McCulloch County Appraisal District Reappraisal Plan 2015 - 2016

McCulloch County
Appraisal District
306 W Lockhart
Brady, TX 76825
(325)597-1627
fax: (325)597-2408
email: mccullochcad@verizon.net
website: www.mccullochcad.org

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McCulloch County Appraisal District

Reappraisal Plan

INTRODUCTION

Scope of Responsibility

The McCulloch County Appraisal District (MCAD) pursuant to Sec. 6.05 (i) of the Texas Property Tax Code has prepared and published this reappraisal plan to provide our Board of Directors, citizens and taxpayers with a better understanding of the district's responsibilities and activities. This plan contains several parts: a general introduction and then several sections describing the appraisal effort by the appraisal district.

The McCulloch County Appraisal District (MCAD) is a political subdivision of the State of Texas created for counties, schools, cities, and special districts pursuant to Senate Bill 621, which was passed by the 66th Legislature in 1979. The provisions of the Texas Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. A Board of Directors, appointed by the taxing units within the boundaries of McCulloch County, constitutes the district's governing body. The Chief Appraiser, appointed by the Board of Directors, is the chief administrator and chief executive officer of the appraisal district.

The appraisal district is responsible for local property tax appraisal and exemption administration for 9 jurisdictions or taxing units in the county. Each taxing unit sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Appraisals established by the appraisal district allocate the year's tax burden on the basis of each taxable property's January 1st market value or special valuation. The District also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled, disabled veterans, charitable or religious organizations and agricultural productivity valuation.

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

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

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), productivity (Sec. 23.41), real property inventory (Sec. 23.12), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), nominal (Sec. 23.18) or restricted use properties (Sec. 23.83) and allocation of interstate property (Sec. 23.03). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1st of the year proceeding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1st.

The Texas Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. The district's current policy is to conduct a general reappraisal of taxable property every year. Appraised values are reviewed annually and are subject to change for purposes of equalization and staying abreast of market value. Business personal properties, industrial property, minerals and utility properties are appraised every year.

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

Personnel Resources

The office of the Chief Appraiser is responsible for the oversight of all operations of the appraisal district including the overall planning, organizing, staffing, coordinating, and controlling of district operations. In addition, the Chief Appraiser serves as the head of the administration department planning, organizing, directing and controlling the business support functions relating to human resources, budget, finance, records management, purchasing, fixed assets, facilities, and postal property accounts. The property types appraised include agricultural, commercial, residential, business personal, mineral, utilities, and industrial.

The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Board of Tax Professional Examiners.

The appraisal district staff consists of 4 full-time employees with the following classifications:

1 – Chief Appraiser

1 – Office Manager

1 – Business/Personal Property Appraiser/Collection Officer

1 – Data Entry Clerk

Staff Education and Training

All personnel that are performing appraisal work are registered with the Texas Department of Licensing and Regulation (TDLR) and are required to take appraisal courses to achieve the status of Registered Professional Appraiser within five years of employment as an appraiser. After they are awarded their license, they must receive additional training of a minimum of 30 hours of continuing education units every two years. Failure to meet these minimum standards results in the termination of the employee.

Data

The district is responsible for establishing and maintaining approximately 13,000 real and personal property accounts covering 1,073 square miles within McCulloch County. This data includes property characteristics, ownership, and exemption information. Property characteristic data on new construction is updated through an annual field effort; existing property data is maintained through a field review that is prioritized. Sales are routinely validated during a separate field effort. General trends in employment, interest rates, new construction trends, and cost and market data are acquired through various sources, including internally generated questionnaires to buyers, interviews with real estate professionals and contractors.

Maps have been developed for years that show ownership lines for almost all real estate. The CAD also has a GIS map that is being maintained by BIS Consulting. This map can be accessed online, or through the office computers. These maps are stored digitally using software from ESRI, the most popular geographic information system software in the nation. Aerial photographs are also used from Google Earth and other resources and show detail of land and improvements as of that date. The CAD also has a Pictometry aerial photo that was flown at the first of 2014. All of the maps are available to the staff of the appraisal district on their computer desktops and maps are available to the general public through open record request.

Information Systems

The McCulloch County Appraisal District houses a server containing both appraisal and collection records for all entities within the district. This information is accessed by multiple PC's in the appraisal office. The in house server is operated by Pritchard & Abbott, Inc. The user base is networked through the mainframe using Windows XP Server. Pritchard & Abbott, Inc. provides software services for appraisal applications, and can access the server via the internet.

Shared Appraisal District Boundaries

With the passing of House Bill 1010, we are no longer appraising properties in Concho County that are located within the boundaries of Brady ISD. We have changed the account numbers on these particular properties to match that of Concho CAD, as we will still be collecting these taxes. We are also apprising a small number of parcels for Mason ISD which are located in the southern portion of McCulloch County. The same procedure to match the account numbers is being used as Mason County Appraisal District will be collecting the taxes for Mason ISD.

Independent Performance Test

According to Chapter 5 of the Texas Property Tax Code and Section 403.302 of the Texas Government Code, the State Comptroller's Property Tax Assistance Division (PTAD) conducts a bi-annual property value study (PVS) of each Texas school district and each appraisal district. As part of this annual study, the code requires the Comptroller to: use sales and recognized auditing and sampling techniques; review each appraisal district's appraisal methods, standards and procedures to determine whether the district used recognized standards and practices (MAP review), test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representatives and techniques or procedures of measuring uniformity. This study utilizes statistical analyses of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 10% of the median, the percentage of properties within 25% of the median and price-related differential (PRD) for properties overall and by state category (i.e., categories A,B,C,D, and F1 are directly applicable to real property).

There are 3 independent school districts in McCulloch CAD for which appraisal rolls are bi-annually developed. The preliminary results of this study are released February 1 in the year following the year of appraisement. The final results of this study are certified to the Education Commissioner of the Texas Education Agency (TEA) in the following July of each year for the year of appraisement. This outside (third party) ratio study provides additional assistance to the CAD in determining areas of market activity or changing market conditions.

Property Tax Code Requirement

Passage of Senate Bill 1652 during the 2005 Regular Legislative Session amended the Texas Property Tax Code to require a written biennial reappraisal plan. The following details the changes to the Property Tax Code:

Section 6.05, Tax Code, is 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 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place for the hearing. Not later than September 15 of each even-numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing

unit participating in the district and to the comptroller within 60 days of the approval date.

Defining market areas in the district

Annually, appraisers combine similar types of property into "neighborhoods." Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these forces are also used to identify, classify, and stratify comparable properties into smaller, manageable groups known as neighborhoods.

These neighborhoods have improvements that are of similar construction and type as well as similar years of construction. Analysis of comparable market sales forms the basis of estimating market activity and the level of supply and demand affecting market prices for any given market area, neighborhood or district. Market sales indicate the effects of these market forces and are interpreted by the appraiser into an indication of market price ranges and indications of property component change considering a given time period relative to the date of appraisal. Cost and Market Approaches to estimate value are the basic techniques utilized to interpret these sales. For multiple family properties the Income Approach to value is also utilized to estimate an opinion of value for investment level residential property.

Land is also put into neighborhoods with other parcels that have similar characteristics, school districts, and amenities. Using these neighborhoods, values are applied to all parcels. These values take into condideration location, size topography, and other characteristics that the market recognizes as significant.

Market Areas within the district include the following:

1) The City of Brady
   A) Improved Commercial Properties
   B) Improved Residential Properties
   C) Vacant Commercial Properties
   D) Vacant Residential Properties

2) The City of Melvin
   A) Improved Residential Properties
   B) Improved Commercial Properties
   C) Vacant Properties

3) The Town of Rochelle, Lohn, Placid, Mercury, Voca, and Doole
   A) Improved Residential Properties
   B) Improved Commercial Properties
   C) Vacant Properties

4) Rural Ranch Lands County Wide

5) Rural Farm Land (Northwest part of County)

Work Schedule 2015

The goal of this appraisal year will be to inspect all parcels located in the Lohn and Rochelle School Districts

LOHN ISD

October to November 2014

Lohn ISD has approximately 30 Category A properties, 30 Category C properties, 816 Category D properties, 194 Category E properties, 7 Commercial Properties, 9 Category M Properties, and about 20 Exempt Properties. The total number of accounts to inspect is approximately 1,100 parcels.

