



**WHEELER CENTRAL  
APPRAISAL DISTRICT**

**2015-2016  
PLAN FOR PERIODIC REAPPRAISAL**

**AS ADOPTED BY THE  
BOARD OF DIRECTORS**

**on  
September 3, 2014**

## RESOLUTION

A RESOLUTION BY THE BOARD OF DIRECTORS OF THE WHEELER CENTRAL APPRAISAL DISTRICT TO ENSURE ADHERENCE WITH GENERALLY ACCEPTED APPRAISAL PRACTICES ACCORDING TO THE TEXAS PROPERTY TAX CODE, SECTION 6.05, (i).


WHEREAS passage of S.B. 1652 relating to the administration of ad valorem taxation amended the Property Tax Code, Section 6.05 by adding Subsection (i) to read as follows:

(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 any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE WHEELER CENTRAL APPRAISAL DISTRICT:

That the attached Reappraisal Plan shall be implemented by the Wheeler Central Appraisal District to comply with the Property Tax Code, Section 6.05, (i).

PASSED AND APPROVED IN REGULAR SESSION BY THE BOARD OF DIRECTORS OF THE WHEELER CENTRAL APPRAISAL DISTRICT ON THIS 3<sup>RD</sup> DAY OF September, 2014.



Pat McDowell, Chairman of the Board

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## **TAX CODE REQUIREMENT:**

Passage of Senate Bill 1652 amended Section 6.05 of the Texas Property Tax code by adding Subsection (i) to read as follows:

- (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 10<sup>th</sup> day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. Not later than September 15 of each even-numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the Comptroller within 60 days of the approval date.

### **Plan for Periodic Reappraisal Requirement:**

Senate Bill 1652 amends Section 25.18, Subsections (a) and (b) to read as follows:

- (a) Each appraisal office shall implement the Plan for Periodic Reappraisal of property approved by the board of directors under Section 6.05(i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:
  - 1. Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, property sketches, renditions, DO'S and new articles;
  - 2. Identifying and updating relevant characteristics of each property in the appraisal records;
  - 3. Defining market areas in the district;
    - a. The district uses the market areas of the Cities of Wheeler and Shamrock when setting the market for Categories A, B, C, F, and M.
    - b. The district uses a county wide market area for appraising Categories D and E.
  - 4. Identifying property characteristics that affect property value in each market area, including:

- a. the location and market area of property;
  - b. physical attributes of property, such as size, age, and condition;
  - c. legal and economic attributes; and
  - d. easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
- 5. Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;
  - 6. Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
  - 7. Reviewing the appraisal results to determine value.

**REVALUATION DECISION (REAPPRAISAL CYCLE):**

The Wheeler CAD, by policy adopted by the Board of Directors and the Chief Appraiser, reappraises all property in a designated area each year on a three-year cycle. The reappraisal year is a complete appraisal of all properties in this designated area. Tax year 2015 is a reappraisal year for designated area one (1) and tax year 2016 is a reappraisal year for designated area two (2).

Pursuant to Section 25.18 of the Texas Property Tax Code, the Wheeler CAD has established a reappraisal plan to provide for the reappraisal of all property within the district at least once every (3) three years.

### **PERFORMANCE ANALYSIS:**

Performance Analysis – the equalized values from the previous tax year are analyzed with ratio studies to determine the appraisal accuracy and appraisal uniformity overall and by market area within property reporting categories. Ratio studies are conducted in compliance with the current *Standard on Ratio Studies* of the International Association of Assessing Officers. Mean, median, and weighted ratios are calculated for properties in reporting categories to measure the level of appraisal accuracy. The mean ratio is calculated in each reappraised category to indicate the level of appraisal accuracy by property reporting category. In 2015, the reappraisal year, this analysis is used to develop the starting point for establishing the level and accuracy of appraisal performance. In 2016, the reappraisal year, this analysis is used to develop the starting point for establishing the level and accuracy of appraisal performance. In 2015 and 2016, any reporting category that may have been excluded from reappraisal due to lack of data to support reappraisal will be tested and analyzed to arrive at an indication of uniformity or equity of existing appraisals.

### **ANALYSIS OF AVAILABLE RESOURCES:**

Staffing and budget requirements for tax year 2015 are detailed in the 2015 budget, as adopted by the Board of Directors of the Wheeler Central Appraisal District, and attached to the written biennial plan by reference. This reappraisal plan is adjusted to reflect the available staffing in tax year 2015 and anticipated staffing for tax year 2016. Budget restraints can impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2015-2016-time period.

Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current. In the reappraisal year, real property appraisal depreciation tables are tested against verified sales data to ensure they represent current market data. Personal property density schedules are tested and analyzed based on renditions and prior year documentation. Due to lack of sales of personal property in the district, the Comptroller's Guide along with Marshall and Swift are utilized to appraise personal property and for testing and analysis purposes.

Information Systems (IS) support is detailed and system upgrades are scheduled. Existing maps and data requirements are continually updated and kept current.

**PLANNING AND ORGANIZATION:**

A calendar of key events with critical completion dates is prepared for each area of work. This calendar identifies key events for appraisal, clerical, customer service, and information systems. A calendar is prepared for tax years 2015 and 2016. Production standards for field activities are calculated and incorporated in the planning and scheduling process.

## **MASS APPRAISAL SYSTEM:**

Computer Assisted Mass Appraisal (CAMA) system revisions are completed by the Information Systems Software Provider. The Provider performs system revisions and procedures. Wheeler Central Appraisal District contracted with the firm of Pritchard & Abbott, Inc. Valuation Consultants for these services.

### **Real Property Valuation**

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

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

Land schedules are updated using current market data (sales) and then tested with ratio study tools. Value schedules are developed and tested on a pilot basis with ratio study tools.

### **Personal Property Valuation**

Density schedules are tested using data received during the previous tax year from renditions and hearing documentation. Valuation procedures are reviewed, modified as needed, and tested. The latest edition of the Comptroller's Guide, along with Marshall & Swift are utilized heavily in the appraisal of personal property in the district.

### **Utility Property Valuation**

The main source of property data for industrial, utility and personal property is through fieldwork by the appraisers and commercially/publicly available schedules developed on current costs such as Marshall & Swift, Handy-Whitman, Chemical Engineering Magazine, Oil & Gas Journal, etc. 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 information regarding new industry and other useful facts related to property valuation.

### **Noticing Process**

Sec. 25.19 Appraisal notice forms are printed by the Information System Provider. The Chief Appraiser reviews a mandate sample of notices. The sample includes required updates and category codes required by the Comptroller. The district publishes, in the local newspaper, information about the notices and how to protest. The district makes available the latest copy of the Comptroller's pamphlet *Taxpayer's Rights, Remedies, and Responsibilities*.

### **Hearing Process**

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

## **DATA COLLECTION REQUIREMENTS:**

Field and office procedures are reviewed and revised as required for data collection. Activities for each tax year include new construction, demolition, remodeling, re-inspection of problematic market areas, re-inspection of the universe of properties on a specific cycle, and field or office verification of sales data and property characteristics.

### **New Construction/Demolition**

New construction field and office review procedures are identified and revised as required. Sources of building permits are confirmed. The City of Shamrock provides a listing of permits issued during the previous year. The City of Wheeler does not issue permits. The City Secretary is a valuable source of information regarding new construction and demolition in the Wheeler area. Additionally, the County Star News and the Wheeler Times News articles are kept thorough out the year for reference purposes.

### **Remodeling**

Properties with extensive improvement remodeling are identified and field inspections are scheduled to update property characteristic data.

### **Re-inspection of Problematic Market Areas**

Real property market areas, by property classification, are tested for low or high ratio sales and/or high coefficients of dispersion. Market areas that fail any or all of these tests are determined to be problematic. Field inspections are scheduled to verify and/or correct property characteristic data. Additional sales data is researched and verified.

### **Re-inspection of the Universe of Properties**

The International Association of Assessing Officers' *Standard on Mass Appraisal of Real Property* specifies that the universe of properties should be re-inspected on a cycle of 3 years. The re-inspection includes physically viewing the property, photographing, and verifying the accuracy of the existing data. The field appraiser has an appraisal card of each property to be inspected and makes notes of changes, depreciation changes, remodeling, additions, etc. The annual re-inspection requirements for tax years 2015 and 2016 are identified and scheduled in the written reappraisal plan.

### **Field or Office Verification of Sales Data and Property Characteristics**

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

**PILOT STUDY BY TAX YEAR:**

New and/or revised mass appraisal models are tested each tax year. Ratio studies, by market area, are conducted on proposed values each tax year. Proposed values on each category are tested for accuracy and reliability. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested. The procedures used for model specification and calibrations are in compliance with USPAP, STANDARD RULE 6.

**WCAD STAFF FIELD ASSESSMENT AND ANALYSIS:**

Wheeler Appraisal District employees may travel with the district's contracted appraisers on unplanned schedules to monitor field studies. The WCAD staff enters all information from the field studies into the appraisal software system in an effort to scrutinize and cross check field work.

**VALUATION BY TAX YEAR:**

Using market analysis of comparable sales and locally tested cost data, valuation models (Cost Per Square Foot Schedules) are specified and calibrated in compliance with supplemental standards from the International Association of Assessing Officers and the Uniform Standards of Professional Appraisal Practice. The calculated values are tested for accuracy and uniformity using ratio studies. Performance standards are those as established by the *IAAO Standard on Ratio Studies*. Property values in all market areas are updated each reappraisal year.

### **THE MASS APPRAISAL REPORT:**

Each tax year, the required Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15<sup>th</sup>). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6 – 7 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the Chief Appraiser is compliant with STANDARD RULE 6 – 8 of *USPAP*. This written reappraisal plan is attached to the report by reference.

### **VALUE DEFENSE:**

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is specified and tested annually.

A variety of evidence is utilized by the district depending on the property type of the subject of the protest. In addition, the district updates the evidence supplied to an owner, agent, or the Appraisal Review Board to be contemporaneous with the valuation procedures utilized. Some examples of the evidence that may be used include, but are not limited to:

1. Property sales information
2. Property sales adjustment grids
3. Property equity adjustment grids
4. Gross Rent / Income Multiplier data
5. Proforma and actual income data
6. Property characteristics data including photos as applicable
7. Aerial photography
8. Cost approach reports as applicable
9. Property Renditions as applicable
10. Published reports regarding cost, market, or income data
11. Schedules and or models utilized
12. Any other information collected by the district



# **THE WRITTEN REAPPRAISAL PLAN FOR**

## **WHEELER CENTRAL APPRAISAL DISTRICT**

### **PLANNING A REAPPRAISAL**

Variation in reappraisal requirements requires Wheeler County Appraisal District to carefully plan its work before beginning any reappraisal. Although the planning process may vary in specifics, it should involve five (5) basic steps:

1. Assess current performance.
2. Set reappraisal goals.
3. Assess available resources and determine needs.
4. Re-evaluate goals and adjust as necessary.
5. Develop a work plan.

