

**Schleicher County  
Appraisal District**

**BIENNIAL WRITTEN  
REAPPRAISAL PLAN  
For  
Tax Years 2015 and 2016**

**CAD BOARD OF DIRECTORS**

**Phil McCormick, Chairman  
Matt Brown, Secretary  
Kurtis Homer  
Kirk Jones  
Kerry Joy**

**Chief Appraiser Jani Mitchell**

**ADOPTED September 12, 2014**

## **Reappraisal Policy**

Section 25.18, Tax Code, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. The CAD's primary efforts have been to identify, inspect and reappraise properties.

The Schleicher CAD's current policy is to conduct a general reappraisal of taxable property once every three years. This plan is for tax years 2015 and 2016. The CAD reviews appraised values every year and are subject to change. Business personal properties are appraised annually due to the property owners' renditions required by the Tax Code.

The appraised value of real estate is calculated using specific information about each property using computer-assisted mass appraisal programs, and recognized appraisal methods and techniques; the CAD compares that information with the data for similar properties, with recent cost data, and with recent market (sales) data.

Per Section 25.18 (5) of the Tax Code. The model for all properties used to estimate the present value of income expected in the future is represented by the following formulas known as IRV

Value = Income/Rate or, Income = Rate x Value or, Rate = Income/value

This formula is used in determining value for all categories appraised by the CAD.

Any reference to a specific work plan contained herein is to be considered tentative for the CAD at this time. The work plan assumptions are made with the understanding that there are no natural disasters or new legislative requirements that will require the CAD to reallocate resources necessary to complete the normal work plan to address these possible high need areas. These work plans are under the assumption that there will be an ample supply of market data, and or verifiable market activity in the CAD.

## **Exceptions and special valuation provisions**

Chapter 23, Tax Code, Defines special appraisal provisions for valuation of residential homestead properties (Sec 23.23), which are referred to as the residential homestead cap. Chapter 23 also addresses special appraisal provisions for productivity (Sec. 23.41, 23.51), real property inventory (Sec. 23.12), and dealer inventory (Sec.23.121, 23.124, 23.1241 and 23.127), nominal (Sec. 23.18), restricted use properties (Sec. 23.83), and allocation of interstate property (Sec. 23.03). The owners of inventory may elect to have the inventory appraised at its market value as of September 1st of the year that proceeds the tax year to which the appraisal applies by filing an application with the Chief Appraiser.

**Agricultural Valuation Process:** Texas Constitution, Article VIII, Sec. 1-d-1, provides for the special valuation of "open space land devoted to farm or ranch purposes." In other words, undeveloped non-agricultural land does not qualify.

This is a special valuation for land that is devoted to agricultural production. In 1991, legislation was passed which allowed productivity appraisal for land used to manage indigenous wildlife. Agricultural or productivity value is based on the land's capacity to produce crops or livestock instead of its value on the real estate market. Although this lower value reduces the taxes on the property, a "rollback" of these

**Comparative Appraisal Analysis:** The appraiser performs an average unit value comparison in addition to a traditional ratio study. These studies are performed on commercially classed properties by property use type (such as apartment, office retail, and warehouse usage or special use). The objective to this evaluation is to determine appraisal performance of sold and unsold properties. Appraisers' average unit prices of sales and average unit appraised values of the same parcels and the comparison of average value changes of sold and unsold properties. These studies are conducted on substrata such as building class and on properties located within various economic areas. In this way, overall appraisal performance is evaluated geographically, by specific property type to discern whether sold parcels have been selectively appraised. When sold parcels and unsold parcels are appraised equally, the average unit values are similar. These horizontal equity studies are performed prior to annual noticing.

**Independent Performance Test:** According to Chapter 5, Tax Code, and Section 403.302 of the Texas Government Code, the Texas Comptroller's Property Tax Assistance Division (PTAD) conducts a Property Value Study (PVS) of each Texas School district and each CAD. The PVS is used to determine equitable school funding by the State of Texas and to determine the performance of CADs.

As a part of this study, the Tax Code requires the Comptroller to use sales and recognized auditing and sampling techniques; review each CAD's appraisal methods, standards and procedures to determine whether the CAD used recognized standards and practices (MSP review); test the validity of school district taxable values in each CAD and presume the appraisal roll values are correct when values are valid; and determine the level and uniformity of property tax appraisal in each CAD.

The methodology used in the PVS includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. The PVS utilized statistical analysis of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis of assessment ratio reporting. For CADs, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 10% of the median, the percentage of properties within 20% of the median, and price-related differential (PRD) for properties overall and by state category (i.e., categories A, B, C, D and F1 are directly applicable to real property).

There is one independent school district in Schleicher CAD for which appraisal rolls are annually developed. The preliminary results of this study are released in January in the year following the year of appraisal. The Comptroller certifies the final results of the study to the Education Commissioner of the 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.

5. 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;
6. Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
7. Reviewing the appraisal results to determine value.

### **Adoption of the Reappraisal Plan**

The secretary of the CAD board delivered to the presiding officer of the governing body of each taxing unit participating in the CAD a written notice of the date, time, and place of its September 12th, 2014 hearing on this reappraisal plan. The CAD board completed its hearing, (amended the plan as requested, and by resolution approved the plan by action item at its board meeting on September 12, 2014).

Copies of this approved plan were distributed to the presiding officer of the Governing Body of each Taxing unit participating in the CAD and to the comptroller within 60 days of the approval date.

### **C. Business Personal Property (BPP)**

Identification of new BPP properties is accomplished in part by annual renditions, commercial building permits, DBA filings with the county clerk's office, commercial vehicle listings supplied through a third party vendor, sales tax permit reports from the Texas Comptroller, local hotel/motel occupancy tax reports, and monthly and annual vehicle declarations submitted by local dealers.

