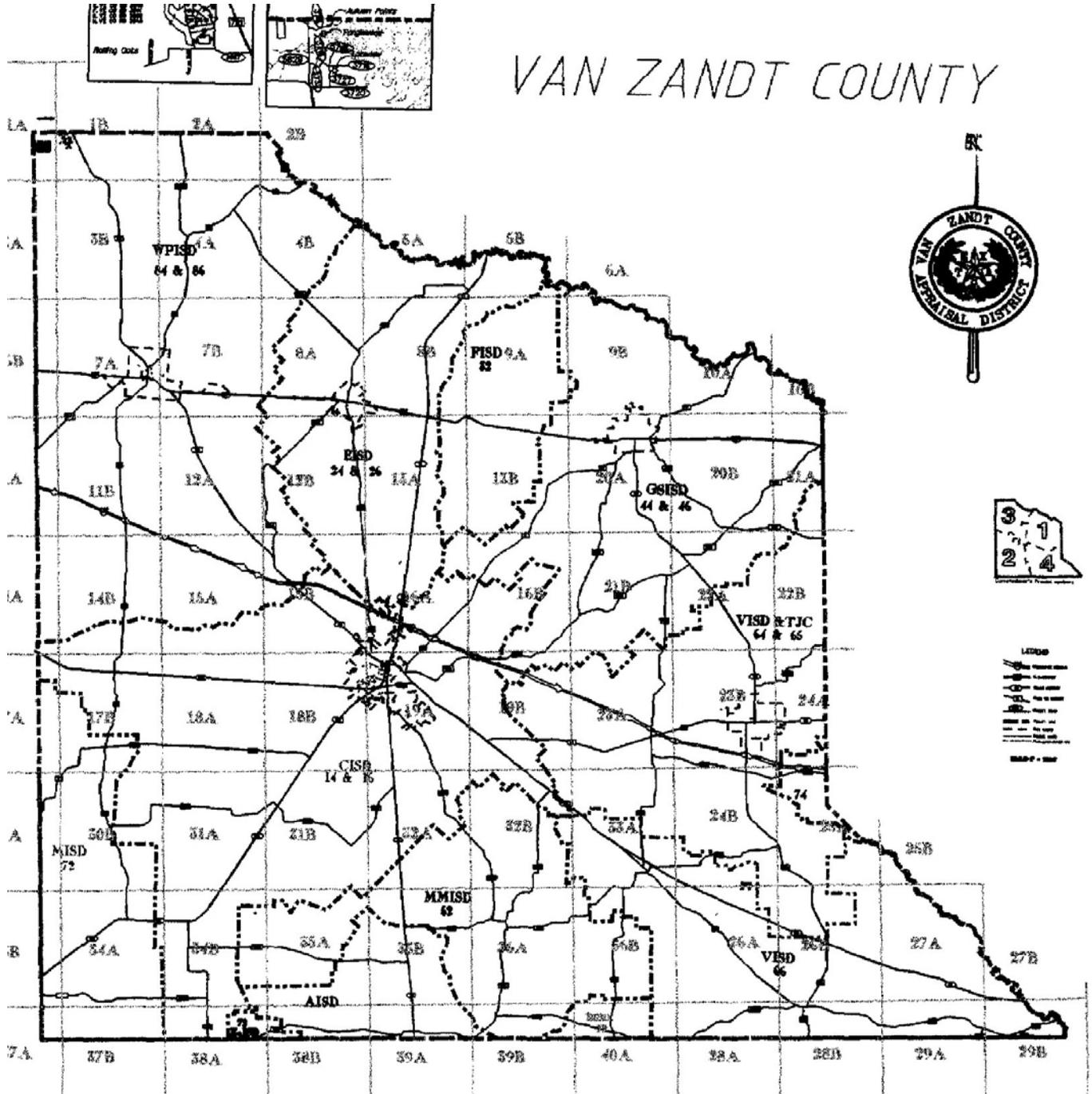


Reappraisal Plan for Van Zandt County Appraisal District Tax Years 2015 & 2016



VAN ZANDT COUNTY APPRAISAL DISTRICT
2015- 2016 REAPPRAISAL PLANS

INTRODUCTION

General Overview of Tax Code Requirement

Passage of Senate Bill 1652 in 2005 amended the Property Tax Code to require each Appraisal District to prepare a biennial reappraisal plan. The following details the Tax Code requirements:

The Written Plan

Section 6.05, Property 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 of the hearing. Not later than September 15 of each even numbered year, the board shall complete its hearing, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

Plan for Periodic Reappraisal

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

- (a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.06(i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years.
 - (1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches;
 - (2) Identifying and updating relevant characteristics of each property in the appraisal records;
 - (3) Defining market areas in the district;

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

Scope of Responsibilities

The Van Zandt County Appraisal District has prepared and published this reappraisal plan to provide our Board of Directors, taxing units, citizens and taxpayers with a better understanding of the district's responsibilities and reappraisal activities. This report has several parts: a general introduction and then, several sections describing the proposed 2015-2016 reappraisal effort by the appraisal departments within the Van Zandt County Appraisal District.

The Van Zandt County Appraisal District (VZCAD) is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. A member Board of Directors, appointed by the taxing units within the boundaries of Van Zandt County, constitutes the district's governing body. The Chief Appraiser, appointed by the Board of Directors, is the Chief Appraiser and Executive Director of the appraisal district.

The Van Zandt County Appraisal District is responsible for local property tax appraisal and exemption administration for 23 taxing units in the county. Each taxing unit, such as the county, a city, school district, municipal utility district, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Property appraisals are estimated values by the appraisal district and used by the taxing units to distribute the annual tax burden. They are generally based on each property's worth of market value. VZCAD also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled persons, disabled veterans, and charitable or religious organizations.

The Property Tax Code, except as otherwise provided, states that all taxable property is appraised annually 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 other.

The Code defines special appraisal provision 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. 23.183) and allocation of interstate property (Sec. 23.03).

The Texas Property 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 real and business personal property value every year, meaning that property's appraised value is established and reviewed for equality and uniformity on an annual basis.

The appraised value of real and business personal property is calculated using specific information and data about each property. Using various computer-assisted mass appraisal (CAMA) programs, and generally recognized methods and techniques, registered and trained appraisers compare the subject property information with the data for similar properties, and with recent market data. The district adheres to 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. Chapter 23 of the Texas Property Tax Code contains statutes dealing with appraisal methods and procedures. Section 23.01 of this chapter was amended in 1977 to specify that appraisal districts are required to comply with the mass appraisal standards of USPAP (Standard Six) when the appraised value of a property is established using mass appraisal techniques. 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.

