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September 10, 2014

Property Tax Assistance Division
Comptroller of Public Accounts
Attn: Liz Alvarado
P O Box 13528
Austin, Texas 78711-3528

Re: Biennial Written Reappraisal Plan for Tax Years 2015 & 2016

Hello Liz,

Enclosed you will find a copy of the 2015 & 2016 Biennial Written Reappraisal Plan for Sutton County Appraisal District.

Please contact our office if additional information is needed.

Sincerely,

Yolanda Avila
Sutton County Appraisal District

Enclosure

**SUTTON COUNTY
APPRAISAL DISTRICT**

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

CAD BOARD OF DIRECTORS

*Jo Ann Hernandez, Chairman
John Garner, Vice Chairman
Maura Weingart, Secretary
Dean Dermody*

Chief Appraiser Mary Bustamante

ADOPTED September 08, 2014

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Introduction

The Sutton County Appraisal District (CAD) has prepared this reappraisal plan as required under Section 6.05 (i), Texas Property Tax Code. This written plan is designed to provide property owners and taxing entities with a complete understanding of the responsibilities and obligations of the CAD for the reappraisal of taxable properties for tax years 2015 and 2016.

The CAD is a political subdivision of the State of Texas created to appraise all of the taxable property within its jurisdictions at 100% of market value. The creation of the CAD was passed with the 66th Texas Legislature in 1979, approved by the voters in the November 1980 general election. This legislation mandated counties to participate in a CAD.

The Texas Property Tax Code provisions related to legal, statutory, administrative, and other requirements govern the CAD.

The CAD has a five member Board of Directors. Five members are elected by the taxing entities it serves. The Board of Directors appoints the Chief Appraiser, who serves as the chief administrator and executive officer of the CAD. The Board of Directors also appoints the Appraisal Review Board (ARB) members.

The CAD is responsible for conducting the appraisals to be used by the five taxing units it serves. The CAD budget is funded by these taxing units. The funding received is calculated and prorated according to each taxing unit's previous year's levy. Currently, the CAD is responsible for appraising 36,892 real and personal property accounts.

Except as otherwise outlined in the Tax Code, all taxable property is appraised at its "market value" as of January 1st of each year. The Tax Code defines "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 buyer;
- Both the seller and the buyer know of all the property uses and purposes to which the property is adapted and for which it is capable or being used for and of any enforceable restrictions on the use of the property; and
- Both the seller and the buyer seek to maximize their gains and neither is in a position to take advantage of situations of the other.

Section 23.01, Tax Code, appraisals generally (b) states:

"The market value of property shall be determined by the application of generally accepted appraisal methods and techniques. If the CAD 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 (U.S.P.A.P.). The same or similar appraisal methods and techniques shall be used in appraising the same or similar kinds of property. However, each property shall be appraised based upon the individual characteristics that affect the property's market value."

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 Sutton CAD's current policy is to conduct a general reappraisal of taxable property once every three years. Pursuant to Section 25.18 of the Texas Property Tax code, the Sutton County Appraisal District has established the following reappraisal plan to provide for the reappraisal of all property within the district at least once every three (3) years.

Reappraisal Cycle

Sutton CAD by policy adopted by the Board of Directors reappraises all property in the district within every three years with the exception of industrial, mineral, and personal property accounts, which are appraised annually. The CAD makes every attempt to perform an on-site appraisal/inspection of property at least once every three years and recalibrates schedule rates for all categories of properties on an annual basis. The extent of properties that are visited may vary and is completely dependent on the amount of staffing, time and funding the CAD has available during the year. All real residential property within the city limits and ranchland improvements will be reappraised regardless of any ratio study/report findings. The cycle is as follows:

- 2015** - Ranchland improvements
Commercial Property
Personal Property
Minerals
Industrial/Utility Properties
- 2016** - Commercial Property
Personal Property
Minerals
Industrial/Utility Properties
- 2017** - Real Residential Property
Commercial property
Personal property
Minerals
Industrial/Utility Properties

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.

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 needs 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 is 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 taxes will take place when the land stops being used for an agricultural purpose. The rollback recaptures with the taxes saved for the five (5) years preceding the change in use, plus 7-percent interest for each year.

Approaches to Qualification and Value. The CAD has an active Agricultural Appraisal Advisory Board, as required by Section 6.12, Tax Code. The Texas Comptroller's *Manual for the Appraisal of Agricultural Land* and the Tax Code are used to determine qualification for the various agricultural and wildlife management activities present in Sutton County. The CAD has implemented the standard Cash Lease Method to determine the net to land estimates for 1-d-1 productivity values by land class. Only typical cash lease information is used to determine these estimates.

Wildlife Management Section 23.51(2), Tax Code, includes land used for wildlife management as an agricultural use. Property owners are required to produce a management plan consistent with the Texas Parks and Wildlife management guidelines.

Performance Tests

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market values. In a ratio study, market values (values in exchange) are typically represented by sales prices (i.e., a sales ratio study). Independent, expert appraisals may also be used to represent market values in a ratio study (i.e., an

appraisal ratio study). If there are not enough sales to provide necessary representativeness, independent appraisals can be used as indicators for market value. This practice, while permitted by USPAP, is not used in this CAD.

Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis, and (6) evaluation and application of the results.

Sales Ratio Studies. Sales ratio studies are an integral part of establishing equitable and accurate market value estimates, and ultimately for taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analysis; and to calibrate models used to derive appraised values during valuation or reappraisal cycles. However, these studies cannot be used to judge the accuracy of an individual property appraised value.

The Sutton County Appraisal Review Board may make individual value adjustments based on unequal appraisal (ratio) protest evidence submitted on a case-by-case basis during the hearing process.

Overall sales ratios are generated by use type annually to allow appraisers to review general market trends in their area of responsibility. In many cases, field checks may be conducted to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics. These ratio studies aid the appraisers by providing an indication of market activity by economic area or changing market conditions (appreciation or depreciation).

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 (MAP

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 utilizes statistical analysis of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for 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 25% 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 Sutton 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.

Executive Summary

Tax Code Requirement

The Texas Property Tax Code requires the Board of Directors to adopt biennially a written reappraisal plan.

The Written Plan

Section 6.05, Tax Code, states:

- (1) To ensure adherence with generally accepted appraisal 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 10th 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 of each even numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve 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) of Section 25.18, Tax Code, state:

- (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, surveys, maps, and property sketches;
 - (2) Identifying and updating relevant characteristics of each property in the appraisal records;
 - (3) Defining market areas in the district;

- (4) Identifying property characteristics that affect property value in each market area, including:
 - (A) The location and market area of the property;
 - (B) Physical attributes of each property, such as size, age, and condition;
 - (C) Legal and economic attributes; and
 - (D) Easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
- (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 08, 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 08, 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.

Identifying Properties for Reappraisal [Required by Tax Code Section 25.18(b)(1)]

A. Residential Property

The CAD employs several methods of identifying properties that require inspection for the purpose of listing and appraising new improvements and/or updating relevant property characteristics. The primary sources of information used to identify those properties are building, electrical, plumbing permits issued by the cities in the county, and well/septic permits issued by the appropriate governing entity. Copies of these permits are collected and then matched with the corresponding CAD account.

Other sources of identifying properties that are in need of re-inspection are renditions, mechanics liens, deeds of trusts, plats, information included in sales listings (MLS), realtor reports, fee appraisers, mobile home movement records (TDHCA), reports of recently assigned 911 addresses, and in some cases property owners and community members who are familiar with the property.

Once a property is identified as requiring a re-inspection, the information is matched with the relevant property account within the CAD's electronic records and the account is "flagged" for re-inspection. An appraisal card is printed for each flagged property along with any other relevant documents and then assigned to a field appraiser for inspection.

Finally, at the end of the re-inspection or "recheck" process, the field appraisal staff will conduct an annual "sweep" of their assigned areas. A "sweep" is a visual inspection of an area for the purpose of identifying new improvements or other significant changes that were not identified through the normal discovery methods/sources outlined above.

B. Rural, Residential, and Commercial Land

Physical characteristics that influence land value include size, shape, soil type, and topographic features (including floodplain). Resources such as ownership maps, subdivision plats, and surveys maps are referenced to obtain or verify information relating to these characteristics for specific properties.

Other conditions that influence value include location, access, frontage, and legal limitations such as zoning and easements. The resources listed above, along with street maps, zoning maps and ordinances, utility maps, deeds, and other legal filings are used to identify and/or verify these conditions. In the appraisal process, appraisers use sales analysis to determine the proper adjustments for the presence of such characteristics and conditions. The mapping resources discussed are integrated in the CAD's Geographic Information System (GIS).

The Rural and Commercial appraisal firm contracted by the CAD is responsible for identifying property and/or updating information relating to the existing accounts. (Please see attached plan for more information.)

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 the Texas Railroad Commission, Texas Public Utility Commission, and the Federal Communications Commission. (Please see attached plan for more information.)

Identifying and Updating Relevant Characteristics [Required by Tax Code Section 25.18(b)(2)]

A. Residential Property

Identifying and updating relevant characteristics of a property will be accomplished primarily through a physical inspection of the property. The inspecting appraiser will visit the property to collect relevant data about the property, such as measurements of structures, construction type, quality of construction, completion of construction, physical deterioration, and other noticeable characteristics. The collection and recording of this data is done using standardized procedures outlined in the CAD's field appraisal manuals. The collected data is gathered by the inspecting appraiser, noted on field inspection sheets, analyzed and checked for accuracy, and then submitted for data entry. Personnel then update the electronic records (including pictures) of the property, according to the information and data notated on the field inspection sheet.

B. Rural, Commercial, and Platted Residential Land

Identification of specific characteristics will be done through review of relevant documents (see section *Identifying Properties for Reappraisal*) or through field inspections. Updating this information is done using standardized procedures outlined in the CAD appraisal manuals. The reviewing appraiser will document necessary information and either update, or submit the changes to data entry personnel to update, the electronic record of the subject property.

The Rural and Commercial appraisal firm contracted by the CAD is responsible for updating and identifying relevant characteristics for this property type. Identifying and updating relevant characteristics of the subject property is accomplished through the discovery. (Please see attached plan for more information.)