CAD field appraisers inspect their assigned areas to identify new businesses or changes in the size and scope of existing businesses. CAD personnel review local publications for advertisements and notices of grand openings or closures. Businesses listed in the local phone book/yellow pages are checked against the current appraisal roll.

Which businesses or specific types of businesses that will be designated for inspection will be set out during development of the annual work plan for each year, and will be determined using information obtained in the discovery process.

### **D. Industrial, Utility, and Mineral Property (real and personal property)**

The industrial, utility, and mineral appraisal firm contracted by the CAD is responsible for identifying property and/or updating information relating to existing accounts. Resources available for this process include those employed by CAD personnel and discussed in sections A-C. Additional resources include information and reports provided by various State and Federal regulatory agencies, such as Texas Railroad Commission, Texas Public Utility Commission, and the Federal Communications Commission. (Please see attached plan for more information.)

#### **D. Industrial, Utility, and Mineral Property (real and personal property)**

The Industrial, Utility, and Mineral appraisal firm contracted by the CAD is responsible for updating and identifying relevant characteristics for this property type. After the discovery, the contract firm completes field and appraisal work. It provides an appraisal roll for those properties to the CAD. CAD will then import data received by the appraisal firm. (Please see attached plan for more information)

### **C. Business Personal Property**

When defining a market area for business personal property, the boundary of the CAD may be considered one market. When unique situations arise, the market area may be widened to the regional or state level. The market for business personal property is determined by the design and use of the property in question; thus, the type of business that the property can be used within will determine the buyers and sellers of the property.

### **D. Industrial, Utility, and Mineral Property (real and personal property)**

Market areas for industrial, utility and mineral tend to be regional, state, or national in scope. Financial analyst and investor services reports are used to help define market areas. (See attached plan for more information).

### *Single- Family Residences*

Appraisals for single family residences are derived by using the market sales approach as the model for valuation. The master residential valuation schedule is annually updated by collecting sales of residential properties for the prior 12 months. These confirmed sales are reviewed for validity and any sales that are considered non-market transactions are placed in the non-use file from the study. Examples of non-market transactions are a low number of foreclosure sales and sales transactions between friends and relatives.

All sales that have been evaluated and determined to be indicative of the true market value transactions are then grouped according to the quality class that has been assigned to the residence. Once all sales are grouped according to the quality class of the residence, a sales ratio study is conducted for each quality group of sales. The sales ratio study is a simple and straightforward exercise in mathematics: the prior year appraisal for each individual property expressed as a percentage. If the prior year appraisal is less than the sales price, then the result will be a percentage less than 100%. If the proper year appraisal is greater than the sale price, then the result will be a percentage greater than 100%. The purpose of the sales ratio study is to determine how accurately prior year appraisals reflect the market values of the properties within the study.

Once all of the ratios have been determined, an average and median ratio is calculated for each quality class. In addition, a weighted mean is calculated for each quality class as well as for the entire study. The weighted mean for a quality is calculated by summing the appraisals for each property with each quality class, then summing the sales prices for the same properties and then dividing the first result by the second. The weighted mean for the entire study is calculated by summing the appraisals of all properties (regardless of class), then summing the sales price for all properties and then dividing the first result by the second.

The resulting statistics of average ratio, median ratio and weighted mean ratios are then used to conclude the amount (on a percentage basis) that the master residential valuation schedule will be adjusted. The primary statistic that is used when arriving at this conclusion is the weighted mean for the entire study. If this weighted mean is less than 100%, then it can be concluded that market values are increasing, therefore, it is necessary to adjust the master residential valuation schedule upward in order to satisfy the statutory obligation to appraise properties at 100% of the market value. If the weighted mean is greater than 100%, then it can be conclude that market values are decreasing and it will be necessary to adjust the master residential valuation schedule downward.

Once the master residential valuation schedule is updated within the appraisal software, appraisals of single-family residences are updated based on the updated residential schedule values. Further appraisal analysis is then performed by neighborhood. This analysis is performed to “fine tune” the appraisals and to determine if properties within certain neighborhoods are selling at a premium or a discount when compared to the market as a whole. Neighborhood analysis is performed by conducting ratio studies within individual, predetermined neighborhoods or market areas. The results of the neighborhood ratio studies will aid in determining if the appraisals within the neighborhood need to be adjusted downward or upward. Whichever the conclusion, all appraisals within a neighborhood will receive a “mass adjustment” to increase or decrease the appraisal as deemed necessary from the results of the neighborhood ratio study.



## **D. Industrial, Utility, and Mineral Property (real and personal property)**

Market areas for industrial, utility, and pipeline tend to be regional, state, or national in scope. Using the income approach to value as the most common appraisal approach, the appraiser must bring together relevant characteristics of production volume and pattern, product prices, operating expenses, discount rate, and other reported information is to regulatory agencies. (See attached plan for more information.)

### ***Industrial Personal Property***

Among the three approaches to value (cost, income and market), industrial properties are most commonly appraised using replacement/reproduction cost new less depreciation models because of readily available cost information. If sufficient income or market data are available, those appraisal models may also be used. (See attached plan for more information.)

### ***Utility and Pipeline Property***

For utility and pipeline property, the appraiser must first form an opinion of highest and best use. Among the three approaches to value (cost, income and market), pipeline value is calculated using a replacement/reproduction cost new less depreciation model (RCNLD). In addition to the RCNLD indicator, a unit value model may also be used if appropriate data are available. Utility and railroad property are appraised in a manner similar to pipeline except that the RCNLD model is not used. (See attached plan for more information.)

### ***Oil and Gas Property***

Among the three approaches to value (cost, income, and market), the income approach to value is most commonly used in the oil and gas industry. Through use of the discounted cash flow technique in particular, the appraiser is able to bring together relevant characteristics of production volume and pattern, product prices, operating expenses, and discount rate to determine and estimate of appraised value of an oil and gas property. (See attached plan for more information.)