OVERVIEW OF DISTRICT'S OPERATIONS

Personal Resources

The Office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. Its function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services.

The Appraisal Department is responsible for the valuation of all real and personal property accounts. The property types appraised include commercial, residential, and business personal property. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Department of Licensing and Regulation.

The Collection Department is responsible for the Assessment and Collections Duties. These functions include the calculation of the Effective Tax Rates, preparation of the Tax Rolls, the mailing and

collection of the Tax Bills along with the disbursements of the collected Levy. The Collection Department also works closely with the delinquent tax attorneys in law-suits, judgments and sales of foreclosed properties.

The Data Processing Department is responsible for Data Entry as well as Data Retrieval. Its functions include overseeing of the preparation of the Tax Rolls, Notices of Appraised Value, data entry from the Appraisal and Collections Departments as well as coordinating with the software provider for the state required reports. The Data Processing Department also runs data for Taxpayer's Written Request as well as data to assist the delinquent tax attorneys.

The GIS Department is responsible for the development and maintenance of the district's maps along with maintaining deed changes and assisting the public with property location maps. This department works with the taxpayers to work property splits and combining properties.

The appraisal district staff consists of 17 employees with the following classifications:

- 2-Administration Department (Executive level administration)
- 4-Collection Department (Assessment & Collection functions)
- 2-GIS Department (GIS Mapping functions)
- 1-Data Processing Department (Data Processing Functions)
- 8-Appraisal Department(Appraisal related functions)

Staff Education and Training

All appraisal district employees that perform appraisal work are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Department of Licensing and Regulation (TDLR). This board is responsible for ensuring appraisers are professional, knowledgeable, competent and ethical. This is accomplished through a statewide program of registration, education, experience, testing and certification for all property tax professionals for the purpose of promoting an equitable tax system.

Upon registration, appraisers registered with the Texas Department of Licensing and Regulation have up to five years to take a series of appraisal courses and exams in order to achieve certification as a Registered Professional Appraiser (RPA). During each subsequent two-year period after certification, appraisers must complete an additional 30 hours of continuing education. Failure to meet these minimum standards will result in the removal of the employee from an appraiser position.

Additionally, all appraisal personnel receive extensive training in the data gathering and valuation processes. Standardized manuals are provided to ensure uniform and accurate data collection. Senior personnel provide on-the-job data collection training in the office and the reappraisal field area. Managers meet regularly with staff to introduce new procedures and regularly monitor appraisal activity to ensure that all personnel are following standardized appraisal methods and techniques.

MONTH & YEAR	DAY	PLAN ITEM
July, 2014	1	<ul style="list-style-type: none"> • Begin analysis of rural tract sales • Begin analysis of residential and commercial schedule • Begin constructing 2015 Appraisal Agenda • Personal Property appraiser to prepare for BPP protest hearings
July, 2014	14	<ul style="list-style-type: none"> • Conduct 2014 Business Personal Property ARB Hearings • Appraisal staff meeting – assign areas of responsibilities & outline current year’s appraisal goals
July, 2014	16-31	<ul style="list-style-type: none"> • Supply appraisers with all cards, recalls, permits, sales data, and mechanics liens to date • Appraisers to begin organizing all supplied cards, recalls, permits and mechanics liens to date
July, 2014	20	<ul style="list-style-type: none"> • Date ARB must approve appraisal records, but may not do so if more than 5 percent of the total appraised value remains under protest. The Board of Directors of a CAD with a population of 1 million or more may postpone the deadline to August 30 or increase the threshold percentage from 5 to 10 percent of the appraised value of properties not under protest
July, 2014	25	<ul style="list-style-type: none"> • Last day Chief Appraiser to certify roll to each taxing unit
August, 2014	4	<ul style="list-style-type: none"> • Ag appraiser to begin mailing audit reapplication request and letters to new owners of ag properties • Ag appraiser to begin agricultural on-site inspections for recalled properties
August, 2014	1-15	<ul style="list-style-type: none"> • All appraisers to continue preparing all items necessary to begin 2015 field work
August, 2014	15-31	<ul style="list-style-type: none"> • All appraisers to review sales, permits, mechanics liens, and aerial data to select any necessary additional properties for on-site review
September, 2014	1	<ul style="list-style-type: none"> • Chief Appraiser to assign quarterly sales analysis • All appraisers to begin field assignments
October, 2014	1	<ul style="list-style-type: none"> • 2014 Tax bills mailed (or as soon thereafter as practicable)
November, 2014	10	<ul style="list-style-type: none"> • Chief Appraiser to review the progress of appraisal assignments and hold meeting with appraisers to discuss
December, 2014	15	<ul style="list-style-type: none"> • Chief Appraiser to review the progress of appraisal assignments
January, 2015	1	<ul style="list-style-type: none"> • Appraisal and exemption qualification date • Chief Appraiser to begin quarterly and year-end sales analysis • Rendition period begins • BPP Appraiser to work only Business Personal Property related tasks and renditions • Data Entry Director to run secondary recall list for residential appraisers
January, 2015	5	<ul style="list-style-type: none"> • Ag Appraiser will begin agriculture application review process and agricultural onsite second review recall list
February, 2015	1	<ul style="list-style-type: none"> • Delinquency date for collections • Begin final analysis of prior 18-36 months of all market data (e.g. sales,

