

TITUS COUNTY APPRAISAL DISTRICT

REAPPRAISAL PLAN

FOR APPRAISAL YEARS 2015 & 2016

PRESENTED TO BOARD OF DIRECTORS

WITH PUBLIC HEARING HELD ON

JULY 15, 2014

Table of Contents

Item	Page
Code of Ethics	3
Executive Summary	3
The Written Plan	4
The Plan for Periodic Reappraisal	4
Performance Analysis	6
Analysis of Available Resources	6
Re-appraisal Decision	8
Planning and Organization	8
Calendar of Events	10
Mass Appraisal System	14
Data Collection Requirements by Tax year	18
Pilot Study by Tax Year	19
Valuation by Tax Year	19
Mass Appraisal Report by Tax Year	22
Certification Statement	24
Value Defense	24
Computer Formulas	25
BOD Adoption Resolution	27
Map	28
Pritchard and Abbott	29

CODE OF ETHICS

It is the strict policy of this Appraisal District to adhere to the following code of ethics.

- (1) I will be guided by the principal that property taxation should be fair and uniform, and I will apply all laws, rules, methods and procedures in a uniform manner to all taxpayers.
- (2) I will not accept anything of value from any party other than my employer unless acceptance of something is totally unrelated to my performance and duties as an appraiser, assessor or collector.
- (3) I will not use information received in connection with my duties as an appraiser, assessor or collector for my own purposes or for my own gain, unless such information can be known by ordinary means to any ordinary citizen.
- (4) I will not accept an assignment for which it is expected by any party that I will report a predetermined appraised value or report such predetermined values.
- (5) I will not speak or act in a manner or engage in any practice that is dishonest, fraudulent, and deceptive or in violation of law or generally accepted standards or morality.
- (6) I will uphold the honor and dignity of the property tax profession.

EXECUTIVE SUMMARY

Titus County Appraisal District is a political subdivision of the State of Texas established January 1, 1980. This re-appraisal plan and report required by SB. 1652 is generated to provide to the citizens of Titus County a better understanding of the district's procedures, responsibilities, activities, results and effects of those activities. The ultimate goal is to obtain an effective and positive result when analyzed by the Property Tax Division of the Comptroller's Office with the annual Property Value Ratio Study Report. This report establishes the position of equity and uniformity for the appraisal districts in the tested property categories.

Titus County Appraisal District is governed by a Board of Directors appointed by the taxing entities. The Board of Directors hires the Chief Appraiser as administrator of the appraisal district. The Property Tax Code is the governor of the legal, statutory, and administrative requirements of the appraisal district. The Comptroller implements rules which are requirements directing the operations of the appraisal district.

The appraisal district is required to appraise all property in its district boundaries for the purpose of local property taxation at market value as of January 1 except as otherwise provided by Sec. 23 of the tax code. Various types of property exemptions are determined by the appraisal district office such as homestead exemptions, charitable or religious exemption, partial and absolute exemptions and agricultural productivity valuation.

Appraisals are generated with computer assisted mass appraisal programs using recognized appraisal techniques and methods. We compare our data to data gathered from recent cost guides and market sales data. The district follows the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures, and subscribes to the standards known as the Uniform Standards of Professional Appraisal Practice (USPAP) to the extent they are applicable.

The purpose and requirement for the written reappraisal plan and periodic reappraisal resulted from the passage of SB. 1652 which amended the Tax code as follows:

THE WRITTEN PLAN

According to Section 6.05 of the Tax Code subsection (i):

"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 amendments, and by resolution 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."

THE PLAN FOR PERIODIC REAPPRAISAL

Section 25.18 of the Tax code (a) and (b) implements the following:

(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
 - (A) The location and market area of the property;
 - (B) Physical attributes of the 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 determine 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.

The Titus County Appraisal District makes a determination as to the timing of all reevaluation on an annual basis. This determination will dictate the re-appraisal of all property located in the CAD or determine re-appraisal of areas or categories of property located within the CAD such as subdivision, geographical areas, rural areas, commercial areas, residential, vacant lots, etc. Regional divisions of the county insure the Cad re-inspects and re-evaluates properties as required by the Property Tax Code on the two year cycle as described in this plan. The endorsement of the appraiser validates the action taken on each property appraisal or re-appraisal. If a property does not change in value this action does not invalidate an action of re-appraisal if the value is endorsed by the appraiser. Any property that has not been re-appraised in the previous year or in the above described scenario will fall into the category of annual determination of re-evaluation by region.

The reappraisal plan for Titus County Appraisal District is:

1. incorporate the application of proven and professionally acceptable techniques and procedures;
2. provide for the compilation of complete and accurate data and the processing of that data into an indication of value approximating the prices actually being paid in the market place;
3. provide the necessary standardization measures and quality controls essential to promoting and maintaining uniformity throughout the jurisdiction;
4. provide the appropriate production controls necessary to execute each phase of the operation in accordance with a carefully planned budget and work schedule, and
5. provide techniques especially designed to streamline each phase of the operation, eliminating functions, and reducing the complexities inherent in the appraisal process to more simplified but equally effective procedures.

PERFORMANCE ANALYSIS

As procedure has dictated and has occurred in years past 2015 and 2016 appraisal years will be analyzed with ratio studies from the previous year's values along with the Comptroller's Property Value Study report to determine appraisal accuracy and appraisal uniformity overall with the use of additional market

data gathered within and representing each of the state property reporting categories.

In conjunction with the ratio study and the property value study the mean, median, and weighted mean ratios are calculated for properties in each reporting category to measure the level of appraisal accuracy. The mean ratio is calculated in each market area to indicate the level of appraisal accuracy by property reporting category. In 2015 and 2016 this analysis will be used to develop the starting point for establishing the level of accuracy on the appraisal performance. The testing result will be an indicator of which properties will need to be addressed with a change and which properties will not need a change. This result can indicate a negative or positive increase or decrease in value.

All ratio calculations are in compliance with the Standard on Ratio Studies from the International Association of Assessing Officers.

ANALYSIS OF AVAILABLE RESOURCES

Data, maps, information systems support, existing practices, budget and employee staffing are all major components required to assist in accomplishing final results necessary to ensure the appraisal district is conforming with the IAAO and USPAP standards and practices when appraising all categories of property.

The ultimate goal is to have the proper employees in key positions with the experience, knowledge and certifications required to perform required duties. The office of the Chief Appraiser is responsible for the planning, organizing, staffing, and coordinating the district operations. The administrative functions are to direct and control the business support functions related to human resources, budget, finance, records management, purchasing, and the retention of fixed assets and facilities. The appraisal department or appraisers are responsible for the valuation of all real and personal property. These categories of property include commercial, residential, business personal, mineral, utilities, and industrial. The district's appraisers are subject to the certification requirements adopted by the Texas Department of Licensing and Regulation which is subject to the provisions of the Property Taxation Professional Certification Act. Support functions include records maintenance, information coordination, formal and informal property protest hearings, and many other citizen contacts.