Note: For more on the properties described in section D, see the appraisal report from the CAD's contract appraiser Thos. Y. Pickett & Co., Inc., 4464 Sigma Road, Dallas, Texas 75244-4596

Note: For more on the properties described as Agriculture Value, see the appraisal report from the CAD's contract appraiser Perdue, Brandon, Fielder, Collins and Mott, 3301 Northland Drive, Suite 505, Austin, Texas 78731

Note: For more on the commercial properties, see appraisal report from the CAD's contract appraiser Western Valuation & Consulting, 1250 Petroleum, Building A, Abilene, TX 79602

### **C. Business Personal Property (non-industrial)**

CAD will perform analysis annually to determine if the estimated market values are equitable in the CAD. The CAD staff will conduct an annual review of the SIC codes to determine equitable valuation of business personal property with similar business groupings. Accounts that fail tolerance parameters, which could include accounts with current rendition filings, accounts with field or data changes, accounts with hearings, new accounts and cost schedule changes will be the subject of this review.

### **D. Industrial Property**

The appraiser considers results that best address the individual characteristics of the subject property and that are based on the most reliable data when multiple models are used. Year-to-Year property value changes for the subject property are examined using computer assisted statistical review. Periodic reassignment of properties among appraisers or the review of appraisals by a more experienced appraiser also contributes to the review process. (See attached plan for more information.)

### **E. Utility & Pipeline Property**

The appraiser considers results that best address the individual characteristics of the subject property when multiple models are used. Year-to-Year property value changes for the subject property are examined using computer assisted statistical review. Periodic reassignment of properties among appraisers or the review of appraisals by a more experienced appraiser also contributes to the review process. These types of property are also subject to review by the Property Tax Division of the Texas Comptroller's office through the Property Value Study. (See attached plan for more information.)

### **F. Industrial Personal Property**

The appraiser reconciles multiple models by considering the model that best addresses the individual characteristics of the subject property. Year-to-Year property value changes for the subject property are examined using computer assisted statistical review. Periodic reassignment of properties among appraisers or the review of appraisals by a more experienced appraiser also contributes to the review process. (See attached plan for more information.)

### **G. Oil & Gas Property**

Use of the income approach is the first step in determining an estimate of the market value. The appraiser reviews the estimated market value compared to its previous certified value and also compares it to industry expected payouts and income indicators. The appraiser examines the model's value with its previous year's actual income, expecting value to typically vary within a range of 2-5 times actual annual income, provided all appropriate income factors have been correctly identified. Finally, periodic reassignment of properties among appraisers and review of appraisals by a more experienced appraiser further expand the review process.

Note: For more on the properties described in D through G, see the mass appraisal report from the CAD's contract appraiser Thos. Y. Pickett & Co., Inc.

### **CAD Staff and Contractors**

<i>Name</i>	<i>Position</i>	<i>Responsibilities</i>
Jani Mitchell	Chief Appraiser	Appraisal Oversight, Management, Deed Transactions, Appraiser, Data Entry
Sarah Coronado	Deputy Chief/ Mapper	Create boundary lines, Split Properties, Rename Properties, Assures that Mapping System and PAC's programs match.
Roxanne Arispe	Secretary	Taxpayer Assistance, Reception, Filing

### **Contract Appraisal Firm Providing Mass Appraisal Assistance to the CAD**

Perdue, Brandon, Fielder, Collins & Mott LLP.  
Attorneys at Law  
33301 Northland Drive, Suite 505  
Austin, TX 78731

Thomas Y. Pickett & Company, Inc.  
4464 Sigma Road  
Dallas, TX 75244-4596

Western Valuation & Consulting  
1250 Petroleum, Building A  
Abilene, TX 79602

### **Staff Education and Training**

All personnel that are performing appraisal work are registered with the TDLR (or its successor agency) And are required to take appraisal courses to achieve the status of Registered Professional Appraiser (RPA) within five years of employment as an appraiser. After they are awarded their RPA certificate, They must receive additional training. Failure to meet these standards results in termination of the Employee.

## **REAPPRAISAL PLAN FOR TAX YEARS 2015-2016**

### **RESIDENTIAL PROPERTIES**

Identify properties to be appraised:

2015 drive and inspect all properties in the City Limits

2016 drive and inspect all rural properties in the County

SCAD will review sales data and new construction of the prior year and will adjust schedules including adding or removing feature and amenity characteristic modifiers.

Identify and update relevant characteristics of each property in the appraisal records: Through personal inspection, the appraiser will verify and complete the property record characteristic data. Additional sources for data collection include, but are not limited to building permits and confidential information. Additional information may be derived through neighborhood and comparable property analysis.

Define market areas within the district:

Market areas for residential properties are delineated within the city as well as in the immediate surrounding areas. Rural residential properties represent one market area. Market areas are reviewed annually for presence of competing property characteristics.

Develop an appraisal approach that reflects the relationship among property characteristics affecting value and determines the contribution of individual property characteristics:

For all types of properties, the appraiser must first determine the “highest and best use” of the property. Residential properties rely heavily on the cost approach, reproduction cost new less depreciation. Schedules are tested with sales to insure that the district is in compliance with Texas Property Tax Code. Value tables, as well as depreciation schedules are tested for accuracy and uniformity using ratio study tools and compared with cost data from recognized industry leaders, such as Marshall & Swift.

Comparison and review: The appraiser considers results that best represent the subject property. Year to year property value changes are reviewed for reasonable confidence. Ratio studies measure the accuracy and uniformity of the results. Random samples are selected for individual sales analysis. Outlier properties are re-inspected and their sales re-verified. Residential properties are reviewed by the State Comptroller Office through the annual Property Value Study.