Business Personal Property

Identifying and updating relevant characteristics of the subject property is accomplished through the discovery (see section *Identifying Properties for Reappraisal*) and inspection processes. Information the appraiser must identify and/or verify include the type of property, the category (i.e. inventory, furniture, fixtures, machinery, or equipment), quality, density, original costs, year acquired, age, condition, and life expectancy.

The appraiser identifies any property located at the business that does not belong to the business owner. If this property is taxable (reference Sec. 11.01 and 11.14, Tax Code), the appraiser collects the pertinent information noted above, including the name and address of the owner of the property. The collection and recording of this data is done using standardized procedures outlined in the CAD's *Business Personal Property Manual*.

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 receive by the appraisal firm. (Please see attached plan for more information.)

Defining Market Areas and Property Characteristics in those Areas [Required by Tax Code Section 25.18(b)(3) and (b)(4)]

A. Residential Property

When defining a market area for residential properties, the total boundaries of the CAD can be considered one market. Further analysis will reveal that within the total market, submarkets exist as well. These submarkets can be defined as any group of properties that share common traits such as physical, economic, governmental (city or school district), and social forces, all of which equally and consistently influence the value of each property within a given area. Generally speaking, these submarkets are more easily identified within the more densely populated areas of the CAD and are often referred to as “neighborhoods.” Identifying submarkets in the less densely populated areas of the CAD is not as easily accomplished.

In the more recently developed areas of the CAD, a neighborhood is defined as the boundary of a developed subdivision. Mass adjustments made to the appraisal of properties within a defined neighborhood are consistently and equally applied to each property within the defined neighborhood.

B. Rural, Commercial & Platted Residential Land

Market areas for land are defined by the highest and best use of the land. IAAO defines highest and best use as the use which will generate the highest net return to the property over a reasonable period of time.

Some areas in the CAD are undergoing a change in the highest and best use of the land, particularly rural land that is in close proximity to the city of Sonora and Sutton or areas within a close commute to those cities. In these areas, the highest and best use of land is agricultural or wildlife management use. Sutton County is in a severe drought. Sutton County is approximately 1493 square miles, mainly rural land. Most of the rural areas of the county have been strictly agricultural use some are changing to wildlife management uses. Appraisers collect and analyze market data to detect changes in highest and best use and to define market areas.

As with residential properties, when defining a market area for rural, commercial, and platted residential lots, the total boundaries of the CAD are normally considered as the larger market area. With further analysis, submarkets will be apparent. Submarkets will be defined as any grouping of properties that have common identified characteristics, which consistently influence the value of each property within a given area.

The CAD has three different geographic regions identified. Geographic regions may be lumped together to define market areas. Market areas for commercial properties are identified in the more densely populated areas and or locations usually identified by locations on major thoroughfares, which are considered strategically for commerce decisions. Market areas for platted residential land normally take on the boundaries of the platted subdivision. In some

instances, similarly situation subdivisions may be used as comparable market areas. (For commercial and rural land 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.)

Appraisal Model and its Application **[Required by Tax Code Section 25.18(b)(5) and (b)(6)]**

A. Residential Property

Residential valuation and neighborhood analysis is conducted on the identified market areas and within the school district. Analysis of comparable market sales forms the basis of estimating market activity and the level of supply and demand affecting market prices for any given market area, neighborhood, or district. Market sales indicate the effects of these market forces and are interpreted by the appraiser into an indication of market price ranges and indications of property component change considering a given time period relative to the date of appraisal (time adjustment). Both the cost and market approaches to estimate value are the basic techniques utilized to interpret these sales. Some of the district's residential cost schedules are developed from Marshall & Swift, a nationally recognized cost estimator service.

The district begins analysis of residential values by comparing most recent sales with appraised values using a ratio study which is a part of True Automation/Harris software. That ratio study allows the district to look at specific characteristics of properties such as class and construction type to analyze what needs to be done to get values close to market value. For instance, brick homes may appear to be close to market while frames are too low. Lower classed homes could be shown with low ratios while higher classes appear to be accurate. In the analysis process, all of the characteristics are examined to see what adjustments need to be made to the universe of properties in that category.

Once a decision is made concerning the proposed adjustments to value, the district makes blanket or mass adjustments to the categories of property that need to be increased or decreased based on the analyses performed. After the adjustments are made a new ratio study is performed to ensure that the values align with state requirements of market value and equality of value utilizing various statistical measurements found in the TA/Harris software.

Abstraction and allocation of property characteristics based on sales of similar property is an important analysis tool to interpret market sales under the cost and market approaches to value. These analysis tools help determine and estimate the effects of change, with regard to price, as indicated by sale prices for similar property with the current market area.

The income approach is seldom used in single-family residential properties due to limited income information. The income-approach is used for multifamily residential properties (apartments) based on the rental and cost information from owners of apartment complexes. (See attached plan for more information.)

Residential Land

Residential land is appraised as though vacant using the market sales approach as the appraisal model for valuation. The value of the land component of the total property appraisal is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market value of land located in the

area or neighborhood. When necessary, the land appraisal is adjusted for specific factors and conditions that influence the value of the land. These factors include access, view, shape, size, topography, and the propensity to flood. When necessary, abstraction and allocation methods will be used to insure that estimated land values reflect the contributory market value of the land to the overall property value.

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 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 included in the study is divided by the sales price of that property. The result is a ratio 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 prior 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 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 class is calculated by summing the appraisals for each property within 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 market value. If the weighted mean is greater than 100%, then it can be concluded 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.

Multi-Family Residential

For multi-family properties, such as duplexes, four-plexes, and apartment complexes, the sales comparison approach appraisal model is used to arrive at an estimate of market value. However, when adequate sales are not available to derive reliable appraisals, additional appraisal models will be implemented. Since these types of properties are primarily owned for the purpose of income generation, the net income that a property produces is an indication of its value, therefore the valuation methods within the income approach to value is often used to determine the appraisal of the property. Lastly, if adequate sales or income information is not available, the cost approach to value will be implemented to arrive at an indication of property value. (See attached plan for more information.)

B. Rural, Commercial & Platted Residential Land

Market value for land is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market price of land located in neighborhoods, cities, school districts, and other identified market areas of the county.

Specific land influences are considered, where necessary, to adjust parcels outside the neighborhood norm for such factors as access, view, shape, size, topography, and access to utilities (water, sewer, etc.).

According to accepted appraisal theory, only the income and sales comparison model are acceptable in determining market value of land. The cost approach is not appropriate, and therefore is not used. The sales comparison approach is the most widely used method in determining market value, thus is the method that will be implemented to derive appraisals of all types of land. In instances where the sales comparison and income approach can be implemented, both methods will be used and the final assigned value will be determined by which value best describes the market value of the land, considering the particular characteristics of the subject property. (See attached plan for rural and commercial properties for more information.)

C. Business Personal Property (non-industrial)

Personal property is appraised using replacement/reproduction cost new less depreciation models. Income approach models can be used when economic and/or subject property income is available, and a market data model can be used when appropriate market sales information is available.

Generally, the cost approach is used, due to the availability of information. Available cost schedules and depreciation schedules will be used when appropriate by CAD appraisal staff to aid in developing valuations. These schedules are normally in a cost per square foot format; however, some industry schedules are in an alternate per unit format. The replacement cost new less depreciation (R.C.N.L.D.) can be developed from property owners reporting of historical acquisition cost or from a schedule developed by appraisal staff. As well, national valuation guides and actual sales information may be considered in the valuation process. The method used for this type of valuation is often determined by which method considers the most information for the property being appraised.

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 about the specific category of industrial, utility, and mineral properties. The 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 an estimate of appraised value of an oil or gas property. (See attached plan for more information.)

Note: For more on the properties described in 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 Commercial and Rural, see the appraisal report from the CAD's contract appraiser PerdueBrandonFielderCollins and Mott, 3301 Northland Drive, Suite 505, Austin, Texas 78731

Review of Appraisal Results **[Required by Tax Code Section 25.18(b)(7)]**

A. Residential Property

Statistical Analysis

CAD staff will perform statistical analysis annually to evaluate whether estimated values are equitable and consistent with the market. Sales ratio studies are conducted on each of the defined residential neighborhoods (or identified market area) to judge the two primary aspects of mass appraisal accuracy - level and uniformity of value. Appraisal statistics of central tendency generated from sales ratios are evaluated and analyzed for each neighborhood. The level of appraised values is determined by the weighted mean ratio for sales of individual properties within a neighborhood, and a comparison of neighborhood weighted means reflect the general level of appraised value between comparable neighborhoods.

Through the sales ratio analysis process, appraisers will review neighborhoods annually. The first phase involves neighborhood ratio studies that compare the recent sales prices of neighborhood properties to the appraised values of these sold properties. This set of ratio studies affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the sales. The appraiser, based on the sales ratio statistics, makes a preliminary decision as to whether the value level in a neighborhood needs to be updated or whether the level of market value in a neighborhood is at an acceptable level.

Review by Inspecting Appraiser

In addition to the above described process, appraisers will review the results of any fieldwork that they had performed to determine if the resulting appraisal accurately describes the value of the property and make any necessary adjustments, if deemed necessary.

In cases when multiple appraisal models are implemented, the appraiser considers the results that best address the individual characteristics of the subject property. Once the best result is determined, it is then entered as the appraisal for the given year.

B. Rural, Commercial & Platted Residential Land

The appraiser considers results that best address the individual characteristics of the subject property when multiple appraisal models are used. Also, statistical analysis is performed when changes are made to the rural land schedules, the primary analysis tool being the ratio study. (Please see attached plan for more information.)

C. Business Personal Property (non-industrial)

CAD staff will perform analysis annually to determine if the estimated market values are equitable in the CAD. The CAD staff will conduct annually review of 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 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 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.

Limiting Conditions

The appraised value estimates provided by the CAD 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 have been based is assumed correct. The inspections of property are performed by the staff and are conducted from the exterior as time allows. Interior inspections performed by the staff are conducted upon the request of the property owner and are necessary for clarification and accurate property descriptions.
3. Title and the legal description are assumed to be correct and marketable.
4. Validation of sales transactions has been attempted through field review and with confirmations by the buyer and/or seller. In the absence of such confirmation, residential sales data validated from vendors was reliable.

