

**Dewitt County Appraisal District  
District-wide Reappraisal Plan  
2015 – 2016**

Submitted for the approval of  
The Dewitt County Appraisal District Board of Directors  
August 19, 2014

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## PREFACE

Per S.B. 1652 enabling legislation passed during the 79<sup>th</sup> regular session of the Texas Legislature which amended certain sections of the Texas Property Tax Code, each appraisal office shall have a written reappraisal plan to be adopted biennially by the board of directors. The purpose of the plan is to ensure adherence with generally accepted appraisal practices.

Section 6.05, Property Tax Code, was amended 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<sup>th</sup> 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.

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

(a) Each appraisal office shall implement the plan for a 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 rechecks or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps and property sketches;
- (2) Identifying and updating relevant characteristics of each property in the appraisal records;
- (3) Defining market areas in the district;
- (4) Identifying property characteristics that affect property value in each market area, including:
  - (A) The location and market area of 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.

## IN-HOUSE DISTRICTWIDE REAPPRAISAL PLAN

In accordance with the Texas Property Tax Code and Uniform Standards of Professional Appraisal Practices (USPAP), Standard 6, the Plan requires the Dewitt County Appraisal District to perform its reappraisal duties as follows:

1. Make field inspections to measure and gather physical data on all new construction, review and reappraise existing properties. Approximately 16,000 real properties are scheduled for reappraisal annually including building permits, renditions and January 1 rechecks. All data recorded from reappraisal and field inspections of new properties must be entered into the district's computer aided mass appraisal system (CAMA) based on an appraisal date of January 1 of the valuation year. Business Personal Property field visits to new businesses and existing businesses on an as needed basis are to be made by the Deputy Chief Appraiser on an annual basis. The duration of the Plan is for 24 months. All work to be completed during this time as shown below:

**A. 2015 Field Reappraisal:** All residential improvements county wide will be reappraised. Reappraisal will include field check, photographs and converting all residential improvements from the existing class and cost schedules to new schedules. This program began in 2014 with residences within the city of Cuero only. Building permits, renditions and January 1 rechecks for properties located county wide.

1. The district has contracted with Western Valuation Service to assist in completing the implementation of the new residential class and cost schedules for all properties county wide. This project is scheduled to be complete by April 30, 2015.
2. Building permits for Cities of Cuero, Yoakum and Yorktown are to be completed by April 15, 2015.
3. Rechecks, renditions and agriculture/wildlife management application recheck field work is to be completed by April 30, 2015.
4. All residential reappraisal is scheduled to be completed by April 30, 2015. This includes all residential properties in the Cities of Yoakum, Yorktown and Nordheim and all rural properties county wide being converted to the new cost schedules.

**B. 2016 Field Reappraisal** for all commercial properties county wide as well as rural reappraisal for all properties within the Meyersville ISD area. Building permits, renditions and January 1 rechecks.

1. Building permits for Cities of Cuero, Yoakum and Yorktown are to be completed by April 15, 2016.
2. Rechecks, renditions and agriculture/wildlife management application recheck field work is to be completed by April 30, 2016.
3. Commercial reappraisal work is to be completed by April 30, 2016.
4. Meyersville ISD reappraisal work is to be completed by April 30, 2016.

**C. Annual Projects:**

1. All properties are reappraised annually by means of sales ratio studies and value adjustments made to properties by type and area based on the results of these

