment of a stipulated result, or the occurrence of  
1483 a subsequent event directly related to the intended use of this appraisal.
- 1484 — my analyses, opinions, and conclusions were developed, and this report has been  
1485 prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- 1486 — I have (or have not) made a personal inspection of the properties that are the subject  
1487 of this report. (If more than one person signs the report, this certification must clearly  
1488 specify which individuals did and which individuals did not make a personal  
1489 inspection of the appraised property.)<sup>49</sup>
- 1490 — no one provided significant mass appraisal assistance to the person signing this  
1491 certification. (If there are exceptions, the name of each individual providing  
1492 significant mass appraisal assistance must be stated.)

1493 Comment: The above certification is not intended to disturb an elected or appointed assessor's  
1494 work plans or oaths of office. A signed certification is an integral part of the appraisal report.  
1495 An appraiser, who signs any part of the mass appraisal report, including a letter of transmittal,  
1496 must also sign this certification.

1497 In an assignment that includes only assignment results developed by the real property  
1498 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all  
1499 elements of the certification, for the assignment results, and for the contents of the appraisal  
1500 report. In an assignment that includes personal property assignment results not developed by  
1501 the real property appraiser(s), any real property appraiser(s) who signs a certification accepts  
1502 full responsibility for the real property elements of the certification, for the real property  
1503 assignment results, and for the real property contents of the appraisal report.

1504 In an assignment that includes only assignment results developed by the personal property  
1505 appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all  
1506 elements of the certification, for the assignment results, and for the contents of the appraisal  
1507 report. In an assignment that includes real property assignment results not developed by the

<sup>49</sup> See Advisory Opinion 2, *Inspection of Subject Property*.



1508 personal property appraiser(s), any personal property appraiser(s) who signs a certification  
1509 accepts full responsibility for the personal property elements of the certification, for the  
1510 personal property assignment results, and for the personal property contents of the appraisal  
1511 report.

1512 When a signing appraiser(s) has relied on work done by appraisers and others who do not sign  
1513 the certification, the signing appraiser is responsible for the decision to rely on their work.  
1514 The signing appraiser(s) is required to have a reasonable basis for believing that those  
1515 individuals performing the work are competent. The signing appraiser(s) also must have no  
1516 reason to doubt that the work of those individuals is credible.

1517 The names of individuals providing significant mass appraisal assistance who do not sign a  
1518 certification must be stated in the certification. It is not required that the description of their  
1519 assistance be contained in the certification, but disclosure of their assistance is required in  
1520 accordance with Standards Rule 6-8(j).<sup>50</sup>

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<sup>50</sup> See Advisory Opinion 31, *Assignments Involving More than One Appraiser*.

2014 UPTON COUNTY APPRAISAL DISTRICT BUDGET

ACCOUNT DESCRIPTION	TOTAL	
100.0 SALARIES		201,594
CHIEF APPRAISER	59,170	
DEPUTY CHIEF APPRAISER	42,436	
SENIOR APPRISER	39,580	
COLLECTOR	38,708	
COLLECTOR	21,700	
100.0 OFFICE CLEANING		1,560
200.0 EMPLOYEE BENEFITS		64,880
RETIREMENT	21,208	
CHIEF APPRAISER \$6,225		
DEPUTY CHIEF APPRAISER \$4,464		
SR APPRAISER \$4,164		
COLLECTION CLERK \$4,072		
APPRAISER/COLLECTION \$2,283		
INSURANCE	42,168	
CHIEF APPRAISER \$3,240		
DEPUTY CHIEF APPRAISER \$9,732		
SR APPRAISER \$9,732		
COLLECTION CLERK \$9,732		
APPRAISER/COLLECTION \$9,732		
MEDICARE	1,504	
300.0 INSURANCE & BONDS		4,585
COLLECTION BONDS	875	
TEC	100	
WC	700	
AUTO	360	
GENERAL LIABILITY	800	
AUDIT	100	
REAL & PERSONAL PROPERTY INSURANCE	1,650	
400.0 COMMITTEES		2900
ARB	2,500	
AG	400	
410.0 AUDIT		3,000

2014 UPTON COUNTY APPRAISAL DISTRICT BUDGET

420.0 POSTAL & OFFICE		43,500
POSTAGE MACHINE	9,200	
POSTAGE MACHINE	12,200	
SUPPLIES	18,100	
SUB/PUBLICATION	4,000	
430.0 UTILITIES		10,670
ELECTRIC	4,800	
WATER	870	
TELEPHONE/CELL/INTERNET/ALRM	5,000	
440.0 EDUCATION & MEMBERSHIP		6,875
TAAD	700	
TAAO	400	
SCHOOL & SEMINARS	5,000	
TDLR	775	
450.0 AUTO & TRAVEL		11,000
GAS, OIL & REPAIRS	6,000	
LODGING & MEALS	5,000	
460.0 CAPITAL EXPENSES		8,000
COMPUTER UPGRADE		
470.0 MAINTENANCE & REPAIRS		67,012
PRINTERS	500	
SOFTWARE	53,000	
PITNEY BOWES	9,100	
PHONE SYSTEM	612	
COPIER	700	
BUILDING	1,000	
YARD	600	
EQUIPMENT REPAIR	1,500	
480.0 VALUATION		124,500
MINERALS	92,500	
REAL	32,000	
500.0 EMERGENCY CONTINGENCY		15,000
	TOTAL	565,076
	2014	565,076
	2013	555,271
UP 1.76%		9,805



**PRITCHARD & ABBOTT, INC.  
VALUATION CONSULTANTS**

**S.B. 1652\* BIENNIAL REAPPRAISAL PLAN**

**FOR THE ANNUAL APPRAISAL FOR  
AD VALOREM TAX PURPOSES OF  
MINERAL, INDUSTRIAL, UTILITY AND  
RELATED PERSONAL PROPERTY**

**For Tax Years:**

**2015 and 2016**

**Originally Printed: July 1, 2014**

\*Senate Bill 1652 passed by the Texas Legislature, 79th Regular Session in 2005, amending Section 6.05 of the Texas Property Tax Code, by adding Subsection (i).



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POLICY STATEMENT OF PRITCHARD & ABBOTT, INC., ON THE  
REAPPRAISAL OF MINERAL, INDUSTRIAL, UTILITY AND RELATED PERSONAL PROPERTY

In 2005, the Texas Legislature, in 79<sup>th</sup> Regular Session, authorized in S.B. 1652 the amending of section 6.05 of the Texas Property Tax Code by adding Subsection (i), as follows:

*“Requires the board of directors of an appraisal district (board), to ensure adherence with generally accepted appraisal practices, to develop biennially a written plan for the periodic appraisal of all property within the boundaries of the district according to the requirements of 25.18 (Periodic Reappraisals) and requires the board to hold a public hearing to consider the proposed plan. Requires the secretary of the board, not later than the 10th day before the date of the hearing, to deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place for the hearing. Requires the board, not later than September 15 of each even-numbered year, to complete its hearings, make amendments, and by resolution finally approve the plan. Requires copies of the approved plan to be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.”* (Bill Analysis per Senate Research Center)

Pritchard & Abbott, Inc., (P&A), a privately held company engaged primarily, but not wholly, in the ad valorem tax valuation industry endorses Uniform Standards of Professional Appraisal Practice (USPAP) as the basis for the production of sound appraisals. Insofar as the statutory requirement to appraise groups (or a “universe”) of real and personal property within an established period of time using standardized procedures--and subjecting the resulting appraisals to statistical measures--is the definition of mass appraisal, P&A subscribes to USPAP Standard 6 (Mass Appraisal, Development and Reporting) whenever applicable in the development and defense of values. When circumstances clearly dictate the use of single property appraisal procedures, P&A adheres to the spirit and intent of the remaining USPAP Standards within all appropriate, practical, and/or contractual limitations or specifications.