The appraisal district's staff consists of 9 employees with the following classifications:

Official/administrator (executive level administration) -1
Technicians or appraisers -4
Administrative support -4

All certified appraisers with an RPA designation is required to receive additional training of a minimum of 30 hours of continuing education units which must be completed within 24 months period before the expiration of the license in order to continue working as a certified appraiser. An employee's failure to comply with this requirement will result in a revoked license and possible termination from the district.

A change in staffing has not been recognized for the 2015 or 2016 appraisal years at the time of this writing. Budget projections do include an open placement for one additional employee, either full time or part time should the need arise. The utilization of all staff members with their normal allocated assignments will be under continuous observation and adjustments made to duties as deemed necessary and appropriate to complete the reappraisal cycle. Staffing will impact the cycle of real property inspection and personal property on-site review that can be accomplished in the 2015-2016 time period. The appraiser's longevity of employment with the Appraisal district can be a positive or negative effect on accomplishing the goals of re-appraisal. Appraiser's familiarity with the county is a plus to accomplish this demanding large task.

The Titus County Appraisal District is responsible for establishing and maintaining approximately 26,700 property accounts. The data that comprises the 26,700 property accounts include property characteristics, ownership, and absolute or partial exemption information.

A digital mapping system maintains parcel maps and various layers of data and aerial photography. The district's website allows a broad range of information available for public access, including information on individual appraisals, property characteristics, certified values, and exemption applications and forms. Aerial photography is especially helpful in determining the productive use of agricultural and timber lands. Aerial photography is purchased approximately every two years to keep the district updated on changes in land composition.

Information system enables the district to maintain and continuously add additional data concerning the 26,700 accounts in the district. The server data base is a Dell Power Edge 2800 and includes an additional job server with software support from the software group True Automation. The user base is networked to the mainframe using Windows 7 applications. True Automation programmers are updated on all applicable law changes and are continuously updating the software requirements that functions our reporting process as law requirements change.

Annual Budget requirements are presented to the entities before June 15, of each appraisal year requesting the budget needs for the following calendar year. 2015 budget was presented on May 15, 2014 and 2016 budget will be presented on or before June 14, 2015. A detailed 2015 budget will be attached to the written plan by reference. The 2016 budget will be attached as reference following the adoption of that budget in 2015.

As with any written plan established for any reason, restraints can hinder the targeted goals. Such restraints can include budgetary, staffing, technical issues included but not limited to natural disasters. However, every effort will be exercised to complete the re-appraisal cycles as intended in this document with a positive result accomplished and measured through the Property Value Study and Maps review by the Comptroller's Office. The Board of directors reserves for the appraisal district and the Chief Appraiser the right to amend this plan at anytime deemed necessary and take appropriate measures to adjust procedures or plans to accomplish the goal of the plan.

RE-APPRAISAL DECISION

Overview

The Titus County Appraisal District, by policy adopted by the Board of Directors and directions given the Chief Appraiser, re-appraises approximately one-half of all property in the district every year. A breakdown of the areas to be re-appraised is made using regional boundaries. Using regions as an area, accounts are totaled within each region. Regions are divided so there is approximately the same number of accounts appraised each year. Only certain regions are appraised in a given year unless market indicators reflect the need to include all properties within the appraisal district boundaries. In any given appraisal year, the Chief Appraiser reserves the right to modify schedules, if in house ratio studies, natural disasters or other information deem re-appraisal necessary for the district as a whole or part of the district not within the regions as described or the time frame allotted to that area; while still ensuring adherence to the overall two year cycle. The annual appraisal of business personal property, mineral, utilities, industrial, commercial and special appraisals will continue as described below.

Example:

Year A: 2015 Region 2 described as properties located South of I-30
7,438 parcels plus 9690 annually 17,128 total

Year B: 2016 Region 1 described as properties located North of I-30
8,787 parcel plus 9690 annually = 18,477 total See map exhibit attached

A re-appraisal year for an area is a complete appraisal of all properties in the district or within the boundaries of the identified regions scheduled for re-appraisal. During the re-appraisal year's staff will discover new construction and remodeling, re-inspect properties on the appraisal roll, identify and record changes in property characteristics that affect value and adjust values accordingly. Appraisal District staff will monitor sales and building classifications (i.e. land, improvements) to reflect current market conditions in this district. Review of foreclosure sales within neighborhoods or areas of generally economic depressed regions will be identified and appropriate weight given to determine the market value of those related properties.

If the analysis of collected sales data indicates a market adjustment needs to be made in all areas of the county, both years will be considered as a complete reappraisal year and all properties will be addressed accordingly. This re-appraisal results in a mass production of recalculations by adjusting schedules and or depreciation used in the prior years. This adjustment will affect all properties.

PLANNING AND ORGANIZATION

A calendar of events with critical completion dates is prepared for each major work area. The major work areas are defined and identified below. Following the list is a calendar for beginning and processing all key events for appraisal, clerical and information systems. The following list is not intended to place limitations on the activities involved in a reappraisal. This list is intended to be a guide and reference point for the process. Any activity or process identified as needing attention will become included in the process and be completed within each year cycle.

TAX YEAR 2015

Review sales analysis with current information with ratio reports
Identify properties of Region 2 described as properties located South of I-30
Discover new property in Region 1 and 2
Identify properties in Region 2 which need rechecking from prior year
Identify and inspect problematic market areas
Route properties for physical inspection and complete inspections
Identify properties that no longer exist in the district and adjust roll
Identify and update property characteristics
Check models and develop new models if necessary
Change ownership using legal documents
Review properties to remove homestead, agricultural and timber applications
Mass mailing of homestead applications to new owners
Mass mail agricultural and timber application to new owners
Mass mailing of rendition applications
Map properties from deed changes, check boundaries with deed if mapped
Review legal instruments for easements, covenants, leases, restrictions, contracts, declarations, special assessments, ordinances, or legal restrictions
Mail buyer/seller sales surveys, income expense surveys, agricultural and timber lease surveys
Calculate values
Prepare, plan and submit budgets for 2015
Prepare, plan and hold agricultural and timber advisory meetings
Calculate values; mass mail appraisal notices, prepare, plan and hold formal and informal hearings
Certify the appraisal roll