## 2015 & 2016 REAPPRAISAL SCHEDULE

August to November	Begin field inspections
December	Sales ratio study Gather current sales data
January to February	Mail homestead applications and personal property renditions Complete field inspections Agricultural Advisory Committee shall be assembled to gather data from the last 2 years production. The ACC will be furnished results of the productivity calculations before mid April with solicitation of comment. Run sales ratio reports. Compare with CAD values and sales information. Identify necessary schedule adjustments.
March to April	Continue sales ratio reports Refine mass appraisal schedules Test schedules Complete data entry of all reappraisal and maintenance changes Finalize all field work and data collection activities Prepare for mailing 2013 & 2014 Notices of Value
May to June	Hold informal hearings Respond to property owner inquiries, protest and questions from notice mailing Provide certified estimated value to taxing units
July	Hold ARB hearings Process and mail ARB Orders ARB approval of appraisal records by July 20 <sup>th</sup> or as soon as possible Certification of appraisal records and value to taxing units by July 25 <sup>th</sup>

### 2015 Reappraisal Schedule

The same timetable and duties apply in each year. The SCAD shall physically inspect all property as described. The Chief Appraiser and CAD shall continue to complete the same duties and reappraisal steps as outlined for 2016.

## RESOLUTION

On this 12<sup>th</sup> day of September, 2014, at a regular meeting of the Board of Directors of Schleicher County Appraisal District there came for consideration a resolution to adopt a biennial re-appraisal plan for the tax years 2015 and 2016. After conducting a public hearing to consider the plan, Motion was made by, Matt Brown, seconded by Kirk Jones to authorize the adoption of said plan.

Said Motion put to vote:

Those voting "for" were:

Phil McElis  
Anthony Berner  
J. Kirk Jones  
[Signature]  
Matt Brown

Those voting 'against' were:

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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Phil McElis  
Chairman, Board of Directors  
Schleicher County Appraisal District

9-12-14  
Date

**Schleicher County Appraisal District**  
**Oil and Gas Reserves**  
**2015-16 Appraisal Procedures and Reappraisal Plan**

**August 1, 2014**

*by*

*Thos. Y. Pickett & Company, Inc.*

## **APPRAISAL PROCEDURES & REAPPRAISAL PLAN**

### **OIL AND GAS RESERVES**

#### **Executive Summary**

- Thos. Y. Pickett & Co., Inc. (“Thos. Y. Pickett” or “Pickett”) annually reappraises all producing mineral leases within the CAD’s boundaries using a Discounted Cash Flow (“DCF”) methodology;
- Thos. Y. Pickett uses the Comptroller’s Manual for Discounting Oil and Gas Income pursuant to Tax Code Section 23.175;
- Thos. Y. Pickett determines oil and gas prices in accordance with Tax Code Section 23.175;
- Thos. Y. Pickett’s written procedures for identifying new properties are included herein.

#### **Overview**

Oil and gas reserves consists of interests in subsurface mineral rights. Thos. Y. Pickett & Co. is contracted to reappraise this type of property annually for the appraisal district. The completed appraisals are all retrospective in nature. The purpose of the appraisals is to estimate market value as of January 1 in accordance with the definition of market value established in the Texas Property Tax Code (Sec. 1.04). “Market value” means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- A. exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- B. 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
- C. 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.

The appraisal results will be used as the tax base upon which a property tax will be levied. Each mineral interest is listed on the appraisal roll separately from other interests in the mineral in place in conformance with the Texas Property tax Code Sec. 25.12. A listing of the oil and gas



properties appraised by Pickett for the appraisal district shall be made available at the appraisal district office. Subsurface mineral rights are not susceptible to physical inspection. This condition creates the need to invoke the Departure Provision as required by the Standards Rule 6-7 (f) comment of the Uniform Standards of Professional Practice. However, the inability to physically examine the property does not affect the appraisal process or the quality of the results. The appraisal district is aware of this limiting condition and agrees that it is appropriate.

Documents relevant to an understanding of these appraisals include the confidential rendition, if any, filed with the appraisal district by the owner or agent of the property; the Texas Comptroller's Manual for Discounting Oil and Gas Income; other reports described in the Texas Property Tax Code; and other confidential data supplied by the owner or agent; the General Appraisal Manual adopted by the Texas Comptroller of Public Accounts; Property Assessment Valuation published by the International Association of Assessing Officers and adopted by the Texas Comptroller of Public Accounts and the Texas Property Tax Code.

Pickett's oil and gas appraisal staff includes licensed engineers as well as experienced appraisers who are knowledgeable in all three approaches to value. Oil and gas appraisal staff stays abreast of current trends affecting oil and gas properties through review of published materials, attendance at conferences, course work and continuing education. All oil and gas appraisers are registered with the Texas Department of Licensing and Regulation, (formerly, the Texas Board of Tax Professional Examiners).

#### Assumptions and Limiting Conditions

All appraisals are subject to the following assumptions and limiting conditions:

1. Title to the property is assumed to be good and marketable and the legal description correct.
2. No responsibility for legal matters is assumed. All existing liens, mortgages or other encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management.
3. The appraisers developing these appraisals are not required to give testimony or attendance in court by reason of the appraisals, unless directed by, employed by, and provided legal counsel by the Appraisal District.
4. The appraisers do not inspect every property every year.

5. All sketches on the appraisal documents are intended to be visual aids and should not be construed as surveys or engineering reports unless otherwise specified.
6. All information in the appraisal documents have been obtained by members of Thos. Y. Pickett's staff or by other reliable sources.
7. The appraisals were prepared exclusively for ad valorem tax purposes.

### **Property Discover and Data Collection Process**

Mineral properties are identified and appraised based on their Railroad Commission Identification Number (RRCID). Upon completion of a new well, a Completion Report must be submitted to the Railroad Commission (RRC). The RRC then issues a RRCID. Production from that property is reported by RRCID. Periodically, wells are completed and start producing prior to being issued a RRCID. The production from these wells still must be reported to the RRC and are usually reported by Drilling Permit Number (DP). Since mineral properties are appraised using a Discounted Cash Flow analysis, production data is required to do the analysis. The RRC is the primary source of that data.