The USPAP definition of “appraiser” is one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective. USPAP Advisory Opinion 21 states that this expectation (by clients and intended users of appraisal reports) is the basis that creates an ethical obligation to comply with USPAP, even if not legally required.

The majority of property types that P&A typically appraises for ad valorem tax purposes are categorized as unique, complex, and/or “special purpose” properties (mineral interests, industrial, utility, and related personal property). These categories of properties do not normally provide sufficient market data of reliable quality and/or quantity to support the rigorous use of all USPAP-prescribed mass appraisal mandates (Standard 6), particularly with regards to some, but not all, of the model calibration and statistical performance testing confines. However, P&A does employ elements of mass appraisal techniques with regards to the definition and identification of property characteristics and model specification and application.

Residential real estate property appraisers most frequently apply mass appraisal methods within the sales comparison (market) approach to value. Through the use of standardized data collection (i.e., actual market sales), specification and calibration of mass appraisal models, tables, and schedules are possible. Through ratio study analysis and other performance measures, a cumulative summary of valuation accuracy can thus be produced in order to calibrate the appraisal model(s). Where sufficient data of reliable quality exists, mass appraisal is also used for other types of real estate property such as farms, vacant lots, and some commercial uses (e.g., apartments, offices, and small retail).

P&A will clearly state or otherwise make known all extraordinary assumptions, limiting conditions, hypothetical assumptions, and/or jurisdictional exceptions in its appraisals as they are conveyed to our clients. The client and all intended users should be aware the appraisals are by definition “limited” versus “complete.” In addition, all appraisal reports, unless otherwise contracted for by the client, will be of a “summary” nature vs. “self-contained” whereas concise explanations of appraisal methods and results are emphasized for purpose of transparency, brevity and clarity. *The use of limited appraisals in conjunction with summary reports in no way implies non-compliance with USPAP.* P&A believes, with its vast experience and expertise in these areas of appraisal, that all values rendered are credible, competent, uniform and consistent; and most importantly for ad valorem tax purposes, achieved in a cost-efficient and timely manner.

Per previous ASB comments under Standard 6-2(b) *[scope of work... special limiting conditions]*:

*“Although appraisers in ad valorem taxation should not be held accountable for limitations beyond their control, they are required by this specific requirement to identify cost constraints and to take appropriate steps to secure sufficient funding to produce appraisals that comply with these standards. Expenditure levels for assessment administration are a function of a number of factors. Fiscal constraints may impact data completeness and accuracy, valuation methods, and valuation accuracy. Although appraisers should seek adequate funding and disclose the impact of fiscal constraints on the mass appraisal process, they are not responsible for constraints beyond their control.”*

In any event, however, it is not P&A’s intent to allow constraints, fiscal or otherwise, to limit the scope of work to such a degree that the mass appraisal results are not credible within the context of the intended use(s) of the appraisal.

## PREAMBLE

The purpose of USPAP is to establish requirements and conditions for ethical, thorough, and transparent property valuation services. Valuation services pertain to all aspects of property value and include services performed by appraisers and other professionals including attorneys, accountants, insurance estimators, auctioneers, or brokers. Valuation services include appraisal, appraisal review, and appraisal consulting. The primary intent of these Standards is to promote and maintain a high level of public trust in professional appraisal practice.

It is essential that professional appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading. The importance of the role of the appraiser places ethical obligations upon those who serve in this capacity. These USPAP Standards reflect the current standards of the appraisal profession.

These Standards are for both appraisers and users of appraisal services. To maintain a high level of professional practice, appraisers observe these Standards. However, these Standards do not in themselves establish which individuals or assignments must comply. The Appraisal Foundation nor its Appraisal Standards Board is not a government entity with the power to make, judge, or enforce law. Compliance with USPAP is only required when either the service or the appraiser is obligated to comply by law or regulation, or by agreement with the client or intended users. When not obligated, individuals may still choose to comply.

USPAP addresses the ethical and performance obligations of appraisers through DEFINITIONS, Rules, Standards, Standards Rules, and Statements. USPAP Standards deal with the procedures to be followed in performing an appraisal or appraisal review and the manner in which each is communicated. A brief description of the USPAP Standards are as follows:

- **Standards Rules 1 and 2:** establish requirements for the development and communication of a real property appraisal.
- **Standards Rule 3:** establishes requirements for the development and communication of an appraisal review.
- **Standards Rules 4 and 5:** retired in 2014.
- **Standards Rule 6:** establishes requirements for the development and communication of a mass appraisal.
- **Standards Rules 7 and 8:** establish requirements for the development and communication of a personal property appraisal.
- **Standards Rules 9 and 10:** establish requirements for the development and communication of a business or intangible asset appraisal.

Section 23.01(b) [*Appraisals Generally*] of the Texas Property Tax Code states:

*"The market value of property shall be determined by the application of generally accepted appraisal methods and techniques. If the Appraisal District determines the appraised value of a property using mass appraisal standards, the mass appraisal standards must comply with the Uniform Standards of Professional Appraisal Practice...." (underline added for emphasis)*

Consequently, USPAP Standards Rule 6 is assumed to be the applicable standard for ad valorem tax purposes in Texas, if mass appraisal practices are in fact being used to appraise the subject property. USPAP Advisory Opinion 32 suggests several USPAP standards other than Standard 6 can or should apply in ad valorem tax work. However, it appears that an appraiser engaged in ad valorem tax work in Texas is not specifically required by law to follow these USPAP standards if in fact mass appraisal practices have not been used to appraise the subject property. In this case it could be deemed appropriate to invoke the Jurisdictional Exception Rule which is applicable when there is a contradiction between the requirements of USPAP and the law or regulation of a jurisdiction. Please see the P&A Policy Statement on USPAP as provided elsewhere in this report for a more detailed discussion regarding this matter.

## ETHICS RULE

Because of the fiduciary responsibilities inherent in professional appraisal practice, the appraiser must observe the highest standards of professional ethics. This Ethics Rule is divided into three sections:

- Conduct;
- Management;
- Confidentiality.

This Rule emphasizes the personal obligations and responsibilities of the individual appraiser. However, it should be noted that groups and organizations *which are comprised of individual appraisers engaged in appraisal practice* effectively share the same ethical obligations. To the extent the group or organization does not follow USPAP Standards when legally required, individual appraisers should take steps that are appropriate under the circumstances to ensure compliance with USPAP.

Compliance with these Standards is required when either the service or the appraiser is obligated by law or regulation, or by agreement with the client or intended users, to comply. Compliance is also required when an individual, by choice, represents that he or she is performing the service as an appraiser.

An appraiser must not misrepresent his or her role when providing valuation services that are outside of appraisal practice.

Honesty, impartiality, and professional competency are required of all appraisers under USPAP Standards. To document recognition and acceptance of his or her USPAP-related responsibilities in communicating an appraisal, appraisal review, or appraisal consulting assignment completed under USPAP, an appraiser is required to certify compliance with these Standards.

### CONDUCT

An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.