		income, expense) compiled to date
February, 2015	20	<ul style="list-style-type: none"> All appraisers to have completed field assignments
February, 2015	20-28	<ul style="list-style-type: none"> Residential and commercial appraisers to wrap-up any and all recalls, locked gate letters and any other field work related tasks Completion and implementation of all residential and commercial schedule analysis
March, 2015	4-15	<ul style="list-style-type: none"> Each appraiser to begin sales ratio analysis, review current sales data, and compile and analyze sales listings
March, 2015	15	<ul style="list-style-type: none"> Last day for 2015 field work data entry to be submitted to Data Processing Director
March, 2015	18-31	<ul style="list-style-type: none"> Residential and commercial appraisers to prepare for informal taxpayer protests and print 2014 sales book
April, 2015	1	<ul style="list-style-type: none"> Last day (or as soon as practicable thereafter) for the Chief Appraiser to mail notices of appraised value for single-family residence homestead properties
April, 2015	15	<ul style="list-style-type: none"> Last day for property owners to file renditions and property information reports unless they request a filing extension in writing
April, 2015	30	<ul style="list-style-type: none"> Last day to file some exemption applications and 1-d-1 open space applications
May, 2015	1	<ul style="list-style-type: none"> Begin conducting informal protest meetings with taxpayers
May, 2015	15	<ul style="list-style-type: none"> Last day for property owners to file renditions and property information reports if they requested an extension in writing – For good cause, Chief Appraiser may extend this deadline another 15 days
May, 2015	31	<ul style="list-style-type: none"> Last day for property owners to file protest with ARB (or by 30th day after notice of appraised value is delivered, whichever is later)
June, 2015	15-30	<ul style="list-style-type: none"> Conduct first session of 2015 Formal ARB Protest Hearings
July, 2015	1	<ul style="list-style-type: none"> Begin analysis of residential and commercial schedule Begin constructing the 2016 Appraisal Agenda
July, 2015	13-17	<ul style="list-style-type: none"> Appraisal staff meeting – assign areas of responsibilities and outline current year's appraisal goals Conduct second session of 2015 Formal ARB Protest Hearings
July, 2013	20-31	<ul style="list-style-type: none"> Supply appraisers with all cards, recalls, permits and mechanics liens to date Appraisers to begin organizing supplied cards, recalls, permits and mechanics liens to date
July, 2015	20	<ul style="list-style-type: none"> Date ARB must approve appraisal records, but may not do so if more than 5 percent of total appraised value remains under protest. The Board of Directors of the CAD with a population of 1 million or more may postpone the deadline to August 30th or increase the threshold percentage from 5 to 10 percent of the appraised value of properties not under protest.
July, 2015	25	<ul style="list-style-type: none"> Last day the Chief Appraiser to certify roll to each taxing unit
August, 2015	3	<ul style="list-style-type: none"> Ag appraiser to begin mailing audit reapplication request and letters to new owners of ag properties

		<ul style="list-style-type: none"> • Ag appraiser to begin agricultural on-site inspections for recalled properties
August, 2015	1-15	<ul style="list-style-type: none"> • All appraisers to continue preparing all items necessary to begin 2016 field work
August, 2015	15-31	<ul style="list-style-type: none"> • All appraisers to review sales, permits, mechanics liens, and aerial data to select any necessary additional properties for on-site review
September, 2015	1	<ul style="list-style-type: none"> • Chief Appraiser to begin quarterly sales analysis • All appraisers to begin field assignments
October, 2015	1	<ul style="list-style-type: none"> • 2015 Tax bills mailed (or as soon thereafter as practicable)
December, 2015	1	<ul style="list-style-type: none"> • Chief Appraiser to review the progress of appraisal assignments and hold meeting with appraisers
January, 2016	1	<ul style="list-style-type: none"> • Appraisal and exemption qualification date • Chief Appraiser to begin quarterly and year-end sales analysis • Rendition period begins • BPP Appraiser to work only Business Personal Property related tasks and renditions • Data Entry Director to run secondary recall list for residential appraisers
January, 2016	4	<ul style="list-style-type: none"> • Ag Appraiser will begin agriculture application review process and agricultural onsite second review recall list
February, 2016	1	<ul style="list-style-type: none"> • Delinquency date for collections • Begin final analysis of prior 18-36 months of all market data (e.g. sales, income, expense) compiled to date
February, 2016	19	<ul style="list-style-type: none"> • All appraisers to have completed field assignments
February, 2016	22-29	<ul style="list-style-type: none"> • Residential and commercial appraisers to wrap-up any and all recalls, locked gate letters and any other field work related tasks • Completion and implementation of all residential and commercial schedule analysis
March, 2016	1-15	<ul style="list-style-type: none"> • Each appraiser to begin sales ratio analysis, review current sales data, and compile and analyze sales listings
March, 2016	20	<ul style="list-style-type: none"> • Last day for 2016 field work data entry to be submitted to Data Processing Director
March, 2016	23-31	<ul style="list-style-type: none"> • Residential and commercial appraisers to prepare for informal taxpayer protests and print 2015 sales book
April, 2016	1	<ul style="list-style-type: none"> • Last day (or as soon as practicable thereafter) for the Chief Appraiser to mail notices of appraised value for single-family residence homestead properties
April, 2016	15	<ul style="list-style-type: none"> • Last day for property owners to file renditions and property information reports unless they request a filing extension in writing
April, 2016	30	<ul style="list-style-type: none"> • Last day to file some exemption applications and 1-d-1 open space applications
May, 2016	1	<ul style="list-style-type: none"> • Last day (or as soon as practicable thereafter) for the Chief Appraiser to mail notices of appraised value for properties other than single-family residence homesteads
May, 2016	15	<ul style="list-style-type: none"> • Last day for property owners to file renditions and property information

		reports if they requested an extension in writing – For good cause, Chief Appraiser may extend this deadline another 15 days
May, 2016	31	<ul style="list-style-type: none"> Last day for property owners to file protest with ARB (or by 30th day after notice of appraised value is delivered, whichever is later)
June, 2016	1	<ul style="list-style-type: none"> Informal Protests
June, 2016	15-30	<ul style="list-style-type: none"> Informal & Formal ARB Protest Hearings

Data

The district is responsible for establishing and maintaining approximately 54,900 real and personal property accounts covering 864 square miles within the Van Zandt County Appraisal District’s territorial boundaries. This data includes property characteristic, 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 and office review. Sales are routinely validated during an office review and a separate field effort when applicable; however, numerous sales are validated as part of the building permit process and annual reappraisal 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 buyer and seller, university research centers, and market data centers and vendors.

The district has a geographic information system (GIS) that maintains maps and various layers of data, including aerial photography. The district’s website makes a broad range of information available for public access, including detailed information on the appraisal process, property characteristics data, certified values, protests and appeal procedures, frequently ask questions, links to other governmental agencies, property maps, and a tax calendar.

Information Systems

The Data Processing Director and the computer mapping department manage and maintain the district’s data processing facility, software applications, Internet website, and geographical information system. The district operates from a server database. The server hardware/system software is Dell/Microsoft/Southwest Data Solutions. The user base is networked through the server using Windows 2000 Server. Southwest Data Solutions provides software services for appraisal and collections applications.