- studies. Ratio studies are to be completed and value adjustments determined by property type by April 15<sup>th</sup> of each year, or as soon after as possible.
2. Ag values are recalculated annually and any necessary changes are to be completed by May 5<sup>th</sup> of each year.
  3. Personal Property Renditions are mailed on approximately January 3 of each year. New business field checks should be completed by March 15 of each year and all Personal Property renditions worked and ready to data entry by no later than April 30<sup>th</sup> with the exception of extensions.
  4. Derive appropriate values through the updating of physical data, neighborhood, Market areas, identifying general property characteristics, construction types and classifications that affect value and revising schedules.
  5. Derive appropriate values of all Personal Property annually by means of required Personal Property Renditions, field visits and by prevailing values for similar properties in the district. New accounts will be added by discovery from local publications, field visits, and owners notification to the district. Personal Property Renditions as prescribed by Sec.22.01 of the Texas Property Tax Code will be mailed to all businesses annually.
  6. In order to gather accurate physical data, all new real estate improvements will be Measured, inspected and classified based on the districts classification system for that particular type of property and photographs will be taken of all structures.
  7. The values of all real estate parcels reappraised in accordance with this plan shall be adjusted to reflect market values as of January 1 of the valuation year (Sec. 23.01).
  8. In keeping with the intent of Sec. 23.01 of the Texas Property Tax Code, newly discovered and new construction property will be appraised at prevailing values by adjusting neighborhood factors, until such time as all real estate parcels have been revalued.
  9. Neighborhood factors for the majority of properties in this county are typically delineated by school boundary lines and city limit lines, since this is a small rural county with few major distinctions. One exception to this would be for newer homogeneous subdivisions being developed in the City of Cuero.
  10. All approved agriculture land and wildlife management land will be valued in Accordance with subchapter C,D,E,F,G and H of Sec. 23 of the Texas Property Tax Code.
  11. Appraisal Review Board Hearings will be completed and the appraisal records Certified by a date no later than July 25<sup>th</sup> of the valuation year or as soon after as practicable (Sec. 41.12).
  12. All data not required to be held as confidential by statute or agreement will be made available to the public.
  13. The District will abide by the Standards and Procedures described herein.

## **BASIC STANDARDS & PROCEDURES TO BE FOLLOWED WHEN CONDUCTING A DISTRICT-WIDE REAPPRAISAL**

**1. Public Involvement and Community Relations:** Success of the district's reappraisal program is dependent on the level of understanding and support given by the general public. Public relations are the responsibility of all employees of the district, with the fundamental responsibility for implementation being the Chief Appraiser. Recognizing that taxpayer contact represents a public relations opportunity; all employees will

- (A.) Be familiar with the district-wide reappraisal program;
- (B.) Be trained in telephone and face-to-face communication etiquette;

**2. Valuation Methodology:** The first phase of the valuation component will be data analysis. With the gathering of all physical data and an analysis of all market/economic data, the staff will calculate appraised values. All three approaches to value; sales, cost and income will be used depending upon the applicability of the approaches to specific properties or classes of property and the availability of reliable information. The final valuation will be carefully reviewed and field checked for accuracy.

On completion of the valuation process, the district will be responsible for a careful review of the values through ratio studies and neighborhood analysis. The appraisal staff is to identify any errors that may have occurred and ensure accuracy and quality of the data collected during this review. The district will consider the indicated value of the structure and indicated value of the land against sales information concerning comparable parcels. The appraiser is to ensure that all property has been valued uniformly and is equal in relation to other properties and in accordance with the State Property Tax Code and Uniform Standards of Professional Appraisal Practice (USPAP). This will be completed immediately before the Notices of Appraised Value deadline for mailing.

(A.) Appraisal of Land: A separate estimate of the fair market value shall be made for each parcel of land. The sales data covering fair market sales of vacant land in all property classifications shall be secured from all available sources and shall be compiled, checked and analyzed for use in determination of land values and their unit of comparison throughout the district. In areas where land sales do not occur the district will use appraisals of comparable properties to determine land value.

The district shall carefully consider all factors affecting the value of land (such as zoning, location, shape, size, topography, access to railroads, roads, waterways, present use, etc.) and will make appropriate adjustments when establishing final values.

To the extent practical, land value computations will be made in accordance with three categories as follows:

City Residential – Front foot or square foot values  
Rural Residential – Per acre values  
Commercial/Industrial – Square foot or acreage values

All established base land values for vacant and improved parcels should be recorded on the appropriate fields of the record card and on the CAMA system and carefully checked for accuracy. All land values shall be reviewed with the same accuracy and diligence as the buildings in conjunction therewith.