CAD Staff and Contractors

<i>NAME</i>	<i>POSITION</i>	<i>RESPONSIBILITIES</i>
Mary Bustamante	Chief Appraiser	Appraisal Oversight, Management, Deed Transactions, Appraiser, Data Entry
Yolanda R Avila	Chief Deputy	Assist Chief Appraiser
Dorothy Perez	Deputy	Taxpayer Assistance, Reception, Filing

Contact Appraisal Firm Providing Mass Appraisal Assistance to the CAD

PerdueBrandonFielderCollins & Mott LLP.
Attorneys at Law
3301 Northland Drive, Suite 505
Austin TX 78731

Thos. Y Pickett & Company, Inc.
4464 Sigma Road
Dallas Texas 75244-4596

Western Valuation & Consulting LLC
1250 Petroleum Dr.
Suite A 100
Abilene, Texas 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 the termination of the employee.

Resources

Information System

The Sutton CAD houses multiple personal computers in the appraisal office that access the CAD's contract software provider. The CAD utilizes True Automation property appraisal system software application.

Geographical Information System (GIS)

The CAD uses a geographic information system (GIS) to maintain cadastral maps and various layers of data and ownership.

Calendar of Events - 2015 (first year of plan)

JANUARY	
1/1	<p>Date that 2015 taxable values and qualification for certain exemptions determined (except for inventories appraised September 1) (Secs. 23.01, 23.12)</p> <p>Date rendition period begins; continues through April 15 for those property owners not requesting a filing extension (Sec. 22.23)</p> <p>Date that half of appraisal review board (ARB) members begin 2-year terms (Sec. 6.41)</p>
1/1 to 1/31	<p>Continue field work relating to reappraisal and inspection of identified properties</p> <p>Continue reappraisal of portions of rural land and subdivisions</p> <p>Continue discovery of new improvements</p> <p>Continue personal property discovery</p> <p>Collect, verify and process sales information.</p> <p>Update cost schedules</p> <p>Update appraisal manuals</p> <p>Mail renditions</p> <p>Mail Agricultural Use applications to new owners and to owners with questionable eligibility</p> <p>Mail exemption applications for new owners</p>
1/1 to 1/31	<p>Board of Director's meeting</p> <p>Oath of office/election of officers</p> <p>Legal service contract</p>
1/31	<p>Deadline for Texas Comptroller's 2014 preliminary Property Value Study (PVS) findings to Education Commissioner and each school district (Government Code Sec. 403.302)</p> <p>Last day for chief appraiser to deliver applications for special appraisal and exemptions requiring annual applications (Secs. 11.44, 23.43)</p> <p>Last day for motor vehicle, boat and outboard motors, heavy equipment and manufactured housing dealers to file dealer's inventory declarations (Secs. 23.121, 23.124, 23.1241, 23.127)</p> <p>Last day for CAD to give public notice of capitalization rate used to appraise property with low and moderate-income housing exemption (Sec. 11.1825)</p>
FEBRUARY	
2/1 to 2/28	<p>Continue field work relating to reappraisal and inspection of identified properties</p> <p>Continue reappraisal of portions of rural land and subdivisions</p> <p>Continue discovery of new improvements</p> <p>Continue personal property discovery</p> <p>Collect, verify and process sales information</p>

2/1	Normal deadline for 25.25 d (one-third) and 41.411 (failure to give notice) protests
2/13	Review preliminary PVS results
MARCH	
3/1 to 3/31	Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information Conduct ratio studies on sub-markets Determine neighborhood adjustments Conclude selected changes
3/11	Deadline to file written appeal of PVS findings with Texas Comptroller (Government Code Sec. 403.303)
3/19	Board of Directors Meeting
3/24	Legal service contract
3/31	Last day for taxing units' second quarterly payment for 2015 CAD budget (Sec. 6.06) Last day for cities to report information regarding reinvestment zones and tax increment financing to Texas Comptroller (Sec. 311.019) Last day for qualified community housing development corporations to file listing of property acquired or sold during past year with the chief appraiser (Sec. 11.182)
APRIL	
4/1 to 4/30	Conclude field work relating to reappraisal and inspection of identified properties Conclude reappraisal of rural land and subdivisions Conclude discovery of new improvements Conclude personal property discovery Collect, verify and process sales information Collect, verify and process income and expense Methods and Assistance Program 2015 Review

4/1	<p>Last day (or as soon as possible) for chief appraiser to mail notices of appraised value for single-family residence homestead properties (Sec. 25.19) Last day for property owners to file 2015 exemption application for vehicle used for personal and income-producing activities (Sec. 11.253)</p>
4/15	<p>Last day for property owners to file renditions and property information reports unless they request a filing extension in writing (Sec. 22.23) Appraisal Review Board meeting/training session</p>
4/20	<p>Audit report</p>
4/30	<p>Last day for property owners to file these applications or reports with the CAD: – Some exemption applications (Sec. 11.43); – Notice to chief appraiser that property is no longer entitled to an exemption not requiring annual application (Sec. 11.43); – Applications for special appraisal or notices to chief appraiser that property no longer qualifies for 1-d and 1-d-1 agricultural land, timberland, restricted-use timberland, recreational-park-scenic land and public access airport property (Secs. 23.43, 23.54, 23.75, 23.84, 23.94, 23.9804); – Railroad rolling stock reports (Sec. 24.32); – Requests for separate listing of separately owned land and improvements (Sec. 25.08); – Requests for proportionate taxing of a planned unit development property (Sec. 25.09); – Requests for separate listing of separately-owned standing timber & land (Sec. 25.10); – Requests for separate listing of undivided interests (Sec. 25.11); and – Requests for joint taxation of separately owned mineral interest (Sec. 25.12) Last day for chief appraiser to certify estimate of school district's taxable value for school district to use for publishing notice of budget and proposed tax rate and adopting its budget for a fiscal year that begins July 1 (Sec. 26.01) (NEW LAW)</p>

MAY

5/1 to 5/31	Collect, verify and process sales information Collect, verify and process income and expense information Continue informal hearings with property owners and agents Appraisal Review Board meetings as needed
5/1 to 5/14	Last day (or as soon as possible) for chief appraiser to mail notices of appraised value for properties other than single-family residence homestead
5/1 to 5/15	Period when chief appraiser must publish notice about taxpayer protest procedures in a local newspaper with general circulation (Secs. 41.41, 41.70)
5/15	Last day for property owners to file renditions and property information reports if they requested in writing an extension. For good cause, chief appraiser may extend this deadline another 15 days (Sec. 22.23) Last day (or as soon as possible) for chief appraiser to mail notices of appraised value, denial of exemptions, denial of special appraisal and notices of overlapping CADs (Secs. 6.025, 11.45, 23.44, 23.57, 23.79, 23.85, 23.95, 23.9805, 25.19) Date (or as soon as practicable) for chief appraiser to prepare appraisal records and submit to ARB (Secs. 25.01, 25.22)
5/26	Appraisal Review Board meeting, as needed

JUNE

6/1 to 6/30	Collect, verify and process sales information Collect, verify and process income and expense information Continue informal hearings with property owners and agents Appraisal Review Board meetings as needed Last day for property owners to file protest with ARB (or by 30th day after notice of appraised value is delivered, whichever is later) (Sec. 41.44) Methods and Assistance Program 2015 Review
6/1	Last day for taxing units to file challenges with ARB (or within 15 days after ARB receives appraisal records, whichever is later) (Sec. 41.04) Last day for religious organizations to amend charters and file new applications for Sec. 11.20 exemption (or within 60 days of exemption denial, whichever is later) (Sec. 11.421)
6/15	Last day for chief appraiser to submit recommended 2016 budget to CAD board and taxing units (unless taxing units have changed CAD's fiscal year) (Sec. 6.06)

6/25	Board of Directors meeting Budget workshop Budget Hearing
6/30	Last day for taxing units' third quarterly payment for 2015 CAD budget (Sec. 6.06) Last day to form a taxing unit to levy 2015 property taxes (Sec. 26.12) Last day for taxing units to adopt local option percentage homestead exemptions (Sec. 11.13) Last day for private schools to amend charters and file new applications for Sec. 11.21 exemption (or within 60 days of exemption denial, whichever is later) (Sec. 11.422) Last day for CADs to report formation of reinvestment zones and tax abatement agreements to the Texas Comptroller (Sec. 312.005)
JULY	
7/1 to 7/31	Collect, verify and process sales information Collect, verify and process income and expense information Conclude informal hearings with property owners and agents Appraisal Review Board meetings as needed
7/1	Deadline for Texas Comptroller to certify final 2014 PVS findings to Education Commissioner and each school district (Comptroller Rule Sec. 9.109)
7/7	Appraisal Review Board meeting/protest hearings
7/20	Date ARB must approve appraisal records, but may not do so if more than 5 percent of total appraised value remains under protest (Sec. 41.12). The Board of Directors of a Cad with a population of 1 million or more may postpone the deadline to Sept. 2 or increase the threshold percentage from 5 to 10 percent of appraised values of properties not under protest (Sec. 41.12)
7/25	Last day for chief appraiser to certify appraisal roll to each taxing unit (Sec. 26.01)
7/28	Appraisal Review Board meeting if necessary
7/31	Last day for property owners to apply for September 1 inventory appraisal
AUGUST	
8/1 to 8/31	Commence field work relating to reappraisal and inspection of identified properties Commence reappraisal of portions of rural land and subdivisions

	<p>Commence discovery of new improvements Commence personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information</p>
8/15	<p>Last day for CAD board to pass resolution to change number of directors, method for appointing or both, and deliver to each taxing unit (Sec. 6.031)</p>
8/20	<p>Board of Director's meeting Chief Appraiser Evaluation Adopt CAD Budget</p>
8/31	<p>Last day for property owner to give correct address to CAD in writing for tax bill; penalties and interest waived if bill not sent to correct address 21 days before delinquency date (Sec. 33.011). Last day for taxing unit entitled to vote for appointment of CAD directors to file a resolution opposing a change by the CAD board in selection of directors (Sec. 6.031)</p>
SEPTEMBER	
9/1 to 9/30	<p>Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of portions of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information</p>
9/9	<p>Board of Director's meeting</p>
9/20	<p>Review BOD election process Last day to CAD board to adopt CAD budget, unless CAD has changed its fiscal year (Sec. 6.06) Last day for CAD board to notify units in writing if a proposal to change number or method of selecting CAD directors is rejected by a voting taxing unit (Sec. 6.031)</p>
9/30	<p>Last day for taxing units' fourth quarterly payment for 2015 CAD budget (Sec. 6.06)</p>