Lohn ISD has been divided into 6 Sections. (see attached map in back)

Section 1 (Red Section)

The work will begin at the Waldrip Bridge in the far north part of Lohn School District. Starting with the property located west of County Road 322, then down W CR 326, continuing south down CR 322 to CR 324. The appraiser will continue south down CR 322, then west along CR 330. Then finishing up heading west along FM 765 until all the property west of CR 322 and North of FM 765 have been inspected.

Section 2 (Orange Section)

The work in this section will also begin at the Waldrip Bridge in the far north part of Lohn School District. Starting out along CR 322, this time appraising all property east of CR 322. Then down East CR 326 to the end, then continue down CR 322 all the way to CR 316. Then staying North of CR 316 all the way to US HWY 283, then North to the Colorado River. Then work the property south of CR 316, staying North of FM 765. Then work the property south of FM 765 along CR 332, and CR 320 down to CR 314. The work will continue in this section until all the property North of FM 504 and West of US HWY 283 has been inspected.

Section 3 (Yellow Section)

Beginning in the northwest corner of this section along FM 765, continuing to CR 332, then south along FM 2635. Continuing this way until the intersection of CR 340. Then west along CR 340, then up CR 356 until all property North of CR 340 has been inspected. Then working south of CR 340 back to the town of Lohn, then south and west down FM 504 until all property has been inspected.

Section 4 (Blue Section)

The work in this section will begin in the town of Lohn, working all property in Abstract 45, then continue east down FM 504 out to US HWY 283. Then continue South along HWY 283 all the way to CR 304. Then working west down CR 304, continue North along CR 304 all the way back to the town of Lohn. Then continue west down FM 504

working the property South of FM 504 all the way out to Pear Valley. This will include the property along CR 346, then east down CR 308 and including property along CR 344 then CR 310 until all property in this section has been inspected.

Section 5 (Green Section)

This section contains the rest of the property located in Lohn ISD that is West of HWY 283. Starting in the far west corner of Lohn ISD along FM 504, continuing east to CR 348, then south and east along CR 346, to CR 152, then to CR 306 all the way to HWY 283.

Section 6 (Purple Section)

This Section will begin along the Colorodo River in abstract 1123, then working south down HWY 283 then east down FM 765, until all the property East of HWY 283, and North of 765 has been inspected. Then working south down HWY 283 all the way to the end of Lohn ISD. Then beginning at CR 312 all the way to CR 330 then back north all the way to FM 765. This should complete the Work in Lohn ISD.

Rochelle ISD

November 2014 to March 2015 Rochelle ISD

Rochelle ISD has approximately 106 Category A Properties, 151 Category C Properties, 1886 Category D Properties, 568 Category E Properties, 16 Commercial Properties, 54 Category M Properties, and 88 Exempt Properties. The total number of properties to inspect is approximately 2900 accounts.

The property in Rochelle School District has also been divided into 6 sections. (see attached map in back)

Section 1 (Purple Section)

Beginning in the far west corner of Rochelle School Distict in abstract 607 then continue South and East along West CR 418 until all the property west of HWY 283 has been inspected. Then continuing with the property south of CR 418 all the way to US HWY 377. Then working north up CR 480 to FM 1121, then west down FM 1121, back to HWY 283, then north up CR 300 until this section is complete.

Section 2 (Blue Section)

Beginning along CR 300 in the northern most section of Rochelle School District, continuing south down CR 300 to FM 1121, then east to the Rudder Acres subdivision. Then continue going North up HWY 377, appraising the property along CR 474, and CR 472, then back north up HWY 377 to West CR 464, then CR 460, all the way to FM 765. From there continue west out FM 765 with the properties on the south side of the road until the end of Rochelle School District. Then work back east down FM 765 working the properties on the North side of the road, back to US HWY 377. Continue up 377 all the way to the Colorado River.

Section 3 (Red Section)

This section will be broken into blocks and worked from the South West to the North East. Beginning the work in this section across from Curtis Field and working all property south of CR 418, west of 414, and North of HWY 190. Then working the triangle between CR 414, CR 418, and Hwy 190. Next is the Block North of HWY 190, North of CR 418, west of CR 414, and south of CR 419. Next is the block of CR 418, CR 414, CR 419, and CR 472. Then the block between HWY 377, CR 472, and CR 418, north to FM 1121. This section will continue in this manner working from the South to the North and from West to East.

Section 4 (Yellow Section)

This section will begin with all the property in the Town of Rochelle, then just North East of Rochelle working North up FM 2315 to the town of Placid. Then continue up FM 2325 to the town of Mercury. Then continue working up Hwy 377 to the Colorado River. Then working back to the east down CR 448, down to FM 765. Continue south along Fm 1028 all the way back to HWY 190.

Section 5 (Orange Section)

Begin this section on the San Saba County line on FM 502. This section will be worked from the east to the west, and from the north to the south. Working south down CR 438, to CR 440, continue down CR 434, to 436 to the County Line. Then continuing south down FM 1028 to CR 430, then along CR 428, and CR 426 all the way to HWY 190 until all the property in the section has been inspected.

Section 6 (Green Section)

Begin working this section on the McCulloch/San Saba County Line on HWY 190 working back to the City of Brady. This section will be worked from the East to the West, and from the North to the South. From HWY 190 to CR 424, then down CR 423. Then back to CR 415, then down CR 418, to CR 419. Then down CR 412, to CR 414, then CR 410, to CR 408 until all the property in this section is inspected.

Work Schedule 2016

The goal of this appraisal year will be to inspect approximately ½ of the properties in Brady ISD and all the properties in Mason ISD. The Brady ISD properties to inspect will be all properties NOT located in the City Limits of the City of Brady.

This section of property contains approximately 404 Category A Properties, 407 Category C Properties, 2741 Category D Properties, 715 Category E Properties, 83 Commercial Properties, and 135 Exempt Properties. The total number of properties to inspect in this section is approximately 4,500.

The inspections for 2016 shall start in the Northwest Corner of the County. We have broken Brady ISD into 12 sections that are shown on the attached map.

October to December 2015 (Sections 1-5) (see attached map in back)

Section 1 (Dark Blue Section)

Begin in Abstract 1517 on the Colorado River near Stacy, Texas and start at the Colorado River on Farm to Market 503. The appraiser will continue south on FM 503 and inspect all the property west of FM 503. This appraiser shall continue to inspect all property west of FM 503 until the intersection of FM 503 and 765. From this point the appraiser will go back up to the north and begin working all the property east of FM 503. Then continue on County Road 368 and work both sides of the county road. The goal is to inspect all property in Brady ISD that is North of FM 765 before continuing south.

Section 2 (Light Orange Section)

Once all of the property in Brady ISD that is north of FM 765 has been inspected, the appraiser will begin working the area in between FM 765 and FM 504. This work will be done by working the area west of FM 503 then working down County Road 330, County Road 356, CR 350, 352, and 354.

Section 3 (Red Section)

This section shall be worked in the same fashion as above the goal is to inspect all Brady ISD property that is north of US Highway 87. This section contains property along FM 503, County Road 350, CR 128 North, CR 146, CR 148, CR 145, CR 150, CR 152, and CR 154.

Section 4 (Light Green Section)

This section contains the City of Melvin. All property in the Melvin City Limits shall be inspected first, and from here work all property west of County Road 128. The work order on this section shall start at CR 140, then Continue to CR 136, North of CR 138, CR 144, CR 128, CR 132, CR 142, CR 134, FM 2028, and finally CR 130.