### **STEPS IN A REAPPRAISAL**

The International Association of Assessing Officers (IAAO) textbook, Property Appraisal and Assessment Administration, lists ten steps in a reappraisal. These steps outline those activities performed by Wheeler Central Appraisal District for the completion of periodic reappraisals. Activities are listed below in the order in which they occur:

1. Performance Analysis:
  - ratio study
  - equity of existing values
  - consistency of values with market activity
2. Revaluation Decision:
  - statutory – at least once every three years
  - administrative policy
3. Analysis of Available Resources:
  - staffing

- budget
  - existing practices
  - information system support
  - existing data and maps
4. Planning and Organization
    - target completion dates
    - identify performance objectives
    - specific action plans and schedules
    - identify critical activities with completion dates
    - set production standards for field activities
  5. Mass Appraisal System:
    - forms and procedures revised as necessary
    - CAMA (computer assisted mass appraisal) system revisions as required
  6. Conduct Pilot Study
    - test new/revised appraisal methods as applicable
    - conduct ratio studies
    - determine if values are accurate and reliable
  7. Data Collection
    - building permits and other sources of new construction
    - check properties that have undergone remodeling
    - re-inspection of problematic properties
    - re-inspection of universe of properties on a cyclic basis
  8. Valuation:
    - market analysis (based on ratio studies)
    - schedules development
    - application of revised schedules
    - calculation of preliminary values
    - tests of values for accuracy and uniformity
  9. The Mass Appraisal Report
    - establish scope of work
    - compliance with Standards Rule 6 – 7 of USPAP
    - signed certification by the chief appraiser as required by Standards Rule 6-8 of USPAP
  10. Value Defense:
    - prepare and deliver notices of value to property owners
    - hold informal hearings
    - schedule and hold formal appeal hearings

**\*\*Note—the burden of proof (evidence) of market values and equity falls on the appraisal district. \*\***

# **Wheeler County Appraisal District Residential, Commercial, Rural, Industrial, Mineral and Personal Property 2015/2016 Reappraisal Plan**

Pursuant to Section 25.18 of the Texas Property Tax Code, the Wheeler County Appraisal District has established the following reappraisal plan to provide for the reappraisal of all property within the district at least once every three (3) years. The plan establishes a two-fold approach:

1. **Three-Year Cycle:** The CAD is divided into three areas. Each year, all real residential and commercial real property within one of the areas will be reappraised, regardless of any ratio study/report findings. These areas are identified as follows:

- a. **Area One:** All of the City of Wheeler and all properties in Wheeler County falling within the district lines of Wheeler Independent School District and Kelton Independent School District. (to be completed in 2015).
- b. **Area Two:** All of the City of Shamrock and all properties (Rural land & improvements) Wheeler County falling within the district lines of McLean I.S.D. and Shamrock Independent School District. (to be completed in 2016).
- c. **Area Three:** All of the Ft. Elliott Consolidated Independent School District including the city of Mobeetie, the towns of Allison and Briscoe and any other area that may be identified as not being included in area one or two. (to be completed in 2017).

**\*\*Note:** All mobile homes & business personal property within the CAD are appraised on an annual basis, regardless of their location. **\*\***

- d. Real residential and commercial real properties that are contracted with an outside appraisal firm shall reappraise the property following the guidelines that are set forth in this reappraisal plan.
- e. **Mineral, Industrial & Personal Property:** All property classified as Mineral, Industrial or Business Personal is reappraised annually under contract by a professional appraisal firm, which specializes in valuing such properties. The firm currently under contract to provide this service is Pritchard & Abbott, Inc. of Amarillo. The contract in force with this firm is on file in the CAD office.

2. **Annual Ratio Reports:** In addition to the three year cycle stated above, ratio studies shall be performed annually to determine areas or categories of properties within the CAD which need to be reappraised within the current year based on sales ratios. Any areas or categories whose ratios are above or below statutory requirements shall be reappraised in the current year regardless of the area in which they are located.

This two-fold approach will insure not only that all residential and commercial property within the CAD is reappraised at least once every three years, but also that all other categories within the CAD are reviewed annually so that the appraisal district stays current with respect to market value in those areas where residential and/or commercial property values appear to be changing rapidly.

### **Organization**

Field inspections are carried out by the field appraisers as directed by the chief appraiser. The field appraisers physically inspect areas required by the reappraisal cycle, checks all existing data, works building permits, takes photographs of improvements, draws plans of new improvements for entry into computer, rechecks any property on which a question or problem has arisen. Other duties may be required and will be executed upon direction of the chief appraiser.

Appraisal district staff and the field appraisers perform data entry of fieldwork notes and sketches.

The chief appraiser performs market analysis. Sales data is gathered throughout the year from deed records, sales confirmation letters from property owners, and other sources. The market data is analyzed, sales data is confirmed, outliers are identified, existing classification system is reviewed, market schedules are reviewed and updated as necessary, and final market schedules are applied to the universe of properties.

### **2015 Reappraisal Schedule**

**August to December 2014:** Begin planning sales ratio studies for all areas within the CAD. Gather current sales data from sales confirmation letters, deed records, and other sources.

**January to March:** Mail homestead applications, special-use valuation applications, personal property renditions, exemption applications, and any other required forms. Complete field inspections as provided by the reappraisal plan area. Begin running sales ratio reports. Compare with CAD values and sales information. Identify necessary schedule adjustments.

<b>March through April:</b>	Continue running sales ratio reports. Refine sales analysis and mass appraisal schedules. Statistically test schedules. Complete data entry of all reappraisal and maintenance changes. Assist field appraiser with reappraisal functions as needed. Finalize all fieldwork and data collection activities.
<b>May</b>	Execute mass appraisal/maintenance activities are required. Prepare for mailing 2015 Notices of Value.
<b>June</b>	Hold informal hearings. Respond to property owners' inquiries, protests, and questions from notice mailings. Provide certified estimated values to taxing units.
<b>July</b>	Hold ARB hearings. Process and mail ARB orders. Enter into computer all changes as ordered by ARB and notify other CADs if the ordered change falls into an over-lapping area. ARB approval of appraisal records by July 20 <sup>th</sup> . Send certification of appraisal records and values to taxing units by July 25 <sup>th</sup> .
<b>As needed throughout the year:</b>	Handle any outstanding protests by scheduling ARB hearings.

### **2016 Reappraisal Schedule**

The same timetable and duties apply in each year. The field appraiser shall reappraise all property in 2016 as described in Area Two (2). The chief appraiser and CAD staff shall continue to complete the same duties and reappraisal steps as outlined for 2013.

## **Mineral Valuation Process**

Reserve evaluation is not an exact science. At best, it is an estimate of the volumes recoverable by an **INTRODUCTION**.

### *Appraisal Responsibility*

This mass appraisal assignment includes all property classed as minerals which falls within the responsibility of the mineral valuation of the County Appraisal District and located within the boundaries of this taxing jurisdiction. These properties are under contract to be appraised by Pritchard and Abbott, Inc. Mineral appraisers appraise the property according to the statute. However, the effect of easements, restrictions encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisal of any nonexempt taxable fractional interests in real property. Fractional interest or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on the prorated interests.

### **Appraisal Resources**

- **Personnel** – The mineral properties are appraised by the Pritchard and Abbott, Inc. an appraisal firm.
- **Data** – The mineral properties are appraised by the contract appraisal staff using data collection from a variety of sources. Among these data sources are: gas prices from the Comptroller, production from Railroad Commission, average gas prices from industry, and data from the operators of the properties.

### **Area Analysis**

The scope of market forces affecting mineral products tends to extend beyond regional considerations. The global market effects the valuation of the property. Appraisers must study and analyze the current and future market in order to appraise the properties appropriately.

### **Neighborhood Analysis**

Not applicable to mineral properties.

### **Highest and Best Use**

The highest and best use of a mineral property is for it to be produced. The properties are appraised based on their highest and best use.

### **Market Analysis**

Market analysis is the basis for determining the future worth of the recoverable reserves of a mineral property. However, each property may have unique properties which are taken into consideration when estimating the final value of the property.

## **Data Collection**

Data is collected yearly from the Comptroller of Public Accounts, the Railroad Commission of Texas, and individual operators within the county. All of this information is pooled together to get accurate picture of each mineral property.

## **Appraisal Method**

All mineral properties are appraised as described by the property tax code and laws. Mineral properties are appraised using a discounted cash flow method as provided by the Texas Comptroller of Public Accounts.

Appraisal of an oil and gas property ad valorem tax purposes in the State of Texas is based on the total value of the economically recoverable oil and gas reserves as of January 1<sup>st</sup> of each year. **The value is not based on past or future income, nor is it based on production;** but, it is a value based on an estimate of the present value of the oil and gas in the reservoir, waiting to be produced.

There are no rule-of-thumb methods for determining the present value of the volumes recoverable by a particular method. Although oil and gas are depleting assets, the estimate of reserves can be understated initially. Also, different recovery methods, product prices and operating expenses, to name a few, can increase or decrease the estimated remaining recoverable reserves after the original estimate.

The basic elements necessary for the valuation of oil and gas reserves are:

- 1) Rate they will be produced
- 2) Rate of decline
- 3) Price of the products
- 4) Cost to produce the reserves
- 5) Discount rate

Remaining oil and gas reserves are generally estimated by extrapolation of production trends. This is normally called decline curve analysis. The basic assumption is that the condition which shaped the production curve in the past will continue to shape it in the future. Of course, this requires proper weight being given to the immediate past. The decline curve is projected to point where the production rate will generate just enough income to meet operating expenses. This is called the economic limit. The decline curve provides both the rate of production and the rate of decline.

The price of the oil is based on the weighted average price paid for oil in the geographic area from which it is produced during the previous twelve months. The price of gas is generally available on a lease by lease basis from the State Comptroller's office for the same period of time. The cost of produce includes state taxes, local taxes and operating costs. Information on operating costs may be obtained from the operator and are always reviewed by the appraiser.

We use a base discount factor of 17% for oil and 18% for gas. These factors can be increased based on various risks.