An appraiser must perform ethically and competently in accordance with USPAP and not engage in conduct that is unlawful, unethical, or improper. An appraiser who could reasonably be perceived to act as a disinterested third party in rendering an unbiased appraisal, review, or consulting service must perform assignments with impartiality, objectivity, and independence and without accommodation of personal interests; in short, the appraiser must not perform an assignment with bias.

An appraiser must not advocate the cause or interest of any party or issue, or accept an assignment that includes the reporting of predetermined opinions and conclusions.

An appraiser must not misrepresent his or her role when providing valuation services that are outside of appraisal practice, must not engage in criminal conduct, and must not perform an appraisal assignment in a grossly negligent manner.

An appraiser is required to avoid any action that could be considered misleading or fraudulent. In particular, it is unethical for an appraiser to use or communicate a misleading or fraudulent report or to knowingly permit an employee or other person to communicate a misleading or fraudulent report.

An appraiser must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.

If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in each subsequent report certification:

- any current or prospective interest in the subject property or parties involved; and
- any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.

The appraiser can agree with the client to keep the mere occurrence of a prior appraisal assignment confidential. If an appraiser has agreed with the client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three year period. In assignments in which there is no report, only the initial disclosure to the client is required.

Presumably all parties in an ad valorem tax appraisal will be aware of the ongoing yearly nature of the appraisal assignments performed by valuation consulting firms like Pritchard & Abbott, Inc.--i.e., it will not be confidential-- so that this particular conduct instruction is more or less a moot point (regarding the three year period discussed) if the prior service is in fact the ad valorem tax appraisals performed in previous tax years.

#### MANAGEMENT

The payment of a fee, commission, or a thing of value by the appraiser in connection with the procurement of an assignment must be disclosed. This disclosure must appear in the certification and in any transmittal letter in which conclusions of value are stated; however, the disclosure of the amount paid is not required. Intra-company payments to employees of groups or organizations involved in appraisal practice for business development do not require disclosure.

It is unethical for an appraiser to accept compensation for performing an assignment when it is contingent upon the reporting of a predetermined result, a direction in assignment results that favors the cause of the client, the amount of a value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the appraiser's opinions and specific to the assignment's purpose.

Advertising for or soliciting assignments in a manner that is false, misleading, or exaggerated is unethical. Decisions regarding finder or referral fees, contingent compensation, and advertising may not be the responsibility of an individual appraiser, but for a particular assignment it is the responsibility of the individual appraiser to ascertain that there has been no breach of ethics, that the assignment consulting assignment has been prepared in accordance with USPAP Standards, and that the report can be properly certified when required by USPAP Standards Rules 2-3, 3-3, 5-3, 6-9, 8-3, or 10-3.

An appraiser must affix, or authorize the use of, his or her signature to certify recognition and acceptance of his or her USPAP responsibilities in an appraisal, appraisal review, or appraisal consulting assignment. An appraiser may authorize the use of his or her signature only on an assignment-by-assignment basis.

In addition, an appraiser must not affix the signature of another appraiser without his or her consent. An appraiser must exercise due care to prevent unauthorized use of his or her signature. However, an appraiser exercising such care is not responsible for unauthorized use of his or her signature.

#### CONFIDENTIALITY

An appraiser must protect the confidential nature of the appraiser-property owner relationship.

An appraiser must act in good faith with regard to the legitimate interests of the client in the use of confidential information and in the communication of assignment results.

An appraiser must be aware of, and comply with, all confidentiality and privacy laws and regulations applicable in an assignment.

An appraiser must not disclose confidential factual data obtained from a property owner to anyone other than:

1. The client;
2. Persons specifically authorized by the client;

REAPPRAISAL PLAN OF MINERAL, INDUSTRIAL, UTILITY AND RELATED PERSONAL PROPERTY  
PRITCHARD & ABBOTT, INC.  
TAX YEARS 2015 AND 2016

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3. State appraiser regulatory agencies;
4. Third parties as may be authorized by due process of law; or
5. A duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.

It is unethical for a member of a duly authorized professional peer review committee to disclose confidential information presented to the committee.

When all confidential elements of confidential information are removed through redaction or the process of aggregation, client authorization is not required for the disclosure of the remaining information, as modified.

### RECORD KEEPING RULE

An appraiser must prepare a workfile for each appraisal, appraisal review, and consulting assignment. The workfile must include the identity, by name and type, of any intended users; true copies of any written reports, summaries of any oral reports or testimony, and all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with this rule and all other applicable USPAP Standards.

A workfile preserves evidence of the appraiser's consideration of all applicable data and statements required by USPAP and other information as may be required to support the findings and conclusions of the appraiser.

A photocopy or an electronic copy of the entire actual written appraisal, review, or consulting report sent or delivered to a property owner or review committee satisfies the requirements of a true copy. Care should be exercised in the selection of the form, style, and type of medium for written records, which may be handwritten and informal, to ensure they are retrievable by the appraiser throughout the applicable retention period.

A workfile must be in existence prior to and contemporaneous with the issuance of a written or oral report. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.

A workfile must be made available by the appraiser when required by due process of law. An appraiser must have custody of his or her workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile. An appraiser having custody of a workfile must allow other appraisers with workfile obligations related to an assignment appropriate access and retrieval for the purpose of:

- submission to state appraiser regulatory agencies;
- compliance with due process of law;
- submission to a duly authorized professional peer review committee; or
- compliance with retrieval arrangements.

An appraiser who willfully or knowingly fails to comply with the obligations of this Record Keeping Rule is in violation of the Ethics Rule.

### SCOPE OF WORK RULE

For each appraisal, appraisal review, and appraisal consulting assignment, an appraiser must:

1. Identify the problem to be solved;
2. Determine and perform the scope of work necessary to develop credible assignment results; and
3. Disclose the scope of work in the report.

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.

Scope of work includes, but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal, appraisal review, and appraisal consulting assignment. Credible assignment results require support by relevant evidence and logic. The credibility of assignment results is always measured in the context of the intended use.

### PROBLEM IDENTIFICATION

An appraiser must gather and analyze information about those assignment elements that are necessary to properly identify the appraisal, appraisal review or appraisal consulting problem to be solved. The assignment elements necessary for problem identification are addressed in the Standards Rule 6-2:

- client and any other intended users;
- intended use of the appraiser's opinions and conclusions;
- type and definition of value;
- effective date of the appraiser's opinions and conclusions;
- subject of the assignment and its relevant characteristics; and
- assignment conditions.

This information provides the appraiser with the basis for determining the type and extent of research and analyses to include in the development of an appraisal. Similar information is necessary for problem identification in appraisal review and appraisal consulting assignments. Assignment conditions include:

- assumptions;
- extraordinary assumptions;
- hypothetical conditions;
- laws and regulations;
- jurisdictional exceptions; and
- other conditions that affect the scope of work.

### SCOPE OF WORK ACCEPTABILITY

The scope of work must include the research and analyses that are necessary to develop credible assignment results. The scope of work is acceptable when it meets or exceeds:

- the expectations of parties who are regularly intended users for similar assignments; and
- what an appraiser's peers' actions would be in performing the same or a similar assignment.

Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work. An appraiser must be prepared to support the decision to exclude any investigation, information, method, or technique that would appear relevant to the client, another intended user, or the appraiser's peers.

An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use. In addition, the appraiser must not allow the intended use of an assignment or a client's objectives to cause the assignment results to be biased.

#### DISCLOSURE OBLIGATIONS

The report must contain sufficient information to allow intended users to understand the scope of work performed. Proper disclosure is required because clients and other intended users may rely on the assignment results. Sufficient information includes disclosure of research and analyses performed or not performed.