Section 5 (Purple Section)

This section contains the Brady Lake area. This area contains all property north of FM 2028 and north of State Highway 71 up until FM 2309. This also contains all property that is in the Brady City Limits which will not be looked at until 2014. Work shall begin in this section on FM 2028, then to CR 124, CR 120, and to CR 118. From here start back at CR 128, over to FM 3022, then CR 160, CR 162, CR 156, CR 158, and south of CR 166. Then work the north area in Brady ISD that is not in the City Limits of Brady, and is north of HWY 87, which includes FM 2996, CR 301, CR 303, Open Country Road, continuing to CR 401, CR 402, FM 714, the area around the POW Camp (including CR 405, CR 411, CR 409), and CR 404, CR 406. Then continue to FM 2309, and to Old Mason Road. This section is the largest in parcel count and will be time consuming. The goal is to have this completed by the first of 2013.

January to April 2016 (Sections 6-12) (see attached map in back)

Section 6 (Brown Section)

This section is all the property south of CR 128, south of FM 2028, and North of US Highway 190 West. This area will include CR 126, CR 124, CR 122, CR 112, CR 118, CR 116, CR 100, and CR 114. This section contains a large portion of the McCulloch County that is not accessible through County Roads.

Section 7 (Light Blue Section)

This section contains all that land south of US Highway 190 West and all land west of FM 1311. This is a very small section and contains CR 108, Volkman Lane (which must be accessed through Menard County), and CR 110.

Section 8 (Pink Section)

This section includes all property south of US Highway 190 West, and West of US Highway 87 South. The work shall begin at the southern edge of the County and go up FM 1311 to CR 104, CR 106, to CR 102, CR 100, then go out Hwy 87 to Live Oak Hills area (CR 201, and CR 203), CR 202, and finally to CR 206.

Section 9 (Dark Orange Section)

This work in this section shall begin at the Mason McCulloch County Line and continue up HWY 87, to FM 1955 which includes the Camp San Saba area, and all the way up to Highway 87 and Highway 71 intersection. From here go out Highway 71 to CR 216, and CR 218, all the way to FM 1851.

Section 10 (Yellow Section)

This section is North of Highway 71 and North of CR 208. This area will be a challenge to access some of the property because there are several big ranches which have locked gates. This work will begin in the section closest to town, and working down HWY 71, and then down County Road 208.

Section 11 (Green Section)

This section contains the Voca area, and all property south of CR 208 and east of FM 1851. The work shall begin down CR 208, to CR 212, CR 214, then out Highway 71 to CR 220, then CR 222. The plan is to work all property east of Highway 71 to the County Line, the start back working all accounts west of Highway 71. This will include CR 224, FM 3293, then continue south on FM 1851 until the county line.

Section 12 (Grey Section)

This section is all of Mason ISD. The work will begin in the far eastern part of the county on State Highway 71. Starting at the County Line and working north to the end of the School District. The next section will begin on County Road 216, all the way across HWY 87 until the end of Mason ISD

Appraisal Activities

INTRODUCTION

Appraisal Responsibilities

The appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes (Appraisers Handbook). Accurate valuation of real and personal property by any method requires a comprehensive physical description of personal property, and land and building characteristics. This appraisal activity is responsible for administering, planning and coordinating all activities involving data collection and maintenance of all commercial, residential and personal property types located within the boundaries of McCulloch County. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system. The goal is to field inspect residential and commercial properties in the district every three years and personal properties every year. Meeting this goal is dependent on budgetary constraints.

Appraisal Resources

- Personnel – An outside appraisal firm is contracted to perform appraisals on all property, including Residential, Commercial, Industrial, Utility, and Mineral properties.
- Data - The data used by appraisers includes the existing property characteristic information contained in CAMA (Computer Assisted Mass Appraisal System) from the district's computer system. The data is printed on a property record card (PRD), or personal property data sheets. Other data used includes maps, sales data, fire and damage reports, building permits, septic tank permits, taxpayer correspondence, Realtors, private appraisers, photos and actual cost information.

Appraisal Frequency and Method Summary

Residential Property

Residential property is physically examined every three years noting condition of the improvement and looking for changes that might have occurred to the property since the last on-site inspection. Exterior pictures are taken of homes during each visit. Every neighborhood is statistically analyzed annually to ensure that sales that have occurred in the subdivision during the past 12 months are within a +-5% range of appraised value. If the sales do not indicate that range, adjustments are made to the subdivision using a process outlined in detail in the Residential Appraisal section of this report.

Commercial Property

Commercial and industrial real estate is observed annually to verify class and condition. The inspection occurs as Business Personal Property appraisers are checking BPP accounts. Pictures are taken of the improvements at time of inspection. Real estate accounts are analyzed against sales of similar properties in McCulloch County as well as similar communities in Central Texas that have similar economies. The income approach

to value is also utilized to appraise larger valued commercial properties such as shopping centers, apartment complexes, office buildings, restaurants, motels and hotels, and other types of property that typically sell based on net operating income.

Business Personal Property

Business personal property is observed annually with appraisers actually going into businesses to develop quality and density observations. A rendition is left for new businesses to complete and the appraiser discusses the benefits and legality of rendering with the owner. Similar businesses are analyzed annually to determine per square foot. Businesses are categorized using SIC codes. Rendition laws provide additional information on which to base values of all BPP accounts.

Industrial Utilities Pipelines and Minerals

All industrial, utilities, pipelines, and mineral accounts are appraised annually by Capital Appraisal group.

PRELIMINARY ANALYSIS

Data Collection/Validation

Data collection of real property involves maintaining data characteristics of the property on CAMA (Computer Assisted Mass Appraisal). The information contained in CAMA includes site characteristics, such as land size and topography, and improvement data, such as square foot of living area, year built, quality of construction, and condition. Field appraisers use listing manuals that establish uniform procedures for the correct listing of real property. All properties are coded according to these manuals and the approaches to value are structured and calibrated based on this coding system. The field appraisers use these manuals during their initial training and as a guide in the field inspection of properties. Data collection for personal property involves maintaining information on software designed to record and appraise business personal property. The type of information contained in the BPP file includes personal property such as business inventory, furniture and fixtures, machinery and equipment, with details such as cost and location. The listing procedure utilized by the field appraisers is available in the district offices. Appraisers periodically update the classification system.

Sources of Data

The sources of data collection are through property inspection, new construction field effort; data review field effort, mailers, hearings, sales validation, 911 new addresses, manufactured home movement reports, commercial sales verification, newspapers and publications, and property owner correspondence. A principal source of data comes from building permits received from taxing jurisdictions that require property owners to take out a building permit. Building permits are received and matched manually with the property's tax account number for data entry. Data surveys of property owners requesting market information and property description information is also valuable data. Soil surveys and agricultural surveys of farming and ranching property owners and industry professionals are helpful for productivity value calibration. Improvement cost information is gathered from local building contractors and Marshall and Swift Valuation Service.

Data review of entire neighborhoods is generally a good source for data collection. Appraisers research entire neighborhoods to review the accuracy of our data and identify properties that have to be reviewed. The sales validation effort in real property pertains to the collection of market data for properties that have sold. The sales validation effort involves on-site inspection by field appraisers to verify the accuracy of the property characteristics data and confirmation of the sales price. Property owners are one of the best sources for identifying incorrect data that generates a field check.

Data Collection Procedures

Field data collection requires organization, planning and supervision of the field effort. Data collection procedures have been established for residential, commercial, and personal property. Appraisers conduct field inspections and record information either on a property record card, or personal property data sheet.

The quality of the data used is extremely important in establishing accurate values of taxable property. While production standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of the appraiser. The Chief Appraiser is charged with the responsibility of ensuring that appraisers follow listing procedures, identify training issues and provide uniform training throughout the field appraisal staff.

Data Maintenance

The field appraiser is responsible for the data entry of his/her fieldwork into the computer file. This responsibility includes not only data entry, but also quality assurance. The majority of the data collected in the field is input by the field appraiser. Data updates and file modification for property descriptions and input accuracy is conducted as the responsibility of the field appraiser and Chief Appraiser

Individual Review Procedures

Field Review

The date of last inspection and the appraiser responsible are listed on the CAMA record or property card. If a property owner or jurisdiction, dispute the district's records concerning this data during a hearing, via a telephone call or other correspondence received, the record may be corrected based on the evidence provided or an on-site inspection may be conducted. Typically, a field inspection is requested to verify this information for the current year's valuation or for the next year's valuation. Every year a field review of real property located in certain areas or neighborhoods in the jurisdiction is done during the field effort.