(B.) Improved Property: In arriving at the market value of each parcel of improved property, the district will consider all three approaches to value where applicable. The district shall make a careful analysis of the replacement cost of newly constructed buildings where applicable. Local sales data will be used to arrive at appropriate local market adjustment factors as required by the mass appraisal system of valuing properties based on market value as of January 1 of the appraisal year. The district will employ the age-life method of depreciation using the observed condition of the property and total life expectancies with market adjustments being used to arrive at current market values.

(1) Residential Property: The district shall view the exterior of each structure. Construction features, characteristics, appendages and accessory buildings for each property shall be recorded on the permanent record card and in the CAMA system. Classification shall be distinctly considered and appraisal guidelines followed for each building. To insure correct, uniform and consistent classification use, the Chief Appraiser will make periodic inspections of work of all appraisal personnel.

A perimeter sketch of each residential building will be drawn on the permanent record card and all necessary dimensions and identification codes will be placed on this sketch. Appendages such as attached garages, porches, etc. shall be carefully shown, with dimensions and correctly labeled.

(2) Multi-family Property: All multi-family residential properties shall be rechecked and appraised at market value. The income approach, the cost approach and the sales comparison or market approach will be considered in arriving at the final market value, when sufficient data is available. All building features, components and characteristics as outlined shall be identified, measured and listed. The year of construction of the building shall be noted if known. Other improvements such as paved parking lots, pools, patios, tennis courts, lighting, etc., will be identified, measured and listed. Number of residential units per building shall be determined at the time of reappraisal and recorded along with any other pertinent information that could affect value or be used as the basis for units of comparison at some later date. Income and expense data will be extracted from reliable sources when available. The appraised value of all properties shall be reviewed by the Chief Appraiser and adjustments or corrections made if necessary.

(3) Commercial/Industrial Property: All commercial/industrial properties shall be rechecked and appraised at market value. The income approach, the cost approach and the sales comparison or market approach will be considered in arriving at the final market value, when sufficient data is available. All building features, components, or characteristics as outlined will be identified, measured and listed. The year of construction of the building will be noted if known. Other improvements such as paved parking, mechanical features and equipment, etc. shall be identified, measured and listed. Occupancy of each building will be determined at time of reappraisal along with other pertinent information that could affect value. Lease or rental information will be extracted from reliable sources as is available.

(4) Rural Property: All improvements on agricultural properties will be rechecked and appraised at market value. A sketch of the dwelling and the outbuildings will be drawn, showing all structures and buildings in proper size including dimensions and suitable codes used to identify each building. All farms, ranches, rural dwellings and other improvements will be described and valued in the same manner as residential property. The goal being to establish a fair, equitable and realistic value by comparison with other like properties, and to maintain the same level of market values placed on all other classes of property within the taxing jurisdiction.

Agricultural use value of all qualified agricultural land will be calculated using the most recent per acre estimates by the district. The per acre use classification estimates include determination of soil type, cash rent analysis, production yield averages, cost of production averages and an established income capitalization rate. The acreage of each soil type will be calculated and its use determined by property recheck or aerial photographs.

All qualifying wildlife management properties will be appraised based on the same criteria as agriculture land using the most recent per acre estimates by the district. Documentation of wildlife management activities are requested from property owners at least once during each 3 year reappraisal cycle.

**3. Notifications and Hearings:** A change of value report will be generated by May 15<sup>th</sup> or as soon thereafter of the valuation year. Notices will then be mailed to all property owners having a change in value of \$1,000 or more. These notices will include (1) a list of taxing units in which the property is taxable; (2) the appraised value of the property in the preceding year; (3) the taxable value of the property in the preceding year for each taxing unit (4) the percent of increase in market value compared to 5 years prior; (5) the amount of tax that would be imposed on the property on the basis of the tax rate for the preceding year; (6) in italic typeface, the following statement: “the Texas Legislature does not set the amount of your local taxes. Your property tax burden is decided by your locally elected officials, and all inquiries concerning your taxes should be directed to those officials”; (7) a detailed explanation of the time and procedure for protesting the value; (8) the date and place the appraisal review board will begin hearing protests; and (9) a

brief explanation that the governing body of each taxing unit decides whether or not taxes on the property will increase and the appraisal district only determines the value of the property; as required by Section 25.19 (b) of the Texas Property Tax Code.