All of this data, plus other information is then entered into the computer. The estimated annual lease production is multiplied by the price of the product in order to obtain the annual gross income. The cost to produce is subtracted from the gross income, yielding the net income. This income stream is then discounted at a rate which reflects the time value of money. The resulting income stream is now a realistic basis for estimating the market value of the property.

The estimated present property value is the sum of the present worth net incomes for all future years, plus the value of the equipment.

## **LIMITING CONDITIONS**

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

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

## **Monitoring Contracted Appraisal Performance**

Wheeler County Appraisal District employs the following steps to review, verify and evaluate appraisal services for companies who contact with the district for services:

1. Verify scope of work per contractual terms in comparison to WCAD's responsibility i.e. type of value desired, given date, appraiser's perspective
2. Verify that the contractors assigned to WCAD jobs are properly resisted and certified with Texas Department of Licensing and Regulation (TDLR) as required to perform appraisals for ad valorem tax purposes in Texas.
3. Contact responsible parties within the contracting company and inquire as to methodologies and approaches considered and used for each type of property being appraised by contractor. This inquiry should proceed far enough so that all WCAD employees thoroughly understand why the contractor has chosen which approach for which type of property. All exceptions and departures from USPAP guidelines by contractor should be thoroughly discussed to WCAD's satisfaction.
4. Inquire as to whether the contractor is referencing all appropriate data sources applicable to the type of property being appraised. Examples include Texas Railroad commission for oil and gas production data, or Federal Surface Transportation Board annual reports for Class I Railroads.
5. Inquire as to whether the contractor is following all laws and statutory provisions applicable to the type of property being appraised. Examples include Property Tax Code 23.175 provisions regarding oil gas price forecasts to be incorporated into discounted cash flow appraisals of mineral interests, or the various laws regarding business personal property rendition compliance.
6. Inquires as to whether contractor's methods and conclusions of value satisfy in the broadest sense the statutory definition of fair market value per Property Tax Code 1.04(7). For example, does the contractor employ methods and procedures that allow the contractor to arrive at an appropriate amount of replacement cost new (for cost-based schedules) and depreciation in all its forms? Does the payout calculation on a sample of oil and gas mineral interest appraisals appear reasonable or in line with industry norms? The thrust of this inquiry is not for WCAD to explicitly tell the contractor what value to derive for any particular property, but accepted appraisal practice to the fullest extent possible.
7. Inquire as to whether the contractor is having meetings or otherwise corresponding with the taxpayers as needed to informally resolve valuation disputes. Request the contractor provide the nature and substance of such contract with the taxpayer so that WCAD can be assured the contractor is making all reasonable effort to afford taxpayers with ample opportunity to present their facts and opinions and be dealt with in a professional, fair and impartial manner.

8. Does the contractor make their staff freely available for any scheduled ARB testimony in a professional and helpful demeanor, and otherwise appropriately and responsibly represent WCAD in these proceedings?
9. Does the contractor follow through on agreements made with taxpayers in informal meetings or formal hearings?
10. Does the contractor provide final values for certification, including all obligations, in the form and content desired by WCAD?
11. Does the contractor assist WCAD in working with, and resolving any disputes with the Property Tax Assistance Division (PTAD) per contractual obligations?

## **Evaluating Contractor's Property Discovery Process**

Contact responsible parties within the contracted company (appraiser, division order analyst, etc.) and inquire on progress being made to discover new property for the current tax year. For mineral appraisals, the main data source is the Texas Railroad Commission's production records as reported monthly by operators. For industrial, utility and related personal property, data sources are more diverse and may include, but are not limited to: state or federal agencies (Texas Railroad Commission, Texas Comptroller, Public Utility Commission, Federal Energy Regulatory Commission, etc.), renditions, knowledgeable local third-parties, industry and trade publications, newspaper articles, permits and personal inspection and other fieldwork.

**Certification Statement:**

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

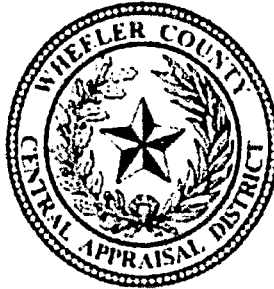
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Kimberly Morgan, Chief Appraiser

**ADDENDUM    A**

**WRITTEN MASS APPRAISAL REPORT**

# **WHEELER CENTRAL APPRAISAL DISTRICT**



## **MASS APPRAISAL REPORT**

## **INTRODUCTION**

### **Scope of Responsibility**

The Wheeler Appraisal District has prepared and published this report to provide our citizens and taxpayers with a better understanding of the district's responsibilities and activities. This report has several parts: a general introduction and then several sections describing the appraisal effort by the appraisal district.

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

The appraisal district is responsible for local property tax appraisal and exemption administration for 13 jurisdictions or taxing units in the county. Each taxing unit, such as the county, a city, school district, municipal utility district, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Appraisals established by the appraisal district allocate the year's tax burden on the basis of each taxable property's January 1st market value. We also determine eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, and charitable and religious organizations.

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

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

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), productivity (Sec. 23.41), real property inventory (Sec. 23.12), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), and nominal (Sec. 23.18) or restricted use properties (Sec. 23.83). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1<sup>st</sup> of the year preceding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1<sup>st</sup>.

The Texas Property Tax Code, under sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real and personal property at least once every three years. The district's current policy is to conduct an on site inspection of real estate on a three year cyclical. However, appraised values are reviewed annually and are subject to change for purposes of equalization. Personal property, business personal property, industrial property, complex commercial property, and utility property values are reviewed or reappraised every year. (See Reappraisal Plan)

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

### **Personnel Resources**

The office of the chief appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. The Administration Department's function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services. The Appraisal Department is responsible for the valuation of all real and personal property accounts. The property types appraised include commercial, residential, business personal and industrial. The Appraisal Department is also responsible for the following support groups: review appraisal, productivity valuation, and special audit. The district's appraisers are subject to the provision of the Property Taxation Professional Certification Act and must be duly registered with the Texas Board of Tax Professional Examiners. Support functions including records maintenance, information and assistance to property owners, and hearings support are coordinated by the Support Service Department.

The appraisal district staff consists of three (3) full-time and one part time employee with the following classification:

- One – Official/Administrator (Executive level administration)
- One – Deed Clerk (customer service, clerical & other)
- One – Administrative Support (customer service, clerical & other)
- One – Part Time (as needed)

### **Data**

The district is responsible for establishing and maintaining approximately 50,295 real and personal property accounts covering 904 square miles within Wheeler County. This data includes property characteristic and ownership and exemption information. Property characteristic data on new construction is updated through an annual field effort; existing property data is maintained through a field review that is prioritized by last field inspection date.

Sales are routinely validated during a separate field effort; however, numerous sales are validated as part of the new construction and data review field activities.

General trends in employment, interest rates, new construction trends, and cost and market data are acquired through various sources, including internally generated questionnaires to buyer and seller, university research centers, and market data centers and vendors.

The district has a geographic information system (GIS) that maintains cadastral maps and various layers of data. The district's plan includes detailed information on the appraisal process, protest and appeal procedures, property maps, and a tax calendar. Files of related tax information and district forms, including exemption applications and business personal property renditions are also available.

### **Information Systems**

The Information Systems Department maintains the district's data processing facility, software applications, and geographical information system on in house PC's. The mainframe hardware system is a Dell Power Edge 2600 2.8 GH 36GB 10K RPM Ultra 320 SCSI hard drive, software of Pritchard & Abbott Inc. Valuation Consultants, and Windows XP.

### **Shared Appraisal District Boundaries**

The district established procedures whereby ownership and property data information are routinely exchanged. Appraisers from adjacent appraisal districts discuss data collection and valuation issues to minimize the possibility of differences in property characteristics, legal descriptions, and other administrative data.

### **Independent Performance Test**

According to Chapter 5 of the TPTC and Section 403.302 of the Texas Government Code, the State Comptroller's Property Tax Division (PTD) conducts an annual property value study (PVS) of each Texas school district and each appraisal district. As a part of this annual study, the code also requires the Comptroller to: use sales and recognized auditing and sampling techniques; review each appraisal district's appraisal methods, standards and procedures to determine whether the district used recognized standards and practices (MSP review); test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district.

The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. This study utilizes statistical analysis of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 10% of the median, the percentage of properties with 25% of the median, and price-related differential (PRD) for properties overall and by state category (i.e., categories A, B, C, D and F1 are directly applicable to real property).

There are four (4) independent school districts in Wheeler CAD for which appraisal rolls are annually developed. The preliminary results of this study are released in January in the year following the year of appraisement.

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

## **APPRAISAL ACTIVITIES**

### **Appraisal Responsibilities**

The field appraisal staff, under contract with Pritchard & Abbott, Inc., is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes. Accurate valuation of real and personal property by any method requires physical description of personal property, land and building characteristics. This appraisal activity is responsible for administering, planning, and coordinating all activities involving data collection and maintenance of all commercial, residential and personal property types, which are located within the boundaries of Wheeler County. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system. The goal is to periodically field inspect residential properties in Wheeler County every 3 years and commercial properties every 3 years. Business personal, minerals and industrial properties are inspected every year. Meeting this goal is dependent on budgetary constraints.

### **Appraisal Resources**

- **Personnel** - The appraisal activities consists of one chief appraiser, one administrative support, one deed clerk, and one part-time clerk as needed.
- **Data** - The data used by field appraisers includes the existing property characteristic information contained in CAMA (Computer Assisted Mass Appraisal) system from the district's computer system. The data is printed on a property record card (PRD), or personal property data sheets. Other data used includes maps, sales data, fire and damage reports, building permits, photos, and actual cost information.

## **PRELIMINARY ANALYSIS**

### **Data Collection/Validation**

Data collection of real property involves maintaining data characteristics of the property on CAMA (Computer Assisted Mass Appraisal) system. The information contained in CAMA includes site characteristics, such as land size and topography, and improvement data, such as square foot of living area, year built, quality of construction, and condition. Field appraisers use listing manuals that establish uniform procedures for the correct listing of real property. All properties are coded according to these manuals and the approaches to value are structured and calibrated based on this coding system. The field appraisers use these manuals during their initial training and as a guide in the field inspection of properties. Data collection for personal property, primarily mobile homes, is discovery. We check the websites for Manufactured Home Moving Permits and the HUD website for title changes on new and used mobile homes. The NADA manual is used for cost and value assessment.