Office Review

Office reviews are completed on properties where update information has been received from the owner of the property and is considered accurate and correct. The personal property department mails property rendition forms in January of each year to assist in the annual review of the property.

Performance Test

The Chief Appraiser is responsible for conducting ratio studies and comparative analysis. Field appraisers, in many cases, may conduct field inspections to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics.

Residential Valuation Process

Introduction

Scope of Responsibility

The appraiser is responsible for estimating equal and uniform market values for residential improved and vacant property. There are approximately 4,250 residential improved single and multiple family parcels in McCulloch County.

Appraisal Resources

- Personnel – The MCAD has contracted with Western Valuation and Consulting to Perform all Residential Property Appraisals.
- Data - An individualized set of data characteristics for each residential dwelling and multiple family units in this district are collected in the field and then data is entered into the computer. The property characteristic data drives the application of computer-assisted mass appraisal (CAMA) under the Cost, Market, and Income Approaches to property valuation.

Valuation Approach

Area Analysis

Data on regional economic forces such as demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources and provide the field appraiser a current economic outlook on the real estate market. Information is gained from real estate publications and sources such as continuing education in the form of IAAO and TDLR classes and various seminars.

Neighborhood and Market Analysis

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

The first step in neighborhood analysis is the identification of a group of properties that share certain common traits. A "neighborhood" for analysis purposes is defined as the

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

Neighborhood identification and delineation is the cornerstone of the residential valuation system at the district. All the residential analysis work done in association with the residential valuation process is neighborhood specific. Neighborhoods are field inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted. Sales ratio analysis, discussed below, is performed on a neighborhood basis.

Highest and Best Use Analysis

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

the real estate market require reassessment of the highest and best use of a select population of properties.

Valuation and Statistical Analysis

Cost Schedules

All residential parcels in the district are valued from identical cost schedules using a comparative unit method. The district's cost schedules have been customized to fit McCulloch County's local residential building and labor market. The cost schedules are reviewed regularly and accounted for in the mainframe benchmark cost system.

Sales Information

A sales file for the storage of "snapshot" sales data at the time of sale is maintained. Residential vacant land sales and residential improved sales, along with commercial improved and vacant land sales are maintained in a separate sales information system. Residential improved and vacant sales are collected from a variety of sources, including: district questionnaires sent to buyers, field discovery, protest hearings, appraisers, builders, and realtors. School district or neighborhood sales reports are generated as an analysis tool for the appraiser in the development of value estimates.

Land Analysis

Residential land valuation analysis is conducted by the appraiser. The appraisers develop a base lot, primary rate, and assign each unique neighborhood to a land table. A computerized land table file stores the land information required to consistently value individual parcels within neighborhoods. Specific land influences are pursued, where necessary, to adjust parcels outside the neighborhood norm for such factors as access, view, shape, size, and topography, among others. The appraisers use abstraction and allocation methods to insure that the land values created best reflect the contributory market value of the land to the overall property value.

Statistical Analysis

The appraiser performs statistical analysis annually to evaluate whether values are equitable and consistent with the market. Ratio studies are conducted on each neighborhood in the district to judge the two primary aspects of mass appraisal accuracy, level, and uniformity of value. The level of appraised value is determined by the weighted mean for individual properties within a neighborhood, and a comparison of neighborhood weighted means reflect the general level of appraised value.

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

Market Adjustment

Neighborhood or market adjustment factors are developed from appraisal statistics provided from ratio studies and are used to ensure that estimated values are consistent with the market. The districts primary approach to the valuation of residential properties uses a hybrid cost sales comparison approach. This type of approach accounts for the neighborhood market influences.

The following equation denotes the hybrid model used:

MV = MA [LV + (RCN – D)]

Whereas, the market value equals the market adjustment factor times the land value plus the replacement cost new less depreciation. As the cost approach separately estimates both land and building contributory values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values are needed to bring the level of appraisal to an acceptable standard; however, the low market prices in some areas of the county preclude the adoption of current cost values. Depreciation adjustments are applied uniformly within neighborhoods to account for locational variances between market areas of across a jurisdiction. If a neighborhood is to be updated, the appraiser uses a market ratio study that compares recent sales prices of properties with in a delineated neighborhood with properties' actual cost value. The calculated ratio derived from the sum of sold properties cost value divided by the sum of the sales prices indicates the neighborhood level of value based on the unadjusted cost value for the sold properties. This cost-to-sale ratio is compared to the appraisal-to-sale ratio to determine the market factor is needed to trend the values obtained through the cost approach closer to the actual market evidenced by recent sales prices within a given neighborhood. The sales used to determine the market adjustment factoer will reflect the market influences and conditions only for the specific neighborhood, thus producing more representative and supportable values. The market adjustment factor calculated for each update neighborhood is applied uniformly to all homogenous properties within a neighborhood. Once the market trend factors are applied, a second set of ratio studies is generated that compares recent sale prices with the proposed appraised values for these sold properties. From this set of ratio studies, the appraiser judges the appraised level and uniformity in both update and non-update neighborhoods, and finally, for the school district as a whole.

TREATMENT OF RESIDENCE HOMESTEADS

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

- the market value; or
- No more than 10% from the previous years value;
  PLUS the value of any improvements added since the last re-appraisal.

Values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1st of the year following year. In that following

year, that home is reappraised at its market value to bring its appraisal into uniformity with other properties. An analogous provision applies to new homes. While a developer owns them, unoccupied residences are appraised as part of an inventory using the district's land value and the developer's construction costs as of the valuation date. However, in the year following the sale, they are reappraised at market value.

Individual Value and Review Procedures

Field Review

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

Sales activity has also resulted in a field effort of the part of the appraisers to review and resolve sales outliers. Additionally, the appraiser frequently field reviews subjective data items such as quality of construction, condition, and physical, functional and economic obsolescence, factors contributing significantly to the market value of the property. After preliminary estimates of value have been determined, the appraiser takes valuation documents to the field to test the computer-assisted values against his appraisal judgment. During this review, the appraiser is able to physically inspect both sold properties and unsold properties for comparability and consistency of values.

Office Review

Valuation reports comparing previous values against proposed and final values are generated for all residential properties. The dollar amount and percentage of value difference are noted for each property within a delineated neighborhood allowing the appraiser to identify, research and resolve value anomalies before final appraised values are released. Previous values resulting from a hearing protest are individually reviewed to determine if the value remains appropriate for the current year.

Once the appraiser is satisfied with the level and uniformity of value for each neighborhood, the estimates of value are sent out as appraisal notices.

Performance Tests

Sales Ratio Studies

The primary analytical tool used by the appraisers to measure and improve performance is the ratio study. The district ensures that the appraised values it produces meet the standards of accuracy in several ways. Overall sales ratios are generated for each ISD to allow the appraiser to review general market trends, and provide an indication of market change over a specified period of time. The neighborhood descriptive statistics are reviewed for each neighborhood being updated for the current tax year.

Agricultural Valuation Process

Introduction

Texas Constitution provides for the special valuation of open space land devoted to farm or ranch purposes. In other words, undeveloped non-agriculture land does not qualify.

This is a special valuation for the land that is devoted to agricultural production. Agriculture or productivity value is based on the land's capacity to produce food or fiber instead of its value on the real estate market. Although this lower value reduces the taxes on the property, a rollback of these taxes will take place when the owner stops using the land for agriculture. The rollback recaptures, with interest, the taxes saved for the five preceding the change in use. Because of the penalty, this valuation is of questionable benefit if your usage is short term or if you have plans to develop the tract within the next six years.

Approach to Values

McCulloch County Appraisal District has implemented the standard Cash Lease Method to determine the net to land estimates for the 2006 1-D-1 productivity values by land class. Only typical cash lease information is used to determine these estimates. The types of lease agreements used are; grazing leases, crop leases, and hunting leases.

Wildlife Management

Texas also has a Wildlife Management program. Under this program properties are required to produce a management plan and a five year projection of anticipated use.