OCTOBER	
10/1 to 10/31	<p>Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of portions of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information</p> <p>Date(1st) tax assessor mails 2015 tax bills (or soon after) (Sec. 31.01) Methods and Assistance Program 2015 Report</p>
NOVEMBER	
11/1 to 11/31	<p>Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of portions of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information</p>
DECEMBER	
12/1 to 12/31	<p>Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of portions of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information Time when chief appraiser may conduct a mail survey to verify homestead exemption eligibility</p>
12/17	<p>Board of Director's meeting Appoint ARB and AG Board Announce BOD election results</p>
12/31	<p>Last day for taxing units' first quarterly payment for 2016 CAD budget (Sec. 6.06)</p>

Calendar of Events . 2016 (second year of plan)

JANUARY	
1/1	<p>Date that 2016 taxable values and qualification for certain exemptions determined (except for inventories appraised September 1) (Secs. 23.01, 23.12)</p> <p>Date rendition period begins; continues through April 15 for those property owners not requesting a filing extension (Sec. 22.23)</p> <p>Date that half of appraisal review board (ARB) members begin 2-year terms (Sec. 6.41)</p> <p>Date that new Board of Directors (BOD) members begin 2 year</p> <p>Complete employee evaluations</p>
1/1 to 1/31	<p>Continue field work relating to reappraisal and inspection of identified properties</p> <p>Continue reappraisal of portions of rural land and subdivisions</p> <p>Continue discovery of new improvements</p> <p>Continue personal property discovery</p> <p>Collect, verify and process sales information</p> <p>Collect, verify and process income and expense information</p> <p>Update appraisal manuals</p> <p>Update cost schedules</p> <p>Mail renditions</p> <p>Mail Agricultural Use applications to new owners and to owners with questionable eligibility</p> <p>Mail exemption applications for new owners</p>
	<p>Board of Director's meeting</p> <p>Oath of office/election of officers</p> <p>Legal service contract</p>
1/31	<p>Deadline for Texas Comptroller's current year preliminary Property Value Study (PVS) findings to Education Commissioner and each school district (Government Code Sec. 403.302)</p> <p>Last day for chief appraiser to deliver applications for special appraisal and exemptions requiring annual applications (Secs. 11.44, 23.43)</p> <p>Last day for motor vehicle, boat and outboard motors, heavy equipment and manufactured housing dealers to file dealer's inventory declarations (Secs. 23.121, 23.124, 23.1241, 23.127)</p> <p>Last day for CAD to give public notice of capitalization rate used to appraise property with low and moderate-income housing exemption (Sec. 11.1825)</p>

FEBRUARY

2/1 to 2/28	Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of portions of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Conduct ratio studies on sub-markets
2/1	Normal deadline for 25.25 d (one-third) and 41.411 (failure to give notice) protests
2/17	Review of preliminary PVS results

MARCH

3/1 to 3/31	Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information Continue ratio studies on sub-markets Determine neighborhood adjustments Conclude schedule changes
3/11	Deadline to file written appeal of PVS findings with Texas Comptroller (Government Code Sec. 403.303)
	Board of Directors Meeting Oath of office /elections of officers Legal service contract
3/31	Last day for taxing units' second quarterly payment for 2016 CAD budget (Sec. 6.06) Last day for cities to report information regarding reinvestment zones and tax increment financing to Texas Comptroller (Sec. 311.019) Last day for qualified community housing development corporations to file listing of property acquired or sold during past year with the chief appraiser (Sec. 11.182)

APRIL

4/1 to 4/30	<p>Conclude field work relating to reappraisal and inspection of identified properties</p> <p>Conclude reappraisal of rural land and subdivisions</p> <p>Conclude discovery of new improvements</p> <p>Conclude personal property discovery</p> <p>Collect, verify and process sales information</p> <p>Collect, verify and process income and expense</p> <p>Begin informal hearings with property owners and agents</p>
4/1	<p>Last day (or as soon as possible) for chief appraiser to mail notices of appraised value for single-family residence homestead properties (Sec. 25.19)</p> <p>Last day for property owners to file 2014 exemption application for vehicle used for personal and income-producing activities (Sec. 11.253)</p>
4/15	<p>Last day for property owners to file renditions and property information reports unless they request a filing extension in writing (Sec. 22.23)</p> <p>Appraisal Review Board meeting/training session</p>
4/21	Audit Report
4/30	<p>Last day for property owners to file these applications or reports with the CAD:</p> <ul style="list-style-type: none"> -- Some exemption applications (Sec. 11.43); -- Notice to chief appraiser that property is no longer entitled to an exemption not requiring annual application (Sec. 11.43); -- Applications for special appraisal or notices to chief appraiser that property no longer qualifies for 1-d and 1-d-1 agricultural land, timberland, restricted-use timberland, recreational-park scenic land and public access airport property (Secs. 23.43, 23.54, 23.75, 23.84, 23.94, 23.9804); -- Railroad rolling stock reports (Sec. 24.32); -- Requests for separate listing of separately owned land and improvements (Sec. 25.08); -- Requests for proportionate taxing of a planned unit development property (Sec. 25.09); -- Requests for separate listing of separately-owned standing timber and land (Sec. 25.10); -- Requests for separate listing of undivided interests (Sec. 25.11); and -- Requests for joint taxation of separately owned mineral interest (Sec. 25.12). <p>Last day for chief appraiser to certify estimate of school district's taxable value for school district to use for publishing notice of budget and proposed tax rate and adopting its budget for a fiscal year that begins July 1 (Sec. 26.01)</p>
MAY	
5/1 to 5/14	Last day (or as soon as possible) for chief appraiser to mail notices of appraised value for properties other than single-family residence homestead

5/1 to 5/15	Period when chief appraiser must publish notice about taxpayer protest procedures in a local newspaper with general circulation (Secs. 41.41, 41.70)
5/15	<p>Last day for property owners to file renditions and property information reports if they requested in writing an extension. For good cause, chief appraiser may extend this deadline another 15 days (Sec. 22.23)</p> <p>Last day (or as soon as possible) for chief appraiser to mail notices of appraised value, denial of exemptions, denial of special appraisal and notices of overlapping CADs (Secs. 6.025, 11.45, 23.44, 23.57, 23.79, 23.85, 23.95, 23.9805, 25.19)</p> <p>Date (or as soon as practicable) for chief appraiser to prepare appraisal records and submit to ARB (Secs. 25.01, 25.22)</p>
JUNE	
6/1 to 6/30	<p>Collect, verify and process sales information</p> <p>Collect, verify and process income and expense information</p> <p>Continue informal hearings with property owners and agents</p> <p>Appraisal Review Board meetings as needed</p> <p>Last day for property owners to file protest with ARB (or by 30th day after notice of appraised value is delivered, whichever is later) (Sec. 41.44)</p>
6/1	<p>Last day for taxing units to file challenges with ARB (or within 15 days after ARB receives appraisal records, whichever is later) (Sec. 41.04)</p> <p>Last day for religious organizations to amend charters and file new applications for Sec. 11.20 exemption (or within 60 days of exemption denial, whichever is later) (Sec. 11.421)</p>
6/15	<p>Last day for chief appraiser to submit recommended 2017 budget to CAD board and taxing units (unless taxing units have changed CAD's fiscal year) (Sec. 6.06)</p> <p>Board of Directors meeting</p> <p>Budget workshop</p> <p>Budget hearing</p>
6/30	<p>Last day for taxing units' third quarterly payment for 2016 CAD budget (Sec. 6.06)</p> <p>Last day to form a taxing unit to levy 2016 property taxes (Sec. 26.12)</p> <p>Last day for taxing units to adopt local option percentage homestead exemptions (Sec. 11.13)</p> <p>Last day for private schools to amend charters and file new applications for Sec. 11.21 exemption (or within 60 days of exemption denial, whichever is later) (Sec. 11.422)</p> <p>Last day for CADs to report formation of reinvestment zones and tax abatement agreements to the Texas Comptroller (Sec. 312.005)</p>
JULY	

7/1 to 7/31	Collect, verify and process sales information Collect, verify and process income and expense information Conclude informal hearings with property owners and agents Appraisal Review Board meetings if necessary
7/1	Deadline for Texas Comptroller to certify final 2015 PVS findings to Education Commissioner and each school district (Comptroller Rule Sec. 9.109)
7/10 7/25	Appraisal Review Board meeting/protest hearings Date ARB must approve appraisal records, but may not do so if more than five percent of total appraised value remains under protest (Sec. 41.12).
7/25	Last day for chief appraiser to certify appraisal roll to each taxing unit' (Sec. 26.01)
7/31	Last day for property owners to apply for September 1 inventory appraisal for current year (Sec. 23.12).
AUGUST	
8/1 to 8/31	Commence field work relating to reappraisal and inspection of identified properties Commence reappraisal of portions of rural land and subdivisions Commence discovery of new improvements Commence personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information
8/15	Last day for CAD board to pass resolution to change number of directors, method for appointing or both, and deliver to each taxing unit (Sec. 6.031)
8/19	Board of Director's meeting 2017 Budget Workshop 2017 Budget hearing Adopt CAD Budget
8/31	Last day for property owner to give correct address to CAD in writing for tax bill; penalties and interest waived if bill not sent to correct address 21 days before delinquency date (Sec. 33.011). Last day for taxing unit entitled to vote for appointment of CAD directors to file a resolution opposing a change by the CAD board in selection of directors (Sec. 6.031)