The listing procedure manuals that are utilized by the Field appraisers are located in the district offices. Manuals are also located in the front office in the service area for public inspection. If a property owner/agent wants a copy of the listing procedural manual, one of the clerks in the front office will handle this request. Appraisers periodically update the listing procedural manuals with input from the valuation group.

### **Sources of Data**

The sources of data collection are through the new construction field effort, data review/ relist field effort, data mailers, hearings, sales validation field effort, commercial sales verification, newspapers and publications, and property owner correspondence via the Internet. A principal source of data comes from building permits received from taxing jurisdictions that require property owners to take out a building permit. Wheeler CAD has only one taxing jurisdiction that requires property owners to take out a building permit, which is the city of Shamrock.

Data review of entire neighborhoods is generally a good source for data collection. Appraisers will drive neighborhoods to review the accuracy of our data and identify properties that have to be relisted. The sales validation effort in real property pertains to the collection of data of properties that have sold. In residential and commercial, the sales validation effort involves on-site inspection by field appraisers to verify the accuracy of our data and to get confirmation of the sales price.

One of the sources that will generate a field check in both real and personal property is from a property owner. A property owner has access to part of our data and will notify us whenever they find inconsistencies. Other property owners will usually send in a letter notifying us of incorrect data, which will generate a field check.

### **Data Collection Procedures**

Field data collection requires organization, planning and supervision of the field effort. Data Collection procedures have been established for residential, commercial, and personal property, (meaning mobile homes). The appraisers are assigned throughout Wheeler County to conduct field inspections.

Appraisers conduct field inspections and record information either on a property record card (PRD), or a laptop computer. The quality of the data used is extremely important in establishing accurate values of taxable property. While production standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. New appraisers are trained in the specifics of data collection set forth in the listing manual as "rules" to follow. Experienced appraisers are routinely retrained in listing procedures prior to major field projects such as new construction, sales validation or data review. A quality assurance process exists through supervision to review the work being performed by all the field appraisers.

The quality assurance supervision is charged with the responsibility of ensuring that appraisers follow listing procedures, identify training issues and provide uniform training throughout the field appraisal staff.

### **Data Maintenance**

The field appraiser is responsible for the data entry of his/her fieldwork directly into the computer file. This responsibility includes not only data entry, but also quality assurance.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### **Field Review**

The date of last inspection, extent of that inspection, and the CAD appraiser responsible are listed on the CAMA record. If a property owner or jurisdiction dispute CAD's records concerning this data during a hearing, via a telephone call or correspondence received, CAMA may be altered based on the evidence provided (this information is kept in the history of each account). Typically, a field inspection is requested to verify this evidence for the current year's valuation or for the next year's valuation. Every year a field review of certain areas or neighborhoods in the jurisdiction is done during the data review/re-list field effort.

### **Office Review**

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

## **PERFORMANCE TEST**

The valuation appraisers are responsible for conducting ratio studies and comparative analysis. (Refer to the individual valuation process summary reports).

Field appraisers, in many cases may conduct field inspections to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics.

## **RESIDENTIAL VALUATION PROCESS**

### **Scope of Responsibility**

The Residential Valuation appraisers are responsible for developing equal uniform market values for residential improved and vacant property. There are approximately 1,728 residential improved parcels and 748 vacant residential properties in Wheeler County.

### **Appraisal Resources**

- *Personnel* - The Residential Valuation appraisal staff is contracted with Pritchard & Abbott, Inc.
- *Data* - A common set of data characteristics for each residential dwelling in Wheeler County is collected in the field and data entered to the computer. The property characteristic data drives the computer-assisted mass appraisal (CAMA) approach to valuation.

## **VALUATION APPROACH**

### **Area Analysis**

Data on regional economic forces such as demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rates trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources. Information is gleaned from real estate publications and sources such as continuing education through the Texas Department of Licensing and Regulation, these provide the appraisers a current economic outlook on real estate market.

### **Neighborhood and Market Analysis**

Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these forces are also used to identify, classify, and stratify comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. Residential valuation and neighborhood analysis is conducted on each of the political entities known as Independent School Districts (ISD).

The first step in neighborhood analysis is the identification of a group of properties that share certain common traits. A "neighborhood" for analysis purposes is defined as the largest geographic grouping of properties where the property's physical, economic, governmental and social forces are generally similar and uniform. Geographic stratification accommodates the local supply and demand factors that vary across a jurisdiction. Once a neighborhood has been identified, the next step is to define its boundaries. This process is known as "delineation". Some factors used in neighborhood delineation include location, sales price range, lot size, age of dwelling, quality of construction and condition of dwellings, square footage of living area, and story height. Delineation can involve the physical drawing of neighborhood boundary lines on a map, but it can also involve statistical separation or stratification based on attribute analysis. Part of neighborhood analysis is the consideration of discernible pattern of growth that influences a neighborhood's individual market. Few neighborhoods are fixed in character. Each neighborhood may be characterized as being in a stage of growth, stability or decline. The growth period is a time of development and construction. As new neighborhoods in a community are developed, they compete with existing neighborhoods. An added supply of new homes tends to induce population shift from older homes to newer homes. In the period of stability, or equilibrium, the forces of supply and demand are about equal. Generally, in the stage of equilibrium, older neighborhoods can be more desirable due to their stability of residential character and proximity to the workplace and other community facilities. The period of decline reflects diminishing demand or desirability. During decline, general property use may change from residential to a mix of residential and commercial uses. Declining neighborhoods may also experience renewal, reorganization, rebuilding, or restoration, which promotes increased demand and economic desirability.

Neighborhood identification and delineation is the cornerstone of the residential valuation system at the district. All the residential analysis work done in association with the residential valuation process is neighborhood specific. Neighborhoods are field inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted. Whereas neighborhood involves similar property in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations. Each residential neighborhood is assigned to a neighborhood group based on observable aspects of homogeneity between neighborhoods.

Neighborhood grouping is highly beneficial in cost-derived areas of limited or no sales, or use in direct sales comparison analysis. Neighborhood groups, or clustered neighborhoods, increase the available market data by linking comparable properties outside a given neighborhood.

Sales ratio analysis, discussed below, is performed on a neighborhood basis, and in soft sale areas on a neighborhood group basis.

### **Highest and Best Use Analysis**

The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to its maximum. The highest and best use of residential property is normally its current use. This is due in part to the fact that residential development, in many areas, through use of deed restrictions and zoning, precludes other land uses. Residential valuation undertakes reassessment of highest and best use in transition areas and areas of mixed residential and commercial use. In transition areas with ongoing gentrification, the appraiser reviews the existing residential property use and makes a determination regarding highest and best use. Once the conclusion is made that the highest and best use remains residential, further highest and best use analysis is done to decide the type of residential use on a neighborhood basis. As an example, it may be determined in a transition area that older, non-remodeled homes are economic misimprovements, and the highest and best use of such property is the construction of new dwellings. In areas of mixed residential and commercial use, the appraiser reviews properties in these areas on a periodic basis to determine if changes in the real estate market require reassessment of the highest and best use of a select population of properties.

## **DATA COLLECTION/VALIDATION**

### **Sources of Data**

The district's property characteristic data was originally received from the county and school records in 1980 and where absent, collected through a massive field data collection effort coordinated by the district over a period of time. Tax assessors, city and local newspapers, and the public often provide the district information regarding new construction, market patterns, and other useful facts related to property valuation.

## **VALUATION AND STATISTICAL ANALYSIS (Model Calibration)**

### **Cost Schedules**

All residential parcels in the district are valued from identical cost schedules using a comparative unit method.

The district's residential cost schedules, originally adopted from a private mass appraisal firm, have been customized to fit Wheeler County's local residential building and labor market. The cost schedules are reviewed regularly and are tested with market data (sales) to insure that the appraisal district is in compliance with Texas Property Tax Code, Section 23.011. Replacement cost new tables as well as depreciation tables are tested for accuracy and uniformity using ratio study tools and compared with cost data from recognized industry leaders, such as Marshall & Swift.

## **Sales Information**

A sales file for the storage of "snapshot" sales data at the time of sale is maintained. Residential vacant land sales, along with commercial improved and vacant land sales are maintained in a separate sales information system. Residential improved and vacant sales are collected from a variety of sources, including: district questionnaires sent to buyer and seller, field discovery, protest hearings, Board of Realtor's MLS, various sale vendors, builders, and realtors. A system of type, source, validity and verification codes was established to define salient facts related to a property's purchase or transfer. School district or neighborhood sales reports are generated as an analysis tool for the appraiser in the development of value estimates.

## **Land Analysis**

Residential land analysis is conducted by each of the residential appraisers. The appraisers develop a base lot, primary rate, and assign each unique neighborhood to one of six square foot land tables. The square foot land table is designed to systematically value the primary and residual land based on a specified percentage of the primary rate. A computerized land table file stores the land information required to consistently value individual parcels within neighborhoods. Specific land influences are used, where necessary, to adjust parcels outside the neighborhood norm for such factors as view, shape, size, and topography, among others. The appraisers use abstraction and allocation methods to insure that the land values created best reflect the contributory market value of the land to the overall property value.

## **Statistical Analysis**

The residential valuation performs statistical analysis annually to evaluate whether values are equitable and consistent with the market. Ratio studies are conducted on each of the residential valuation neighborhoods in the district to judge the two primary aspects of mass appraisal accuracy—level and uniformity of value. Appraisal statistics of central tendency and dispersion generated from sales ratios are available for each stratified neighborhood within an ISD and summarized by year. These summary statistics including, but not limited to, the weighted mean, median, standard deviation, coefficient of variation, and coefficient of dispersion provide the appraisers a tool by which to determine both the level and uniformity of appraised value on a stratified neighborhood basis. The level of appraised values can be determined by the weighted mean for individual properties within a neighborhood, and a comparison of neighborhood-weighted means can reflect the general level of appraised value between comparable neighborhoods. Review of the standard deviation, coefficient of variation, and coefficient of dispersion can discern appraisal uniformity within and between stratified neighborhoods.

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

## **Market Adjustment or Trending Factors**

Neighborhood, or market adjustment, factors are developed from appraisal statistics provided from ratio studies and are used to ensure that estimated values are consistent with the market. The district's primary approach to the valuation of residential properties uses a hybrid cost-sales comparison approach. This type of approach accounts for neighborhood market influences not specified in the cost model.

The following equation denotes the hybrid model used:

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

Whereas, the market value equals the market adjustment factor times the land value plus the replacement cost new less depreciation.

As the cost approach separately estimates both land and building values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values are needed to bring the level of appraisal to an acceptable standard. Market, or location adjustments are applied uniformly within neighborhoods to account for locational variances between market areas or across a jurisdiction.