Field Review

Field reviews are done on a three year schedule. All applications for agricultural exemptions automatically generate a field review. Properties are inspected for a minimum requirement to validate the agricultural exemption as defined in the Agricultural Valuation Handbook.

Commercial Valuation Process

INTRODUCTION

Appraisal Responsibility

This mass appraisal assignment includes all of the commercially described real property which falls within the responsibility of the appraisers of the McCulloch County Appraisal District. The appraisal roll displays and identifies each parcel of real property individually. Appraisers appraise the fee simple interest of properties according to statute. However, the affect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisement of any non exempt taxable fractional interests in real property. Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

Appraisal Resources

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

Preliminary Analysis

Pilot Study

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

Survey of Similar Jurisdiction

McCulloch County Appraisal District coordinates its discovery and valuation activities with adjoining Appraisal Districts. Numerous field trips, interviews, and data exchanges with adjacent appraisal districts have been conducted to ensure compliance with state statues. In addition, McCulloch CAD administration and personnel interact with other assessment officials through professional trade organizations including the Texas Association of Appraisal Districts (TAAD), and it's subchapter Tri-Region Texas Association of Appraisal Districts, and also the International Association of Assessing Officers (IAAO).

Valuation Approach

Area Analysis

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

Neighborhood Analysis

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

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

Highest and Best Use Analysis

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

On the other hand, value in use represents the value of a property to a specific user for a specific purpose. This is significantly different than market value, which approximates market price under the following assumptions: (i) no coercion of undue influence over

the buyer or seller in an attempt to force the purchase or sale, (ii) well-informed buyers and sellers acting in their own best interests, (iii) a reasonable time for the transaction to take place, and (iv) payment in cash or its equivalent.

Market Analysis

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

Data Collection/Validation

In terms of sales data, McCulloch CAD receives a copy of the deeds recorded in McCulloch County. The deeds involving a change in ownership are entered into the sales information system and researched in an attempt to obtain the pertinent sale information. Other sources of sale data include the protest hearings process, realtors, and appraisers.

For those properties involved in a transfer of commercial ownership, a sale file is produced which begins the research and verification process. The initial step in sales verification involves a computer-generated questionnaire, which is mailed to the new owner. If a questionnaire is answered and returned, the documented responses are recorded into the computerized sales database system. Closing statements are often provided during the hearings process. The actual closing statement is the most reliable and preferred method of sales verification.

Valuation Analysis

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

Cost

The cost approach to value is applied to improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on local comparable properties whenever possible. Cost models are typically developed based on the Marshall & Swift Valuation Service. Cost models include the derivation of replacement cost new (RCN) of all improvements. These include comparative base rates, per unit adjustments, and lump sum adjustments. This approach also employs the sales comparison approach in the valuation of the underlying land value. Location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs. Because a national cost

service is used as a basis for the cost models, locational modifiers are necessary to adjust these base costs specifically for McCulloch County. Some of these modifiers are provided by the national cost service.

In the local market, with a limited supply of commercial property available, the age of the property is of little or no importance. Sales indicate that condition and location are of greater weight in the market. Depreciation schedules are developed based on the condition of each major class of commercial property. For example, one hundred year old properties with average maintenance are prized in the commercial market. Depreciation schedules have been implemented for what is typical of each major class of commercial property. These schedules are then tested to ensure they are reflective of current market conditions. Market adjustment factors such as external and/or functional obsolescence can be applied if warranted. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific property type or location and can be developed via ratio studies or other market analysis.

Income Approach

The income approach to value is applied to those real properties which are typically viewed by market participants as “income producing”, and for which the income methodology is considered a leading value indicator. This method is impractical in McCulloch County due to the small number of commercial properties and wide range in use, age, condition, and lack of sufficient reliable data. When income information is provided by the owner, potential gross income is computed. The vacancy and collection loss allowance is the next item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and interviews with local market professionals. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an effective gross rent to the property.

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

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

Subtracting the allowable expenses from the annual effective gross income yields net operating income. Rates and multipliers are used to convert income into an estimate of market value. These include income multipliers, overall capitalization rates, and discount

rates. Each of these is used in specific applications. Rates and multipliers also may vary between property types, as well as by location, quality, condition, design, age, and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market.

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

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

Sales Comparison (Market) Approach

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

Final Valuation Schedules

Based on the market data analysis and review discussed previously in the cost, income, and sales approaches, the market, cost and income information is considered before values are finalized and notices are mailed.

Statistical and Capitalization Analysis

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

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

Individual Value Review Procedures

Field Review

The date of last inspection and the appraiser responsible are listed in the CAMA system. If a property owner disputes the District's records concerning this data in a protest hearing, CAMA may be altered based on the credibility of the evidence provided. Normally, a new field check is then requested to verify this information for the current year's valuation or for the next year's valuation. In addition, if a building permit is filed for a particular property indicating a change in characteristics, that property is added to a work file for field review.

Commercial appraisers are somewhat limited in the time available to field review all commercial properties of a specific use type. However, a major effort is made by appraisers to field review as many properties as possible or economic areas experiencing large numbers of remodels, renovations, or retrofits, changes in occupancy levels or rental rates, new leasing activity, new construction, or wide variations in sale prices. Additionally, the appraisers frequently field review subjective data items such as building class, quality of construction (known as cost modifiers), condition, and physical, functional and economic obsolescence factors contributing significantly to the market value of the property. In some cases field reviews are warranted when sharp changes in occupancy or rental levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. While in the field, the appraisers physically inspect sold and unsold properties for comparability and consistency of values.

Office Review

Office reviews are completed on properties within a given class. This is practical due to the small number of commercial properties of a particular type within McCulloch County. This report summarizes the pertinent data of each property as well as comparing the previous value to the proposed value. This report shows economic factor (cost overrides) and special factors affecting the property valuation such as new construction status. The report lists all property within the class as well as the appraised value per square foot helping to minimize any variations in the appraised value of the sold and unsold properties. A three years sales history (USPAP property history requirement for non residential property) is also included. The appraiser may review methodology for appropriateness to ascertain that it was completed in accordance with USPAP or more stringent statutory policies. This review is performed after preliminary ratio statistics have been applied. If the ratio statistics are generally acceptable overall, the review process is focused primarily on locating skewed results on an individual basis. Previous values resulting from protest hearings are individually reviewed to determine if the value remains appropriate for the current year based on market conditions. Once the appraiser is satisfied with the level and uniformity of value for each commercial property, the estimates of value go to noticing.

Performance Tests

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market values. In a ratio study, market values (value in exchange) are typically represented by sale prices (i.e. a sales ratio study). Independent, expert appraisals may also be used to represent market values in a ratio study (i.e. an appraisal ratio study). If there are not enough sales to provide necessary representativeness, independent appraisals can be used as indicators for market value. This practice, while permitted by USPAP, is not used in McCulloch CAD. The district has adopted the policies of the IAAO STANDARD ON RATIO STUDIES, circa July 1999 regarding its ratio study standards and practices. Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis, and (6) evaluation and application of the results.

Sales Ratio Studies

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

Overall sales ratios are generated by use type annually to allow appraisers to review general market trends in their area of responsibility. The appraisers utilize desktop

applications such as EXCEL programs to evaluate subsets of data by economic area or a specific and unique data item. On the desktop, this may be customized and performed by building class and age basis. In many cases, field checks may be conducted to insure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics. These ratio studies aid the appraisers by providing an indication of market activity by economic area or changing market conditions (appreciation or depreciation).

Comparative Appraisal Analysis

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

Industrial Utility Pipeline and Mineral Valuation

Appraisal Responsibility

McCulloch County Appraisal District maintains a contract with Capital Appraisal Group, Inc., for the primary responsibility of developing fair, uniform market values for industrial properties located within the boundaries of McCulloch CAD. The contract firm is also responsible for valuation of all tangible general industrial personal property in McCulloch County Appraisal District.

Appraisal Resources

Personnel – Staff of Capital Appraisal Group, Inc., 9300 Research Blvd., Suite 100, Austin, TX 78759-6510

CAD Plan for Periodic Reappraisal of Industrial Personal Property

Subsections (a) and (b), Section 25.18, Tax Code:

(a) CAD shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i).