Appraisal District’s Boundaries

Current legislation has determined that each Appraisal District shall appraise all property within the geographical boundaries of its county.

Independent Performance Test

According to Chapter 5 of the TPTC and Section 403.302 of the Texas Government Code, the State Comptroller’s Property Tax Division (PTD) conducts an annual property value study (PVS) of each Texas school district and each appraisal district. As a part of this annual study, the code also requires the Comptroller to; use sales and recognized auditing sampling techniques; review each appraisal

district's appraisal methods, standards and procedures to determine whether the district used recognized standards and practices (MSP review); test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. This study utilizes statistical analysis of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 10% of the median, the percentage of properties within 25% of the median, and price-related differential (PRD) for properties overall and by state category (i.e., categories A, B, C, D, E, and F1 are directly applicable to real property). There are 7 independent school districts in Van Zandt County Appraisal District for which appraisal rolls are annually developed. The preliminary results of this study are released in January in the year following the year of appraisal. The final results of this study are certified to the Education Commissioner of the Texas Education Agency (TEA) in the following July of each year for the year of appraisal. This outside (third party) ratio study provides additional assistance to the CAD in determining areas of market activity or changing market conditions.

APPRAISAL ACTIVITIES

Appraisal Responsibilities

The field appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes. Accurate valuation of real and personal property by any method requires a physical description of personal property, land and building characteristics. This appraisal activity is responsible for administering, planning and coordinating all activities involving data collection and maintenance of all commercial, residential, and personal property types which are located within the boundaries of Van Zandt CAD. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system. The goal is to periodically field inspect residential and commercial properties in Van Zandt County every three years. The use of aerial photography and a periodical digital photography project may also be used in meeting this goal. Ultimately, meeting this goal is dependent on budgetary restraints.

Appraisal Resources

- **Personnel** – The appraisal activities consist of 7 appraisers and 1 clerical personnel.
- **Data** – The data used by field appraisers includes the existing property characteristic information contained in CAMA (Computer Assisted Mass Appraisal System). The data is collected and given to the Data Processing Department for data entry. Other data used includes maps, sales data, fire and damage reports, building permits, on-site photos, aerial Pictometry, Change Finder computer analysis, and actual cost information.

Preliminary Analysis

Data Collection/Validation

Data collection of real property involves maintaining data characteristics of the property in CAMA (Computer Assisted Mass Appraisal System). The information contained in CAMA includes site characteristics, such as land size and topography, and improvement data, such as square foot of living area, year built, quality of construction, and condition. Field appraisers use divisional appraisal manuals that establish uniform procedures for the correct listing of real property. All properties are coded according to the 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 in CAMA. The type of information contained in CAMA includes personal property such as business inventory, furniture and fixtures, machinery and equipment, cost and location. The field appraisers conducting on-site inspections use a personal property manual during their initial training and as a guide to correctly list all personal property that is taxable. The divisional manuals that are utilized by the field appraisers are available in the district offices. Management periodically updates the divisional manuals.

Sources of Data

The sources of data collection are through the new construction field efforts, field reappraisal, aerial Pictometry Change Finder computer analysis, reappraisal, hearings, sales processing, newspapers and publications, property owner correspondence and inquiries received via the Internet. A principal source of data comes from building permits received from taxing jurisdictions and deed of trusts that were recorded in the Van Zandt County Courthouse. These are matched manually with the property's tax account number by the appraisal staff and then updated into CAMA.

Data review of entire neighborhoods is generally a good source for data collection. Appraisers typically drive entire neighborhoods to review the accuracy of the data and identify properties that need to be updated during the permit and reappraisal effort. When permissible, aerial Pictometry and Change Finder software and data are utilized for property review and appraisal. During Sales Processing property characteristics are also verified. In residential and commercial, the sales validation effort involves office review and verification and when needed on-site inspections by field appraisers to verify the accuracy of the property characteristics. Sale surveys are also mailed out to the grantee and grantor on all undisclosed Commercial sales and for certain undisclosed Residential sales.

Property owners are one of the best sources for identifying incorrect data that generates a field check. Frequently, the property owner provides sufficient enough data to allow correction of records without having to send an appraiser on-site. Letters from the property owners are often submitted notifying the district of inaccurate data. Properties identified in this manner are added to a work file and inspected at the earliest opportunity.

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. The appraisers are assigned throughout Van Zandt County to conduct field inspections. Appraisers conduct field inspections and record information in CAMA via the Data Processing Director. On-site field

inspections are organized on a three year rotating schedule. The procedure ensures that every property receives an appropriate on-site inspection a minimum of once every three years.

The quality of the data used is extremely important in establishing accurate values of taxable property. While production standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. New appraisers are trained in the specifics of data collection set forth in their divisional manual. Experienced appraisers are routinely re-trained in listing procedures prior to major field projects such as new construction and reappraisal. A quality control process exists through supervisory review of the work being performed by the field appraisers. Supervisors are charged with the responsibility of ensuring that appraisers follow listed procedures, identify training issues and provide uniform training throughout the field appraisal staff. When applicable, Senior Appraisers will also assist with the quality control of the appraisal project.

Data Maintenance

The field appraiser is responsible for the data entry of his/her fieldwork directly into CAMA via the Data Processing Director. This responsibility includes not only data entry, but also quality assurance.

Individual Value Review Procedures

The date of last inspection, results of that inspection, and the appraiser responsible are listed on the account record. If a property owner or jurisdiction disputes the district's records concerning this data during a hearing, via a telephone call or correspondence received, the record may be altered based on the evidence provided. When needed, a field inspection is requested to verify this evidence for the current year's valuation or for the next year's valuation. Every year a field review of certain areas or neighborhoods in the jurisdiction is accomplished during the annual reappraisal effort. Specific areas for field review are determined by the three year field reappraisal rotation.

Office Review

Office reviews are completed on properties where information has been received from the owner of the property, taxing jurisdictions, or other sources. Aerial photographs, via Pictometry software system, and digital on-site photographs are also used to verify property characteristics. When the property data is verified in this manner, field inspections are not required.

Performance Test

Supervisors and appraisers are responsible for conducting ratio studies and comparative analysis to insure accurate and equitable appraised values. (Refer to the individual valuation process summary reports).

Residential Valuation Process

Scope of Responsibility

The Residential Valuation appraisers are responsible for developing equal uniform market values for residential improved and vacant property. There are approximately 50,000 Real Property Parcels within the Van Zandt CAD territorial boundaries.