TAX YEAR 2016

Review sales analysis with current information with ratio reports
Identify properties of Region 1 described as properties located North of I-30
Discover new property in Region 2 and 1
Identify in Region 1 which need rechecking from prior year
Identify and inspect problematic market areas
Route properties for physical inspection and complete inspections
Identify properties that no longer exist in the district and adjust roll
Identify and update property characteristics
Check models and develop new models if necessary
Change ownership using legal documents
Review properties to remove homestead, agricultural and timber applications
Mass mailing homestead applications to new owners, process returned applications
Mass mail agricultural and timber application to new owners
Mass mailing of rendition applications
Map properties from deed changes, check boundaries with deed if mapped
Review legal instruments for easements, covenants, leases, restrictions, contracts, declarations, special assessments, ordinances, or legal restriction
Mail buyer/seller sales surveys, income and expense surveys, agricultural and timber lease surveys
Prepare, plan and submit budgets for 2015
Prepare, plan and hold agricultural and timber advisory meetings
Calculate values; mass mail appraisal notices, prepare, plan and hold formal and informal hearings
Certify the appraisal roll

2015 CALENDAR OF EVENTS

Phase	Begin	Complete
Administration/Planning	Continuous	Continuous
Training educational	Continuous	Continuous
Data Collection/Discovery: Collection Deeds, mechanic Liens, building permits, Assumed name filings etc.	Continuous	Continuous
Identify, route, inspect by Aerial photos, land based photos, Surveys, maps, property sketches, measure, update characteristics, measure, obtain physical attributes such as size, age, condition, additions, deletions, document legal and economic attributes, recognize easements, covenants leases, reservations, contracts, declarations, ordinances, legal restrictions, recognize other features or characteristics that may affect the property value either positively or negatively, inspect problematic areas	August 2014	March 2015
Change ownership records	Continuous	Continuous
Check models and develop new	August 2014	March 2015
Review exemptions and special Appraisal-physical Inspection for use	August 2014	March 2015
Mass Mail exemptions, special Appraisal applications, Renditions, buyer/seller Surveys, lease surveys, Income and expense surveys	January 2015	April 2015
Mail renditions: Personal Property and Real	January 2015	April 2015

Process returned exemptions And other applications or reports	January 2015	April 2015
Sales Data Gathered	Continuous	Continuous
Data Entry	August 2014	March 2015
Mapping Deed processing, ownership Changes, check boundaries With deed, map	Continuous	Continuous
Valuation Analysis/Processing Schedule building/adjustment testing and determining needs for modifiers or adjustments, calculate values, check models develop new models	August 2014	March 2015
Appraisal notices	April 1, 2015	May 15, 2015
Submission of records to ARB	May 15, 2015	May 15, 2015
Hearings Informal	April 1, 2015	July 20, 2015
Hearings formal	May 16, 2015	July 20, 2015
Certify Values	July 25, 2015	July 25, 2015

2016 CALENDAR OF EVENTS

Phase	Begin	Complete
Administration/Planning	Continuous	Continuous
Training educational	Continuous	Continuous
Data Collection/Discovery: Collection Deeds, mechanic Liens, building permits, Assumed name filings etc.	Continuous	Continuous

Identify, route, inspect by Aerial photos, land based photos, Surveys, maps, property sketches, measure, update characteristics, re-measure, obtain physical attributes such as size, age, condition, additions, deletions, document legal and economic attributes, recognize easements, covenants leases, reservations, contracts, declarations, ordinances, legal restrictions, recognize other features or characteristics that may affect the property value either positively or negatively, inspect problematic areas	August 2015	March 2016
Change ownership records	Continuous	Continuous
Check models and develop new	August 2015	March 2016
Review exemptions and special Appraisal-physical Inspection for use	August 2015	March 2016
Mass Mail exemptions, special Appraisal applications, Renditions, buyer/seller Surveys, lease surveys, Income and expense surveys	January 2016	April 2016
Mail renditions: Personal Property and Real	January 2016	April 2016
Process returned exemptions And other applications or reports	January 2016	April 2016
Sales Data Gathered Data Entry	Continuous August 2015	Continuous March 2016
Mapping Deed processing, ownership Changes, check boundaries With deed, map	Continuous	Continuous

Valuation Analysis/Processing Schedule building/adjustment testing and determining needs for modifiers or adjustments, calculate values, check models develop new models	August 2016	March 2016
Appraisal notices	April 1, 2016	May 15, 2016
Submission of records to ARB	May 15, 2016	May 15, 2016
Hearings Informal	April 1, 2016	July 20, 2016
Hearings formal	May 16, 2016	July 20, 2016
Certify Values	July 25, 2016	July 25, 2016

*Throughout both years: Collect, enter, and review sales data as it becomes available, update characteristics of improvements and changes noted by appraisers, make ownership changes as deeds are available, enter/remove exemptions and special use valuation and accounts as they are qualified or no longer qualify. Mail residence homestead exemptions applications to new owners as they are identified by the CAD. Mail surveys resources to collect sales and income data.

Continue to map and identify property in the district. Map spilt-outs as deeds are received throughout the year. Properties needing mapping updates have a target date of completion within 180 days of discovery. The issue that may hinder this process includes deed metes and bounds description and deed errors.

The field appraisal staff is responsible for collecting and maintaining property characteristics for classification, valuation and other purposes. Accurate valuation of real personal property by any method requires a comprehensive physical description of the land and building characteristics. This appraisal activity is responsible for administering, planning and coordinating all activities involving data collection and maintenance of all commercial, residential and personal property types located within the boundaries of Titus County and the jurisdictions of the appraisal district. The data collection effort involves the field inspection of real and personal property accounts, as well as entry of all data collected into the existing information system. Upon inspection the responsibility of the appraiser is analyzing condition, age, architectural style, quality of construction, quality of materials, type of construction, remodeled or out dated characteristics, additions, deletions and any other component that affects value. The goal is to field inspect residential, commercial and personal properties in the district every two years by regions each containing approximately 20,000 parcels.

Staff Providing Significant Mass Appraisal Assistance

Chief Appraiser
Deputy Chief Appraiser
Commercial Appraiser
Ag/timber Appraiser
Residential Appraiser
Mapping Staff
Deed Processing Staff
Industrial Appraiser Contract Firm

MASS APPRAISAL SYSTEM

Revisions to cost models, income models and market models are specified, updated and tested each year or a decision not to change is made depending on the final ratio study results.

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

Depreciation tables are updated to adjust for physical, functional, or economic obsolescence. Physical inspections will determine which properties should have one or all of the listed depreciation types.

Models are developed, identified and updated as to the market location, physical attributes, legal & economic attributes, easements, covenants, restrictions, contracts, and special assessments. Characteristics of current models are updated or modified to represent the testing and analysis of data.