(b) The plan provides for annual reappraisal of all industrial personal property appraised by the CAD. The CAD has a professional services contract with Capitol Appraisal Group, LLC (CAGL) to appraise these properties for the CAD.

(1) Identifying properties to be appraised: Appraisal of properties is limited to those indicated in the contract with the appraisal district, unless additionally requested by the appraisal district. Newly discovered properties will be discussed with the appraisal district to confirm they are to be appraised by Capitol Appraisal. Through inspection the appraiser identifies personal property to be appraised. The appraiser begins with properties from the previous tax year and identifies new properties from visual identification and/or publications, newspaper articles, or information obtained through the interview of property owners. The appraiser may also refer to other documents, both public and also confidential, to assist in identification of these properties. Such documents might include but are not limited to the previous year's appraisal roll, vehicle listing services and private directories.

(2) Identifying and updating relevant characteristics of each property in the appraisal records: Data identifying and updating relevant characteristics of the subject properties are collected as part of the inspection process through directories and listing services

as well as through later submissions by the property owner, sometimes including confidential rendition. These data are verified through previously existing records and through public reports.

(3) Defining market areas in the district: Market areas for industrial personal property are generally either regional or national in scope. Published price sources are used to help define market areas.

(4) Developing an appraisal approach that reflects the relationship among property characteristics affecting value and determines the contribution of individual property characteristics. Personal property is appraised using replacement/reproduction cost new less depreciation models. Income approach models are used when economic and/or subject property income is available, and a market data model is used when appropriate market sales information is a available.

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

CAD Plan for Periodic Reappraisal of Industrial Real Property

Subsections (a) and (b), Section 25.18, Tax Code:

(a) CAD shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i).

(b) The plan provides for annual reappraisal of selected industrial property appraised by the CAD. The CAD has a professional services contract with Capitol Appraisal Group, LLC (CAGL) to appraise these properties for the CAD.

(1) Identifying properties to be appraised: Appraisal of properties is limited to those indicated in the contract with the appraisal district, unless additionally requested by the appraisal district. Newly discovered properties will be discussed with the appraisal district to confirm they are to be appraised by Capitol Appraisal. Industrial properties are identified as part of the appraiser's physical inspection process each year and through submitted data

by the property owner. The appraiser may also refer to legal documents, photography and other descriptive items.

(2) Identifying and updating relevant characteristics of each property in the appraisal records: The appraiser identifies and updates relevant characteristics through the inspection process. Confidential rendition, assets lists and other confidential data also provide additional information. Subject property data is verified through previously existing records and through published reports.

(3) Defining market areas in the district: Market areas for industrial properties tend to be regional, national and sometimes international. Published information such as prices, financial analysis and investor services reports are used to help define market area.

(4) Developing an appraisal approach that reflects the relationship among property characteristics affecting value and determines the contribution of individual property characteristics: Among the three approaches to value (cost, income and market), industrial properties are most commonly appraised using replacement/reproduction cost new less depreciation models because of readily available cost information. If sufficient income or market data are available, those appraisal models may also be used.

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

CAD Plan for Periodic Reappraisal of Oil and Gas Property

In accordance with Section 25.18 of the Tax Code:

(a) CAD shall implement the plan for periodic reappraisal of property as approved by the board of directors under Section 6.05 (i).

(b) The plan provides for annual reappraisal of all oil and gas property appraised by the CAD. The CAD has a professional services contract with Capitol Appraisal Group, LLC (CAGL) to appraise these properties for the CAD.

(1) Identification of new property and its situs. As subsurface mineral properties lie within the earth, they cannot be physically identified by inspection like other real property. However, the inability to directly inspect does not appreciably affect the ability to identify and appraise these properties. To identify new properties, CAGL obtains monthly oil and gas lease information from the Railroad Commission of Texas [RRC] to compare against oil and gas properties already identified. The situs of new properties is determined using plats and W-2/G-1 records from the RRC, as well as CAGL's in-house map resources.

(2) Identifying and updating relevant characteristics of all oil and gas properties to be appraised. Relevant characteristics necessary to estimate value of remaining oil or gas reserves are production volume and pattern, product prices, expenses borne by the operator of the property, and the rate at which the anticipated future income should be discounted to incorporate future risk. CAGL obtains information to update these characteristics annually from regulatory agencies such as the RRC, the Comptroller of Public Accounts, submissions from property owners and operators, as well as from published investment reports, licensed data services, service for fee organizations and through comparable properties, when available.

(3) Defining market areas in the district and identifying property characteristics that affect property value in each market area. Oil and gas markets are regional, national and international. Therefore they respond to market forces beyond defined market boundaries as observed among more typical real properties.

(4) Developing an appraisal approach that best reflects the relationship among property characteristics affecting value and best determines the contribution of individual property characteristics. Among the three approaches to value (cost, income and market), the income approach to value is most commonly used in the oil and gas industry. Through use of the discounted cash flow technique in particular, the appraiser is able to bring together relevant characteristics of production volume and pattern, product prices, operating expenses and discount rate to determine an estimate of appraised value of an oil or gas property.

(5) Comparison and Review. Use of the income approach is the first step in determining an estimate of market value. After that the appraiser reviews the estimated market value compared to its previous certified value and also compares it to industry expected payouts and income indicators. The appraiser examines the model's value with its previous year's actual income, expecting

value to typically vary within in a range of 2-5 times actual annual income, provided all appropriate income factors have been correctly identified. Finally, periodic reassignment of properties among appraisers and review of appraisals by a more experienced appraiser further expand the review process.

CAD Plan for Periodic Reappraisal of Utility, Railroad and Pipeline Property

Subsections (a) and (b), Section 25.18, Tax Code:

(a) CAD shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i).

(b) The plan provides for annual reappraisal of all utility, railroad and pipeline property appraised by the CAD. The CAD has a professional services contract with Capitol Appraisal Group, LLC (CAGL) to appraise these properties for the CAD.

(1) Identifying properties to be appraised: Appraisal of properties is limited to those indicated in the contract with the appraisal district, unless additionally requested by the appraisal district. Newly discovered properties will be discussed with the appraisal district to confirm they are to be appraised by Capitol Appraisal. Utility, railroad and pipeline properties that are susceptible to inspection are identified by inspection. The appraiser may also refer to other documents, both public and also confidential to assist in identification of these properties. Due to the varied nature of utility, railroad, and pipeline properties there is no standard data collection form or manual. New permitting documents on record with the Railroad Commission of Texas provide a source to identify potential new pipeline projects but does not provide indication if the project was actually started, completed, or a distinct location of the proposed project. Every effort is made to discover new utility, railroad, and pipeline properties through personal observation combined with permitting documents.

(2) Identifying and updating relevant characteristics of each property in the appraisal records: The appraiser identifies and updates relevant characteristics through data collected as part of the inspection process and through later submissions by the property owner, sometimes including confidential rendition. Additional data are obtained through public sources, regulatory reports and through analysis of comparable properties.

(3) Defining market areas in the district: Market areas for utility, railroad and pipeline property tend to be regional or national in

scope. Financial analyst and investor services reports are used to help define market areas.

(4) Developing an appraisal approach that reflects the relationship among property characteristics affecting value and determines the contribution of individual property characteristics: For all three types of property, the appraiser must first form an opinion of highest and best use. Among the three approaches to value (cost, income and market), pipeline value is calculated using a replacement/reproduction cost new less depreciation model [RCNLD]. In addition to the RCNLD indicator, a unit value model may also be used if appropriate data are available. Utility and railroad property are appraised in a manner similar to pipeline except that the RCNLD model is not used.

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

Business Personal Property Valuation Process

INTRODUCTION

Appraisal Responsibility

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

- Personnel - The personal property staff consists of 1 appraiser and no support staff.

  Mary Alice Rodriguez, Personal Property Appraiser

- Data - A common set of data characteristics for each personal property account in McCulloch CAD is collected in the field and data entered in the computer system in the office. The property characteristic data drives the computer-assisted personal property appraisal (CAPPA) system. The personal property appraiser collect the field data and maintain electronic property files making updates and changes gathered from field inspections, newspapers, property renditions, sales tax permit listings and interviews with property owners, and other sources.