SEPTEMBER	
9/1 to 9/30	<p>Continue field work relating to reappraisal and inspection of identified properties</p> <p>Continue reappraisal of portions of rural land and subdivisions</p> <p>Continue discovery of new improvements</p> <p>Continue personal property discovery</p> <p>Collect, verify and process sales information</p> <p>Collect, verify and process income and expense information</p>
9/15	<p>Last day for CAD board to adopt 2017 CAD budget, unless CAD has changed its fiscal year (Sec. 6.06)</p> <p>Last day for CAD board to notify taxing units in writing if a proposal to change number or method of selecting CAD directors is rejected by a voting taxing unit (Sec. 6.031)</p> <p>Review BOD election process</p>
9/30	<p>Last day for taxing units' fourth quarterly payment for 2016 CAD budget (Sec. 6.06)</p> <p>Board of Director's meeting</p>
OCTOBER	
10/1 to 10/31	<p>Continue field work relating to reappraisal and inspection of identified properties</p> <p>Continue reappraisal of portions of rural land and subdivisions</p> <p>Continue discovery of new improvements</p> <p>Continue personal property discovery</p> <p>Collect, verify and process sales information</p> <p>Collect, verify and process income and expense information</p> <p>Date(1st) tax assessor mails 2016 tax bills (or soon after) (Sec. 31.01)</p>
NOVEMBER	
11/1 to 11/31	<p>Continue field work relating to reappraisal and inspection of identified properties</p> <p>Continue reappraisal of portions of rural land and subdivisions</p> <p>Continue discovery of new improvements</p> <p>Continue personal property discovery</p> <p>Collect, verify and process sales information</p> <p>Collect, verify and process income and expense information</p>
DECEMBER	

<p>12/1 to 12/31</p>	<p>Continue field work relating to reappraisal and inspection of identified properties Continue reappraisal of portions of rural land and subdivisions Continue discovery of new improvements Continue personal property discovery Collect, verify and process sales information Collect, verify and process income and expense information Time when chief appraiser may conduct a mail survey to verify homestead exemption eligibility Board of Director's meeting Appoint ARB and AG Board Announce BOD election results</p>
<p>12/30</p>	<p>Last day for taxing units' first quarterly payment for 2017 CAD budget (Sec. 6.06)</p>

2015 Reappraisal Schedule (Work Plan)

Any time in the year:	Mail homestead applications, special-use valuation applications and any other required forms.
August to December:	Plan and begin field inspections.
Mid December:	Begin planning sales ratio studies for all areas within the CAD. Gather current sales data from sales confirmation letters, deed records, and other sources.
January to March:	Mail personal property renditions, exemption applications and any other required forms. Complete field inspections as provided by the reappraisal plan area. Begin running sales ratio reports. Compare with CAD values and sales information. Identify necessary schedule adjustments.
March through April:	Continue running sales ratio reports. Refine sales analysis and mass appraisal schedules. Statistically test schedules. Complete data entry of all reappraisal and maintenance changes. Assist field appraiser with reappraisal functions as needed. Finalize all field work and data collection activities. Execute mass appraisal/maintenance activities as required. Prepare for mailing section 25.19 Notices of Value.
May through June:	Hold informal hearings. Respond to property owners' inquiries, protests, and questions from notice mailings. Provide certified estimated values to taxing units.
July:	Hold ARB hearings. Process and mail ARB orders. Enter into computer all changes as ordered by ARB. ARB approval of appraisal records by July 20 th or as soon thereafter as is practicable. Certification of appraisal records and values to taxing units by July 25 th or as soon thereafter as is practicable.
As needed throughout the year:	Handle any outstanding protests by scheduling ARB hearings.

2016 Reappraisal Schedule (Work Plan)

The same timetable and duties apply in each year. The field appraiser shall physically inspect all property. The chief appraiser and CAD staff shall continue to complete the same duties and reappraisal steps as outlined for 2015.

I, Mary Bustamante, Chief Appraiser for Sutton 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 determined as required by law.

Mary Bustamante

Mary Bustamante
Chief Appraiser

5-19-14

Date

Mark Russell

Chairman

5-19-14

Date

RESOLUTION

On this the **8th** day of September, 2014 at a regular meeting of the Board of Directors of the Sutton County Appraisal District there came on for consideration a resolution to adopt a Biennial Reappraisal Plan for the tax years 2015 and 2016. After conducting a public hearing to consider the plan, Motion was made by DEAN DERMODY, seconded by MAURA WEINGART to authorize the adoption of the said plan.

Said motion put to vote:

Those voting "For" were:

Dean Dermody
Maura Weingart

Those voting "Against" were:

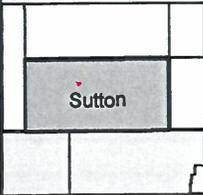
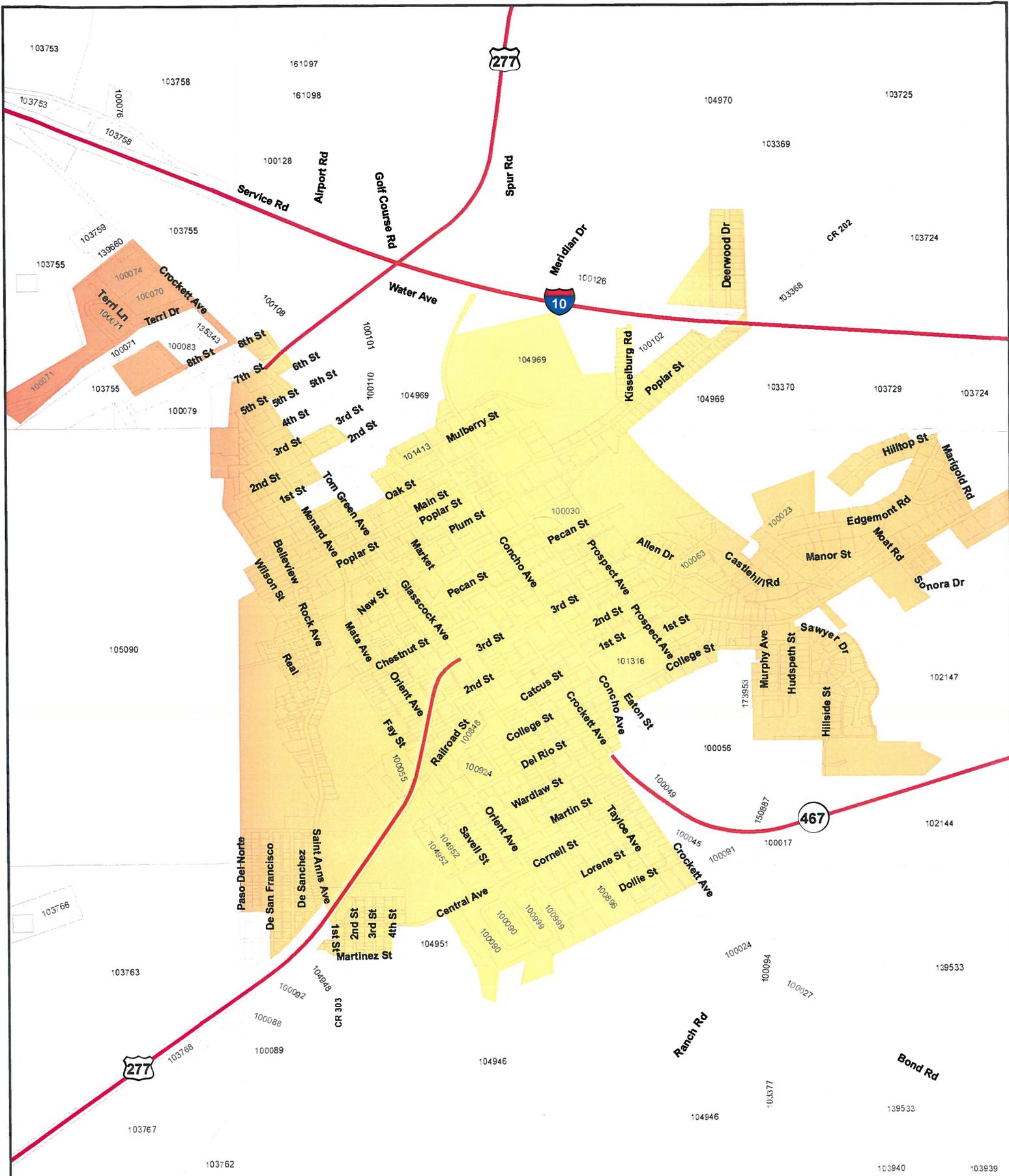
NONE

Those absent were:

JOHN GARNER

Dean Dermody
Board of Directors Chairman
Sutton County Appraisal District

9/8/14
Date



— Major Roads
 Parcels
 City Limits

1 inch = 1,500 feet

Sutton County

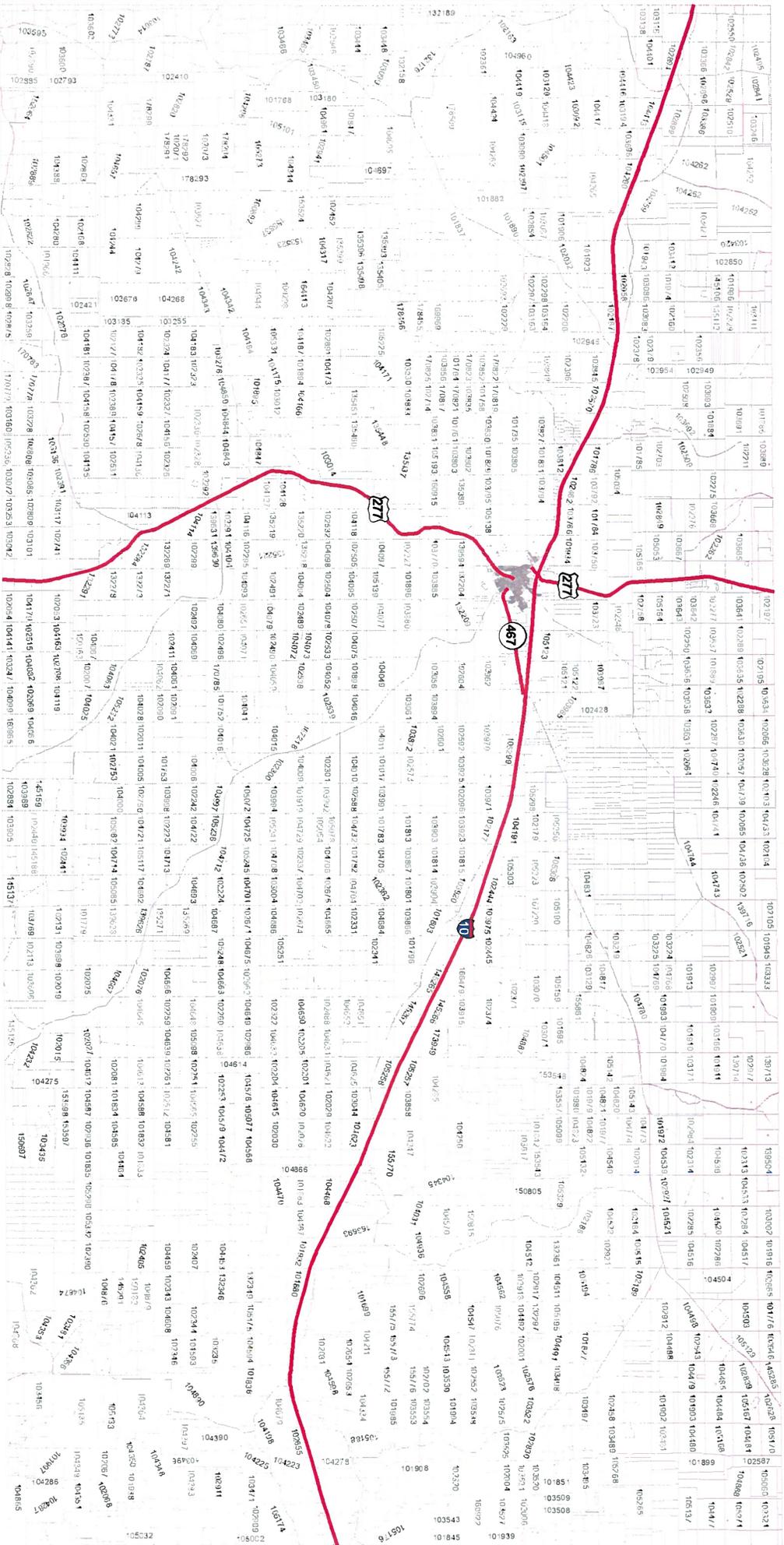
City of Sonora

August 2014

HB 1147 Disclaimer

This product is for informational purposes and may not have been prepared for or be suitable for legal, engineering, or surveying purposes. It does not represent an on-the-ground survey and represents only the approximate relative location of property boundaries.

Sutton County



1 in = 6 miles

August 2014

HB 1147 Disclaimer
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**2015 – 2016 Reappraisal of Market Value for Rural Land
Sutton County Appraisal District
Consultant: Western Valuation and Consulting**

Overview

Sutton CAD observes land (coded Category D) annually to verify class and condition. Sutton CAD consults with an outside firm to assist with the appraisal services for this category of property.

The purpose of the appraisals is to provide the appraised value of the properties on January 1 of the tax year.

The Texas Property Tax Code, except as otherwise provided, states that all taxable property is appraised annually at its "market value" as of January 1st. The Tax Code defines "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 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,
- 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.

Consultant

Sutton CAD contracts with Western Valuation and Consulting to assist in the appraisal of land (Category D). The Consultant's representative is Richard Petree. He is experienced and knowledgeable property tax appraisers with years of appraisal experience.

The Consultant uses the following items in assisting Sutton CAD: the Texas Property Tax Code; the *Property Appraisal and Assessment Administration* published by the International Association of Assessing Officers; the *Uniform Standards of Professional Appraisal Practice*; the appropriate method of appraisal for land; and local information made available through surveys and interviews with local property owners.

Consultant's Duties

Rural land is appraised primarily using the sales comparison approach to value. The District gathers all land sales of ranches and home sites in the rural area of Sutton County and places that information into a database. The prices per acre are plotted on maps and price trends are recognized by area of the county. Soil types are considered as far as the market recognizes those soil types by buyers and sellers.

After analyzing the sales data and locations of those sales, a schedule is developed noting price per acre in varying sizes or tracts. That price per acre is applied to all parcels within the market area recognized to develop equality and uniformity of value.

Detailed Activity Delineation and Scheduling:

- Data Collection
 - Market/Economic Data January – February
 - Property Characteristics January – February
 - Data Up-date August – February
 - Routing August – November

- Valuation
 - Analysis & Processing October – January
 - Review November – March

- Notification and Appeals
 - File Calculations January – February
 - File Creation May – June
 - Notification Process March – June
 - Informal Appeals April – July
 - Appraisal Review Board July

- Re-inspection
 - Identification and process September – February

Consultant's Report to CAD

The Consultant begins the appraisal work in September prior to the January 1 appraisal date and provides the final work product before May 1 of the appraisal year.

The Consultant meets with local taxpayers for informal hearings, for information requests as necessary, and appears at appraisal review board hearings to defend the Consultant's work.

**2015 – 2016 Reappraisal Plan
Sutton County Appraisal District
Qualified Agriculture Land
Consultant: Perdue Brandon Fielder Collins & Mott, LLP**

Introduction

Sutton County Appraisal District (CAD) appraises approximately 3,501 accounts that qualify for agricultural appraisal in Sutton County.

Sutton CAD contracts with Perdue Brandon Fielder Collins and Mott, LLP (PBFCM) (Consultant) to assist with the appraisal of local rural land property. The services rendered by the Consultant will be exclusively those related to the development of agricultural productivity values. The Consultant's representative shall be Carla Pope-Osborne, an employee of the Consultant and Woodrow Menn, an employee of the Consultant. Robert Mott is the attorney and partner that oversees the appraisal section for the Consultant.

Carla Pope-Osborne has 31 years of experience in the appraisal field. Her designations are as follows:

- Licensed with Texas Department of Licensing and Regulation as a Registered Professional Appraiser 67070

Woodrow Menn has 29 years of experience in the appraisal field. His designations are as follows:

- Licensed with Texas Department of Licensing and Regulation as a Registered Professional Appraiser 73964
- Licensed with Texas Appraiser Licensing and Certification Board as a Certified Residential Real Estate Appraiser R 1328892 R

The PBFCM contract includes analysis of agriculture land and the development of an agricultural land schedule. This schedule is applied to agriculture land properties in Sutton County, based on the Sutton CAD's written description of the property.

Appraisal Methodology

Agricultural land and wildlife management land are valued in accordance with Sec. 23 Texas Property Tax Code.

Land is classified into categories as native pasture. (There is no land in the appraisal district classified as improved pasture, dry cropland or irrigated cropland.) The categories may be further divided based on factors that influence the productive capacity of the category.

For the category, a net-to-land is determined. Net to land means the average annual net income derived from the use of open space land that would have been earned from the land during the five year period preceding the year before the appraisal by an owner using ordinary prudence in the management of the land and livestock produced or supported on the land and, in addition, any income received from hunting or recreational leases.

The net-to-land is calculated by determining the income that would be due the landowner under a cash lease (which is the typical lease arrangement for all categories of agricultural land in the area) and then deducting all expenses directly attributable to the agricultural use of the land.

Cash leases are based on the results of leases reported to the district. Agricultural lands in the appraisal district are primarily leased for grazing. Landowners typically lease their land for hunting and income from this sources is included in the net-to-land calculations. Any hunting income attributable to wildlife management land because of its use in wildlife management may not be included in the calculation of the net to land.

Expenses include: property taxes, fencing expenses, water well expenses and management expenses. Property taxes are determined by the actual taxes levied by the county's taxing units on agricultural land. Fencing expenses are based on Marshall & Swift costs and the most current agricultural census data available. Water well expenses are derived from actual expenses to drill and maintain water wells in the area. Management costs are those costs incurred in the supervision and monitoring of the lease arrangement.

The net income remaining after expenses are deducted from gross income is then capitalized at the capitalization rate specified in Sec. 23.53 to arrive at the productivity value which is expressed on a per acre basis. The capitalization rate is the greater of either 10% or the interest rate specified by the Farm Credit Bank of Texas or its successor on December 31st of the preceding year plus 2.5%. The appraisal district uses the capitalization rate published each year by the Comptroller.

Sutton CAD observes land (coded Category D) annually to verify class and condition. Sutton CAD consults with an outside firm to assist with the appraisal services for this category of property.

The purpose of the appraisals is to provide the productivity value of the properties on January 1 of the tax year.

Consultant

Sutton CAD retains the law firm of Perdue Brandon Fielder Collins & Mott, LLP (Consultant) to assist in the productivity appraisal of land (Category D). The Consultant's

representative is Carla Pope-Osborne, an employee of the Consultant and Woodrow Menn, an employee of the Consultant.

The Consultant uses the following items in assisting Sutton CAD; the Texas Property Tax Code; the Manual for the Appraisal of Agricultural Land; the *Uniform Standards of Professional Appraisal Practice*; and local information made available through surveys and interviews with local property owners.

Consultant's Duties

The appraisal of agricultural is governed by Chapter 23 of the Property Tax Code. The appraised value of qualified open-space is determined on the basis of the category of land, using accepted income capitalization methods applied to average net to land. Schedules for valuing qualified land have been developed for various agricultural uses production. These schedules are reviewed annually and updated as needed using data from recognized sources such as the Texas Agricultural Extension Service; the USDA National Agricultural Statistics Service; the Texas Comptroller of Public Accounts as well as local landowners engaged in leasing land for agricultural and recreational use.

The Consultant or a representative of the Consultant meets with property owners who file appeals regarding productivity value of agriculture land and explains how these values were developed to the property owners.

The Consultant or a representative of the Consultant attends any appraisal review board meeting in which the productivity value of agriculture land recommended by the Consultant is an issue and provides testimony on behalf of the CAD.

The services rendered by the Consultant will be exclusively those related to the development of productivity value of agriculture land and shall not include legal advice.

Assumptions and Limiting Conditions

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

- The Consultant appraises using simple interest of properties according to statute and court decisions. However, the effect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisal of any non-exempt taxable fractional interests in real property (i.e. certain multi-family housing projects).
- Title to the property is assumed to be good and marketable and the legal description correct.
- 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.
- All information in the appraisal documents are obtained by the CAD or by the Consultant or other reliable sources.

- The appraisals are prepared exclusively for ad valorem tax purposes.

Detailed Activity Delineation and Scheduling:

Research and Analysis

- Documentation Gathering Ongoing
- Agricultural Use Value September – January

Data Collection

Agriculture Property

- Field Survey Collection August – October
- Field Map Production at CAD Level August – September
- Parcel Inventory Control at CAD Level Ongoing
- Agricultural Advisory Board Meeting January/February – September/October
- Field Data Collection August – January
- Quality Control Ongoing

Valuation

Agriculture Property

- Apply Agricultural Productivity Value December – March
- Final Review December – March
- Produce Reports for Chief Appraiser November – April
- Process Corrections Ongoing

Notification and Appeals

- File Calculations at CAD Level January – February
- File Creation at CAD Level May – June
- Totals Report Production at CAD Level May – June
- Notification Process at CAD Level March – June
- Informal Appeals May - June
- Appraisal Review Board May – June

Re-inspection

- Identification and process at CAD Level September – February

Consultant's Report to CAD

The Consultant provides a periodic report to the CAD's chief appraiser on work progress and is available by phone to discuss any account with the chief appraiser as needed.