Land tables are updated using current market data (sales) and then tested with ratio study tools. Value modifiers are developed for property categories by market area and tested on a pilot basis with ratio study tools.

Income, expense, and occupancy data is updated in the income models for each market area and cap rate studies are completed using current sales data. The resulting models are tested using ratio study tools.

PERSONAL PROPERTY VALUATION

Density schedules are updated using Marshall & Swift valuation guide. Valuation procedures are reviewed and modified as needed and tested.

With the aid of the Titus County Appraisal District calendar the field appraisal staff is responsible for discovering, inspecting, calculating and evaluating property characteristics of all real and personal property. The goal is to correctly identify all characteristics of property in Titus County and to allocate those characteristics to our models developed as comparables to generate on a mass scale the correct market value for every property located within the appraisal district authority. This process will begin in August of each year and have a targeted completion date of March 31 with May 15 the target date for personal property of each year. The months of April, May, June, and July are set aside to complete formal and informal hearings of the equalization phase of the appraisal calendar July 25th is the target certification date.

Production standards for field activities and results are tested on a quarterly basis with the use of sales data gathered through MLS listing, buyer and seller questionnaires mailed by the appraisal district, verbal contact with citizens of Titus County, and confirmations of sales activity in warranty deed or county clerks recorded documents. Just as with the annual Property Value Study performed by the Comptroller's Property Tax Division the use of sales and recognized auditing and sampling techniques are used to determine the level and uniformity of property tax appraisal in this district. This process utilizes statistical analysis of sold properties (sales ratio) and appraisals of unsold properties (appraisal ratios) as a basis for assessment ratio reporting. The reported measures include the 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 (PDR) for properties overall and by state category. The ratio study includes stratified samples to improve sample representation for measuring uniformity.

True Automation software programming division provides updates of all program calculation adjustments, forms, and computer form revisions that are dictated in legislative sessions or changes in the law. Management assists with the scheduling and processing of these updates in order to be timely effective for the use in the appraisal process.

The mass appraisal process is accomplished by using model calibration. Model calibration involves the process of periodically adjusting the mass appraisal formulae, tables, and schedules to reflect current local market conditions. 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 current market conditions. If the adjustment process becomes too involved, the model calibration technique can mandate new model specifications or a revised model structure. Many times this occurs when new construction materials or cost and architectural design develops into an additional class of property.

Cost schedules will be updated with market data (sales) to insure that the appraisal district is in compliance with Texas Property Tax Code, Sec. 23.011 (4) requirement of being within 10% of a generally accepted cost data source. Cost models are typically developed based on the Marshall & Swift Valuation Service. Cost models reflect replacement cost new of all improvements. Because a national cost service is used as a basis for the cost models, location modifiers are necessary to adjust these base costs specifically for various types of improvements. The closest known local modifier will be used because a specific modifier for Titus County has not been developed.

Accrued depreciation is the measured loss of value against replacement cost new taken from all forms of physical deterioration, functional and economic obsolescence. Estimates of accrued depreciation are calculated for improvements with a range of variable years of expected life based on observed condition with consideration of actual age. Effective and actual ages are noted in our computer assisted mass appraisal system. Effective age estimates are based on the utility of the improvements relative to 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 of observed condition.

A depreciation 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 can be developed via ratio studies or other market analysis and are tied to specific condition adequacy or deficiency, property type or location.

Estimating accrued depreciation and deducting that from the estimated replacement cost new of improvements indicates the estimated contributory value of the improvements. Adding land value, as if vacant, to the contributory value to the improvements indicates a property value by the cost approach.

Land tables are updated using current market data (sales) and then tested with ratio study tools. Value modifiers are developed for property categories by market area and tested with ratio study tools.

Income, expense, and occupancy data are useful tools in producing an income approach to value. The income approach is typically used to value property viewed as "income producing" such as duplexes, apartment buildings, storage facilities. The difficulty in gathering this important data has not afforded this district the ability to use this approach on a consistent nor wide spread basis. The district will continue to consider this approach to value as information permits. The gathering of income data is a constant process and due diligence is performed to maintain income data to create models to be used in this approach. The income approach is used on the special appraisal process for the agricultural and timber properties. The data gathered and used in this type appraisal is requested from the Comptroller and is data they have gathered from Texas A&M University which in turn has gathered information from timber mills and suppliers. The agricultural advisory board supplies additional information to comply with the income

and expense information requirement about cash leases to determine the agricultural productivity special appraisal.

Capitalization process used in the income approach on agricultural and timber properties is a direct rate provided by Sec. 23.53 and Sec. 23.74 of the Property Tax Code. Capitalization rate for other income producing properties will be derived from the market or band of investment method.

Personal property valuation cost schedules are developed by analyzing cost data from property owner renditions, hearings, state schedules, and published cost guides. The cost schedules are reviewed as necessary to conform to changing market conditions. Most of the information used by the district is generated to the district from the owner in a form of a rendition. Each new year's rendition is compared to the last year to verify additions or deletions and to get a better understanding of what the property should exist at the business. The present value factor is used as an express calculation in the cost approach. The present value factor is applied to historical cost as follows:

$$\text{MARKET VALUE ESTIMATE} = \text{PVF} \times \text{HISTORICAL COST}$$

Historical cost is normally supplied to the Cad via the completed rendition form from the owner of the business. The mass appraisal PVF schedule is used to ensure that estimated values are uniform and consistent and reflect current economic pressures of supply and demand.

DATA COLLECTION REQUIREMENTS

Activities scheduled for each tax year include new construction, demolition, remodeling, re-inspection of problematic market areas, and re-inspection of the universe of properties on a specific cycle. The specific cycle will be determined annually after appropriate documentation on sales activity, replacement cost new data, and or any other economic catalyst that affects a sufficient number of properties that indicate a complete re-appraisal is necessary. The final result accomplished with this plan is every property being re-appraised by law at least once in every two years.

The principal source of data collection on new construction and remodeling are generated by building permits and mechanic liens filed with the city and the county. A field effort of driving the county also generates a constant watchful eye on any new construction or additions that may be added to the property. With the addition of the web connection, property owners themselves are generating and filtering information to the cad about the property description of their individual property.

Data surveys included in the buyer and seller questionnaire when returned is helpful in identifying characteristic that are needed to correctly appraise property and gives to the cad the current sales data. Identifying these characteristics with the sales information aides in the model calibration of properties included in that class or category and identifies problematic areas. Quality of data is emphasized as the goal and responsibility of each appraiser. Sales information is verified by sources such as new owner, seller, Multiple Listing Service is a good source for data characteristics.