The taxpayer shall be given the opportunity to informally appeal the appraised value. The taxpayer must file a written protest to appeal before the Appraisal Review Board (ARB) before June 1 or not later than the 30<sup>th</sup> day after the date that the notice was delivered to the property owner as provided by Section 25.19, whichever is later. A property owner who files his protest after the deadline must show good cause as determined by the ARB for failure to file the notice on time.

**4. Property Classifications:** All property classifications shall be reviewed and revalued as required using accepted standards for mass appraisal practice as described by USPAP and Section 23.01(b) of the Texas Property Tax Code.

**5. C.A.M.A. and Data Accuracy Control:** The district acknowledges that the C.A.M.A. system provides computer-assisted mass appraisal support by providing cost and market valuation support. It is capable of assisting in valuation of residential, commercial, industrial, agricultural and special purpose real estate properties.

(A.) Quality assurance is the primary responsibility of the appraisal district staff. The staff will check all property records cards for missing data, clerical errors, etc. and corrections will be made as required.

(B.) Performance analysis will be accomplished using the C.A.M.A. system and/or sales ratio studies.

(C.) Accuracy control will be the responsibility of personnel (in-house and contractor) who receive, store, dispense, monitor and review the data.

**6. Sales Questionnaire and Sales Data Collection Process:** The district has developed a comprehensive data collection program using a sales questionnaire. This data and other data will be included from sources such as:

- (A) Buyers of Real Estate
- (B) Sellers of Real Estate
- (C) Real Estate Brokers/Realtors
- (D) Mortgage Companies
- (E) Fee Appraisers
- (F) Insurance Agencies
- (G) Builders
- (H) Real Estate Listings (i.e. multiple listing services)

The sales questionnaire phase will be ongoing throughout the cycle. Sales questionnaires will be mailed to all buyers and sellers and are returned on a voluntary basis. When data is in doubt an appraiser will make every effort to obtain the required verification or sales information will not be used for ratio studies.

**7. Employee Training and Education:** In-house personnel will provide on the job training to both new employees and on a continuing basis to existing employees as the need arises. Additionally, appraisers must attend Texas Department of Licensing and Regulation (TDLR) courses necessary for attaining and maintaining levels of professional accreditation.

**8. Employee Accreditation:** Appraisers will be accredited in the Registered Professional Appraiser Certification Program provided by the TDLR and any other appraisal and assessment organizations as required by statute. Achieving and maintaining this accreditation is required for continued employment with the district.

**9. Newly Discovered and Constructed Property:** The district will be responsible for the appraisal of all new and newly discovered properties on an annual basis.

## EFFECTIVE PLANNING

The district acknowledges that it has utilized and adhered to the following precepts in the development of this Plan and that it will also utilize and adhere to the following precepts in the implementation of this Plan:

Performing an in-house reappraisal is a major undertaking for any district and should not be approached in a rushed or casual manner. One key element to a successful reappraisal effort is adequate planning and proper budgeting. Poor planning for a reappraisal is usually the result of the district attempting to plan a reappraisal without considering current and anticipated staffing levels. If the district has failed to maintain property values with its current staff, a plan to reappraise thousands of real estate parcels over the course of eighteen to twenty months with those same employees is not likely to be successful. Likewise, education and experience levels of staffing should be considered when planning a reappraisal. New, inexperienced staff members cannot be expected to perform to the level of certified appraisers with years of experience within the district.