### JURISDICTIONAL EXCEPTION RULE

If any applicable law or regulation precludes compliance with any part of USPAP, only that part of USPAP becomes void for that assignment. When compliance with USPAP is required by federal law or regulation, no part of USPAP can be voided by a law or regulation of a state or local jurisdiction. *When an appraiser properly follows this Rule in disregarding a part of USPAP, there is no violation of USPAP.*

In an assignment involving a jurisdictional exception, an appraiser must:

- identify the law or regulation that precludes compliance with USPAP;
- comply with that law or regulation;
- clearly and conspicuously disclose in the report the part of USPAP that is voided by that law or regulation; and
- cite in the report the law or regulation requiring this exception to USPAP compliance.

The purpose of the Jurisdictional Exception Rule is strictly limited to providing a saving or severability clause intended to preserve the balance of USPAP if one or more of its parts are determined as contrary to law or public policy of a jurisdiction. By logical extension, there can be no violation of USPAP by an appraiser who disregards, with proper disclosure, only the part or parts of USPAP that are void and of no force and effect in a particular assignment by operation of legal authority.

It is misleading for an appraiser to disregard a part or parts of USPAP as void and of no force and effect in a particular assignment without identifying the part or parts disregarded and the legal authority justifying this action in the appraiser's report.

"Law" includes constitutions, legislative and court-made law, and administrative rules (such as from the Office of the Texas Comptroller of Public Accounts) and ordinances. "Regulations" include rules or orders having legal force, issued by an administrative agency. Instructions from a client or attorney do not establish a jurisdictional exception.

A jurisdictional exception prevalent in Texas is that appraisers are seeking to establish "fair market value" as defined by the Texas Property Tax Code instead of "market value" as found in the USPAP definitions section.

## MASS APPRAISAL, DEVELOPMENT AND REPORTING (General Discussion)

In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce and communicate credible mass appraisals.

Standard 6 applies to all mass appraisals of real and personal property regardless of the purpose or use of such appraisals. It is directed toward the substantive aspects of developing and communicating competent analyses, opinions, and conclusions in the mass appraisal of properties, whether real property or personal property. Mass appraisals can be prepared with or without computer assistance. The Jurisdictional Exception Rule may apply to several sections of Standard 6 because ad valorem tax administration is subject to various state, county, and municipal laws. The reporting and jurisdictional exceptions applicable to public mass appraisals prepared for purposes of ad valorem taxation do not apply to mass appraisals prepared for other purposes.

A mass appraisal includes:

- identifying properties to be appraised;
- defining market areas of consistent behavior that applies to properties;
- identifying characteristics (supply and demand) that affect the creation of value in that market area;
- developing a model structure that reflects the relationship among the characteristics affecting value in the market area;
- calibrating the model structure to determine the contribution of the individual characteristics affecting value;
- applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- reviewing the mass appraisal results.

*The Jurisdictional Exception Rule may apply to several sections of Standard 6 because ad valorem tax administration is subject to various state, county, and municipal laws.*

As previously stated in the P&A Policy Statement (pages 2 and 3 of this report), it may not be possible or practicable for all the mass appraisal attributes listed above to be rigorously applied to the many types of complex and/or unique properties that P&A typically appraises. Often there are contractual limitations on the scope of work needed or required. More prevalently, these types of properties do not normally provide a reliable database of market transactions (or details of transactions) necessary for statistically supportable calibration of appraisal models and review of appraisal results. Generally these two functions are effectively accomplished through annual extended review meetings with taxpayers (and clients) who provide data, sometimes confidentially, that allows for appraisal models to be adjusted where necessary. Nevertheless, and notwithstanding whether P&A implicitly or explicitly employs or reports all attributes listed above, in all cases P&A at the minimum employs tenants of "generally accepted appraisal methods" which are the genesis of USPAP Standards.

Per USPAP guidelines, P&A will make known all departures and jurisdictional exceptions when invoked (if an appraisal method or specific requirement is applicable but not necessary to attain credible results in a particular assignment).

The various sections of Standard 6 are briefly summarized below:

- **Standard 6-1:** Establishes the appraiser's technical and ethical framework. Specifically, appraisers must recognize and use established principles, methods and techniques of appraisal in a careful manner while not committing substantial errors of fact or negligence that would materially affect the appraisal results and not give a credible estimate of fair market value. To this end appraisers must continuously improve his or her skills to maintain proficiency and keep abreast of any new developments in the real and personal property appraisal profession. This Standards Rule does not imply that competence requires perfection, as perfection is impossible to attain. Instead, it requires appraisers to employ every reasonable effort with regards to due diligence and due care.
- **Standard 6-2:** Defines the introductory framework requirements of developing a mass appraisal, focusing on the identification and/or definition of: client(s), intended users, effective date, scope of work, extraordinary assumptions,

hypothetical conditions, the type and definition of value being developed (typically "fair market value" for ad valorem tax purposes), characteristics of the property being appraised in relation to the type and definition of value and intended use, the characteristics of the property's market, the property's real or personal attributes, fractional interest applicability, highest and best use analysis along with other land-related considerations, and any other economic considerations relevant to the property.

- **Standard 6-3:** Defines requirements for developing and specifying appropriate mass appraisal data and elements applicable for real and personal property. For real property, the data and elements include: existing land use regulations, reasonably probable modification of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use analysis. For personal property, the relevant data and elements include: identification of industry trends, trade level, highest and best use, and recognition of the appropriate market consistent with the type and definition of value.
- **Standard 6-4:** Further defines requirements for developing mass appraisal models, focusing on development of standardized data collection forms, procedures, and training materials that are used uniformly on the universe of properties under consideration. This rule specifies that appraisers employ recognized techniques for specifying and calibrating mass appraisal models. Model specification is the formal development of a model in a statement or mathematical equation, including all due considerations for physical, functional, and external market factors as they may affect the appraisal. These models must accurately represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. Models may be specified incorporating the income, market, and/or cost approaches to value and may be tabular, mathematical, linear, nonlinear, or any other structure suitable for representing the observable property characteristics. Model calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model.
- **Standard 6-5:** Defines requirements for collection of sufficient factual data, in both qualitative and quantitative terms, necessary to produce credible appraisal results. The property characteristics collected must be contemporaneous with the effective date of the appraisal. The data collection program should incorporate a quality control procedure, including checks and audits of the data to ensure current and consistent records. This rule also calls for calls for an appraiser, in developing income and expense statement and cashflow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction. Terms and conditions of any leases should be analyzed, as well as the need for and extent of any physical inspection of the properties being appraised.
- **Standard 6-6:** Defines requirements for application of a calibrated model to the property being appraised. This rule calls for: the appraiser to recognize methods or techniques based on the cost, market, and income approaches for improved parcels; the appraiser the value sites by recognized methods or techniques such as allocation method, abstraction method, capitalization of ground rent, and land residual; the appraiser to develop value of leased fee or leasehold estates with consideration for terms and conditions of existing leases, and, when applicable by law, as if held in fee simple whereas market rents are substituted for actual contract rents; the appraiser to analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or component parts of a property; the appraiser to analyze anticipated public or private improvements located on or off the site, and analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in market actions.
- **Standard 6-7:** Defines the reconciliation process of a mass appraisal. Specifically, appraisers must analyze the results and/or applicability of the various approaches used while ensuring that, on an overall basis, standards of reasonableness and accuracy are maintained with the appraisal model selected (underline added for emphasis). It is implicit in mass appraisal that, even when properly specified and calibrated models are used, some individual value conclusions will not meet standards of reasonableness, consistency, and accuracy.
- **Standard 6-8:** Defines requirements of a mass appraisal written report (elements of which are further detailed in the next three sections of this report that discuss P&A appraisal procedures with regards to specific categories of property).
- **Standard 6-9:** Defines requirements for appraiser certification of the mass appraisal written report.