Field appraisers perform field activities to ensure the data they have entered into the computer based system has been maintained and is correct. Data updates and file modification for property descriptions and input accuracy is conducted as the responsibility of the field appraiser.

Texas Railroad Commission and division orders are the source for our mineral appraisals.

Personal Property rendition forms are the source of data for commercial property inventories, furniture and fixtures and machinery and equipment. Assumed names filed with county also, generate additional check points for new business personal property.

PILOT STUDY BY TAX YEAR

The International Association of Assessing Officers, Standard on Mass Appraisal of Real Property specifies that the universe of properties should be re-inspected on a cycle of 3 years. This re-inspection includes the re-measurement of at least two sides of each improved property.

Sales ratio studies are conducted each tax year by category and market areas. While the universe of market areas are considered to be Titus County, subsets of market areas can be broken out by school districts, cities, lake areas, rural areas, regions one and two, and neighborhoods. Higher value market areas are identified and include properties along I-30, the lake subdivisions, rural lake areas, and parts of the City of Mt. Pleasant. Moderate market areas cover Chapel Hill ISD and Harts Bluff ISD with Mt. Pleasant ISD having a mixture of high, moderate and low market areas. The lower market areas can be identified as properties located in Pewitt ISD (North-East area of Titus), Rivercrest ISD (North area of Titus), Daingerfield ISD (South- East of Titus) and various regions of Winfield ISD. Market areas are refined to reflect category of properties such as real property with a total of 20,404 parcels, business personal property with 1,509 parcels, commercial properties with 1,249 parcels, utility property with 380 parcels and mineral property with 3,163 parcels. This count of parcels reflects historical data because the parcel count will change on a regular basis in the normal course of business by adding new property and deleting removed property. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested. Discovery of necessary adjustments will be disbursed among the market areas to correctly reflect market conditions in those market areas as described above. These procedures used for model specification and model calibration are in compliance with Uniform Standards of Professional Appraisal Practice, and Standard Rule 6.

The discovery of the necessary adjustments will be disbursed among the above defined market areas which include the following state category codes:

- A. Single Family Residence
- B. Multifamily Residence
- C. Vacant Lots and Tracts
- D. Open Space land and improvements
- E. Rural Land, not qualified
- F. Commercial and Industrial Real Property
- G. Oil and Gas
- J. Utilities
- L. Commercial and Industrial Personal Property
- M. Mobile Homes
- O. Residential Inventory
- S. Special Inventory
- X. Totally Exempt Property

VALUATION BY TAX YEAR

Calculation of preliminary values enables the district to use the market analysis of comparable sales and gathered cost data to ensure that the ratio study performed in each category of property, neighborhood, and defined market areas generates an acceptable ratio in each segment of property or grouped segment of properties. Properties in selected market areas are updated in non-reappraisal years as well as in re-appraisal years if the ratio results reflect the need for a change. Therefore, the need for re-appraisal year is made on an annual basis and determined by market areas. Every property is re-appraised at least once in every two years. A change may or may not occur depending on the cost data gathered, sales information gathered, or other pertinent information pertaining to the individual property or property characteristics.

All three approaches to value will be considered on all types of properties. The appraiser will determine and select the method that gives the greater weight of market value. Below is an itemization of which approach is common for each type of property and why the other approaches may not generate a representative market value.

RESIDENTIAL REAL PROPERTY

Sales comparison method is the most frequently used method of appraisal for this property.

Cost approach will be used for this property if sufficient sales data cannot be collected or on special use properties.

The income approach will be considered if rental income may be a better indication of value.

SPECIAL INVENTORY RESIDENTIAL PROPERTY

Cost approach to value is the most common usage in this category of property. Developers have the same benefits and rights as individuals with other types of inventory in which they are entitled to have their property grouped as if it were to be sold as a whole. This method is based on the use of cost or market whichever is the lowest.

Sales approach is not used until the developer sales the property and the category changes to a category other than inventory.

Income approach to value is not used on this property because it is not income producing.

MULTIFAMILY RESIDENTIAL PROPERTY

Due to the limited number of sales activity in this type of property it is not feasible to use the sales comparison approach to value, but is always considered if the data is available.

The cost approach would be used to as a comparison to the income approach which would be the best approach to value considering the evidence of income and expense information for properties of this type in this county. The inability to collect income and expense information determines whether the cost approach will be the reliable approach for this county.

Income approach may not be feasible because of the inability to receive documented evidence on true income and expense information in this subject area. Efforts and attempts to collect income data along with maintaining the income data will continue.

COMMERCIAL REAL PROPERTY

Sales comparison approach to value is a limited resource and is not a reliable approach for this group of property when sales are limited in number. Sales data may or may not include a documented value for goodwill without this measure the sales approach may generate a distorted value. The infrequency of sales activity limits the measure in this approach.

Cost approach to value is the most reliable approach to market for this type of property in this county.

Income approach is not used as this approach is for income producing properties. Income approach will be used if data collected can be stored and updated and the property is income producing such as apartments, hotels, motels, etc.

VACANT REAL PROPERTY

Sales comparison approach is the best approach for this type of property and is the most common used approach for this type of property.

Cost approach is not feasible.

Income approach could be used only on those properties that were generating a rental income. This is not the most common used approach in this type property.

INDUSTRIAL REAL PROPERTY CAPITOL

Sales comparison approach is the best approach for this type of property but because of the limited sale activity in the area information may or may not be readily available.

Cost approach is a valid and sometimes the most effective process to generate a market value.

Income approach is not a common approach to value for this type of property but is always considered.

UTILITIES CAPITOL

Sales comparison approach is not used in this type of property appraisal because of the limited sales activity in the type property.

Cost approach can and will be considered.

Income approach is the most common approach to value for this type of property.

MINERAL INTEREST

Sales comparison approach is not used in this type of appraisal because of the limited sales activity associated with this type of property.

Cost approach cannot be considered in this type of property.

The income approach is the most reliable approach to value.

SPECIAL VALUATION PROPERTIES

Sales comparison approach is not used in this type of appraisal. This property is appraised based on its ability to generate income. Sales data is limited on this type of property.

Cost approach is not used on this type of property. There is no effective or feasible way to use a cost approach on this type property.

Income approach is the correct approach used on this type of property because it is an income producing property and is based on the land's ability to generate income.

INDUSTRIAL TANGIBLE PERSONAL PROPERTY

Cost approach to value is the most reliable approach with the aid of renditions that are prepared by the owner giving the historical cost of the items and with the use of indexing the historical value to generate an in use current value.

Income approach is not used as the personal property is not normally used nor produces rental income.