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

## **TREATMENT OF RESIDENCE HOMESTEADS**

Beginning in 1998, the State of Texas implemented a constitutional classification scheme concerning the appraisal of residential property that receives a residence homestead exemption. Under the new law, beginning in the second year a property receives a homestead exemption; increases in the value of that property are "capped." The value for tax purposes (appraised value) of a qualified residence homestead will be the LESSER of:

- the market value; or
- the preceding year's appraised value;  
PLUS 10 percent for each year since the property was re-appraised;

PLUS the value of any improvements added since the last re-appraisal.

Values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1<sup>st</sup> of the following year. In that following year, that home is reappraised at its market value to bring its appraisal into uniformity with other properties. An analogous provision applies to new homes. While a developer owns them, unoccupied residences are appraised as part of an inventory using the district's land value and the developer's construction costs as of the valuation date. However, in the year following sale, they are reappraised at market value.

Monthly time adjustments were developed using the sales ratio trend analysis method. For each school district, sales-to appraisal ratios based on unadjusted cost values were stratified on a quarterly basis. Statistics produced from the quarterly market data include measures of central tendency (mean and median) that represent the level of appraised values, and measures of uniformity (coefficient of dispersion and coefficient of variation) that represent the consistency of appraised values within and between strata. The resulting quarterly medians were graphically plotted for examination and analysis. A linear regression routine was performed on each of the school district samples, along with specific market areas. Linear regression statistics, such as the coefficient of determination (R<sup>2</sup>) and the P-value, identify the reliability and significance, respectively, of the regression outcome, namely, the independent variable of time. A quarterly time adjustment for each market area sample was produced. Analysis was then performed on each school district sample to determine the appropriate quarterly time adjustment to be employed, or if a time adjustment was warranted. Once the market areas quarterly time adjustment was determined, a monthly time adjustment was calculated.

## **TREATMENT OF ACCOUNTS WITH PRIOR YEAR HEARINGS**

Beginning in the 2001 tax year, accounts whose market value was set in the hearing process in the prior year will, in most cases, be the base value to which market appreciation will be applied in the current year. This will not be the case, however, if the hearing result is found to be inappropriate or if compliance with USPAP necessitates the calculation of a different base value.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### **Field Review**

The appraiser identifies individual properties in critical need of field review through sales ratio analysis. Sold properties with a high variance in sales ratios are field reviewed on a monthly basis to check for accuracy of data characteristics.

As the district's parcel count has increased through new home construction, and the homes constructed in the boom years of the late 70's and early 80's experience remodeling, the appraisers are required to perform the field activity associated with transitioning and high demand neighborhoods. The increased sales activity in the Wheeler area has also resulted in a more substantial field effort on the part of the appraisers to review and resolve sales outliers. Additionally, the appraiser frequently field reviews subjective data items such as quality of construction, condition, and physical, functional and economic obsolescence, factors contributing significantly to the market value of the property. After preliminary estimates of value have been determined in targeted areas, the appraiser takes valuation documents to the field to test the computer-assisted values against his own appraisal judgment.

During this review, the appraiser is able to physically inspect both sold properties and unsold properties for comparability and consistency of values.

## **Office Review**

Given the ample resources and time required to conduct a routine field review of all properties, homogeneous properties consisting of tract housing with a low variance in sales ratios and other properties having a recent field inspection date are value reviewed in the office. Valuation reports comparing previous values against proposed and final values are generated for all residential improved and vacant properties. The dollar amount and percentage of value difference are noted for each property within a delineated neighborhood allowing the appraiser to identify, research and resolve value anomalies before final appraised values are released. Previous values resulting from a hearing protest are individually reviewed to determine if the value remains appropriate for the current year.

Once the appraiser is satisfied with the level and uniformity of value for each neighborhood with his area of responsibility, the estimates of value go to noticing.

## **PERFORMANCE TESTS**

### **Sales Ratio Studies**

The primary analytical tool used by the appraisers to measure and improve performance is the ratio study. The district ensures that the appraised values that it produces meet the standards of accuracy in several ways. Overall sales ratios are generated for each ISD by quarter to allow the appraiser to review general market trends within their area of responsibility, and provide an indication of market appreciation over a specified period of time. The neighborhood descriptive statistic, along with frequency distributions and scatter diagrams are reviewed for each neighborhood being updated for the current tax year, hi addition to the mainframe sales ratios by school district and neighborhood, quarterly sales ratios are generated from a PC-based statistical software. Reported in the sales ratio statistics for each school district is a level of appraisal value and uniformity profile by land use, sales trends by quarter and 12 month time frame, and appraisal value ranges. The PC-based ratio studies are designed to emulate the findings of the state comptroller's annual property value study for category A property.

### **Management Review Process**

Once the proposed value estimates are finalized, the appraiser reviews the sales ratios by neighborhood and presents pertinent valuation data, such as, history of hearing protest, sale-to-parcel ratio, and level of appraisal to the Chief Appraiser for final review and approval. The primary objective of this review is to ensure that the proposed values have met reset appraisal standards.

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

## **COMMERCIAL VALUATION PROCESS**

### **Appraisal Responsibility**

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

### **Appraisal Resources**

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

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

## **PRELIMINARY ANALYSIS**

### **Pilot Study**

Pilot studies are utilized to test new or existing procedures or valuation modifications in a limited area (a sample of properties) of the district and are also considered whenever substantial changes are made. These studies, which are inclusive of ratio studies, reveal whether a new system is producing accurate and reliable values or whether procedural modifications are required. The appraiser implements this methodology when developing both the cost approach and income approach models.

Survey of Similar Jurisdictions: Wheeler CAD coordinates its discovery and valuation activities with adjoining Appraisal Districts. Numerous field trips, interviews and data exchanges with adjacent appraisal districts have been conducted to ensure compliance with state statutes. In addition, Wheeler CAD administration and personnel interact with other assessment officials through professional trade organizations including the International Association of Assessing Officers, Texas Association of Appraisal Districts and its subchapter Texas Metropolitan Association of Appraisal Districts and the Texas Association of Assessing Officers.

## **VALUATION APPROACH**

### **Area Analysis**

Data on regional economic forces such as demographic patterns, regional locational factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources. Continuing education in the form of IAAO, Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD) and Board of Tax Professional Examiners (BTPE) courses.

### **Neighborhood Analysis**

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

Economic areas are defined by each of the unproved property use types (apartment, office, retail, warehouse and special use) based upon an analysis of similar economic or market forces. These include but are not limited similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity or other pertinent influences. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system. All income model valuation (income approach to value estimates) is economic area specific. Economic areas are periodically reviewed to determine if redelineation is required. The geographic boundaries as well as, income, occupancy and expense levels and capitalization rates by age within each economic area for all commercial use types and its corresponding income model may be found in the Commercial Valuation Manual.

### **Highest and Best Use Analysis**

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

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

## **Market Analysis**

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

## **DATA COLLECTION / VALIDATION**

### **Data Collection Manuals**

The primary manual pertinent to data collection and documentation is the Commercial/Industrial Data Collection Manual. This manual is continually updated, providing a uniform system of itemizing the multitude of components comprising improved properties. All properties located in Wheeler CAD's inventory are coded according to this manual and the approaches to value are structured and calibrated based on this coding system.

Annually, prior to the hearing season and after the sales have been researched, verified, keyed into the database, and quality control has been completed, the sales data are summarized and produced into book form. The confirmed sales reports, known as the Commercial Improved and Vacant Land sales books categorize the sales by property and use type, and sort the data by location and chronological order. These books are available to the public for use during hearings, and are also used by the Wheeler CAD appraisers during the hearings process.

### **Sources of Data**

With respect to the property characteristic data inventory system, every property subject to taxation by a jurisdiction within Wheeler CAD's area of responsibility is incorporated into a computer assisted mass appraisal (CAMA) system. Appraisers perform maintenance of special purpose properties. Any alterations to the properties involving building permits are then reviewed. Also, if any discrepancies are discovered during the hearings process or at any other time, field appraisers are sent for a field check prior to the next tax season and in some cases during the current tax season. Each appraiser reviews this data during periodic field inspections.

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

## **Data Collection Procedures**

Data collection procedures have been established for residential, commercial, industrial and personal property. Appraisers conduct field inspections and record information on either a property record data card (PRD), or personal property data sheets. This information is entered into the computer system and serves as the basis for the valuation of property.

The quality of data used is of paramount importance to accurate valuation of taxable property. While production standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. New appraisers are trained in the specifics of data collection set forth in the listing manuals as "rules" to follow. Experienced appraisers are routinely re-trained in listing procedures prior to major field projects such as new construction, sales validation or data review.

For those properties involved in a transfer of commercial ownership, a sale file is produced which begins the research and verification process. The initial step in sales verification involves a computer-generated questionnaire, which is mailed to both parties in the transaction (Grantor and Grantee). If a questionnaire is not returned within thirty days a second questionnaire is mailed. If a questionnaire is answered and returned, the documented responses are recorded into the computerized sales database system. If sales information is still not obtained, other sources are contacted such as the brokers involved in the sale, property managers or commercial vendors. In other instances sales verification is obtained from local appraisers or others that may have the desired information. Finally, closing statements are often provided during the hearings process. The actual closing statement is the most reliable and preferred method of sales verification.

## **VALUATION ANALYSIS**

Model calibration involves the process of periodically adjusting the mass appraisal formulas, tables and schedules to reflect current local market conditions. Once the models have undergone the specification process, adjustments can be made to reflect new construction procedures, materials and/or other costs, which can vary from year to year. The basic structure of a mass appraisal model can be valid over an extended period of time, with trending factors utilized for updating the data to the current market conditions. However, at some point, if the adjustment process becomes too involved, the model calibration technique can mandate new model specifications or a revised model structure.

### **Cost Schedules**

The cost approach to value is applied to all improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on comparable properties whenever possible. Cost models are typically developed based on the Marshall Swift Valuation Service or Boeckh. Cost models include the derivation of replacement cost new (RCN) of all improvements. These include comparative base rates, per unit adjustments and lump sum adjustments. This approach also employs the sales comparison approach in the valuation of the underlying land value. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period of time. Because a national cost service is used as a basis for the cost models, locational modifiers are necessary to adjust these base costs specifically for Wheeler County. These modifiers are provided by the national cost services.