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The following sections of this report discuss in detail the various elements of the mass appraisal written report as required by USPAP Standard 6-8, with regards to P&A appraisal of Mineral Interests, Industrial-Utility-Personal Property, and Real Estate.

## REAPPRAISAL OF MINERAL INTERESTS

*Note: This section, in conjunction with any attached or separately provided P&A-generated appraisal reports specific to the subject property or properties, constitutes the "mass appraisal written report" as required by USPAP Standards Rule 6-8. USPAP Standards Rule 6-9 (certification) can be found at the end of this report. USPAP Standards Rules 6-1 through 6-7 (instructions and explanations regarding the development, application, and reconciliation of mass appraisal values), as they apply to P&A mass appraisal procedures, are discussed below. USPAP DOES NOT DICTATE THE FORM, FORMAT, OR STYLE OF APPRAISAL REPORTS, WHICH ARE FUNCTIONS OF THE NEEDS OF USERS AND PROVIDERS OF APPRAISAL SERVICES. USPAP ALSO DOES NOT MANDATE THAT EACH APPRAISAL REPORT BE LENGTHY AND FULL OF DISCLAIMERS. Readers should note that all P&A reports, unless stated otherwise, are of a "summary" nature versus "self-contained," whereas additional documentation and detail may be available per certain Texas Property Tax Code provisions.*

### INTRODUCTION

**Definition of Appraisal Responsibility (Scope of Effort):** The Mineral Valuation Department of Pritchard & Abbott, Inc. ("P&A" hereinafter), is responsible for developing credible values for mineral interests (full or fractional percentage ownership of oil and gas leasehold interest, the amount and type of which are legally and/or contractually created and specified through deeds and leases, etal.) associated with producing (or capable of producing) leases. Mineral interests are typically considered real property because of their derivation from the bundle of rights associated with original fee simple ownership of land. Typically all the mineral interests that apply to a single producing lease are consolidated by type (working vs. royalty) with each type then appraised for full value which is then distributed to the various fractional decimal interest owners prorata to their individual type and percentage amount.

P&A's typical client is a governmental entity charged with appraisal responsibility for ad valorem tax purposes, although other types of clients (private businesses, individuals, etc.) occasionally contract for appraisal services which are strictly for various non-ad valorem tax purposes so that no conflicts of interest are created with P&A's core ad valorem tax work.

Intended users of our reports are typically the client(s) for which we are under direct contract and taxpayers or their agents who own and/or represent the subject property being appraised. Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

*This section of P&A's Biennial Reappraisal Plan is not applicable to any mineral or mineral interest property that an appraisal district appraises outside of P&A's appraisal services, in which case the appraisal district's overall Biennial Reappraisal Plan should be referenced.*

P&A makes the **Extraordinary Assumption** that all properties appraised for ad valorem tax purposes are marketable whereas ownership and title to property are free of encumbrances and other restrictions that would affect fair market value to an extent not obvious to the general marketplace. If and/or when we are made aware of any encumbrances, etc., these would be taken into account in our appraisal in which case the extraordinary assumption stated above would be revoked.

P&A is typically under contract to determine current market value or "fair market value" of said mineral interests. Fair market value is typically described as the price at which a property would sell for if:

- exposed in the open market with a reasonable time for the seller to find a purchaser;
- both the buyer and seller know of all the uses and purposes to which the property is, or can be, adapted and of the enforceable restrictions on its use; and

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- both the buyer and seller seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other. [Exigencies are pressing or urgent conditions that leave one party at a disadvantage to the other.]

For ad valorem tax purposes the effective date is usually legislatively specified by the particular State in which we are working - for example, in Texas the lien date is January 1 per the Texas Property Tax Code. For ad valorem tax purposes, the date of the appraisals and reports are typically several months past the effective date, thereby leaving open the possibility that a retrospective approach is appropriate under limited and prescribed circumstances (information after the effective date being applicable only if it confirms a trend or other appraisal condition that existed and was generally known as of the effective date).

P&A believes this section of this report, in conjunction with any attached or separately provided P&A-generated report(s), meets the USPAP definition of "typical practice"; i.e., it satisfies a level of work that is consistent with:

- the expectations of participants in the market for the same or similar appraisal services; and
- what P&A's peers' actions would be in performing the same or similar appraisal services in compliance with USPAP.

Legal and Statutory Requirements: In Texas, the provisions of the Texas Property Tax Code and other relevant legislative measures involving appraisal administration and procedures control the work of P&A as an extension of the Appraisal District. Other states in which P&A is employed will have similar controlling legislation, regulatory agencies, and governmental entities. P&A is responsible for appraising property on the basis of its fair market value as of the stated effective date (January 1 in Texas) for ad valorem tax purposes for each taxing unit that imposes ad valorem taxes on property in the contracted Appraisal District. All mineral properties (interests) are reappraised annually. The definition of Fair Market Value is provided and promulgated for use in ad valorem tax work in Texas by the Texas Property Tax Code, and therefore as a **Jurisdictional Exception** supercedes the definition of "market value" as found in USPAP definitions.

NOTE: IN TEXAS, P&A BELIEVES THE PROPERTY BEING APPRAISED AND PLACED ON THE TAX ROLL IS THE INTEREST AND NOT THE OIL OR GAS MINERAL ITSELF, PER PROPERTY TAX CODE SECTION 1.04(2)(F). WHILE OIL AND GAS RESERVES CERTAINLY HAVE VALUE, THE FACT IS THAT IT IS THE INTERESTS IN THESE MINERALS THAT ARE BOUGHT AND SOLD, NOT THE MINERALS THEMSELVES. THE SALE OF MINERALS AS THEY ARE EXTRACTED FROM THE SUBSURFACE OF THE LAND WHERE THEY RESIDE AS MINERALS IN PLACE "MONETIZES" THE INTEREST AND THUS GIVES THE INTEREST ITS VALUE. WHENEVER P&A REFERS TO "MINERAL PROPERTIES" IN THIS REPORT OR IN ANY OTHER SETTING, IT IS THE MINERAL INTEREST, AND NOT THE MINERAL ITSELF, THAT IS THE SUBJECT OF THE REFERENCE.

Administrative Requirements: P&A endorses the principals of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures. P&A also endorses, and follows when possible, the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP). In all cases where IAAO and/or USPAP requirements cannot be satisfied for reasons of practicality or irrelevancy, P&A subscribes to "generally accepted appraisal methods and techniques" so that its value conclusions are credible and defensible. P&A submits annual or biannual contract bids to the Appraisal District Board of Directors or the Office of the Chief Appraiser and is bound to produce appraisal estimates on mineral properties within the cost constraints of said bid. Any appraisal practices and procedures followed by P&A not explicitly defined or allowed through IAAO or USPAP requirements are specified by the Texas Property Tax Code or at the specific request or direction of the Office of the Chief Appraiser.

### **Appraisal Resources**

Personnel: The Mineral Valuation Division staff consists of competent Petroleum Engineers, Geologists, and Appraisers. All personnel are Registered Professional Appraisers with the State of Texas, or are progressing towards this designation within the allowable time frames prescribed by the Texas Department of Licensing and Regulation (TDLR) and/or other licensing and regulatory agencies as applicable.