#### **Procedure:**

1. At the beginning of the year, the RRC database is searched for new wells that started producing prior to January 1 of the appraisal year. These wells are identified by RRCID or Drilling Permit (DP) number and added to the mineral appraisal database for the county. A well is considered to have value as of January 1 if it has reported production prior to that date, has filed a completion report showing completion prior to that date, or was perforated into a producing formation which showed the presence of oil or gas prior to January 1.
2. Completion reports and plats are retrieved from the RRC to identify the location of the producing wells. These locations are cross-referenced with jurisdictional maps to establish situs.
3. Division of Interest (DOI) statements are requested from the operator of the well to establish working and royalty interests.

4. Additional reviews of the RRC database are done periodically during the year to identify any wells that may have been added to the RRC database after the first of the year, but were completed prior to January 1 of the appraisal year. New producing wells identified after the appraisal period are supplemented, going back up to five years.

Other appraisal data on the subject properties are collected from required regulatory reports from the Texas Railroad Commission and the Texas Comptroller of Public Accounts and by the property owner. Submitted data may be on a rendition form or in other modes that require confidentiality. Subject property data are verified through previously existing records and through published reports. Additional data are obtained and verified through published sources, regulatory reports and through analysis of comparable properties, if any. Due to the unique nature of many oil and gas properties there is no standard data collection form or manual.

### **Valuation Approach and Analysis**

The three generally accepted approaches used in determining the Market Value of assets are the cost, income, and market approaches. The following is a brief description of the three general approaches to value.

#### **Cost Approach**

The cost approach considers the replacement cost of an asset as an indicator of value. The cost approach is based on the assumption that a prudent investor would pay no more for an asset than the amount for which he could replace or recreate the asset. The cost approach is sometimes performed by estimating the replacement cost of an asset functionally similar to the subject. Often, historical cost data can be used to indicate the current cost of reproduction or replacement. Adjustments are made for physical deterioration and the functional and economic obsolescence of the appraised asset.

#### **Income Approach**

The income approach measures the present worth of anticipated future net cash flows generated by the subject assets. The net cash flows are forecast for an appropriate period, or capitalized in the case of a single period model, and then discounted to present value using an appropriate discount rate.

#### **Market Approach**

The market approach is performed by observing the price at assets comparable to the subject asset are bought and sold. Adjustments are made to the data to account for capacity differences and other relevant differences between the subject asset and the comparable assets.

Depending on the facts and circumstances of a particular appraisal, applying the three approaches independently of one another can yield conclusions that are substantially different. As the appraisal is performed, the strengths of the individual approaches are considered and the influence of each approach in the appraisal process is weighed according to its likely accuracy.

All oil and gas interest values are arrived at through an appraisal of the whole property. Each fractional interest is then assigned a value on the basis of its relative share of expenses, income and the value of the operating equipment. Multiple producing zones in the same well may be treated as separate properties.

Oil and gas properties are principally appraised through the income approach to value. Specifically, the discounted cash flow (DCF) technique is used almost exclusively. The almost exclusive reliance on income approach methods, adjusted for risk and market conditions, is typical of the oil and gas industry in dealings between buyers and sellers as well as in single-property appraisals. A mineral property's intrinsic value is derived from its ability to generate income by producing oil and/or gas reserves.

Income approach calibration involves the selection of the cost of capital or discount rate appropriate to the type of property being appraised as well as adjusting the projected revenue stream to reflect the individual characteristics of the subject property. The DCF model is also calibrated through the use of lease operating expenses that reflect the individual characteristics of the subject property.

A jurisdictional exception to the DCF model, as this process is described in the Statement on Appraisal Standards No. 2 of the Uniform Standards of Professional Appraisal Practice, must be taken. Section 23.175 (a) of the Texas Property Code specifies that the price of oil and gas used for the first year of the DCF analysis must be the monthly average price of the oil and gas received from the interest for the preceding year multiplied by a price adjustment factor which is calculated in accordance with Section 23.175(a). Furthermore, the prices used for succeeding years are based upon escalation factors also determined in accordance with Section 23.175(a).

Highest and best use analysis of the oil and gas reserves is based on the likelihood of the continued use of the reserves in their current use. An appraiser's identification of a property's highest and best use is always a statement of opinion, never a statement of fact.

### **Review and Testing**

Review of appraisals is performed through a comparison of income indicators and compliance with Section 23.175 of the Texas Property Tax Code. A review of property values with respect

to year-to-year changes and with respect to industry-accepted income indicators is conducted annually. The periodic reassignment of properties among appraisers or the review of appraisals by an experienced appraiser also contributes to the review process.

Appraisal-to-sales ratios are the preferred method for measuring performance, however sales are very infrequent and often the sales conditions are not made public for the sales that do occur. Furthermore, market transactions normally occur for multiple sites and include real and personal property, tangible and intangible, making analysis difficult and subjective. Performance is also measured through comparison with valid single-property appraisals submitted for staff review. Finally, Pickett's mineral appraisal methods and procedures are subject to review by the Property Tax Division of the Texas Comptroller's office. The Comptroller's review, as well as comparisons with single-property appraisals, indicates the validity of the models and the calibration techniques employed.