Depreciation schedules are developed based on what is typical for each property type at that specific age. Depreciation schedules have been implemented for what is typical of each major class of commercial property by economic life categories. Schedules have been developed for improvements with 15, 20, 30, 40, 50, and 60 year expected life. These schedules are then tested to ensure they are reflective of current market conditions. The actual and effective ages of improvements are noted in CAMA. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace.

Market adjustment factors such as external and/or functional obsolescence can be applied if warranted. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific property type or location and can be developed via ratio studies or other market analyses. Accuracy in the development of the cost schedule, conditions ratings and depreciation schedules will usually minimize the necessity of this type of an adjustment factor.

### **Income Models**

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

A vacancy and collection loss allowance is the best item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and on local market publications. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an effective gross rent.

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

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements are included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Different expense ratios are developed for different types of commercial property based on use. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for his pro-rata share of taxes, insurance and common area maintenance. In comparison, a general office building is most often leased on a base year expense stop. This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. However, any amount in excess of the total per unit expenditure in the first year is the responsibility of the tenant. Under this scenario, if the total operating expense in year one (1) equates to \$8.00 per square foot, any increase in expense of \$8.00 per square foot throughout the remainder of the lease term would be the responsibility of the tenant.

As a result, expense ratios are implemented based on the type of commercial property.

Another form of allowable expense is the replacement of short-lived items (such as roof or floor coverings, air conditioning or major mechanical equipment or appliances) requiring expenditures of large lump sums. When these capital expenditures are analyzed for consistency and adjusted, they may be applied on an annualized basis as stabilized expenses. When performed according to local market practices by commercial property type, these expenses when annualized are known as replacement reserves.

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

Rates and multipliers are used to convert income into an estimate of market value. These include income multipliers, overall capitalization rates, and discount rates. Each of these is used in specific applications. Rates and multipliers also vary between property types, as well as by location, quality, condition, design, age, and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market.

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

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

### **Sales Comparison (Market) Approach**

Although all three of the approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach is utilized not only for estimating land value but also in comparing sales of similarly improved properties to each parcel on the appraisal roll.

As previously discussed in the Data Collection / Validation section of this report, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year in order to obtain relevant information which can be used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules in the Cost Approach, rates and multipliers used in the Income Approach, and as a direct comparison in the Sales Comparison Approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of the appraised values.

### **Final Valuation Schedules**

Based on the market data analysis and review discussed previously in the cost, income and sales approaches, the cost and income models are calibrated and finalized. The calibration results are keyed to the schedules and models on the mainframe CAMA system for utilization on all commercial properties in the district. The schedules and models are summarized in the Commercial Review Manual. This manual is provided to appraisers and is made available to the public in an easy to understand format.

### **Statistical and Capitalization Analysis**

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

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

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

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses (inclusive on non-recoverables and replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed utilizing frequency distribution methods or other statistical procedures or measures. Income mode conclusions are compared to actual information obtained on individual commercial properties during the hearings process as well as information from published sources and area vendors.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### **Field Review**

The date of last inspection, extent of that inspection, and the Wheeler CAD appraiser responsible are listed in the CAMA system. If a property owner disputes the District's record concerning this data in a protest hearing, CAMA may be altered based on the credibility of the evidence provided. Typically, a new field check is then requested to verify this evidence for the current year's valuation or for the next year's valuation. In addition, if a building permit is filed for a particular property indicating a change in characteristics, that property is added to a work file. Finally, even though every property cannot be inspected each year, each appraiser typically designated certain segments of their area of responsibility to conduct field checks.

Commercial appraisers are somewhat limited in the time available to field review all commercial properties of a specific use type. However, a major effort is made by appraisers to field review as many properties as possible or economic areas experiencing large numbers of remodels, renovations, or retrofits, changes in occupancy levels or rental rates, new leasing activity, new construction, or wide variations in sale prices. Additionally, the appraisers frequently field review subjective data items such as building class, quality of construction (known as cost modifiers), condition, and physical, functional and economic obsolescence factors contributing significantly to the market value of the property.

In some cases field reviews are warranted when sharp changes in occupancy or rental rate levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. While in the field, the appraisers physically inspect sold and unsold properties for comparability and consistency of values.

### **Office Review**

Office reviews are completed on properties not subject to field inspections and are performed in compliance with the guidelines contained in the Commercial Review Manual. The Commercial Review Manual outlines the application of the three approaches to value (including Discounted Cash Flow -DCF).

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

Once the appraiser is satisfied with the level of uniformity of value for each commercial property within their area of responsibility, the estimates of value go to noticing. Each parcel is subjected to the value parameters appropriate for its use type. If one of the parcel's component values, land value, improvement value or total value exceeds the permissible change in value range it "fails the value edits". In this case, the parcel does not shift to noticing, but it is placed on a rework list.

Therefore, although the value estimates are determined in a computerized mass appraisal environment, value edits and rework lists enable an individual parcel review of value anomalies before the estimate of value is released for noticing.

## **PERFORMANCE TESTS**

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market values. In a ratio study, market values (value in exchange) are typically represented by sales prices (i.e. a sales ratio study). Independent expert appraisals may also be used to represent market values in a ratio study (i.e. an appraisal ratio study). If there are not enough sales to provide necessary representativeness, independent appraisals can be used as indicators for market value. This can be particularly useful for commercial, warehouse or industrial real property for which sales are limited. In addition, appraisal ratio studies can be used for properties statutorily not appraised at market value, but reflect the use-value requirement. An example of this are multi-family housing projects subject to subsidized rent provisions or other governmental guarantees as provided by legislative statutes (affordable housing) or agricultural lands to be appraised on the basis of productivity or use value.

Wheeler CAD has adopted the policies of the IAAO STANDARD ON RATIO STUDIES, circa July 1999 regarding its ratio study standards and practices. Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis, and (6) evaluation and application of the results.

## **Sales Ratio Studies**

Sales ratio studies are an integral part of establishing equitable and accurate market value estimates, and ultimately assessments for this taxing jurisdiction. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of properties types for reappraisal; identification of potential problems with appraisal procedures; assist in market analyses; and, to calibrate modes used to derive appraised values during valuation or reappraisal cycles. However, these studies cannot be used to judge the accuracy of an individual property appraised value. The Wheeler County Appraisal Review Board may make individual value adjustments based on unequal appraisal (ratio) protest evidence submitted on a case-by-case basis during the bearing process.

Overall sales ratios are generated by use type CAMA semi-annually (or more often in specific areas) to allow appraisers to review general market trends in their area of responsibility. The appraisers utilize desktop applications and EXCEL programs to evaluate subsets of data by economic area or a specific and unique data item. On the desktop, this may be customized and performed by building class and age basis. In many cases, field checks may be conducted to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics.

These ratio studies aid the appraisers by providing an indication of market activity by economic area or changing market conditions (appreciation or depreciation).

### **Comparative Appraisal Analysis**

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

## **INDUSTRIAL VALUATION PROCESS**

### **Appraisal Responsibility**

The industrial appraisers and/or contract appraisers of the Wheeler County Appraisal District are responsible for developing fair, uniform market values for improved industrial properties and industrial vacant land. The industrial appraiser is also responsible for the valuation of all tangible general industrial personal property in Wheeler County.

### **Appraisal Resources**

- *Personnel* -Industrial property under Wheeler CAD is contracted with Pritchard & Abbott, Inc. to value properties for which the district does not have the available personnel or resources.
- *Data* - The industrial appraisers and contract appraisal staff inspects then-assigned properties to obtain information about buildings, site improvements, process and shop equipment, and various items of personal property. In addition, appraisal personnel use information provided by property owners concerning the cost to purchase, install, and construct items of real and personal property. The individual characteristics of the property being appraised are the primary factors that drive the appraised value.

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

### **Area Analysis**

The scope of market forces affecting industrial products and the capital goods used in the production process tends to extend beyond regional considerations. The effects of information and transportation technology are such that most industrial market forces are measured globally. One exception to this general concept is the market for industrial land. The pricing of land tends to be closely tied to possible alternative used in the area. For this reason, appraisers assigned to land valuation analyze market forces for specific areas and adjust land value schedules appropriately.

## **Neighborhood Analysis**

Neighborhood analysis of the type of properties valued by the industrial appraiser is not meaningful. Industrial properties do not have the type of generic "sameness" that is appropriate for neighborhood models.

## **Highest and Best Use Analysis**

The highest and best use of real or personal property is the most reasonable and probable use of the property on the date of appraisal that is physically and financially feasible, legal, and that derives maximum production from the property. Usually, the current use of the property is the highest and best use of that property. Industrial facilities are most commonly located in areas that support industrial use. In areas where mixed use does occur, the highest and the best use of the property is examined by the appraiser to estimate the effect of this factor.

## **Market Analysis**

Market analysis is the basis for finalizing value estimates on properties for which the industrial appraiser has responsibility. Even though many industrial properties are unique in nature, the market for this type property is analyzed to see how market forces affect the values of similar or similar as possible properties. Industrial properties, such as machine shops, have many similar facilities that can be compared to the subject property in terms of type and size of equipment, type of property fabricated or serviced at the subject facility, and other factors. Those similarities help the appraiser estimate the value of the subject property. However, some facilities, such as specialty chemical plants, are so unique in nature that the appraiser must use the closest available plant in terms of output quantity, type of product manufactured, and other factors to estimate the value of the subject property. Many industrial properties use the same type of building and, depending on the type of business, may use the same type of manufacturing or service equipment. However, the manner in which the entire business operation is put together makes that particular facility unique. The district uses information from similar businesses to examine the real and personal property values at a particular business, but the individual characteristics of the business being reviewed determine the value estimation. Many of the buildings encountered at industrial facilities are generic in construction, such as pre-engineered metal buildings. The cost per square foot to construct these type structures can be used to estimate values at facilities that have similarly constructed buildings. However, the building as constructed will have differences that must be taken into account when estimating the final value of the property being reviewed.

A similar analysis is used for personal property. Many items of personal property, such as furniture and fixtures, computers, and even machinery and equipment are generic in construction, but individual characteristics that affect value, such as usage, environment where used, and level of care will have an effect on the final value estimation. When cost data for this type property is available and considered reliable, it is used for value estimation purposes at other plant facilities. However, on-site inspection and information provided by the property owner will affect the final value.

## **DATA COLLECTION/VALIDATION**

### **Data Collection Manuals**

An extended range of variations may exist within the same class of industrial property, and there are a multitude of property types within the industrial category.

For this reason, effective data collection procedures would be very difficult to organize in a single comprehensive manual.