The following pages are to be utilized by the district to design a Plan that will ensure adequate manpower and other necessary resources available. The district should be acutely conscious of the following:

(1) Budgetary Considerations – The person preparing the Plan should be aware that in most cases, budgetary constraints may not allow a reappraisal to begin until the beginning of a new fiscal year. District budgets for a fiscal year (January through December) are established in September of the preceding year. If a district fails its ratio in August, and determines that an increase in staffing is needed to meet the states required level of appraisal for the next year, funds may not be available to achieve this goal. In most cases, additional funds to increase staffing, purchase additional computer hardware, etc. are not readily available in the approved budget for the next year, this means that these additional needs may not be met until the 2<sup>nd</sup> year following the failed ratio, unless there are excess funds in the budget that may be transferred to the appraisal department or unless the district has planned adequately for staffing in order to avoid this problem.

(2) Timeframe – State statutes allow a maximum of 36 months to complete the reappraisal. The 36 month timeframe ideally should be divided by the district in a way which allows the appraisal staff to make a field check of all properties at least once every three years. Depending on staffing levels this is a goal that may not be accomplished. In this case, areas with the most growth, or areas where the state ratio is low should have priority for field rechecks and care should be taken to do complete ratio studies on all types of properties and areas of the county on an annual basis, making market adjustments as needed.

(3) Expected productivity – Productivity will vary from one district to the next and somewhat from one location within the district to the next. A district or an area within a district with a high number of improved properties should expect a smaller number of parcels to be reviewed and entered daily, while a district or area within a district with a

high percentage of agricultural or vacant land accounts might expect higher than ordinary production levels. Productivity will also vary based on the experience of the districts appraisal staff. A district with a staff consisting of experienced appraisers can expect higher daily production levels than a district with a staff of newer, less experienced appraisers.

(4) Utilizing Current Staff – Many appraisal offices are fortunate to have qualified employees on staff who are knowledgeable about real estate appraisal, and can make significant contributions to a reappraisal. Often, other current employees with at least a minimum of training regarding reappraisal can also assist with certain duties during the reappraisal. However, if those employees are moved to a reappraisal project, care should be taken that their current job responsibilities are not forgotten or abandoned.

(5) Employee Qualifications – Those persons responsible for determining effective age and quality of construction or determining final market values should be qualified as a level 3 appraiser, or higher, as determined by the Texas Association of Appraisal Districts and TDLR when at all possible. If a districts level of experience within the appraisal department requires that less experienced appraisers make these kinds of determinations close supervision should be given to assure a high quality of accuracy in the appraisals.

### EXPECTED PRODUCTION LEVELS

The size and competence of staff determines the ability of the district to function effectively and efficiently. In order to properly plan a reappraisal a district must have some idea of how much work product each employee is expected to contribute daily. In the “Personnel Needs” section of the Plan, the district must assign expected daily production levels for different tasks using the following information. The basic formula for estimating staffing needs is:

$$S = P \text{ divided by } T \text{ divided by } R$$

Where S is the number of staff positions needed, P is the number of parcels to be appraised, inspected or processed, T is the time available, and R is the production rate.

### PERSONNEL NEEDS

**District Acknowledgement:** The district acknowledges that the following analysis has been done to determine the personnel required for the successful implementation of this Plan. These calculations involve only staffing necessary for the actual appraisal process and appeals of property values. The appraisal of these properties would not be possible without the support of those staff members who create and maintain property ownership records, maps, address changes and exemption information. These staff members also assume extra duties as necessary to assist in the preparation of field work, data entry and customer service for the reappraisal and appeals process while continuing to fulfill their regular job requirements. Ways to evaluate staffing needs include (1) an analysis of workloads, productivity rates and the time available for the task, and (2) comparing the staffing levels of comparable districts.