Thos. Y. Pickett & Company, Inc.  
Reappraisal Timeline 2015

Event	2014			2015												2016					
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
New Mineral Lease Discovery																					
Schedule ARB Date, Establish Deadlines for 25.19 Data																					
Mineral Property Appraisals																					
Mineral Appraisals Released to TYP Website							<--Mineral appraisals released for operator review prior to notice														
Informal Meetings w/ Owners and Agents																					
Estimates of Certified Value to CAD																					
Delivery of 29.19 Data Files to HCAD's Software Vendor										<--Date as required to meet agreed ARB date											
Appraisal Review Board Hearings										<-- As specified by CAD											
Certified Values to CAD/Data to Software Vendor				July 21st or as specified by Chief Appraiser -->																	
Address 25.25 Correction Protests/Supplements as Necessary																					
Submit Data for Property Value Study																					
Review Category G Ratios/Informal Hearing if Necessary																					
File Formal PVS Protests as Necessary																					
CAD and Joint TYP/CAD Tasks																					
TYP Mineral Department Tasks																					
Milestones and Deadlines																					

**Schleicher County Appraisal District**  
**Industrial Property**  
**2015-16 Appraisal Procedures and Reappraisal Plan**

**August 1, 2014**

*by*

*Thos. Y. Pickett & Company, Inc.*

## **SUMMARY REVALUATION PROGRAM REPORT**

### **INDUSTRIAL PROPERTY**

#### **Overview**

Industrial property consists of processing facilities and related personal property. Thos. Y. Pickett & Co., Inc. ("Thos Y. Pickett" or "Pickett") is contracted to reappraise this type of property annually for the appraisal district. The completed appraisals are all retrospective in nature. The purpose of the appraisals is to estimate market value as of January 1 in accordance with the definition of market value established in the Texas Property Tax Code (Sec. 1.04). "Market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- A. exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- B. 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
- C. 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.

The effective date of the appraisals is January 1 of the year for which this report is submitted unless the property owner or agent has applied for and been granted September 1 inventory valuation as allowed by Section 23.12(f) of the Texas Property Tax Code.

The appraisal results will be used as the tax base upon which a property tax will be levied. The properties are appraised in fee simple in conformance with the Texas Property Tax Code Sec. 25.06. This is a jurisdictional exception to the Standards Rule 6-5 (c) Comment of the Uniform Standards of Professional Appraisal Practice. A listing of the industrial properties appraised by



Pickett for the appraisal district is available at the appraisal district office. Industrial properties are re-appraised annually. Properties are inspected annually where necessary and at least bi-annually.

Documents relevant to an understanding of these appraisals include the confidential rendition, if any, filed with the appraisal district by the owner or agent of the property; other reports described in the Texas Property Tax Code; asset lists and other confidential data supplied by the owner or agent; the General Appraisal Manual adopted by the Texas Comptroller of Public Accounts; Property Assessment Valuation published by the International Association of Assessing Officers and adopted by the Texas Comptroller of Public Accounts; and Engineering Valuation and Depreciation by Marston, Winfrey and Hempstead; and the Texas Property Tax Code.

Pickett's industrial appraisal staff includes licensed engineers as well as experienced appraisers who are knowledgeable in all three approaches to value. Industrial appraisal staff stays abreast of current trends affecting industrial properties through review of published materials, attendance at conferences, course work and continuing education. All industrial appraisers are registered with the Texas Board of Tax Professional Examiners.

#### Assumptions and Limiting Conditions

All appraisals are subject to the following assumptions and limiting conditions:

1. Title to the property is assumed to be good and marketable and the legal description correct.
2. No responsibility for legal matters is assumed. All existing liens, mortgages or other encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management.
3. The appraisers developing these appraisals are not required to give testimony or attendance in court by reason of the appraisals, unless directed by, employed by, and provided legal counsel by the Appraisal District.
4. The appraisers do not necessarily inspect every property every year.
5. All sketches on the appraisal documents are intended to be visual aids and should not be construed as surveys or engineering reports unless otherwise specified.
6. All information in the appraisal documents have been obtained by members of Thos. Y. Pickett's staff or by other reliable sources.
7. The appraisals were prepared exclusively for ad valorem tax purposes.

8. The appraisers have inspected as far as possible, by observation, the improvements being appraised; however, it is not possible to personally observe conditions beneath the soil or hidden structural components within the improvements. Therefore, no representations are made as to these matters unless specifically considered in an individual appraisal.

### **Discovery Process and Procedures**

Data is collected as part of the inspection process and through later submissions by the property owner. Submitted data may be on a rendition form or in other modes that require confidentiality. Subject property data is verified through previously existing records and through published reports. Additional data are obtained and verified through published sources, regulatory reports and through analysis of comparable properties, if any. Due to the unique nature of many industrial properties there is no standard data collection form or manual.

### **Valuation Approach and Analysis**

The three generally accepted approaches used in determining the Market Value of assets are the cost, income, and market approaches. The following is a brief description of the three general approaches to value.

#### **Cost Approach**

The cost approach considers the replacement cost of an asset as an indicator of value. The cost approach is based on the assumption that a prudent investor would pay no more for an asset than the amount for which he could replace or recreate the asset. The cost approach is sometimes performed by estimating the replacement cost of an asset functionally similar to the subject. Often, historical cost data can be used to indicate the current cost of reproduction or replacement. Adjustments are made for physical deterioration and the functional and economic obsolescence of the appraised asset.

#### **Income Approach**

The income approach measures the present worth of anticipated future net cash flows generated by the subject assets. The net cash flows are forecast for an appropriate period, or capitalized in the case of a single period model, and then discounted to present value using an appropriate discount rate.

#### **Market Approach**

The market approach is performed by observing the price at assets comparable to the subject asset are bought and sold. Adjustments are made to the data to account for capacity differences and other relevant differences between the subject asset and the comparable assets.

Depending on the facts and circumstances of a particular appraisal, applying the three approaches independently of one another can yield conclusions that are substantially different.

As the appraisal is performed, the strengths of the individual approaches are considered and the influence of each approach in the appraisal process is weighed according to its likely accuracy.