Appraisal Resources

- **Personnel**-The Residential Appraisal Staff consists of 6 appraisers
- **Data**-A common set of data characteristics for each residential dwelling in Van Zandt County is collected in the field and data entered to the computer. The property characteristic data drives the computer assisted mass appraisal (CAMA) approach to valuation. Property data attribute information is verified and corrected based on on-site inspections as well as office review using digital photographs and aerial photography. The following data attribute information is captured on each appraisal record: Land Value, SPTD Code, Building Class, Condition/Desirability/Utility Rating, Actual Year Built, Effective Year Built, Living Area, Additional Improvements, Total Living Area, Foundation, Basement, Heating, Roof type, Roofing, Garage, Frame, Exterior Walls, Fireplace, Kitchens, Full Baths, Half Baths, Air Conditioning, Level of Completion, Deck, Porch, Paved Driveways, and Special Features.
- **Residential Reappraisal Schedule** – The following three year reappraisal rotation is employed to ensure that all properties receive inspection as outlined by Section 25.18 of the Texas Property Tax Code.

2015/2016 Field Assignments							
Tim Clouse		TJ Dally		Sarah Rojas		Julie Hickman	
Van	10,691	Edgewood	4,469	Wills Point	9,969	Canton	9,519
Lindale	122	Fruitvale	1,474				
10,813		5,943		9,969		9,519	
Nancy Lee		Kevin Passons		Appraiser			
Business Personal	N/A	Agriculture	N/A	Commercial Real	N/A		
Grand Saline	4,982	Martins Mill	2,125				
Athens	681	Brownsboro	583				
Eustace	75						
Mabank	1,582						
7,320		2,708		N/A			

AUDIT INSPECTION ROTATION (2015-2017)		
AREA/ISD	SUB-AREA	AUDIT YEAR
Van	North Rural	2015
	City/Calendar Lake	2016
	South Rural	2017
Lindale	All	2016
Brownsboro	Rural	2015
	Hickory Hills	2016
Martins Mill	All	2015
Grand Saline	City	2015
	Rural	2016
Edgewood	Rural	2016
	City	2017
Fruitvale	All	2016
Athens/Eustace	All	2017
Mabank	All	2017
Canton	North Rural	2015
	South Rural	2016
	City	2017
Wills Point	North Rural	2015
	City	2016
	South Rural	2017

Properties in areas not scheduled for reappraisal for the relevant year will be reviewed based upon the outlined individual value review procedures. The reappraisal schedule only outlines the minimum scheduling requirements set forth by the Texas Property Tax Code and Van Zandt County Appraisal District management. Therefore, anytime overages occur in resources, time and personnel, the Appraisal Director shall determine additional areas for reappraisal for the relevant year.

VALUATION APPROACH

Land Analysis

Residential land valuation analysis is conducted prior to neighborhood sales analysis. The value of the land component to the property is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market price of land located in the neighborhood. Computerized land table files store the land information required to consistently value individual parcels within neighborhoods given known land characteristics. Specific land influences are considered, where necessary, and depending on neighborhood and individual lot or tract characteristics, to adjust parcels outside the neighborhood norm for such factors as access, view, shape, size, and topography. The appraisers use abstraction and allocation methods to insure that estimated land values best reflect the contributory market value of the land to the overall property value.

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 gleaned from real estate publications and sources such as continuing education in the form of IAAO and TDLR classes.

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). 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.

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 with similar characteristics 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. Whereas neighborhoods involve similar properties in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations. Each residential neighborhood is assigned to a neighborhood group based on observable aspects of homogeneity between neighborhoods. Neighborhood grouping is highly beneficial in cost-derived areas of limited or no sales, or use in direct sales comparison analysis. Neighborhood groups, or clustered neighborhoods, increase the available market data by linking comparable properties outside a given neighborhood. Sales ratio analysis, discussed below, is performed on a neighborhood basis, and in soft sale areas on a neighborhood group basis.

Van Zandt County is rather homogenous, having relatively small variations in its property makeup, due to its rural nature. Therefore, based upon the aforementioned neighborhood market analysis procedures, Van Zandt County Appraisal District has divided the county into the following neighborhood subsets: Canton I.S.D. Rural, City of Canton, Wills Point I.S.D. Rural, City of Wills Point, Rolling Oaks Subdivision, Edgewood I.S.D. Rural, City of Edgewood, Fruitvale I.S.D. Rural, City of Fruitvale, Grand Saline I.S.D. Rural, City of Grand Saline, Van and Lindale Overlap I.S.D. Rural, City of Van, Calendar Lake Subdivision, Hickory Hills Subdivision, Martins Mill I.S.D., and the Southern Overlapping I.S.D.'s (Brownsboro, Athens, Eustace, and Mabank).

Properties within Van Zandt County's neighborhood subsets are given market adjustments based upon such attributes as proximity to bodies of water, perceived school district quality, geographic aesthetic

appeal, access and proximity to major interstate or highways, actual and potential economic development (and lack thereof), and various other physical, social, political, or economic factors. Market characteristics warranting adjustments are identified by statistical analysis of adjusted sales between market areas. Identifiable and quantifiable adjustments are determined through extensive paired sales analysis, further trend analysis, ratio studies, regression analysis, and property owner sales surveys. Van Zandt County Appraisal District reviews neighborhood market adjustments annually to ensure that appraisal values are accurate and equitable.

Highest and Best Use Analysis

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

VALUATION AND STATISTICAL ANALYSIS

Cost Schedules

All residential parcels in the district are valued with a replacement cost estimated from identical cost schedules based on the improvement classification system using a comparative unit method. The district's residential cost schedules are estimated from Marshall and Swift, a nationally recognized cost estimator service. These cost estimates are compared with sales of new improvements and evaluated from year to year and indexed to reflect the local residential building and labor market. Costs may also be indexed for neighborhood factors and influences that affect the total replacement cost of the improvements in a smaller market area based on evidence taken from a sample of market sales. The cost schedules are reviewed regularly as a result of recent state legislation requiring that the appraisal district cost schedules be within a range of plus or minus 10% from nationally recognized cost schedules.