Data: For each mineral property a common set of data characteristics (i.e. historical production, price and expense data) is collected from various sources and entered into P&A's mainframe computer system. Historical production data and price data is available through state agencies (Texas Railroad Commission, Texas Comptroller, et al.) or private firms who gather, format and repackage such data for sale commercially. Each property's characteristic data drives the computer-assisted mass appraisal approach to valuation.

Information Systems: The mainframe systems are augmented by the databases that serve the various in-house and 3<sup>rd</sup>-party applications on desktop personal computers. In addition, communication and dissemination of appraisals and other information is available to the taxpayer and client through electronic means including internet and other phone-line connectivity. The appraiser supervising any given contract fields many of the public's questions or redirects them to the proper department personnel.

### **VALUATION APPROACH (MODEL SPECIFICATION)**

Concepts of Value: The valuation of oil and gas properties is not an exact science, and exact accuracy is not attainable due to many factors. Nevertheless, standards of reasonable performance do exist, and there are usually reliable means of measuring and applying these standards.

Petroleum properties are subject to depletion, and capital investment must be returned before economic exhaustion of the resource (mineral reserves). The examination of petroleum properties involves understanding the geology of the resource (producing and non-producing), type of reservoir energy, the methods of secondary and enhanced recovery (if applicable), and the surface treatment and marketability of the produced petroleum product(s).

Evaluation of mineral properties is a continuous process; the value as of the lien date merely represents a "snapshot" in time. The potential value of mineral interests derived from sale of minerals to be extracted from the ground change with mineral price fluctuation in the open market, changes in extraction technology, costs of extraction, and other variables such as the value of money.

#### **Approaches to Value for Petroleum Property**

Cost Approach: The use of cost data in an appraisal for market value is based upon the economic principle of substitution. The cost approach typically derives value by a model that begins with replacement cost new (RCN) and then applies depreciation in all its forms (physical depreciation, functional and economic obsolescence). This method is difficult to apply to oil and gas properties since lease acquisition and development may bear no relation to present worth. Though very useful in the appraisal of many other types of properties, the cost approach is not readily applicable to mineral properties. [Keep in mind that the property actually being appraised is the mineral interest and not the oil and gas reserves themselves. Trying to apply the cost approach to evaluation of mineral interests is like trying to apply the cost approach to land; it is a moot point because both are real properties that are inherently non-replaceable.] **As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., does not employ the cost approach in the appraisal of mineral interests.**

Market Approach: This approach may be defined as one which uses data available from actual transactions recorded in the market place itself; i.e., sales of comparable properties from which a comparison to the subject property can be made. Ideally, this approach's main advantage involves not only an opinion but an opinion supported by the actual spending of money. Although at first glance this approach seems to more closely incorporate the aspects of fair market value per its classical definition, there are two factors that severely limit the usefulness of the market approach for appraising oil and gas properties. First, oil and gas property sales data is seldom disclosed (in non-disclosure states such as Texas); consequently there is usually a severe lack of market data sufficient for meaningful statistical analysis. Second, all conditions of each sale must be known and carefully investigated to be sure one does have a comparative indicator of value per fair market value prerequisites.

Many times when these properties do change hands, it is generally through company mergers and acquisitions where other assets in addition to oil and gas reserves are involved; this further complicates the analysis whereby a total purchase price must be allocated to the individual components - a speculative and somewhat arbitrary task at best. In the case of oil and gas

properties, a scarcity of sales requires that every evidence of market data be investigated and analyzed. Factors relative to the sale of oil and gas properties are:

- current production and estimated declines forecast by the buyer;
- estimated probable and potential reserves;
- general lease and legal information which defines privileges or limitation of the equity sold;
- undeveloped potential such as secondary recovery prospects;
- proximity to other production already operated by the purchaser;
- contingencies and other cash equivalents; and
- other factors such as size of property, gravity of oil, etc.

In the event that all these factors are available for analysis, the consensus effort would be tantamount to performing an income approach to value (or trying to duplicate the buyer's income approach to value), thereby making the market approach somewhat moot in its applicability. **As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., rarely employs a rigorous application of the market approach in the appraisal of mineral interests.**

Income Approach: This approach to value most readily yields itself to the appraisal of mineral interests. Data is readily available whereby a model can be created that reasonably estimates a future income stream to the property. This future income may then be converted (discounted) into an estimate of current value. Many refer to this as a capitalization method, because capitalization is the process of converting an income stream into a capital sum (value). As with any method, the final value is no better than the reliability of the input data. The underlying assumption is that people purchase the property for the future income the property will yield. If the land or improvements are of any residual value after the cessation of oil and gas production, that value should also be included (if those components are also being appraised).

The relevant income that should be used is the expected future net income. Assumptions of this method are:

- Past income and expenses are not a consideration, except insofar as they may be a guide to estimating future net income.
- That the producing life as well as the reserves (quantity of the minerals) are estimated for the property.
- Future income is less valuable than current income, and so future net income must be discounted to make it equivalent to the present income. This discount factor reflects the premium of present money over future money, i.e., interest rate, liquidity, investment management, and risk.

**As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., relies predominantly on the income approach to value in the appraisal of mineral interests.**

## **DATA COLLECTION/VALIDATION**

Sources of Data: The main source of P&A's property data is data from the Railroad Commission of Texas as reported by operators. As a monthly activity, the data processing department receives data tapes or electronic files which have updated and new well and production data. Other discovery tools are fieldwork by appraisers, financial data from operators, information from chief appraisers, tax assessors, trade publications and city and local newspapers. Other members of the public often provide P&A information regarding new wells and other useful facts related to property valuation.

Another crucial set of data to obtain is the ownership of these mineral interests. Typically a mineral lease is fractionated and executed with several if not many owners. This information is typically requested (under a promise of confidentiality concerning owners' personal information) from pipeline purchasers and/or other entities (such as operators) who have the responsibility of disbursing the income to the mineral interest owners. Another source of ownership information is through the taxpayers themselves who file deeds of ownership transfer and/or correspond with P&A or the appraisal district directly.

Data Collection Procedures: Electronic and field data collection requires organization, planning and supervision of the appraisal staff. Data collection procedures for mineral properties are generally accomplished globally by the company; i.e., production and price data for the entire state is downloaded at one time into the computer system. Appraisers also

individually gather and record specific and particular information to the appraisal file records, which serves as the basis for the valuation of mineral properties. P&A is divided into four district offices covering different geographic areas. Each office has a district manager, appraisal and ownership maintenance staff, and clerical staff as appropriate. While overall standards of performance are established and upheld for the various district offices, quality of data is emphasized as the goal and responsibility of each appraiser.

### **VALUATION ANALYSIS (MODEL CALIBRATION)**

Appropriate revisions and/or enhancements of schedules or discounted cash flow software are annually made and then tested prior to the appraisals being performed. Calibration typically involves performing multiple discounted cash flow tests for leases with varying parameter input to check the correlation and relationship of such indicators as: Dollars of Value Per Barrel of Reserves; Dollars of Value Per Daily Average Barrel Produced; Dollars of Expense Per Daily Average Barrel Produced; Years Payout of Purchase Price (Fair Market Value). In a more classical calibration procedure, the validity of values by P&A's income approach to value is tested against actual market transactions, if and when these transactions and verifiable details of these transactions are disclosed to P&A. Of course these transactions must be analyzed for meeting all requisites of fair market value definition. Any conclusions of this analysis are then compared to industry benchmarks for reasonableness before being incorporated into the calibration procedure.