Sales approach is not used due to the limited number of sales activity in this type of property.

THE MASS APPRAISAL REPORT

The appraisal of a large number of real and personal properties within an established period of time using standardized procedures and subjecting the resulting appraisals to statistical testing is the definition of mass appraisal.

The mass appraisal report is a report prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem appraisal calendar. Since the majority of ad valorem real property appraisal in Titus County is accomplished using mass appraisal techniques, the general standard for appraisal should reflect compliance with USPAP Standard 6. The signed certificate is compliant with the Standard Rule 6-9 of USPAP. This written re-appraisal plan is attached to the Mass Appraisal report by reference.

The scope of work for a mass appraisal includes the following:

1. Identifying properties to be appraised
2. Defining market areas
3. Identifying characteristics that affect the market value
4. developing a benchmark property that reflects the relationship of characteristics affecting value
5. calibrating the benchmark
6. calculate the conclusion of the property being appraised
7. reviewing the mass appraisal results

The purpose of the mass appraisal completed by Titus County Appraisal District is to estimate fair market value for ad valorem tax purposes. These values are used by the taxing jurisdictions in the county. Ad valorem equates to tax based on value and maintains a consistent appraisal date of January 1 of each year with the exception of some inventories.

Appraisals completed by the appraisal district office 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. All existing liens, mortgages, or other encumbrances have been disregarded and the property is appraised as through free and clear, under responsible ownership and competent management.
3. All sketches in the appraisal documents are intended to be visual aids and should not be construed as surveys or engineering report unless otherwise specified.
4. All information in the appraisal documents has been obtained by member of the appraisal district staff or other reliable sources.
5. The opinion of value for each property applies to land and improvements. The value of trade fixtures, furnishings and other equipment has not been included with the value of the real estate.
6. The appraisals were prepared exclusively for ad valorem tax purposes.
7. The appraisers developing these appraisals are not required to give testimony or attendance in court by reason of the appraisal, unless directed by, employed by and provided legal counsel by the Titus County Appraisal District.
8. Subsurface rights (minerals and oil) were not considered in making the appraisals.
9. The appraisers have inspected, as far as possible, by observation, the land and the improvements, however, it is not possible to personally observe conditions beneath the soil or hidden structural components within the improvements. No representation of this matter is made unless specifically detailed by the owner or approval for inside inspection by the owner.
10. The values generated by the appraisal district are reviewed annually by the Property Tax Division of Comptroller of Public Accounts in order to finalize a Value Study each year for the purpose of the use in TEA state funding calculation.

CERTIFICATION STATEMENT;

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

Chief Appraiser

Date

VALUE DEFENSE

In addition to ratio review the use of sales data, cost data from generally accepted sources, original cost, effective age versus actual age, net operating income (when available, this one source that is very limited) and appraiser reviews property owners are afforded an opportunity to review the appraised values and supporting documentation with the generation of appraisal notices in April and May of each year. This process then begins what is known as the equalization phase.

25.19 appraisal notice forms are reviewed and edited for updates. Updates include the latest copy of Comptroller's Taxpayers Rights, Remedies and Responsibilities in English and Spanish. Titus CAD will mail notices for single family residence homestead properties by April 1st (or as soon thereafter as practicable) and all other properties will be mailed by May 15th (or as soon thereafter as practicable).

The equalization phase begins with the scheduling of formal and informal hearings. The appraisal district appraisers meet individually with the property owners to fulfill the informal process and make justified adjustments to property values. After due diligence in trying to inform the citizens of changes that have occurred with their individual properties it may become necessary to schedule a formal hearing with the ARB. All standards, documentations, and procedures are reviewed to assure compliance with HB201 producing documents to the taxpayer 14 days prior to their formal hearing or meeting with the Appraisal Review Board.

A group of citizens from Titus County are appointed to form the Appraisal Review Board to listen to the concerns, complaints and evidence of the property owner in trying to determine the correct value of the property. This process is the second phase with the first phase being an informal review between the appraiser and the citizen. If the first phase does not accomplish a pleasing result for the property owner then he or she has the opportunity to appear before the Appraisal Review Board. After the final determination of the Appraisal Review board the citizen can complete an application for binding arbitration if the value of the property is less than \$1,000,000 and the appeal pertains to the value issue only. Arbitration may also apply on property over \$1,000,000 if it qualifies as a homestead under Section 11.13. Other issues and value must be appealed to the District court.

Residential property defense mechanisms will include sales of comparable properties, replacement cost new less depreciation, cost guide information, similar properties with similar appraisals, effective age utility, full listing of characteristics of each property on an appraisal card as they were known at the time of appraisal, pictures, maps with location, and deeds of trust or ownership deeds.

Special inventory residential property defense mechanisms will include the real property rendition generated to the appraisal district by the property owner.

Multifamily residential property defense mechanisms will include sales of comparable properties, replacement cost new less depreciation, similar properties with similar appraisals, effective age utility, full listing of characteristics of each property on an appraisal card as they were known at the time of appraisal, pictures, location maps, and deeds of trust or ownership deeds.

Commercial real property defense mechanism will include sales of comparable properties, replacement cost new less depreciation, similar properties with similar appraisals, effective age utility, full listing of characteristics of each property on appraisal card as they were known at the time of the appraisal, pictures, cost guide information, location maps, and deeds of trust or ownership deeds.

Vacant real property evidence will consist of sales comparables when available, location maps, deeds of trust or ownership deeds, and land schedules that reflect value uniformity.

Industrial real property, industrial tangible personal property, utilities, and mineral interest will include sales of comparable properties, replacement cost new less depreciation, similar properties with similar appraisals, effective age utility, full listing of characteristics of each property as they were known at the time of appraisal, pictures, cost guide information, location maps, and deeds of trust or ownership deed.

Business tangible personal property evidence will be generated from the personal property rendition form completed by the business owner and calculation of the square foot method using the comptroller's manual for personal property.

The comparisons grids of similar properties in size, age, construction type and quality with similar values will be used to determine equity level of appraisal along with ratio reports.

It must be noted that no re-appraisal program, regardless of how skillfully administered, can ever be expected to be error free. The correction of errors can best be assisted by giving the taxpayer an opportunity to question the value placed upon his individual property and the opportunity to produce evidence that the value is incorrect or inequitable. Errors will be brought to light and taking corrective action will serve to further the objectives of the program.