A review of the residential cost schedule is performed annually. As part of this review and evaluation process of the estimated replacement cost, newly constructed sold properties representing various levels of quality of construction in district are considered. The property data characteristics of these properties

are verified and photographs are taken of the samples. CAD replacement costs are compared against Marshall & Swift, a nationally recognized cost estimator, and the indicated replacement cost abstracted from these market sales of comparably improved structures. The results of this comparison are analyzed using statistical measures, including stratification by quality and reviewing of estimated building costs plus land to sales prices. As a result of this analysis, a new regional multiplier or economic index factor and indications of neighborhood economic factors are developed for use in the district's cost process. This new economic index is estimated and used to adjust the district's cost schedule to be in compliance with local building costs as reflected by the local market.

Sales Information

A sales file for the storage of "snapshot" sales data at the time of sale is maintained for real property. Residential vacant land sales, along with commercial improved and vacant land sales are maintained in a sales information system. Residential improved and vacant sales are collected from a variety of sources, including: district questionnaires sent to buyer and seller, field discovery, protest hearings, Board of Realtor's MLS, various sale vendors, builders, and realtors. A system of type, source, validity and verification codes has been established to define salient facts related to a property's purchase or transfer and to help determine relevant market sale prices. The effect of time as an influence on price was considered by paired comparison and applied in the ratio study to the sales as indicated within each neighborhood area. Neighborhood sales reports are generated as an analysis tool for the appraiser in the development and estimation of market price ranges and property component value estimates. Abstraction and allocation of property components based on sales of similar property is an important analysis tool to interpret market sales under the cost and market approaches to value. These analysis tools help determine and estimate the effects of change, with regard to price, as indicated by sale prices for similar property within the current market.

Monthly time adjustments are estimated based on comparative analysis using paired comparisons of sold property. Sales of the same property are considered and analyzed for any indication of price change attributed to a time change or influence. Property characteristics, financing, and conditions of sale are compared for each property sold in the pairing of property to isolate only the time factor as an influence on price.

Statistical Analysis

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

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

Market and Cost Reconciliation and Valuation

Neighborhood analysis of market sales to achieve an acceptable sale ratio or level of appraisal is also the reconciliation of the market and cost approaches to valuation. Market factors are developed from appraisal statistics provided from market analysis and ratio studies and are used to ensure that estimated values are consistent with the market and to reconcile cost indicators. The district's primary approach to the valuation of residential properties uses a hybrid cost-sales comparison approach. This type of approach accounts for neighborhood market influences not particularly specified in a purely cost model.

The following equation denotes the hybrid model used:

$$MV = LV + (RCN - AD)$$

Whereas, in accordance with the cost approach, the estimated market value (MV) of the property equals the land value (LV) plus the replacement cost new of property improvements (RCN) less accrued depreciation (AD). 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 may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales. Thus, demand side economic factors and influences may be observed and considered. These market, or location adjustments, may be abstracted and applied uniformly within neighborhoods to account for location variances between market areas or across a jurisdiction. Whereas, in accordance with the Market Approach, the estimated market value (MV) of the property equals the basic unit of property, under comparison, times the market price range per unit for sales of comparable property. For residential property, the unit of comparison is typically the price per square foot of living area or the price indicated for the improvement contribution. This analysis for the hybrid model is based on both the cost and market approaches as a correlation of indications of property valuation. A significant unknown for these two indications of value is determined to be the rate of change for the improvement contribution to total property value. The measure of change for this property component can best be reflected and based in the annualized accrued depreciation rate. This cost related factor is most appropriately measured by sales of similar property. The market approach, when improvements are abstracted from the sale price, indicates the depreciated value of the improvement component, in effect, measuring changes in accrued depreciation, a cost factor. The level of improvement contribution to the property is measured by abstraction of comparable market sales, which is the property sale price less land value. The primary unknown for the cost approach is to accurately measure accrued depreciation affecting the amount of loss attributed to the improvements as

age increases and condition changes. This evaluation of cost results in the depreciated value of the improvement component based on age and condition. The evaluation of this market and cost information is the basis of reconciliation and indication of property valuation under this hybrid model.

When the appraiser reviews a neighborhood, the appraiser reviews and evaluates a ratio study that compares recent sales prices of properties, appropriately adjusted for the effects of time, within a delineated neighborhood, with the value of the properties' based on the estimated depreciated replacement cost of improvements plus land value. The calculated ratio derived from the sum of the sold properties' estimated value divided by the sum of the time adjusted sales prices indicates the neighborhood level of appraisal based on sold properties. This ratio is compared to the acceptable appraisal ratio, 96% to 104%, to determine the level of appraisal for each neighborhood. If the level of appraisal for the neighborhood is outside the acceptable range of ratios, adjustments to the neighborhood are made.

If reappraisal of the neighborhood is indicated, the appraiser analyzes available market sales, appropriately adjusted for the apparent effects of time, by market abstraction of property components. This abstraction of property components allows the appraiser to focus on the rate of change for the improvement contribution to the property by providing a basis for calculating accrued depreciation attributed to the improvement component. This impact on value is usually the most significant factor affecting property value and the most important unknown to determine by market analysis. Abstraction of the improvement component from the adjusted sale price for a property indicates the effect of overall market suggested influences and factors on the price of improvements that were a part of this property, recently sold. Comparing this indicated price or value allocation for the improvement with the estimated replacement cost new of the improvement indicates any loss in value due to accrued forms of physical, functional, or economic obsolescence. This is a market driven measure of accrued depreciation and results in a true and relevant measure of improvement marketability, particularly when based on multiple sales that indicate the trending of this rate of change over certain classes of improvements within certain neighborhoods. Based on this market analysis, the appraiser estimates the annual rate of depreciation for given improvement descriptions considering age and observed condition. Once estimated, the appraiser recalculates the improvement value of all property within the sale sample to consider and review the effects on the neighborhood sale ratio. After an acceptable level of appraisal is achieved within the sale sample, the entire neighborhood of property is recalculated utilizing the indicated depreciation rates taken from market sales. This depreciation factor is the basis for trending all improvement values and when combined with any other site improvements and land value, brings the estimated property value through the cost approach closer to actual market prices as evidenced by recent sale prices available within a given neighborhood. Therefore, based on analysis of recent sales located within a given neighborhood, estimated property values will reflect the market influences and conditions only for the specified neighborhood, thus producing more representative and supportable values. The estimated property values calculated for each updated neighborhood are based on market indicated factors applied uniformly to all properties within a neighborhood. Finally, with all the market-trend factors applied, a final ratio study 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 appraisal level and uniformity in both updated and non-updated neighborhoods and verifies appraised values against overall trends as exhibited by the local market, 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
- the preceding year's appraised value;
PLUS 10 percent for each year since the property was re-appraised;
PLUS the value of any improvements added since the last re-appraisal.