### **INDIVIDUAL VALUE REVIEW PROCEDURES**

Individual property values are reviewed several times in the appraisal process. P&A's discounted cashflow software dynamically generates various benchmark indicators that the appraiser reviews concurrent with the value being generated. These benchmarks often prompt the appraiser to reevaluate some or all of the parameters of data entry so as to arrive at a value more indicative of industry standards. Examples of indicators are dollars of value per barrel of oil reserve, years payout, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values, either before or after Notices of Appraised Value are prepared. Operators routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as individual lease operating expense and reserve figures. And of course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as an extension of the Office of the Chief Appraiser.

### **PERFORMANCE TESTS**

An independent test of the appraisal performance of properties appraised by P&A is conducted by the State of Texas Comptroller's Office through the annual Property Value Study for school funding purposes. This study determines the degree of uniformity and the median level of appraisal for mineral properties. School jurisdictions are given an opportunity to appeal any preliminary findings. After the appeal process is resolved, the Comptroller publishes a report of the findings of the study, including in the report the median level of appraisal, the coefficient of dispersion around the median level of appraisal and any other standard statistical measures that the Comptroller considers appropriate.

### **CALENDAR OF EVENTS/DELIVERABLES TO CLIENT**

As an appraisal contractor, the calendar of events and/or deliverables is largely dependent upon the client's needs and requirements. That said, P&A generally follows the property tax calendar as promulgated by the Property Tax Assistance Division (PTAD) whereas certain work activities must be accomplished by certain deadlines as specified by the Property Tax Code. P&A's contracts typically involve compensation being received from the client only after completion of certain events or deliverables. For example, the CAD may make quarterly payments per the following schedule:

- February, after completion of personal property field inspections;
- May, after completion and mailing of Notices of Appraised Value;
- August, after completion of Appraisal Review Board hearings; and

- November, after Certification of values.

The timetable regarding the sections described above is generally as follows:

- **Data Collection/Validation** occurs beginning in the Fall (October) prior to a tax year and continues into the Spring of that same tax year;
- **Valuation Analysis (Model Calibration)** occurs in the Spring (March - May) of a tax year and continues into the Summer (June - August) of that same tax year;
- **Individual Value Review Procedures** occurs concurrent, more or less, with Valuation Analysis; and
- **Performance Tests** occurs later in the tax year after certification of values.

## REAPPRAISAL OF INDUSTRIAL, UTILITY, AND RELATED PERSONAL PROPERTY

*Note: This section, in conjunction with any attached or separately provided P&A-generated appraisal reports specific to the subject property or properties, constitutes the "mass appraisal written report" as required by USPAP Standards Rule 6-8. USPAP Standards Rule 6-9 (certification) can be found at the end of this report. USPAP Standards Rules 6-1 through 6-7 (instructions and explanations regarding the development, application, and reconciliation of mass appraisal values), as they apply to P&A mass appraisal procedures, are discussed below. USPAP DOES NOT DICTATE THE FORM, FORMAT, OR STYLE OF APPRAISAL REPORTS, WHICH ARE FUNCTIONS OF THE NEEDS OF USERS AND PROVIDERS OF APPRAISAL SERVICES. USPAP ALSO DOES NOT MANDATE THAT EACH APPRAISAL REPORT BE LENGTHY AND FULL OF DISCLAIMERS. Readers should note that all P&A reports, unless stated otherwise, are of a "summary" nature versus "self-contained," whereas additional documentation and detail may be available per certain Texas Property Tax Code provisions.*

### INTRODUCTION

**Definition of Appraisal Responsibility:** The Engineering Services Department of Pritchard & Abbott, Inc. (P&A) is responsible for developing fair and uniform market values for industrial, utility and personal properties.

P&A's typical client is a governmental entity charged with appraisal responsibility for ad valorem tax purposes, although other types of clients (private businesses, individuals, etc.) occasionally contract for appraisal services which are strictly for various non-ad valorem tax purposes so that no conflicts of interest are created with P&A's core ad valorem tax work.

Intended users of our reports are typically the client(s) for which we are under direct contract and taxpayers or their agents who own and/or represent the subject property being appraised. Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

P&A believes this section of this report, in conjunction with any attached or separately provided P&A-generated report(s), meets the USPAP definition of "typical practice"; i.e., it satisfies a level of work that is consistent with:

- the expectations of participants in the market for the same or similar appraisal services; and
- what P&A's peers' actions would be in performing the same or similar appraisal services in compliance with USPAP.

*This section of P&A's Biennial Reappraisal Plan is not applicable to any Industrial, Utility, or related Personal Property that an appraisal district appraises outside of P&A's appraisal services, in which case the appraisal district's overall Biennial Reappraisal Plan should be referenced.*

P&A makes the Extraordinary Assumption that all properties appraised for ad valorem tax purposes are marketable whereas ownership and title to property are free of encumbrances and other restrictions that would affect fair market value to an extent not obvious to the general marketplace. If and/or when we are made aware of any encumbrances, etc., these would be taken into account in our appraisal in which case the extraordinary assumption stated above would be revoked.

**Legal and Statutory Requirements:** The provisions of the Texas Property Tax Code and relevant legislative measures involving appraisal administration and procedures control the work of P&A as a subcontractor to the Appraisal District. P&A is responsible for appraising property on the basis of its market value as of January 1 for ad valorem tax purposes for each taxing unit that imposes ad valorem taxes on property in the contracted Appraisal District. All industrial, utility and personal

properties are reappraised annually. The definition of Fair Market Value is provided and promulgated for use in ad valorem tax work in Texas by the Texas Property Tax Code, and therefore as a **Jurisdictional Exception** supercedes the definition of "market value" as found in USPAP definitions.

**Administrative Requirements:** P&A follows generally accepted and/or recognized appraisal practices and when applicable, the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures. P&A, when applicable, also subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP). P&A submits annual or biannual contract bids to the Office of the Chief Appraiser and is bound to produce appraisal estimates on industrial, utility and personal properties within the cost constraints of said bid. Any appraisal practices and procedures followed by P&A not explicitly defined through IAAO or USPAP requirements are specified by the Texas Property Tax Code and/or at the specific request or direction of the Office of the Chief Appraiser.

### Appraisal Resources

**Personnel:** The Engineering Services Department and P&A's appraisal staff consists of appraisers with degrees in engineering, business and accounting. All personnel are Registered Professional Appraisers with the State of Texas, or are progressing towards this designation as prescribed by the Texas Department of Licensing and Regulation (TDLR).

**Data:** A set of data characteristics (i.e. original cost, year of acquisition, quantities, capacities, net operating income, property description, etc.) for each industrial, utility and personal property is collected from various sources. This data is maintained in either hard copy or computer files. Each property's characteristic data drives the appropriate computer-assisted appraisal approach to valuation.

**Information Systems:** P&A's mainframe computer system is composed of in-house custom software augmented by schedules and databases that reside as various applications on personal computers (PC). P&A offers a variety of systems for providing property owners and public entities with information services.

### VALUATION APPROACH (MODEL SPECIFICATION)

**Concepts of Value:** The valuation of industrial, utility and personal properties is not an exact science, and exact accuracy is not attainable due to many factors. These are considered complex properties and some are considered Special Purpose properties. Nevertheless, standards of reasonable performance do exist, and there are reliable means of measuring and applying these standards.