COMPUTER FORMULAS AND MODELS

Basic model for Real Property:

$$MV = IV + LV$$

MV = Market Value

IV = Improvement or structure value

LV = Land Value

Expanded model:

$$MV = [(IUNIT \times ISIZE) + OR -ADD TIVES \times \% GOOD \times INF] + [(LUNIT \times LSIZE) \times LNF]$$

MV = MARKET VALUE

IUNIT = REPLACEMENT COST NEW PER SQ FT

ISIZE = IMPROVEMENT SQ FT LIVING AREA

ADDATIVES = IMPROVEMENT AMENITIES CONTRIBUTORY VALUES

%GOOD = ALLOWED OR ALLOWABLE DEPRECIATION

INAF = IMPORVEMENT NEIGHBORHOOD FACTOR IF MEASUREABLE

LUNIT = LAND VALUE FROM SCHEDULES

LSIZE = LAND PARCEL PER SQ FT, ACREAGE OR FRONT FOOTAGE

LNAF = LAND NEIGHBORHOOD FACTOR IF MEASUREABLE

Basic model for personal property:

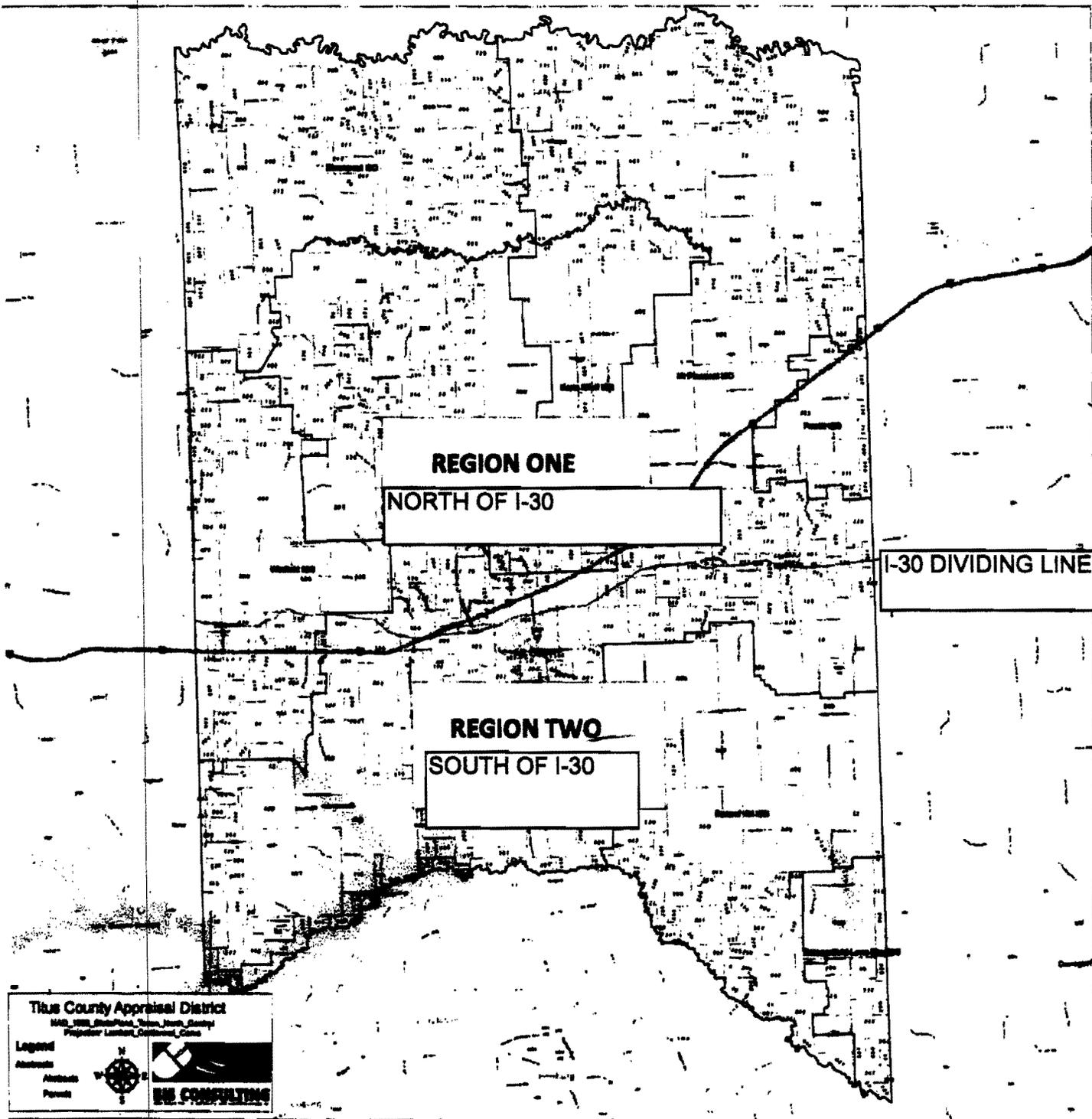
$$MV = PVFXHCX DF$$

MV = MARKET VALUE

PVF = PRESENT VALUE FACTOR

HC = HISTORICAL COST

DF = DEPRECIATION FACTOR



REGION ONE

NORTH OF I-30

I-30 DIVIDING LINE

REGION TWO

SOUTH OF I-30

Titus County Appraisal District

Map 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100

Legend
Acreage
Parcels



TITUS COUNTY APPRAISAL DISTRICT
RESOLUTION TO ADOPT
2015-2016 REAPPRAISAL PLANS

Whereas, according to Section 25.18 (c) and Section 6.05 (i) of the Texas Property Tax Code, 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 requirement of Section 25.18 (c) and Section 6.05 (i) shall hold a public hearing to consider the proposed plan.

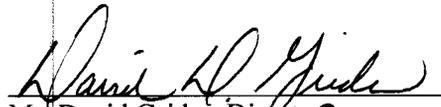
Therefore, on this 15th day of July the Board of Directors of Titus County appraisal District does approve and adopt the attached reappraisal plan for the years 2015 and 2016.



Mr. Bobby Parr, Chairman



Mr. Ezeal McGill, Secretary



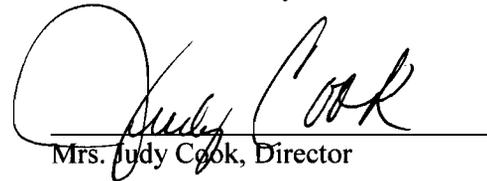
Mr. David Grider, Director



Mr. Hulen Mike Reynolds, Director



Mr. David Smith, Director



Mrs. Judy Cook, Director

Questions concerning this plan should be addressed to Chief Appraiser, Titus County Appraisal District,
P. O. Box 528, 2404 West Ferguson Road, Mount Pleasant, Texas 75455. 903 572-7939.