**DEWITT COUNTY APPRAISAL DISTRICT**  
**IN HOUSE REAPPRAISAL**

**PERSONNEL NEEDS WORKSHEET**

SECTION 1

PROPERTY REAPPRAISAL AND DATA COLLECTION (FIELD WORK)

- 1a. Estimated total number of parcels to be appraised. 16,000
- 1b. Number of workdays available from project beginning August 1, until May 1 of each valuation year.  
(See explanation of calculation below) 165
- 1c. Number of real properties an appraiser is expected to appraise daily. 40
- 1d. Appraisers necessary to reappraise all real properties.  
(1a divided by 1b, divided by 1c) \*2.42 = 3

\*Historically the Chief Appraiser and Deputy Chief Appraiser in this district have been responsible for a large portion of the field work. Because of the increasing administrative demands placed on the district by the state and taxing jurisdictions it has become impossible, for the Chief Appraiser to assist in field work except in rare circumstances. The responsibilities of the Deputy Chief Appraiser are split between training field appraisers, appraisal of personal property (which is not considered in this calculation) and administrative duties. The Chief and Deputy Chief Appraiser are therefore, not included in the above calculation. The Reappraisal Plan in previous years has included the Deputy Chief Appraiser as part of the actual field staff and also included Personal Property parcel counts in the calculation.

\*The number of workdays available was calculated by taking the number of months @ 21.75 work days per month per and then allowing for approved holidays, employee's vacation since no vacation is typically allowed from May 1 – July 25 due to informal hearings and Appraisal Review Board hearings. Also as of the date of this plan all members of the appraisal staff are in the process of completing their required courses to become state certified, no classes are offered by the State from April 1 – July 1 and due to staffing needs employees must be in the office until hearings are completed on or before July 25 of the appraisal year. Therefore classes must be scheduled during the data collection time of the year.

SECTION 2

DATA ENTRY

- 2a. Estimated total number of parcels 13,000
- 2b. Number of workdays available from project beginning @August 1, through @May 15 of each valuation year. (Number of months times @ 21.75 workdays per month and allowing for approved holidays, vacation, etc. 170
- 2c. Number of parcels expected to have physical data entered daily. 50
- 2d. Employees necessary to enter data. (2a divided by 2b, divided by 2c) \*1.53 = 2

\* Clerks and appraisal staff assist with data entry as needed when time allows with their regular job requirements. Data entry requirements are expected to be heavier over the next 3+ years due to the implementation of a new cost manual and also increased new construction projects in the county. Therefore, until full implementation of the new cost manual is in place and tested the data entry requirements are being considered as 2.

SECTION 3

SUPPORT PERSONNEL

(Responsible for assigning work areas, monitoring productivity, etc.)

- 3a. Support personnel necessary. 1

\* These duties are the responsibility of the Chief Appraiser and/or the Deputy Chief Appraiser, because of the small size of the staff and the necessary division of the work load.

SECTION 4

VALUATION AND APPEALS PROCESS

4a. Total number of real and personal property parcels.	<u>24,396</u>
4b. Number of workdays available from January 1 until July 20 of the valuation year.	<u>130</u>
4c. Number of market value real estate and/or personal property parcels for which each appraiser is daily expected to:  1. Real estate parcels: review sales data, establish land values, determine neighborhood delineation, establish appropriate neighborhood location factors, run appraisal ratio tests, and establish final values.  2. Personal property: review rendition filed by property owner and calculate itemized appraised values or compare to similar properties in the district and apply state schedules to arrive at appraised values.	<u>65</u>
4d. Appraisal personnel necessary to establish final values as derived from local market conditions and/or renditions, etc.	<u>2.89 = 3</u>
4e. Support personnel for appraisal staff to perform data entry, schedule hearings, serve as secretary for Appraisal Review Board etc.	<u>3</u>
4f. Personnel necessary for hearing (formal and informal), working splits, ratio studies, new construction, permits, renditions and other appraisal work for entire year.	<u>6</u>

**DEWITT COUNTY APPRAISAL DISTRICT**  
**IN HOUSE REAPPRAISAL**

**PERSONNEL NEEDS SUMMARY**

SECTIONS 1, 2 & 3 – INSPECTION, REAPPRAISAL, PHYSICAL DATA COLLECTION  
AND COMPUTER DATA ENTRY FOR ALL REAL ESTATE PARCELS