Industrial personal property also consists of many different classes of assets with a wide range of variation within each class. The district has adopted the convention of listing assets and estimating effective age of assets in the field. The field listing is then compared with information furnished by property owners during the final valuation review.

### **Sources of Data**

The county and the schools supplied the original real and personal property data used by Wheeler CAD. Since that time, the district and contract appraisal personnel have updated that information based on field review. As new facilities are built, the appraisal personnel collect all the real and personal property data necessary to value the property initially and there after update the information when the property is again visited.

### **Data Collection Procedures**

The district and contract appraisal personnel annually or periodically visit assigned plants. The frequency of the visit is determined by the nature of the business conducted at each facility. For example, refineries and chemical plants are continually changing or adding to processes to extract greater efficiencies or make new products, but machine shops may not add or remove equipment over a period two or more years.

The appraisers take with them the historical data on the buildings and site improvements and the previous listing of personal property at the facility being visited. Changes to the existing structures and personal property are noted and that information is used for value estimation purposes. If cost information for the real or personal property is supplied later, the field data can be compared to that information to judge the accuracy of the information.

The district and contract firm appraisal staff members are not assigned any one geographical area of the county. The nature of the business and whether or not the district has the staff resources available determines which properties are valued by contract firms and which properties are valued by the district's appraisal staff.

New district appraisers are trained by accompanying appraisers who have performed field visit and appraisal functions for a number of years. Each district appraiser is responsible for the completeness and correctness of their valuation work, but a new appraiser is encouraged to seek the advice of and review by experienced appraisal staff if that person is not sure of their value estimation results.

## **VALUATION ANALYSIS**

### **Field Review**

The district's personnel periodically review their assigned real and personal property accounts where there is evidence of change at a particular facility and when there is not, these accounts are revisited on a two to three-year cycle. Certain properties are reviewed annually because past experience shows that changes are occurring continually in the real or personal property at that facility. Properties assigned to contract appraisal firms are reviewed annually because changes also occur regularly at these facilities.

The results of prior year hearings and indication of building permits being issued are another source of required field visits. Many times during hearings, issues are presented that cause a value adjustment. Those issues must be field checked to see if these influences will be on going and warrant permanent value adjustment or are transitory and permanent adjustment is not warranted. This information needs to be recorded so the appraiser will be better able to estimate the property value. Building permits must be field checked to see what effect these have on existing structures. Any new construction is noted and the information necessary to value the structure is recorded. Additionally, any structure demolition is noted so the improvement value can be adjusted accordingly.

Part of the field review includes noting any land characteristics that would affect the land value. The district values all land for the properties over which it has responsibility, including those properties assigned to contract appraisal firms. The contract appraisal firms must advise the district of any characteristics that would affect the value of the land associated with that assigned facility.

### **Office Review**

All properties not subjected to field review are reviewed in the office by the district appraiser assigned to a particular real or personal properties. The office review relies on historical information in the real or personal property file as the basis for deciding on the estimated value to be placed on the property for the current tax year.

When valuing real property, the characteristics of the property being reviewed are the driving force in value estimation. Experience in valuing other real property, such as a similar building elsewhere, helps the appraiser decide the estimated value to be placed on the subject improvements.

When valuing personal property, the type of furniture, equipment, computers, etc., will be used along with any cost data provided by the property owner to estimate the value. Experience in valuing similar property at other facilities will help the appraiser estimate the value of the subject facility. Individual characteristics of the property, such as usage and maintenance will have a bearing on the value calculated by use of District schedules.

### **PERFORMANCE TESTS**

#### **Sales Ratio Studies**

Ratio studies are an important tool to examine how close appraised values are to market values. The ratio study may use available sales data or may use independent, expert appraisals. Typically, there are not enough sales of industrial properties to show representativeness of that class of property in a ratio study. Ratio studies of industrial properties usually have to rely on independent appraisals as an indicator of market values.

#### **Comparative Appraisals Analysis**

This type of analysis is usually not done on industrial properties due to the unique nature of the property and also because of time and budget constraints regarding available appraisal staff. Only in an instance where a jurisdiction would file a jurisdiction challenge with the Appraisal Review Board would the district perform such an analysis.

If Wheeler CAD receives a jurisdiction challenge on an industrial category of properties, the appraisers assigned to those accounts will research the appraisal roll to see what other similar properties exist.

The real property values can be compared on an average value per square foot of structure basis, but the different facilities to another must be carefully compared because it is unlikely that two different facilities are going to build like improvements and use them in similar ways. In like manner, the personal property values can be compared per category, such as furniture and fixtures, machinery and equipment, etc., but the same comparison of the type of and use of the property must be examined to ensure property comparison.

## **MINERAL VALUATION PROCESS**

### **Appraisal Responsibility**

This mass appraisal assignment includes all of the property classed as minerals which falls within the responsibility of the mineral valuation of the County Appraisal District and located within the boundaries of this taxing jurisdiction. These properties are under contract to be appraised by Pritchard & Abbott, Inc. Mineral appraisers appraise the property according to the statute. However, the affect of easements, restrictions encumbrances, leases, contracts or special assessments are considered on an individual basis, as I the appraisement of any non exempt taxable fractional interests in real property. Fractional interest or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

### **Appraisal Resources**

- **Personnel** - The mineral properties are appraised by Pritchard & Abbott, Inc. an appraisal firm.
- **Data** - The Mineral properties are appraised by the contract appraisal staff using data collected from a variety of sources. Among these data sources are: Gas prices from the Comptroller, production from the Rail Road Commission, average gas prices from industry, and data from the operators of the properties.

### **Area Analysis**

The scope of market forces affecting mineral products tends to extend beyond regional considerations. The Global market effects the valuation of the property. Appraisers must study and analyze the current and future market in order to appraise the properties appropriately.

### **Neighborhood Analysis**

Not applicable to Mineral properties.

### **Highest and Best Use**

The highest and best use of a mineral property is for it to be produced. The properties are appraised based on their highest and best use.

## Market Analysis

Market analysis is the basis for determining the future worth of the recoverable reserves of a mineral property. However, each property may have unique properties that are taken into consideration when estimating the final value of the property.

## Data Collection

Data is collected yearly from the Comptroller of Public Accounts, the Rail Road Commission of Texas, and individual operators within the county. All of this information is pooled together to get an accurate picture of each mineral property.

## Appraisal Method

All mineral properties are appraised as described by the property tax code and laws. Mineral properties are appraised using a discounted cash flow method as prescribed by the Texas Comptroller of Public Accounts.

Appraisal of an oil and gas property for ad valorem tax purposes in the state of Texas is based on the total value of the economically recoverable oil and gas reserves as of January 1st of each year. **The value is not based on past or future income, nor is it based on production;** but it is a value based on an estimate of the present value of the oil and gas in the reservoir, waiting to be produced.

There are no rule-of-thumb methods for determining the present value of the future net income from a mineral property. The value can only be determined by preparing an analytical appraisal of the property.

Reserve evaluation is not an exact science. At best, it is an estimate of the volumes recoverable by a particular method. Although oil and gas are depleting assets, the estimate of reserves can be understated initially. Also, different recovery methods, product prices and operating expenses, to name a few, can increase or decrease the estimated remaining recoverable reserves after the original estimate.

The basic elements necessary for the valuation of oil and gas reserves are:

- 1) Rate they will be produced
- 2) Rate of decline
- 3) Price of the products
- 4) Cost to produce the reserves
- 5) Discount rate

Remaining oil and gas reserves are generally estimated by extrapolation of production trends. This is normally called decline curve analysis. The basic assumption is that the condition that shaped the production curve in the past will continue to shape it in the future. Of course, this requires proper weight being given to the immediate past. The decline curve is projected to the point where the production rate will generate just enough income to meet operating expenses. This is called the economic limit. The decline curve provides both the rate of production and the rate of decline.

The price of the oil is based on the weighted average price paid for oil in the geographic area from which it is produced during the previous twelve months.

The price of gas is generally available on a lease-by-lease basis from the State Comptroller's office for the same period of time. The cost to produce includes state taxes, local taxes and operating costs. Information on operating costs may be obtained from the operator and are always reviewed by the appraiser.

We use a base discount factor of 17% for oil and 18% for gas. These factors can be increased based on various risks.

All of this data, plus other information is then entered into the computer. The estimated annual lease production is multiplied by the price of the product in order to obtain the annual gross income. The cost to produce is subtracted from the gross income, yielding the net income. This income stream is then discounted at a rate that reflects the time value of money. The resulting income stream is now a realistic basis for estimating the market value of the property.

The estimated present property value is the sum of the present worth net incomes for all the future years, plus the value of the equipment.

## **BUSINESS PERSONAL PROPERTY VALUATION PROCESS**

### **Appraisal Responsibility**

There are four different personal property types appraised by the district's personal property section: Business Personal Property accounts; Leased Assets; Vehicles, and Multi-Location Assets.

### **Appraisal Resources**

- **Personnel** - Wheeler CAD is under contract with Pritchard & Abbott, Inc. appraisal firm to appraise business personal property.
- **Data** - A common set of data characteristics for each personal property account in Wheeler County is collected in the field and data entered into the district's computer. The property characteristic data drives the computer-assisted personal property appraisal (CAPPA) system. The personal property appraisers collect the field data.

## **VALUATION APPROACH**

### **SIC Code Analysis**

Four digit numeric codes, called Standard Industrial Classification (SIC) codes that were developed by the federal government. Wheeler CAD as a way to classify personal property by business type uses these classifications.

SIC code identification and delineation is the cornerstone of the personal property valuation system at the district. All of the personal property analysis work done in association with the personal property valuation process is SIC code specific.

### **Highest and Best Use Analysis**

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

## **DATA COLLECTION/VALIDATION**

### **Data Collection Procedures**

Personal property data collection procedures are published and distributed to all appraisers involved in the appraisal and valuation of personal property. The appraisal procedures are reviewed and revised to meet the changing requirements of field data collection.

### **Sources of Data**

#### **Business Personal Property**

The district's property characteristic data was originally received from Wheeler County, and various school district records in 1980, and where absent, collected through a massive field data collection effort coordinated by the district over a period of time. When revaluation activities permit, district appraisers collect new data via an annual field drive-out. This project results in the discovery of new businesses not revealed through other sources. Various discovery publications such as the Court Reporter and state sales tax listings are also used to discover personal property. Tax assessors, city and local newspapers, and the public often provided the district information regarding new personal property and other useful facts related to property valuation.

#### **Vehicles**

An outside vendor provides Wheeler CAD with listing of vehicles within Wheeler County. The vendor develops this listing from the Texas Department of Transportation (DOT) Title and Registration Division records. Other sources of data include property owner renditions and field inspections.