Industrial properties are generally appraised using replacement/reproduction cost new less depreciation models. Replacement costs are estimated from published sources, other publicly available information and comparable properties. Reproduction costs are based on actual investment in the subject or comparable properties adjusted for typical changes in cost over time. Depreciation is calculated on the age/life method using typical economic lives and depreciation rates based on published sources, market evidence and the experience of knowledgeable appraisers. Adjustments for functional and economic obsolescence may be made if utilization and income data for the subject property justify such. Income Approach models (direct capitalization and discounted cash flow) are also used when economic and/or subject property income information is available. Capitalization and discount rates are based on published capital costs for the industry of the subject property. A market data model based on typical selling prices per unit of capacity is also used when appropriate market sales information is available.

Because cost information is the most readily available type of data, the cost approach model is almost always considered and used. If sufficient data is available, either or both of the other two models are considered and may be used. The market data and income approach models must be reduced by the value of the land in order to arrive at a value of improvements and personal property.

Model calibration in the cost approach involves the selection of the appropriate service life for each type or class of property. Further calibration can occur through the use of utilization or through-put data provided by the owner or agent. Income approach calibration involves the selection of the cost of capital or discount rate appropriate to the type of property being appraised as well as adjusting the projected income stream to reflect the individual characteristics of the subject property. Model calibration in the market data approach involves adjusting sales prices of comparable properties to reflect the individual characteristics of the subject property.

In reconciling multiple model results for a property, the appraiser considers the model results that best address the individual characteristics of the subject property while maintaining equalization among like properties. Final results for each property may be found on the appraisal district's appraisal roll.

Land valuation for industrial properties is the responsibility of appraisal district staff as is the highest and best use analysis of the site. Sites are analyzed for highest and best use as though they were vacant. Highest and best use analysis of the improvements is based on the likelihood

of the continued use of the improvements in their current and/or intended use. An appraiser's identification of a property's highest and best use is always a statement of opinion, never a statement of fact.

### **Review and Testing**

Field review of appraisals is performed through the regular inspection of subject properties. The periodic reassignment of properties among appraisers or the review of appraisals by an experienced appraiser also contributes to the review process. A statistical review of property value changes is also conducted.

Appraisal-to-sales ratios are the preferred method for measuring performance, however sales are very infrequent. Furthermore, market transactions normally occur for multiple sites and include both real and personal property, tangible and intangible, making analysis difficult and subjective. Performance is also measured through comparison with valid single-property appraisals submitted for staff review. Finally, Pickett's industrial appraisal methods and procedures are subject to review by the Property Tax Division of the Texas Comptroller's office. The Comptroller's review, as well as comparisons with single-property appraisals, indicates the validity of the models and the calibration techniques employed.

**Schleicher County Appraisal District**  
**Utilities Property**  
**2015-16 Appraisal Procedures and Reappraisal Plan**

**August 1, 2014**

*by*

*Thos. Y. Pickett & Company, Inc.*

## **APPRAISAL PROCEDURES AND REAPPRAISAL PLAN**

### **UTILITY, RAILROAD AND PIPELINE PROPERTIES**

#### **Overview**

Utility, railroad, and pipeline properties consists of operating property, excluding land, owned by utility, railroad and pipeline companies and related personal property and improvements. Thos. Y. Pickett & Co., Inc. ("Thos. Y. Pickett" or "Pickett") is contracted to reappraise this type of property annually for the appraisal district. The completed appraisals are all retrospective in nature. The purpose of the appraisals is to estimate market value as of January 1 in accordance with the definition of market value established in the Texas Property Tax Code (Sec. 1.04). "Market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- A. exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- B. 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
- C. 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.

The effective date of the appraisals is January 1 of the year for which this report is submitted.

The appraisal results will be used as the tax base upon which a property tax will be levied. The properties are appraised in fee simple in conformance with the Texas Property Tax Code Sec. 25.06. This is a jurisdictional exception to the Standards Rule 6-5 (c) Comment of the Uniform Standards of Professional Appraisal Practice 2004. A listing of the utility, railroad and pipeline properties appraised by Pickett for the appraisal district is available at the appraisal district office. All properties are reappraised annually. Such utility, railroad and pipeline properties that are susceptible to inspection (e.g. compressor stations, pump stations, buildings and power plants) are normally re-inspected at least every three years.

Pickett's utility, railroad and pipeline appraisal staff includes licensed engineers as well as experienced appraisers who are knowledgeable in all three approaches to value. The appraisal staff stays abreast of current trends affecting utility, railroad and pipeline properties through review of published materials, attendance at conferences, course work and continuing education. All appraisers are registered with the Texas Board of Tax Professional Examiners.

### Assumptions and Limiting Conditions

All appraisals are subject to the following assumptions and limiting conditions:

1. Title to the property is assumed to be good and marketable and the legal description correct.
2. No responsibility for legal matters is assumed. All existing liens, mortgages or other encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management.
3. The appraisers developing these appraisals are not required to give testimony or attendance in court by reason of the appraisals, unless directed by, employed by, and provided legal counsel by the Appraisal District.
4. The appraisers do not necessarily inspect every property every year.
5. All sketches on the appraisal documents are intended to be visual aids and should not be construed as surveys or engineering reports unless otherwise specified.
6. All information in the appraisal documents have been obtained by members of Thos. Y. Pickett's staff or by other reliable sources.
7. The appraisals were prepared exclusively for ad valorem tax purposes.
8. The appraisers have inspected as far as possible, by observation, the improvements being appraised; however, it is not possible to personally observe conditions beneath the soil or hidden structural components within the improvements. Therefore, no representations are made as to these matters unless specifically considered in an individual appraisal.

### Discovery Procedures and Data Collection

Data is collected as part of the inspection process and through later submissions by the property owner. Submitted data may be on a rendition form or in other modes that require confidentiality. Subject property data is verified through previously existing records and through published reports. Additional data are obtained and verified through published sources, regulatory reports and through analysis of comparable properties. Due to the varied nature of utility, railroad and pipeline properties there is no standard data collection form or manual.

## **Valuation Approach and Analysis**

The three generally accepted approaches used in determining the Market Value of assets are the cost, income, and market approaches. The following is a brief description of the three general approaches to value.