**TASK PERSONNEL REQUIRED**

Section 1 – Inspection, Reappraisal and Data Collection for Real Property and appraisal information review (Field Work)	(1d) _____	3
Section 2 – Data Entry	(2d) _____	2
Section 3 – Support Personnel	(3a) _____	1
<b>PERSONNEL NEEDS – FIELD WORK PHASE</b>	<b>Total</b> _____	<b>6</b>

SECTION 4 – ESTABLISHING APPRAISED VALUES FROM JANUARY 1 THROUGH  
MAY 15, AND THE APPEAL PROCESS MAY 15 THROUGH JULY 25 OF THE  
VALUATION YEAR..

**TASK PERSONNEL REQUIRED**

Section 4 – Valuation Process	(4f) _____	6
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## **BUDGETING FOR IN-HOUSE REAPPRAISAL**

The Districts budget is carefully planned around the minimum amount of funds needed to perform the duties of the district. Care is taken to anticipate the necessary needs of the district with regard to maintenance and/or replacement of computer hardware and software, office machines, supplies and the daily operating expenses of the office etc. Due to the small size of this districts staff the operating costs of the appraisal department are not broken out separately from the remainder of the budget for the purpose of the Plan.

The goal of the district is to provide good quality service and state accepted values to the taxing jurisdictions and taxpayers while being careful to not overburden the budgets of the taxing jurisdictions with regard to their required allocation to our operating budget.

In calculating the staffing size and salaries of the district care should be taken to not underestimate the salaries necessary to retain qualified personnel. It would not be in the best interest of the district to anticipate hiring someone for an appraisal position, sending that person to appraisal classes and expect to keep that trained appraiser on staff unless the district is willing to offer a competitive salary package.

**SUMMARY**

This Plan has been prepared to outline and note the specific areas required to complete the reappraisal as required by the Texas Property Tax Code and comply with Standards Rule 6 -7 of USPAP. The Plan only addresses the performance of the reappraisal. The District's personnel have other duties and responsibilities that have to be met other than the Plan, such as exemption applications, ownership transfers, mapping, etc. It is understood that there are budget constraints that have to be observed. The District will strive to complete the reappraisal using current personnel and additional personnel only as authorized by future approved budgets.

I hereby submit for review and approval the in-house district-wide reappraisal plan.

8/19/2014  
Date

*Beverly Malone*  
Beverly Malone, RPA – Chief Appraiser

The Board of Directors for the Dewitt County Appraisal District has reviewed this plan for reappraisal and agree to the provisions contained herein.

8/19/2014  
Date

*Conyetta Gaus Swaney*  
Conyetta Gaus Swaney - Chairman

*cgs*



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

### MANAGEMENT

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

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

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

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

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

### CONFIDENTIALITY

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

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

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

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

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

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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, etal.) associated with producing (or capable of producing) leases. Mineral interests are typically considered real property because of their derivation from the bundle of rights associated with original fee simple ownership of land. Typically all the mineral interests that apply to a single producing lease are consolidated by type (working vs. royalty) with each type then appraised for full value which is then distributed to the various fractional decimal interest owners prorata to their individual type and percentage amount.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Appraisal Resources**

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

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

Information Systems: The mainframe systems are augmented by the databases that serve the various in-house and 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

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

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- November, after Certification of values.

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

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

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

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

### INTRODUCTION

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

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

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

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

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

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

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

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

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

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

### **Appraisal Resources**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **DATA COLLECTION/VALIDATION**

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

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

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

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

#### **INDIVIDUAL VALUE REVIEW PROCEDURES**

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

#### **PERFORMANCE TESTS**

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

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

#### CALENDAR OF EVENTS/DELIVERABLES TO CLIENT

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

- February, after completion of personal property field inspections;
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- 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;
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- **Individual Value Review Procedures** occurs concurrent, more or less, with Valuation Analysis; and
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