The evaluation and appraisal of industrial, utility and personal property relies heavily on the discovery of the property followed by the application of recognized appraisal techniques. The property is subject to inflation and depreciation in all forms. The appraisal of industrial and personal property involves understanding petroleum, chemical, steel, electrical power, lumber and paper industry processes along with a myriad of other industrial processes. Economic potential for this property usually follows either the specific industry or the general business economy. The appraisal of utility properties involves understanding telecommunications, electrical transmission and distribution, petroleum pipelines and the railroad industry. Utility properties are subject to regulation and economic obsolescence. The examination of utility property involves the understanding of the present value of future income in a regulated environment.

The goal for valuation of industrial, utility and personal properties is to appraise all taxable property at "fair market value". The Texas Property Tax Code defines Fair Market value as the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and

- both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

### Approaches to Value for Industrial, Utility, and Personal Property

**Cost Approach:** The use of cost data in an appraisal for market value is based upon the economic principle of substitution. This method is most readily applicable to the appraisal of industrial and personal property and some utility property. Under this method, the market value of property equals the value of the land plus the current cost of improvements less accrued depreciation. An inventory of the plant improvements and machinery and equipment is maintained by personally inspecting each facility every year. As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., relies predominantly on the cost approach to value in the appraisal of industrial, utility, and personal property.

**Market Approach:** This approach is characterized as one that uses sales data available from actual transactions in the market place. There are two factors that severely limit the usefulness of the market approach for appraising industrial, utility and personal properties. First, the property sales data is seldom disclosed; consequently there is insufficient market data for these properties available for meaningful statistical analysis. Second, all conditions of sale must be known and carefully investigated to be sure one does have a comparative indicator of value. Many times when these properties do change hands, it is generally through company mergers and acquisitions where other assets and intangibles in addition to the industrial, utility and personal property are involved. The complexity of these sales presents unique challenges and hindrances to the process of allocation of value to the individual components of the transaction.

In the case of industrial, utility and personal properties, a scarcity of sales requires that all evidence of market data be investigated and analyzed. Factors relative to the sale of these properties are:

- plant capacity and current production; terms of sale, cash or equivalent;
- complexity of property;
- age of property;
- proximity to other industry already operated by the purchaser; and
- other factors such as capital investment in the property.

As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., rarely employs a rigorous application of the market approach in the appraisal of industrial, utility, and personal property.

**Income Approach:** This approach to value most readily yields itself to all income generating assets, especially utility properties. Data for utility properties is available from annual reports submitted to regulatory agencies whereby future income may be estimated, and then this future income may be converted into an estimate of value. The valuation of an entire company by this method is sometimes referred to as a Unit Value. Many refer to this as a capitalization method, because capitalization is the process of converting an income stream into a capital sum (value). As with any method, the final value estimate is no better than the reliability of the input data. The underlying assumption is that people purchase the property for the future income the property will yield.

The relevant income that should be used in the valuation model is the expected future net operating income after depreciation but before interest expense (adjustments for Federal Income Taxes may or may not be required). Assumptions of this method are:

- Past income and expenses are a consideration, insofar as they may be a guide to future income, subject to regulation and competition.
- The economic life of the property can be estimated.
- The future production, revenues and expenses can be accurately forecasted. Future income is less valuable than current income, and so future net income must be discounted to make it equivalent to the present income. This discount factor reflects the premium of present money over future money, i.e., interest rate, liquidity, investment management, and risk.

As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., employs the income approach in the appraisal of industrial and utility property only when quantifiable levels of income are able to be reliably determined and/or projected for the subject property. P&A does not employ the income approach in the appraisal of personal property.

#### DATA COLLECTION/VALIDATION

Sources of Data: The main source of P&A's property data for industrial and personal property is through fieldwork by the appraisers and commercially/publicly available schedules developed on current costs. Data for performing utility appraisals is typically provided by the taxpayer or is otherwise available at various regulatory agencies (Texas Railroad Commission, Public Utilities Commission, FERC, etal.). Other discovery tools are financial data from annual reports, information from chief appraisers, renditions, tax assessors, trade publications and city and local newspapers. Other members of the public often provide P&A information regarding new industry and other useful facts related to property valuation.

Data Collection Procedures: Electronic and field data collection requires organization, planning and supervision of the appraisal staff. Data collection procedures have been established for industrial and personal properties. Appraisers gather and record information in the mainframe system, where customized programs serve as the basis for the valuation of industrial, utility and personal properties. P&A is divided into multiple district offices covering different geographic zones. Each office has a district manager and field staff. While overall standards of performance are established and upheld for the various district offices, quality of data is emphasized as the goal and responsibility of each appraiser. Additionally, P&A's Engineering Services Department provides supervision and guidance to all district offices to assist in maintaining uniform and consistent appraisal practices throughout the company.

#### VALUATION ANALYSIS (MODEL CALIBRATION)

The validity of the values by P&A's income and cost approaches to value is tested against actual market transactions, if and when these transactions and verifiable details of the transactions are disclosed to P&A. These transactions are checked for meeting all requisites of fair market value definition. Any conclusions from this analysis are also compared to industry benchmarks before being incorporated in the calibration procedure. Appropriate revisions of cost schedules and appraisal software are annually made and then tested for reasonableness prior to the appraisals being performed.

#### INDIVIDUAL VALUE REVIEW PROCEDURES

Individual property values are reviewed several times in the appraisal process. P&A's industrial, utility, personal property programs and appraisal spreadsheets afford the appraiser the opportunity to review the value being generated. Often the appraiser is prompted to reevaluate some or all of the parameters of data entry so as to arrive at a value more indicative of industry standards. Examples of indicators are original cost, replacement cost, service life, age, net operating income, capitalization rate, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values either before or after Notices of Appraised Value are prepared. Taxpayers, agents and representatives routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as investment costs and capitalization rate studies. And of course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as a representative of the Office of the Chief Appraiser.

#### PERFORMANCE TESTS

An independent test of the appraisal performance of properties appraised by P&A is conducted by the State of Texas Comptroller's Office through the annual Property Value Study for school funding purposes. This study determines the degree of uniformity and the median level of appraisal for utility properties. School jurisdictions are given an opportunity to appeal

any preliminary findings. After the appeal process is resolved, the Comptroller publishes a report of the findings of the study, including in the report the median level of appraisal, the coefficient of dispersion around the median level of appraisal and any other standard statistical measures that the Comptroller considers appropriate.

#### CALENDAR OF EVENTS/DELIVERABLES TO CLIENT

As an appraisal contractor, the calendar of events and/or deliverables is largely dependent upon the client's needs and requirements. That said, P&A generally follows the property tax calendar as promulgated by the Property Tax Assistance Division (PTAD) whereas certain work activities must be accomplished by certain deadlines as specified by the Property Tax Code. P&A's contracts typically involve compensation being received from the client only after completion of certain events or deliverables. For example, the CAD may make quarterly payments per the following schedule:

- February, after completion of personal property field inspections;
- May, after completion and mailing of Notices of Appraised Value;
- August, after completion of Appraisal Review Board hearings; and
- November, after Certification of values.

The timetable regarding the sections described above is generally as follows:

- **Data Collection/Validation** occurs beginning in the Fall (October) prior to a tax year and continues into the Spring of that same tax year;
- **Valuation Analysis (Model Calibration)** occurs in the Spring (March - May) of a tax year and continues into the Summer (June - August) of that same tax year;
- **Individual Value Review Procedures** occurs concurrent, more or less, with Valuation Analysis; and
- **Performance Tests** occurs later in the tax year after certification of values.