### **Cost Approach**

The cost approach considers the replacement cost of an asset as an indicator of value. The cost approach is based on the assumption that a prudent investor would pay no more for an asset than the amount for which he could replace or recreate the asset. The cost approach is sometimes performed by estimating the replacement cost of an asset functionally similar to the subject. Often, historical cost data can be used to indicate the current cost of reproduction or replacement. Adjustments are made for physical deterioration and the functional and economic obsolescence of the appraised asset.

### **Income Approach**

The income approach measures the present worth of anticipated future net cash flows generated by the subject assets. The net cash flows are forecast for an appropriate period, or capitalized in the case of a single period model, and then discounted to present value using an appropriate discount rate.

### **Market Approach**

The market approach is performed by observing the price at assets comparable to the subject asset are bought and sold. Adjustments are made to the data to account for capacity differences and other relevant differences between the subject asset and the comparable assets.

Depending on the facts and circumstances of a particular appraisal, applying the three approaches independently of one another can yield conclusions that are substantially different. As the appraisal is performed, the strengths of the individual approaches are considered and the influence of each approach in the appraisal process is weighed according to its likely accuracy.

For all pipelines a value is calculated using a Replacement Cost New Less Depreciation (RCNLD) model. This involves first calculating the cost of building a new pipeline of equal utility using current prices. The Replacement Cost New (RCN) is a function of location, length, diameter and composition. Depreciation is then subtracted from RCN to produce the final value estimate. Depreciation is defined as the loss of value resulting from any cause. The three common forms of depreciation are physical, functional and economic. Physical depreciation is accounted for on the basis of the age of the subject pipeline. Functional and economic obsolescence (depreciation) can be estimated through the use of survivor curves or other normative techniques. Specific calculations to estimate abnormal functional and/or economic obsolescence can be made on the basis of the typical utilization of the subject pipeline.



After deductions from RCN have been made for all three forms of depreciation, the remainder is the RCNLD or cost approach model indicator of value.

In addition to the RCNLD indicator, a unit value model may also be used for those pipelines for which appropriate income statements and balance sheets are also available. Generally, this model is used for those pipelines that by regulation are considered to be common carriers. The unit value model must be calculated for the entire pipeline system.

The unit value model typically involves an income approach to value and a rate base cost approach. The income approach is based on a projection of expected future typical net operating income (NOI). The projected NOI is discounted to a present worth using a current cost of capital that is both typical of the industry and reflective of the risks inherent in the subject property. The unit value model cost approach is typically an estimation of the current rate base of the subject pipeline (total investment less book depreciation allowed under the current form of regulation). An additional calculation is made to detect and estimate economic obsolescence. Any economic obsolescence is deducted from the rate base cost less book depreciation to achieve a final cost indicator. The unit value model may also include a stock and debt approach in lieu of a market data approach. The stock and debt approach involves finding the total value of the owner's liabilities (equity and debt) and assuming that they are equal to the value of the assets. The two (or three, if the stock and debt approach is included) unit value indicators are then reconciled into a final unit appraisal model indicator of value. The unit value must then be reconciled with the RCNLD model indicator of value for the entire pipeline system being appraised. The final correlated value of the system can then be allocated among the various components of the system to determine the tax roll value for each pipeline segment.

Utility and railroad properties are appraised in a manner similar to pipeline except the RCNLD model is not used. For all three types of property (utility, railroad and pipeline) the appraiser must first form an opinion of highest and best use. If the highest and best use of the operating property is the current use under current regulation, the unit value model is considered highly appropriate. If the highest and best use is something different, then the RCNLD model may be more appropriate.

Compressor stations, pump stations, improvements and related facilities are appraised using a replacement cost new less depreciation model.

Model calibration in the RCNLD model involves the selection of the appropriate service life for each type or class of property. Further calibration can occur through the use of utilization or through-put data provided by the owner or agent. Model calibration in the unit value cost approach involves the selection of the appropriate items to include in the rate base calculation and selection of the best measure of obsolescence, if any. Income approach calibration involves the selection of the cost of capital or discount rate appropriate to the type of property being appraised as well as adjusting the projected income stream to reflect the individual characteristics of the subject property. Model calibration in the stock and debt approach involves allocating sales prices of debt and equity to reflect the contribution to value of the operating property of the subject property.

In reconciling multiple model results for a property, the appraiser considers the model results that best address the individual characteristics of the subject property while maintaining equalization among like properties. Final results for each property may be found on the appraisal district's appraisal roll.

Land valuation for utility and pipeline properties is the responsibility of appraisal district staff as is the highest and best use analysis of the site. Sites are analyzed for highest and best use as though they were vacant. Highest and best use analysis of the improvements is based on the likelihood of the continued use of the improvements in their current and/or intended use. Railroad corridor land is included in the appraisal of the operating property. The highest and best use of railroad corridor land is presumed to be as operating property. An appraiser's identification of a property's highest and best use is always a statement of opinion, never a statement of fact.

The rate-base cost approach, stock and debt approach and income approach models must be reduced by the value of the land in order to arrive at a value of improvements, personal property and other operating property.

### **Review and Testing**

Field review of appraisals is performed through the regular inspection of subject properties. The periodic reassignment of properties among appraisers or the review of appraisals by an

experienced appraiser also contributes to the review process. A statistical review of property value changes is also conducted.

Appraisal-to-sales ratios are the preferred method for measuring performance, however sales are very infrequent. Furthermore, market transactions normally occur for multiple sites and include both real and personal property, tangible and intangible, making analysis difficult and subjective. Performance is also measured through comparison with valid single-property appraisals submitted for staff review. Appraisal results are tested annually by the Property Tax Division of the Texas Comptroller's office. The Comptroller's review, as well as comparisons with single-property appraisals, indicates the validity of the models and the calibration techniques employed.