Valuation Approach

SIC Code Analysis

Four digit numeric codes, called Standard Industrial Classification (SIC) codes that were developed by the federal government to describe property. These classifications are used by McCulloch CAD to classify personal property by business type

SIC code identification and delineation is the cornerstone of the personal property valuation system at the district. All of the personal property analysis work done in association with the personal property valuation process is SIC code specific. SIC code delineation is periodically reviewed to determine if further SIC code delineation is warranted.

Highest and Best Use Analysis

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

Data Collection/Validation

Data Collection Procedures

Personal property data collection procedures are published by the comptroller's office and distributed to all appraisers involved in the appraisal and valuation of personal

property. The appraisal procedures are reviewed and revised to meet the changing requirements of field data collection.

Sources of Data

Business Personal Property

The district's property characteristic data was collected through a massive field data collection effort coordinated by the district over the recent past and from property owner renditions. From year to year, reevaluation activities permit district appraisers to collect new data via an annual field inspection. This project results in the discovery of new businesses, changes in ownership, relocation of businesses, and closures of businesses not revealed through other sources. Tax assessors, city and local newspapers, and the public often provide the district information regarding new personal property and other useful facts related to property valuation.

Vehicles

An outside vendor provides McCulloch CAD with a listing of vehicles within McCulloch County. Other sources of data include property owner renditions and field inspections.

Leased and Multi-Location Assets

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

Valuation and Statistical Analysis

Cost Schedules

Cost schedules are developed based on the SIC code by the Property Tax Division of the Comptroller's Office and by district personal property valuation appraisers. These cost schedules are developed by analyzing cost data from property owner renditions, hearings, and published cost guides. The cost schedules are reviewed as necessary to conform to changing market conditions. The schedules are typically in a price per square foot format, but some exception SIC's are in an alternate price per unit format, such as per room for hotels.

Depreciation Schedule and Trending Factors:

Business Personal Property

McCulloch CAD's primary approach to the valuation of business personal property is the cost approach. The replacement cost new (RCN) is either developed from property owner reported historical cost, from state developed valuation models, or Marshall & Swift Guides. The trending factors and percent good depreciation factors are combined for use by McCulloch CAD. They are both provided by the comptroller's office and are based on published valuation guides. The index factors and percent good depreciation factors are used to develop present value factors (PVF), by year of acquisition, as follows:

PVF = INDEX FACTOR x PERCENT GOOD FACTOR

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

MARKET VALUE ESTIMATE = PVF x HISTORICAL COST

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

The appraiser inspects each property on an annual basis and lists all taxable property. Market value is estimated by the use of the most recent personal property appraisal manual furnished by the comptroller's office. In the absence of a particular category of property in this manual, Marshall & Swift Guide is utilized to estimate market value. Value of each property is compared to current rendition if submitted by owner. Values are adjusted if the appraiser feels an adjustment is warranted. All properties within a particular SIC code are compared in order to assure equitable treatment of all property.

Vehicles

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

Leased and Multi-Location Assets

Leased and multi-location assets are valued using the PVF schedules mentioned above. If the asset to be valued in this category is a vehicle, then NADA published book values are used. Assets that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

Individual Value Review Procedures

Office Review

All Personal Property accounts are worked in house by the Personal Property Appraiser. All information on this account is reviewed and a value is assigned. This value is input into the computer system for noticing.

Vehicles

A vehicle master file is received in a printout from an outside vendor and vehicles in the district's system from prior years are matched to current DOT records. The vehicles remaining after the matching process are sorted by owner name. These vehicles are then matched to existing accounts and new accounts are created as needed. Vehicles that are not valued by the vendor are valued by an appraiser using published guides.

Leased and Multi-Location Assets

Renditions from leasing and multi-location accounts are matched to the appropriate account and appraised by an appraiser. If the owner provided a self addressed stamped envelope the report is then mailed to the property owner for review.

Performance Tests

Ratio Studies

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

LIMITING CONDITIONS

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

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

Certification Statement:

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

Zane P. Brandenberger
Chief Appraiser

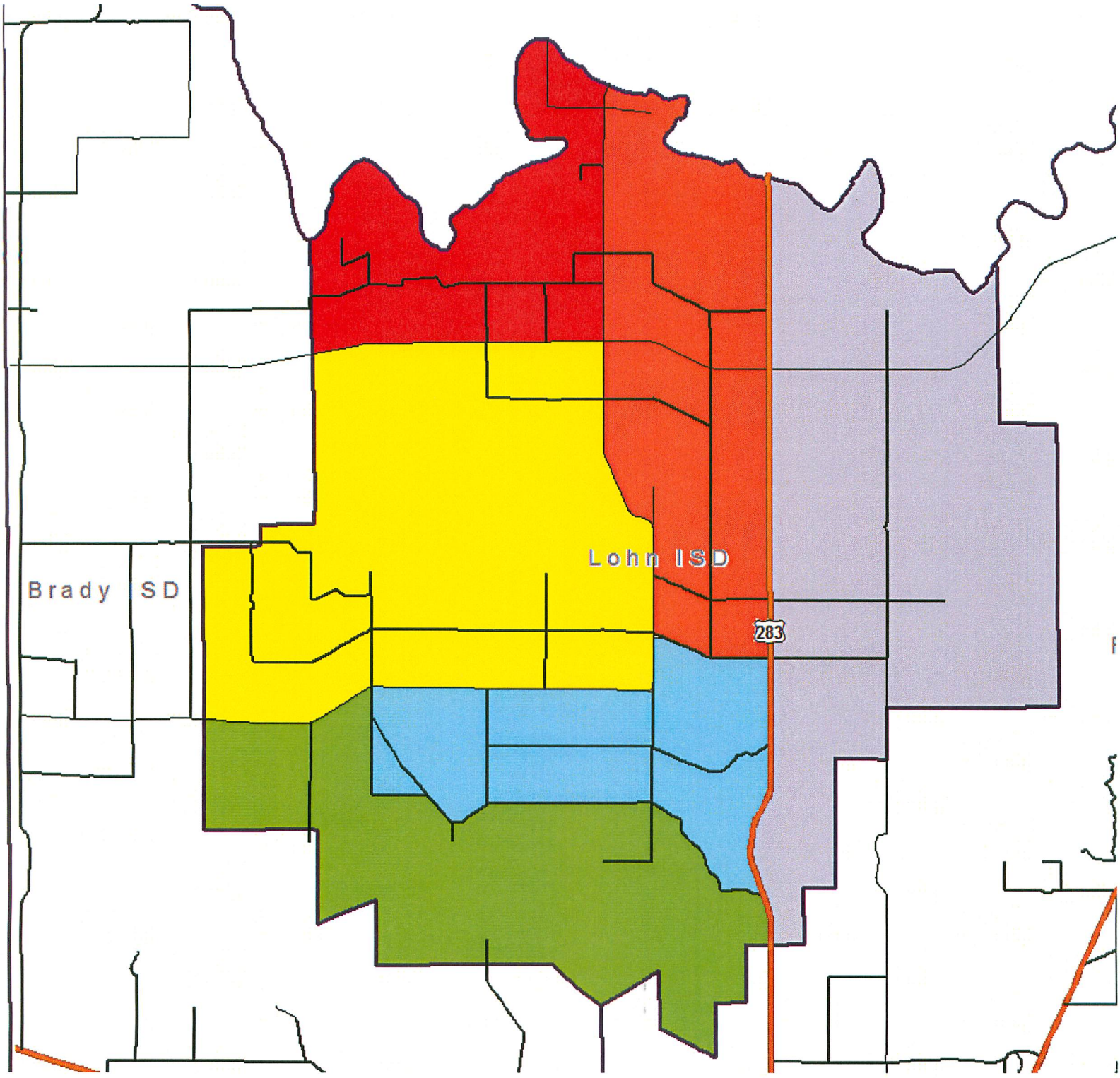
STAFF PROVIDING SIGNIFICANT
MASS APPRAISAL ASSISTANCE

NAME	TITLE	TYPE OF ASSISTANCE
Zane Brandenberger, CCA, RPA	Chief Appraiser	Chief Administrator of District Data Collection Computer and Valuation Correlation Director of Appraisal Operations and Valuation Correlation
Mary Alice Rodriguez, RPA	Personal Property Appraiser	Data Collection and Valuation Correlation