Assessed 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 sale of the property and the property is appraised at its market value. An analogous provision applies to new homes. While a developer owns them, unoccupied residences may be partially complete and appraised as part of an inventory. This valuation is estimated using the district's land value and the percentage of completion for the improvement contribution that usually is similar to the developer's construction costs as a basis of completion on the valuation date. However, in the year following changes in completion, occupancy, or sale, they are appraised at market value.

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

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

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

computer-assisted values against his own appraisal judgment. During this review, the appraiser is able to physically inspect both sold properties and unsold properties for comparability and consistency of values.

Office Review

Once field review is completed, the appraiser conducts a routine valuation review of all properties as outlined in the discussion of ratio studies and market analysis. Valuation reports comparing previous values against proposed and final values are generated for all residential improved and vacant properties. The 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 within his area of responsibility, the estimates of value go to noticing.

PERFORMANCE TESTS

Sales Ratio Studies

The primary analytical tool used by the appraisers to measure and improve performance is the ratio study. The district ensures that the appraised values that it produces meet the standards of accuracy in several ways. Overall sales ratios are generated for each neighborhood to allow the appraiser to review general market trends within their area of responsibility, and provide an indication of market appreciation over a specified period of time. The PC-based ratio studies are designed to emulate the findings of the state comptroller's annual property value study for category A property.

Management Review Process

Once the proposed value estimates are finalized, the appraiser reviews the sales ratios by neighborhood and presents pertinent valuation data, such as weighted sales ratio and pricing trends, to the appraisal supervisors and the Chief Appraiser for final review and approval. This review includes comparison of level of value between related neighborhoods within and across jurisdiction lines. The primary objective of this review is to ensure that the proposed values have met preset appraisal guidelines appropriate for the tax year in question.

SPECIAL STUDIES

Rural Land Contributory Analysis

An in depth follow-up study will be conducted during the 2016 appraisal year to determine and quantify the contributory value of sizeable bodies of water relative to property tract size on rural land. Secondary objectives of the study will attempt to reevaluate such property characteristics as access, frontage,

topography, and contributory value of various appurtenances of rural land. Sales data will be individually analyzed and adjusted by abstraction before statistical analysis is employed. This special study will be used along side of annual market area/neighborhood analysis using similar trend/residual statistical models. Residuals from linear regression, exponential smoothing, or decomposition modeling will be analyzed individually to ascertain the quantifiable contributory value of various rural land characteristics. As stated previously, emphasis will be given to contributory value of the size of bodies of water relative to tract size. Through this special study, Van Zandt County Appraisal District aims to increase the accuracy and equality of its rural land appraisal model.

Commercial and Industrial Property Valuation Process

INTRODUCTION

Appraisal Responsibility

This mass appraisal assignment includes all of the commercial and industrial described real property which falls within the geographical borders of the Van Zandt County. The commercial appraiser appraises the fee simple interest of properties according to statute and court decisions. However, the affect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisal of any non exempt taxable fractional interests in real property (i.e. certain multi-family housing projects). Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

Appraisal Resources

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

One appraiser and the chief appraiser are responsible for estimating the market value of commercial property and the industrial property staff consists of the personnel employed by the Capital Appraisal Group under contract with Van Zandt County Appraisal District.

Data – The data used by the commercial 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 appraisers includes actual income and expense data (typically obtained through the hearings process and written requests), actual contract rental data, leasing information (commissions, tenant finish, length of terms, etc.), and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications are also reviewed to provide

additional support for market trends.

Commercial Reappraisal Schedule - The following three year reappraisal rotation is employed to ensure that all properties receive inspection as outlined by Section 25.18 of the Texas Property Tax Code.

Year 1 (2015)	Canton – City and Rural Mabank - All Athens - All Eustace – All Special Studies
Year 2 (2016)	Van – City and Rural Grand Saline – City and Rural Lindale – All Brownsboro – All Special Studies
Year 3 (2017)	Wills Point-City and Rural Edgewood- City and Rural Fruitvale- City and Rural Martins Mill - All Special Studies

Residential, Agriculture, and Business Personal Property Field Appraisers also aid in identification of new, changed, or removed improvements during the course of their assigned field audits. Properties identified as new, changed, or demolished will be flagged and given to the commercial appraiser for further review.

PRELIMINARY ANALYSIS

Market Study

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

Van Zandt CAD coordinates its discovery and valuation activities with adjoining appraisal districts. Numerous field trips, interviews and data exchanges with adjacent appraisal districts have been conducted to ensure compliance with state statutes. In addition, Van Zandt CAD administration and

personnel interact with other assessment officials through professional trade organizations including the Texas Association of Appraisal Districts and the Texas Association of Assessing Officers. District staff strives to maintain appraisal skills and professionalism by continuing education in the form of courses that are offered by several professional associations such as Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD) and others approved by the Texas Board of Licensing and Regulation.

VALUATION APPROACH

Land Value

Commercial land is analyzed annually to compare appraised values with recent sales of land in the market area. If appraised values differ from sales prices being paid, adjustments are made to all land in that region. Land pricing is analyzed not only county wide but also by market areas. The larger breakdown is by school district and then whether the land is in the city limits or has a rural location. Trends of both increase in value and decrease in value are noted. Sales are analyzed to determine if they represent a true market transaction or there are special circumstances that caused an unusually high or low price. Generally, commercial land is appraised on a price per square foot basis. Factors are placed on individual properties based on corner influence, depth of site, shape of site, easements across site, and other factors that may influence value. The land is valued as though vacant at the highest and best use.

Area Analysis

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

Neighborhood Analysis

The market area is comprised of the land area and commercially classed properties located within the geographical boundaries Van Zandt County. This area consists of a wide variety of property types including multiple-family residential, commercial and industrial. Neighborhood area analysis involves the examination of how physical, economic, governmental and social forces and other influences may affect property values within subgroups of the total Market Area. 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.