#### **Leased and Multi-Location Assets**

The primary source of leased and multi-location assets is property owner renditions of property. Other sources of data include field inspections.

## **VALUATION AND STATISTICAL ANALYSIS**

### **Cost Schedules**

Cost schedules are developed by SIC code by district personal property valuation appraisers. The 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. The schedules are typically in a price per square foot format, but some exception SIC's are in an alternate price per unit format, such as per room for hotels.

### **Statistical Analysis**

Summary statistics including, but not limited to, the median, weighted mean, and standard deviation provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value by SIC code. Review of the standard deviation can discern appraisal uniformity with SIC codes.

## **Depreciation Schedule and Trending Factors:**

### **Business Personal Property**

Wheeler CAD's primary approach to the valuation of business personal property is the cost approach. The replacement cost new (RCN) is either developed from property owner, reported historical cost or from Wheeler CAD developed valuation models. The trending factors used by Wheeler CAD to develop RCN are based on published valuation guides. The index factors and percent good depreciation factors are used to develop present value factors (PVF), by year of acquisition, as follows:

$$\text{PVF} = \text{INDEX FACTOR} \times \text{PERCENT GOOD FACTOR}$$

The PVF is used as an "express" calculation in the cost approach. The PVF is applied to reported historical cost as follows:

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

This mass appraisal PVF schedule is used to ensure that estimated values are uniform and consistent within the market.

### **Computer Assisted Personal Property Appraisal (CAPPA)**

The CAPPA valuation process has two main objectives: (1) Analyze and adjust existing SIC models. (2) Develop new models for business classifications not previously integrated into CAPPA. The delineated sample is reviewed for accuracy of SIC code, square footage, field data, and original cost information. Models are created and refined using actual original cost data to derive a typical replacement cost new (RCN) per square foot for a specific category of assets. The RCN per square foot is depreciated by the estimated age using the depreciation table adopted for the tax year.

The data sampling process is conducted in the following order. (1) Prioritizing Standard Industrial Classification (SIC) codes for model analysis. (2) Compiling the data and developing the reports. (3) Field checking the selected samples. The models are built and adjusted using internally developed software. The models are then tested against the previous year's data. The typical RCN per square foot (or applicable unit) is determined by the statistical analysis of the available data.

CAPPA model values are used in the general business personal property valuation program to estimate the value of new accounts for which no property owner's rendition is filed. Model values are also used to establish tolerance parameters for testing the valuation of property for which prior data years' data exist for which current year rendered information is available. The calculated current year value or the prior year's value is compared to the indicated model value by the valuation program. If the value being tested is within an established acceptable percentage tolerance range of the model value, the account passes that range check and moves to the next valuation step. If the account fails the tolerance range check, it is flagged for individual review. Allowable tolerance ranges may be adjusted from year to year depending on the analysis of the results of the prior year.

### **Vehicles**

Value estimates for vehicles are provided by an outside vendor and are based on NADA published book values. Vehicles that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

## **Leased and Multi-Location Assets**

The primary source of leased and multi-location assets is property owner renditions of property. Other sources of data include field inspections. If the asset to be valued in this category is a vehicle, then NADA published book values are used.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### **Office Review**

#### **Business Personal Property**

A district valuation computer program exists in a mainframe environment that identifies accounts in need of review based on a variety of conditions. Property owner renditions, accounts with field or other date changes, accounts with prior hearing, new accounts, and SIC cost table changes are all considered. The accounts are processed by the valuation program and pass or fail present tolerance parameters by comparing appraised values to prior year and model values. The appraisers review accounts that fail the tolerance parameters.

#### **Vehicles**

A vehicle master file is received on tape from an outside vendor and vehicles in the district's system from the prior year are programmatically matched to current DOT records. The vehicles remaining after the matching process are sorted by owner name and the owners are then prioritized by the number of vehicles owned. These vehicles are then matched to existing accounts and new accounts are created as needed. Vehicles that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

## **Leased and Multi-Location Assets**

Leasing and multi-location accounts that have a high volume of vehicles or other assets are loaded programmatically if reported by the property owner electronically. Electronic renditions, usually on diskette, often require reformatting before they can be loaded to the account. Accounts that render by hard copy are either data entered by CAD or sent to an outside data entry vendor.

After matching and data entry, reports are generated and reviewed by an appraiser. Once proofed, the report is then mailed to the property owner for review. Corrections are made and the account is noticed after supervisor approval.

## **PERFORMANCE TESTS**

### **Ratio Studies**

Each year the Property Tax Division of the state comptroller's office conducts a property value study (PVS). The PVS is a ratio study used to gauge appraisal district performance. Results from the PVS play a part in school funding. Rather than a sales ratio study, the personal property PVS is a ratio study using state cost and depreciation schedules to develop comparative personal property values. These values are then compared to Wheeler CAD's personal property values and ratios are formed.

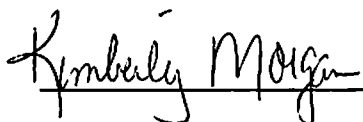
## **LIMITING CONDITIONS**

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

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

### **Certificate Statement:**

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

A handwritten signature in cursive script, reading "Kimberly Morgan", is written over a solid horizontal line.

Kimberly Morgan, Chief Appraiser

Wheeler Central Appraisal District

**ADDENDUM B**  
**BUDGET – 2015**

Wheeler Central Appraisal District  
**2015**  
**Adopted**  
**Budget**

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**CATEGORY 1**  
**PERSONNEL**

**SALARIES/BENEFITS**

Chief Appraiser, RPA	50,000
Clerk #1	30,500
Clerk #2	25,500
Part Time	10,000
Health Ins. (full time employees)	23,000
Retirement (full time employees)	13,610
<b>TOTAL</b>	<b>152,610</b>

**OTHER COMPENSATION**

ARB Salaries	900
ARB Travel/Training	2,000
<b>TOTAL</b>	<b>2,900</b>

**TAXES**  
**STATE & FEDERAL**

Unemployment Tax	4,500
Social Security	9,200
Medicare	3,800
<b>TOTAL</b>	<b>17,500</b>

**2015  
Adopted  
Budget**

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**CATEGORY 2**  
**PROFESSIONAL SERV**

Field Appraiser Contract	88,000
Vehicle Listing	800
Min/Ind/BPP/AG. Budget/DO's)	185,000
Software Support	25,500

Audit	5,000
Accounting Fee	1,800
Legal Services	5,000
Arbitration	5,000
Mapping/Software Support	3,500

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<b>TOTAL</b>	<b>319,600</b>
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**CATEGORY 3**  
**INSURANCE/BONDS**

Real and Personal	700
Worker's Compensation	1,000
Officials & General Liability	1,400
Public Official's Bond	250
Notary Public Fees	150

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<b>TOTAL</b>	<b>3,500</b>
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**CATEGORY 4**  
**EQUIPMENT**

**LEASE AGREEMENTS**

Postage Machine	3,200
Copier	2,800

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<b>TOTAL</b>	<b>6,000</b>
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**2015  
Adopted  
Budget**

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**REPAIRS/MAINT.**

(\*denotes availability of  
funds on an as-needed basis.)

*Building	0
*Office Furniture	0
Office Machine/Equip	600
Computer System	300
<hr/>	
<b>TOTAL</b>	<b>900</b>

**CAPITAL OUTLAYS**

(\*denotes availability of  
funds on an as-needed basis.)

*Office Furniture	1,000
*Office Machines/Equip	400
*Computer Hardware/Work Stations	250
*Computer Software	250
<hr/>	
<b>TOTAL</b>	<b>1,900</b>

**CATEGORY 5**  
**DIST. OPERATION**

**UTILITIES**

Telephone/Internet	3,850
Electric	3,500
Natural Gas	2,700
Drinking Water/Sewer/Trash	1,700
<hr/>	
<b>TOTAL</b>	<b>11,750</b>

**2015  
Adopted  
Budget**

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**SUPPLIES**

Tax Roll supplies	8,000
Office (general)	4,000

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<b>TOTAL</b>	<b>12,000</b>
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**FUNCTIONAL  
REQUIREMENTS**

Postage	8,000
P.O. Box Rental	
Safe Deposit Rental	35
Dues/Registrations	2,000
Paid Public Notices	1,400
Subscriptions/Books	200
Training/Tuition	4,500
Travel/Lodging/Meals	10,000

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<b>TOTAL</b>	<b>26,135</b>
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**CATEGORY 6  
FACILITIES**

Bldg & Grounds Maintenance	3,000
Janitorial Service	0

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<b>TOTAL</b>	<b>3,000</b>
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**557,795**



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

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

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

**For Tax Years:**

**2015 and 2016**

**Originally Printed: July 1, 2014**

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

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

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

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

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

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

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

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

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

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

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

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

## PREAMBLE

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

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

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

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

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

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

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

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

## ETHICS RULE

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

- Conduct;
- Management;
- Confidentiality.

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

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

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

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

### CONDUCT

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

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

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

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

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

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

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

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

The appraiser can agree with the client to keep the mere occurrence of a prior appraisal assignment confidential. If an appraiser has agreed with the client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent 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;

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

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

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

## RECORD KEEPING RULE

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

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

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

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

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

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

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

## SCOPE OF WORK RULE

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

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

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

Scope of work includes, but is not limited to:

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

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

## PROBLEM IDENTIFICATION

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

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

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

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

## SCOPE OF WORK ACCEPTABILITY

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

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

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

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

#### DISCLOSURE OBLIGATIONS

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

### JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

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

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

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

A mass appraisal includes:

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

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

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

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

The various sections of Standard 6 are briefly summarized below:

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

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

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

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

## REAPPRAISAL OF MINERAL INTERESTS

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

### INTRODUCTION

**Definition of Appraisal Responsibility (Scope of Effort):** The Mineral Valuation Department of Pritchard & Abbott, Inc. ("P&A" hereinafter), is responsible for developing credible values for mineral interests (full or fractional percentage ownership of oil and gas leasehold interest, the amount and type of which are legally and/or contractually created and specified through deeds and leases, et al.) 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 3<sup>rd</sup>-party applications on desktop personal computers. In addition, communication and dissemination of appraisals and other information is available to the taxpayer and client through electronic means including internet and other phone-line connectivity. The appraiser supervising any given contract fields many of the public's questions or redirects them to the proper department personnel.

## VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

### Approaches to Value for Petroleum Property

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

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

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, et al.). 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

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