McCulloch County Appraisal District

Reappraisal Plan

Attachment (School District Maps)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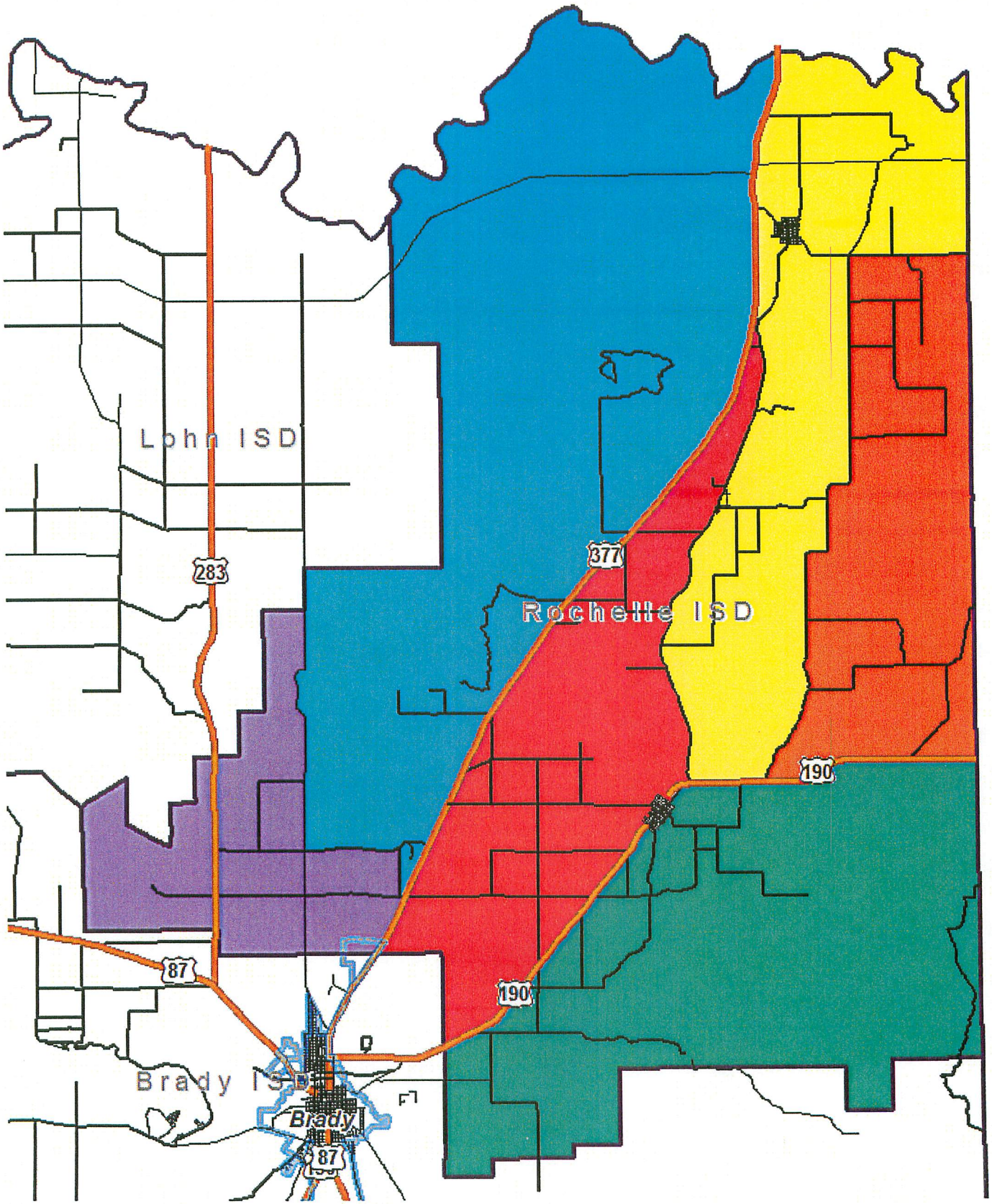
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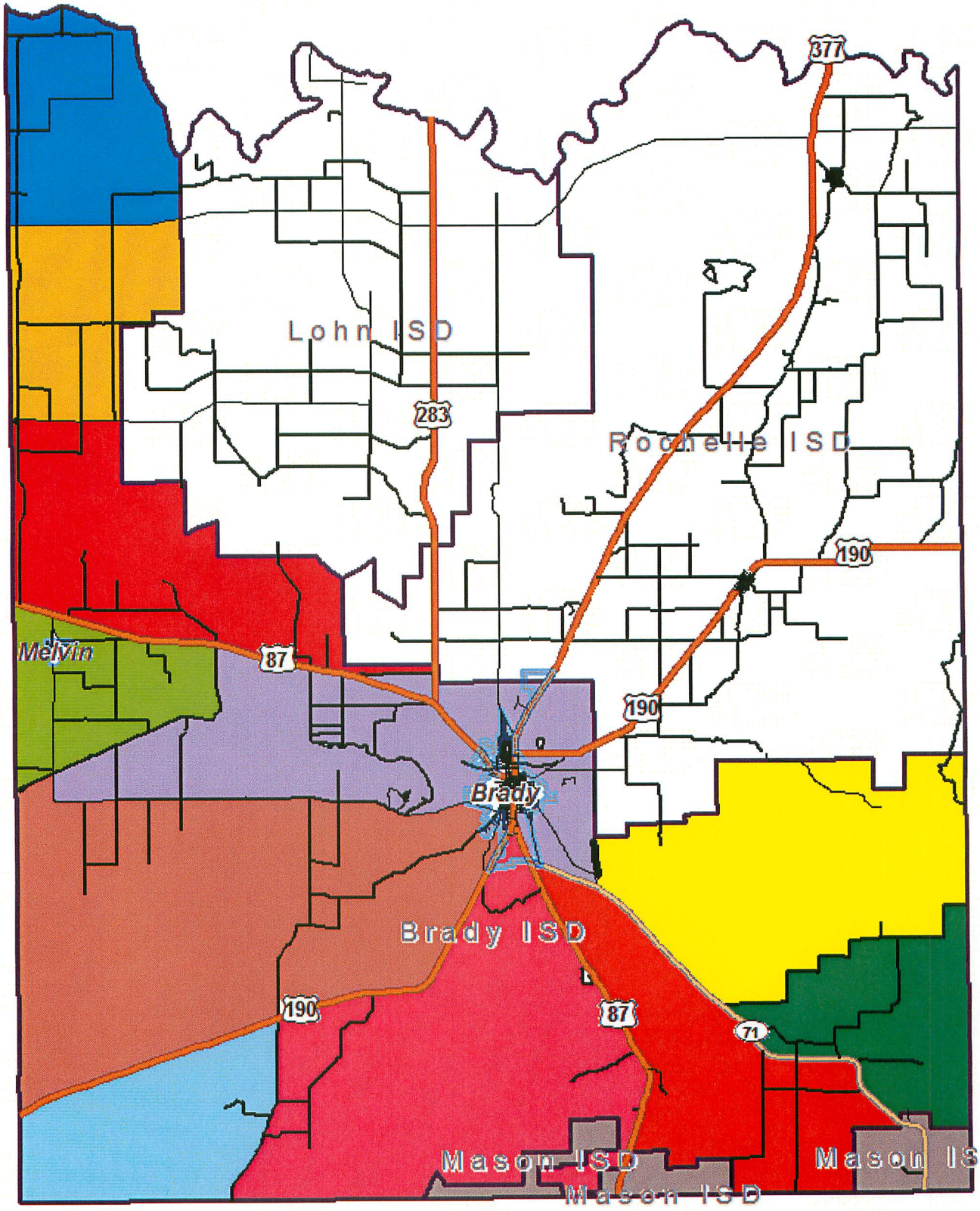
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