The Consultant meets with the Agricultural Advisory Board twice a year and is advised on agricultural issues and conditions in the county.

The Consultant begins the appraisal work in September prior to the January 1 appraisal date and provides the final work product before May 1 of the appraisal year.

The Consultant meets with local taxpayers for informal hearings, for information requests as necessary, and appears at appraisal review board hearings to defend the Consultant's work.

Certification for Agriculture Land Appraisals

Sutton CAD and its Consultant certify that, to the best of their knowledge and belief:

- The statements of fact contained in the appraisal report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- The parties involved have no present or prospective interest in the property that is subject to appraisal.
- There is no bias with respect to any property that is subject to appraisal or to the parties involved with this assignment.
- The engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The analyses, opinions, and conclusions were developed, and appraisals have been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- If appropriate, personal inspections of the properties that are subject of appraisal have been made by the Consultant.

DATE:

September 08, 2014

Mary Rustamante
Sutton CAD Chief Appraiser

Carla Pope Osborne
Consultant

Name: Carla Pope-Osborne
Perdue Brandon Fielder Collins & Mott, LLP

Woodrow E. Menn
Consultant

Name: Woodrow E. Menn
Perdue Brandon Fielder Collins & Mott, LLP

Commercial and Industrial Property Valuation Process

INTRODUCTION

Scope of Responsibility

This mass appraisal assignment includes all of the commercially described real property which falls within the responsibility of the Sutton County Appraisal District and located within the boundaries of this taxing jurisdiction. Appraisers appraise the fee simple interest of properties according to statute and court decisions. However, the affect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisalment of any non exempt taxable fractional interests in real property (i.e. certain multi-family housing projects). Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

Appraisal Resources

Personnel - The improved real property appraisal responsibilities are categorized according to major property types of multi-family or apartment, office, retail, warehouse and special use (i.e. hotels, hospitals and, nursing homes).

The following appraisers are responsible for estimating the market value of commercial and industrial property:

Richard Petree, Consultant with Western Valuation and Consulting

Data - The data used by the commercial appraisers includes verified sales of vacant land and improved properties and the pertinent data obtained from each (sales price levels, capitalization rates, income multipliers, equity dividend rates, marketing period, etc.). Other data used by the appraisers includes actual income and expense data (typically obtained through the hearings process), actual contract rental data, leasing information (commissions, tenant finish, length of terms, etc.), and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications are also reviewed to provide additional support for market trends.

PRELIMINARY ANALYSIS

Market Study

Market studies are utilized to test new or existing procedures or valuation modifications in a limited sample of properties located in the district and are also considered and become the basis of updating whenever substantial changes in valuation are made. These studies target certain types of improved property to evaluate current market prices for rents and for sales of commercial and industrial real property. These comparable sale studies and ratio studies reveal whether the valuation system is producing accurate and reliable value estimates or whether procedural and economic modifications are required. The appraiser implements this methodology when developing cost approach, market approach, and income approach models.

VALUATION APPROACH

Land Value

Commercial land is analyzed annually to compare appraised values with recent sales of land in the market area. If appraised values differ from sales prices being paid, adjustments are made to all land in that region. Generally, commercial property is appraised on a price per square foot basis. Factors are placed on individual properties based on corner influence, depth of site, shape of site, easements across site, and other factors that may influence value. The land is valued as though vacant at the highest and best use. If sales are not available, the abstraction or allocation method is used to appraise land.

Area Analysis

Area data on regional economic forces such as demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources.

Neighborhood Analysis

The neighborhood and market areas are comprised of the land area and commercially classed properties located within the boundaries of this appraisal jurisdiction. These areas consist of a wide variety of property types including multiple-family residential, commercial and industrial. Neighborhood and area analysis involves the examination of how physical, economic, governmental and social forces and other influences may affect property values within subgroups of property locations. The effects of these forces are also used to identify, classify, and organize comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. In the mass appraisal of commercial and industrial properties these subsets of a universe of properties are generally referred to as market areas,

neighborhoods, or economic areas.

Economic areas are defined by each of the improved property use types (apartment, office, retail, warehouse and special use) based upon an analysis of similar economic or market forces. These include but are not limited to similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity or other pertinent influences. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system

Highest and Best Use Analysis

The highest and best use is the most reasonable and probable use that generates the highest net to land and present value of the real estate as of the date of valuation, unless the property is appraised with a *JURISDICTIONAL EXCEPTION*. The highest and best use of any given property must be physically possible, legally permissible, financially feasible, and maximally productive. For improved properties, highest and best use is evaluated as improved and as if the site were still vacant. This perspective assists in determining if the existing improvements have a transitional use, interim use, nonconforming use, multiple uses, speculative use, is excess land, or a different optimum use if the site were vacant. For vacant tracts of land within this jurisdiction, the highest and best use is considered speculative based on the surrounding land uses. Improved properties reflect a wide variety of highest and best uses which include, but are not limited to: office, retail, apartment, warehouse, light industrial, special purpose, or interim uses. In many instances, the property's current use is the same as its highest and best use. This analysis insures that an accurate estimate of market value (sometimes referred to as value in exchange) is derived.

On the other hand, value in use represents the value of a property to a specific user for a specific purpose. This perspective for value may be significantly different than market value, which approximates market price under the following assumptions: (i) no coercion of undue influence over the buyer or seller in an attempt to force the purchase or sale, (ii) well-informed buyers and sellers acting in their own best interests, (iii) a reasonable time for the transaction to take place, and (iv) payment in cash or its equivalent.

Market Analysis

A market analysis relates directly to examining market forces affecting supply and demand. This study involves the relationships between social, economic, environmental, governmental, and site conditions. Current market activity including sales of commercial properties, new construction, new leases, lease rates, absorption rates, vacancies, allowable expenses (inclusive of replacement reserves), expense ratio trends, capitalization rate studies are analyzed to determine market ranges in price,

operating costs and investment return expectations.

DATA COLLECTION / VALIDATION

Data Collection Manuals

Data collection and documentation for commercial/industrial property is continually updated, providing a uniform system of itemizing the multitude of components comprising improved properties.

Sources of Data

In terms of commercial sales data, Sutton CAD receives a copy of the deeds recorded in Sutton County that convey commercially classed properties. These deeds involving a change in commercial ownership are entered into the sales information system and researched in an attempt to obtain the pertinent sale information. Other sources of sale data include the protest hearings process and local, regional and national real estate and financial publications.

For those properties involved in a transfer of commercial ownership, a sale file is produced which begins the research and verification process. The initial step in sales verification involves a computer-generated questionnaire, which is mailed to both parties in the transaction (Grantor and Grantee). If a questionnaire is answered and returned, the documented responses are recorded into the computerized sales database system. If no information is provided, verification of many transactions is then attempted via phone calls to parties thought to be knowledgeable of the specifics of the sale. Other sources contacted are the brokers involved in the sale, property managers or commercial vendors. In other instances, sales verification is obtained from local appraisers or others that may have the desired information. Finally, closing statements are often provided during the hearings process. The actual closing statement is the most reliable and preferred method of sales verification.

Valuation Analysis

Model calibration involves the process of periodically adjusting the mass appraisal formulae, tables and schedules to reflect current local market conditions. Once the models have undergone the specification process, adjustments can be made to reflect new construction procedures, materials and/or costs, which can vary from year to year. The basic structure of a mass appraisal model can be valid over an extended period of time, with trending factors utilized for updating the data to the current market conditions

Cost Schedules

The cost approach to value is applied to improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data

reporting services as well as actual cost information on local comparable properties whenever possible. Cost models are typically developed based on the Marshall Valuation Service which indicates estimated hard or direct costs of various improvement types. Cost models include the derivation of replacement cost new (RCN) of all improvements represented within the district. These include comparative base rates, per unit adjustments and lump sum adjustments for variations in property description, design, and types of improvement construction. This approach and analysis also employs the sales comparison approach in the evaluation of soft or indirect costs of construction. Evaluating market sales of newly developed improved property is an important part of understanding total replacement cost of improvements. What total costs may be involved in the development of the property, as well as any portion of cost attributed to entrepreneurial profit can only be revealed by market analysis of pricing acceptance levels. In addition, market related land valuation for the underlying land value is important in understanding and analyzing improved sales for all development costs and for the abstraction of improvement costs for construction and development. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period of time. Because a national cost service is used as a basis for the cost models, location modifiers and estimates of soft cost factors are necessary to adjust these base costs specifically for various types of improvements located in Sutton County.

Accrued depreciation is the sum of all forms of loss affecting the contributory value of the improvements. It is the measured loss against replacement cost new taken from all forms of physical deterioration, functional and economic obsolescence. Accrued depreciation is estimated and developed based on losses typical for each property type at that specific age. Depreciation estimates have been implemented for what is typical of each major class of commercial property by economic life categories. Estimates of accrued depreciation have been calculated for improvements with a range of variable years expected life based on observed condition considering actual age. These estimates are continually tested to ensure they are reflective of current market conditions. The actual and effective ages of improvements are noted in CAMA. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace. Effective age estimates are considered and reflected based on five levels or rankings of observed condition, given actual age.

Additional forms of depreciation such as external and/or functional obsolescence can be applied if observed. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific condition adequacy or deficiency,

property type or location and can be developed via ratio studies or other market analyses.

The result of estimating accrued depreciation and deducting that from the estimated replacement cost new of improvements indicates the estimated contributory value of the improvements. Adding the estimated land value, as if vacant, to the contributory value of the improvements indicates a property value by the cost approach. Given relevant cost estimates and market related measures of accrued depreciation, the indicated value of the property by the cost approach becomes a very reliable valuation technique.

Income Models

The income approach to value is applied to those real properties which are typically viewed by market participants as “income producing”, and for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to the estimation of market rent on a per unit basis. This is derived primarily from actual rent data furnished by property owners and from local market surveys conducted by the district and by information from area rent study reviews. This per unit rental rate multiplied by the number of units results in the estimate of potential gross rent.