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

S.B. 1652* BIENNIAL REAPPRAISAL PLAN

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

For Tax Years:

2015 and 2016

Originally Printed: July 1, 2014

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

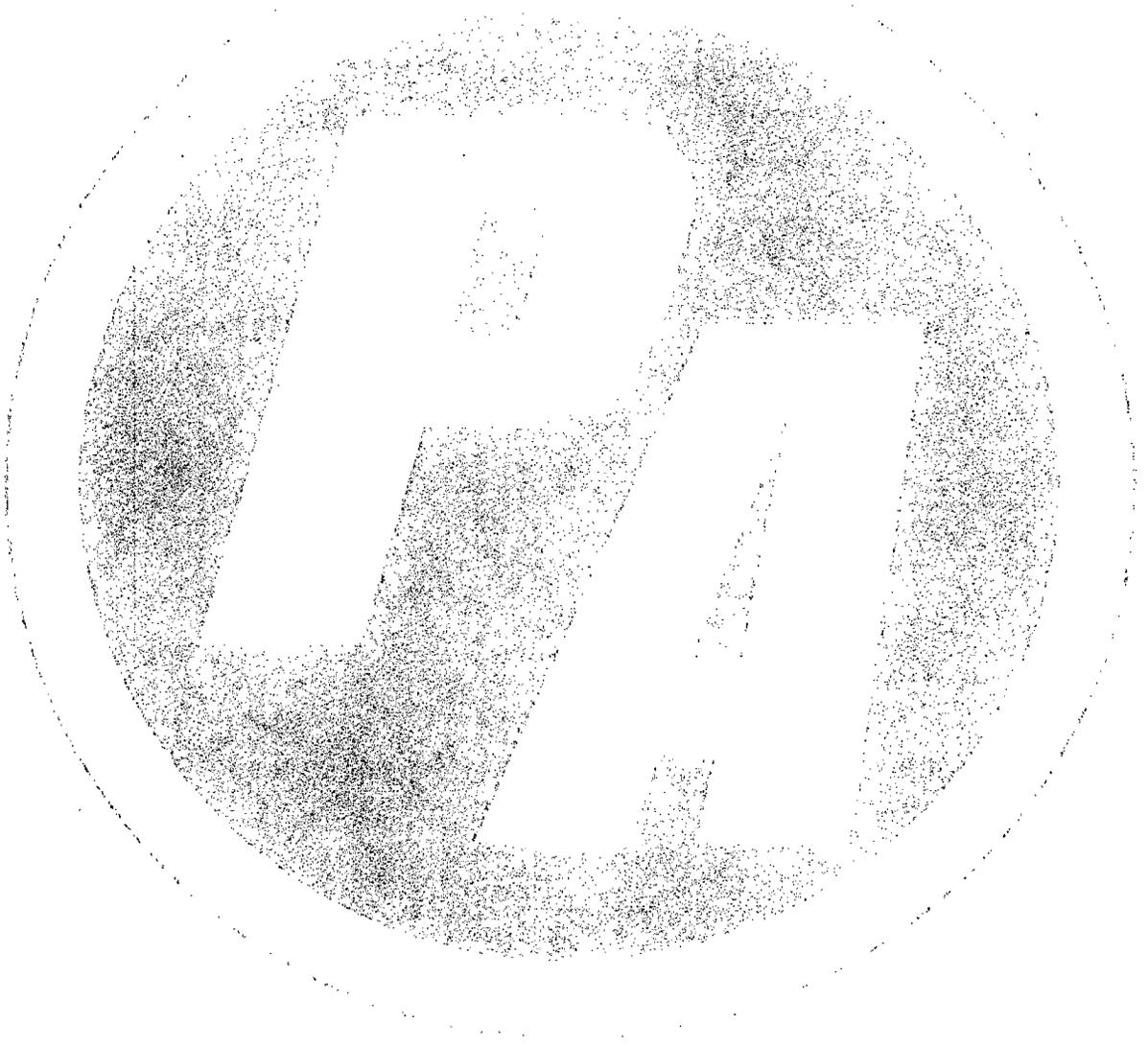


TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
P&A POLICY STATEMENT	2
PREAMBLE	4
ETHICS RULE	5
RECORD KEEPING RULE	8
SCOPE OF WORK RULE	9
JURISDICTIONAL EXCEPTION RULE	11
MASS APPRAISAL (USPAP STANDARD 6)	12
REAPPRAISAL OF MINERAL PROPERTY	15
REAPPRAISAL OF INDUSTRIAL, UTILITY AND RELATED PERSONAL PROPERTY	21

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

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

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

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

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

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

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

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

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

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

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

PREAMBLE

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

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

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

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

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

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

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

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

ETHICS RULE

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

- Conduct;
- Management;
- Confidentiality.

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

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

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

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

CONDUCT

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

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

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

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

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

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

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

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

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

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

MANAGEMENT

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

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

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

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

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

CONFIDENTIALITY

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

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

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

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

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

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

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

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

RECORD KEEPING RULE

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

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

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

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

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

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

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

SCOPE OF WORK RULE

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

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

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

Scope of work includes, but is not limited to:

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

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

PROBLEM IDENTIFICATION

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

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

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

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

SCOPE OF WORK ACCEPTABILITY

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

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

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

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

DISCLOSURE OBLIGATIONS

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

JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

MASS APPRAISAL, DEVELOPMENT AND REPORTING (General Discussion)

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

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

A mass appraisal includes:

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

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

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

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

The various sections of Standard 6 are briefly summarized below:

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

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

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

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

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

REAPPRAISAL OF MINERAL INTERESTS

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appraisal Resources

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

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

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

VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

Approaches to Value for Petroleum Property

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

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

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

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

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

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

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

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

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

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

DATA COLLECTION/VALIDATION

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

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

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

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

VALUATION ANALYSIS (MODEL CALIBRATION)

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

INDIVIDUAL VALUE REVIEW PROCEDURES

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

PERFORMANCE TESTS

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

CALENDAR OF EVENTS/DELIVERABLES TO CLIENT

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

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

- November, after Certification of values.

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

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

REAPPRAISAL OF INDUSTRIAL, UTILITY, AND RELATED PERSONAL PROPERTY

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

Appraisal Resources

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

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

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

VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

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

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

Approaches to Value for Industrial, Utility, and Personal Property

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

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

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

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

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

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

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

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

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

DATA COLLECTION/VALIDATION

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

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

VALUATION ANALYSIS (MODEL CALIBRATION)

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

INDIVIDUAL VALUE REVIEW PROCEDURES

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

PERFORMANCE TESTS

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

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

CALENDAR OF EVENTS/DELIVERABLES TO CLIENT

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

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

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

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