A vacancy and collection loss allowance is the next item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and local market survey trends. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. This feature may also provide for a reasonable lease-up period for multi-tenant properties, where applicable. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an indication of estimated annual effective gross rent to the property.

Next, a secondary income or service income is considered and, if applicable, calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, escalations, reimbursements, and other miscellaneous income generated by the operations of real property. The secondary income estimate is derived from actual data collected and available market information. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income, when applicable.

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements may be included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Relevant expense ratios are developed for different types of

commercial property based on use and market experience. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for all operating expenses, such as ad valorem taxes, insurance, and common area and property maintenance. In comparison, a general office building is most often leased on a base year expense stop. This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. As a result, expense ratios are implemented and estimated based on observed market experience in operating various types of commercial property.

Another form of allowable expense is the replacement of short-lived items (such as roof or floor coverings, air conditioning or major mechanical equipment or appliances) requiring expenditures of lump sum costs. When these capital expenditures are analyzed for consistency and adjusted, they may be applied on an annualized basis as stabilized expenses. When performed according to local market practices by commercial property type, these expenses when annualized are known as replacement reserves. For some types of property, typical management does not reflect expensing reserves and is dependent on local and industry practices.

Subtracting the allowable expenses (inclusive of non-recoverable expenses and replacement reserves when applicable) from the annual effective gross income yields an estimate of annual net operating income to the property.

Return rates and income multipliers are used to convert operating income expectations into an estimate of market value for the property under the income approach. These include income multipliers, overall capitalization rates, and discount rates. Each of these multipliers or return rates are considered and used in specific applications. Rates and multipliers may vary between property types, as well as by location, quality, condition, design, age, and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market for individual income property types and uses. These procedures are supported and documented based on analysis of market sales for these property types.

Capitalization analysis is used in the income approach models to form an indication of value. This methodology involves the direct capitalization of net operating income as an indication of market value for a specific property. Capitalization rates applicable for direct capitalization method and yield rates for estimating terminal cap rates for discounted cash flow analysis are derived from the market. Sales of improved properties from which actual income and expense data are obtained provide a very good indication of property return expectations a specific market participant is requiring from an investment at a specific point in time. In addition, overall capitalization rates can be derived and estimated from the built-up method (band-of-investment). This method relates to satisfying estimated market return requirements of both the debt and equity positions in a real estate investment. This information is obtained from available

sales of property, local lending sources, and from real estate and financial publications.

Rent loss concessions are estimated for specific properties with vacancy problems. A rent loss concession accounts for the impact of lost rental income while the building is moving toward stabilized occupancy. The rent loss is calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy. Build out allowances (for first generation space or retrofit/second generation space as appropriate) and leasing expenses are added to the rent loss estimate. The total adjusted loss from these real property operations is discounted using an acceptable risk rate. The discounted value (inclusive of rent loss due to extraordinary vacancy, build out allowances and leasing commissions) becomes the rent loss concession and is deducted from the value indication of the property at stabilized occupancy. A variation of this technique allows a rent loss deduction to be estimated for every year that the property's actual occupancy is less than stabilized occupancy.

Sales Comparison (Market) Approach

Although all three of the approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach is utilized not only for estimating land value but also in comparing sales of similarly improved properties to parcels on the appraisal roll. As previously discussed in the Data Collection / Validation section of this report, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year in order to obtain relevant information which can be used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules in the Cost Approach, rates and multipliers used in the Income Approach, and as a direct comparison in the Sales Comparison Approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of the appraised values.

Final Valuation Schedules

Based on the market data analysis and review discussed previously in the cost, income and sales approaches, the cost and income models are calibrated and finalized. The calibration results are keyed to the schedules and models in the CAMA system for utilization on all commercial properties in the district. Market factors reflected within the cost and income approaches are evaluated and confirmed based on market sales of commercial and industrial properties. The appraisers review the cost, income, and sales comparison approaches to value for each of the types of properties with available sales information. The final valuation of a property is estimated based on reconciling these indications of value considering the weight of the market information available for evaluation and analysis in these approaches to value.

Statistical and Capitalization Analysis

Statistical analysis of final values is an essential component of quality control. This methodology represents a comparison of the final value against the standard and provides a concise measurement of the appraisal performance. Statistical comparisons of many different standards are used including sales of similar properties, the previous year's appraised value, audit trails, value change analysis and sales ratio analysis.

Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each property type with available sales data. These summary statistics including, but not limited to, the weighted mean, provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value of a particular property type. The level of appraised values can be determined by the weighted mean for individual properties within a specific type, and a comparison of weighted means can reflect the general level of appraised value.

The appraisers review every commercial property type annually through the sales ratio analysis process. The first phase involves ratio studies that compare the recent sales prices of properties to the appraised values of the sold properties. This set of ratio studies affords the appraiser an excellent means of judging the present level of appraised value and uniformity of the appraised values. The appraiser, based on the sales ratio statistics and designated parameters for valuation update, makes a preliminary decision as to whether the value level of a particular property type needs to be updated in an upcoming reappraisal, or whether the level of market value is at an acceptable level.

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses (inclusive of non-recoverable and replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed. Income model estimates and conclusions are compared to actual information obtained on individual commercial and industrial income properties during the protest hearings process, as well as with information from published sources and area property managers and owners.

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The date of last inspection, extent of that inspection, and the Sutton County appraiser are responsible for data listed in the CAMA system. If a property owner disputes the District's records concerning this data in a protest hearing, CAMA may be altered based on the credibility of the evidence provided. Normally, a new field check is then requested to verify this information for the current year's valuation or for the next year's valuation.

Field review of real property accounts is accomplished while business personal property is reviewed and inspected in the field. Additionally, the appraisers frequently field review subjective data items such as building class, quality of construction (known as cost modifiers), condition, and physical, functional and economic obsolescence factors contributing significantly to the market value of the property. In some cases field reviews are warranted when sharp changes in occupancy or rental rate levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. While in the field, the appraisers physically inspect sold and unsold properties for comparability and consistency of values.

Office Review

Office reviews are completed on properties subject to field inspections and are performed in compliance with the guidelines required by the existing classification system. Office reviews are typically limited by the available market data presented for final value analysis. These reviews summarize the pertinent data of each property as well as comparing the previous value to the proposed value conclusions of the various approaches to value. These evaluations and reviews show proposed value changes, income model attributes or overrides, economic factor (cost overrides) and special factors affecting the property valuation such as new construction status, and a three years sales history (USPAP property history requirement for non residential property). The appraiser may review methodology for appropriateness to ascertain that it was completed in accordance with USPAP or more stringent statutory and district policies. This review is performed after preliminary ratio statistics have been applied. If the ratio statistics are generally acceptable overall the review process is focused primarily on locating skewed results on an individual basis. Previous values resulting from protest hearings are individually reviewed to determine if the value remains appropriate for the current year based on market conditions. Each appraiser's review is limited to properties in their area of responsibility by property type (improved) or geographic area (commercial vacant land).

When the appraiser is satisfied with the level and uniformity of value for each commercial property within their area of responsibility, the estimates of value go to noticing. Each parcel is subjected to the value parameters appropriate for its use type.

Performance Tests

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market prices. In a ratio study, market values (value in exchange) are typically represented with the range of sale prices, i.e. a sales ratio study. Independent, expert appraisals may also be used to represent market values in a ratio study, i.e. an appraisal ratio study. If there are not enough examples of

market price to provide necessary representativeness, independent appraisals can be used as indicators for market value. This can be particularly useful for commercial or industrial real property for which sales are limited. In addition, appraisal ratio studies can be used for properties statutorily not appraised at market value, but reflect the use-value requirement. An example of this are multi-family housing projects subject to subsidized rent provisions or other governmental guarantees as provided by legislative statutes (affordable housing) or agricultural lands to be appraised on the basis of productivity or use value.

Sales Ratio Studies

Sales ratio studies are an integral part of estimating equitable and accurate market values, and ultimately property assessments for these taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analyses; and, to calibrate models used to estimate appraised values during valuation or reappraisal cycles. However, these studies cannot be used to judge the accuracy of an individual property appraised value. Overall sales ratios are generated by use type semi-annually (or more often in specific areas) to allow appraisers to review general market trends in their area of responsibility and for the Property Value Study from the Property Tax Division of the Comptroller's Office. These ratio studies aid the appraisers by providing an indication of market activity by economic area or changing market conditions (appreciation or depreciation).

Comparative Appraisal Analysis

The commercial 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 sales and equity studies are performed prior to final appraisal and to annual noticing.

Consultant's Procedure

Commercial real estate (coded as Categories F1 commercial real, F2 commercial industrial improvements and land, J Utilities Land and B1 apartments/duplexes) are observed annually to verify class and condition.

Detailed Activity Delineation and Scheduling

Research and Analysis (Consultant)

- Sales File Development Ongoing
- Documentation Gathering Ongoing
- Cost Schedules/Tables August – January
- Depreciation Guidelines August – January
- Income/Expense Models August – January
- Capitalization/GRM Rate Tables August – January
- Comparable Sales/Models August – January
- Ratio Study Production August – March

Data Collection – New Construction, Splits, and Rechecks (Consultant)

Commercial/Industry Property

- Field Data Collection August – January
- Quality Control Ongoing

Valuation Review (Consultant)

- Final Review December – February
- Rendition Processing January – April
- Process Corrections Ongoing

Notifications and Appeals (Sutton CAD)

- File Calculations January – February
- File Creation May – June
- Notification Process March – June
- Informal Appeals April – July
- Appraisal Review Board July

Consultant's Report to CAD

The Consultant begins the appraisal work in September prior to the January 1 appraisal date and provides the final work product before May 1 of the appraisal year.

The Consultant meets with local taxpayers for informal hearings, for information requests as necessary, and appears at appraisal review board hearings to defend the Consultant's work.

Sutton 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																						
Informal Meetings w/ Owners and Agents																						
Estimates of Certified Value to CAD																						
Delivery of 29.19 Data Files to HCAD's Software Vendor																						
Appraisal Review Board Hearings																						
Certified Values to CAD/Data to Software Vendor																						
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																						

Sutton 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.

Sutton 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.