Economic areas are defined by each of the improved property use types (apartment, office, retail, warehouse and special use) based upon an analysis of similar economic or market forces on similar properties. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system. Studies involving similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity or other pertinent influences are used for this deliniation. All income model valuation (income approach to value estimates) is economic area specific. Economic

areas are periodically reviewed to determine if re-delineation is required. The geographic boundaries as well as income, occupancy and expense levels and capitalization rates by age within each economic area for all commercial use types and its corresponding income model have been estimated for these properties.

2014 REAPPRAISAL SUMMARY

A re-evaluation of each category of property was completed county wide using sales, and when available, fee appraisals. Foreclosures were used in select areas of analysis because we felt the number of foreclosures in relation to total transactions warranted their inclusion.

Each school district, for the purpose of the 2014 reappraisal, was considered a neighborhood.

The following modifications were made in order to arrive at an estimate of fair market value within each category of property within each neighborhood.

Neighborhood one – Canton ISD

I-20 Corridor land equity analysis performed and individual tract adjustments made where warranted.

Hwy 243 land equity analysis performed and individual parcel adjustments made where warranted.

Neighborhood two – Edgewood ISD

After analysis no change was applied or needed

Neighborhood three – Fruitvale ISD

After analysis no change was applied or needed

Neighborhood four – Grand Saline

After analysis no change was applied or needed

Neighborhood five – Martins Mill

After analysis no change was applied or needed

Neighborhood six – Van ISD

After analysis no change was applied or needed

Neighborhood seven – Wills Point ISD

After analysis no change was applied or needed

Category F1: Applied 1% increase to all properties.

Before and after studies were performed and are available for review upon request.

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, is excess land, or a different optimum use if the site were vacant. For vacant tracts of land within this jurisdiction, the highest and best use is considered speculative based on the surrounding land uses. Improved properties reflect a wide variety of highest and best uses which include, but are not limited to: office, retail, apartment, warehouse, light industrial, special purpose, or interim uses. In many instances, the property's current use is the same as its highest and best use. This analysis insures that an accurate estimate of market value (sometimes referred to as value in exchange) is derived.

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

Market Analysis

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

DATA COLLECTION / VALIDATION

Data Collection Manuals

Data collection and documentation for Commercial/Industrial property is continually updated, providing a uniform system of itemizing the multitude of components comprising improved properties. All properties located in Van Zandt CAD's inventory are coded according to a specific classification system and the approaches to value are structured and calibrated based on this coding system.

Annually, after the sales of property have been researched, verified, keyed into the database, and quality control has been completed, the sales data is summarized and produced into list form. The confirmed

sales reports, known as the Commercial Improved and Vacant Land sales listings categorize the sales by property and use type, and sort the data by location and chronological order. Many of these sales are available to the public for use during protest hearings, and are also used by the Van Zandt CAD appraisers during the hearings process.

Sources of Data

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

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

VALUATION ANALYSIS

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

Cost Schedules

The cost approach to value is applied to improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on local comparable properties whenever possible. Cost models are typically developed based on the Marshall Valuation Service which indicates estimated hard or direct costs of various improvement types. Cost models include the derivation of replacement cost new (RCN) of all improvements represented within the district. These include comparative base rates, per unit

adjustments and lump sum adjustments for variations in property description, design, and types of improvement construction. This approach and analysis also employs the sales comparison approach in the evaluation of soft or indirect costs of construction. Evaluating market sales of newly developed improved property is an important part of understanding total replacement cost of improvements. What total costs may be involved in the development of the property, as well as any portion of cost attributed to entrepreneurial profit can only be revealed by market analysis of pricing acceptance levels. In addition, market related land valuation for the underlying land value is important in understanding and analyzing improved sales for all development costs and for the abstraction of improvement costs for construction and development. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in costs over a period of time. Because a national cost service is used as a basis for the cost models, location modifiers and estimates of soft cost factors are necessary to adjust these base costs specifically for various types of improvements located in Van Zandt County. Thusly, local modifiers are additional cost factors applied to replacement cost estimated by the national cost service. Estimated replacement cost new will reflect all costs of construction and development for various improvements located in Van Zandt CAD as of the date of appraisal.

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

Income information, if available, is also used to adjust the cost schedules when applicable. During the 2010 tax year analysis, requests for income and expense information were sent to all the multi-family property owners. This information was then analyzed to determine how to adjust the cost schedules with local modifiers to adjust for our local economy. Analyses are also conducted to determine which neighborhoods are experiencing the highest and lowest vacancies and rent and adjustments were made accordingly. These Neighborhoods not only included segregation by school districts but also comparisons inside the city limit as compared to outside the city limit. Both trends of positive and negative effects were considered. The multi-family properties were not put on a strictly income approach but instead, they were put on a modified cost approach which was adjusted for the local economy, depending on where in the Market Area, they existed.

Additional forms of depreciation such as external and/or functional obsolescence can be applied if observed. A depreciation calculation override can be used if the condition or effective age of a property

varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific condition adequacy or deficiency, property type or location and can be developed via ratio studies or other market analysis.

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

Income Models

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

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

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

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements may be included in the expenses if typical. A non-recoverable expense represents costs that the owner pays to lease rental space. Relevant expense ratios are developed for different types of commercial property based on use and market experience. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for all operating expenses, such as ad valorem taxes, insurance, and common area and property maintenance. In comparison, a general office building is most often leased on a base year expense stop. This lease

type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. As a result, expense ratios are implemented and estimated based on observed market experience in operating various types of commercial property.

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

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

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

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

Rent loss concessions are estimated for specific properties with vacancy problems. A rent loss concession accounts for the impact of lost rental income while the building is moving toward stabilized occupancy. The rent loss is calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy. Build out allowances (for first generation space or retrofit/second generation space as appropriate) and leasing expenses are added to the rent loss estimate. The total adjusted loss from these real property operations is discounted using an acceptable

risk rate. The discounted value (inclusive of rent loss due to extraordinary vacancy, build out allowances and leasing commissions) becomes the rent loss concession and is deducted from the value indication of the property at stabilized occupancy. A variation of this technique allows a rent loss deduction to be estimated for every year that the property's actual occupancy is less than stabilized occupancy.

At the present time, the only category of commercial properties that are put on a purely income approach are the hotels. An income model derived over the past three to five years is used. The income is taken from the Hotel Occupancy Tax report which is turned into the State Comptroller by the hotel owner. Expense percentages are based on local information received as well as information from nearby appraisal districts and national resources such as PKF's Trends in the Hotel Industry. Capitalization rates are derived by taking previous rates used and adjusting for upwards or downwards local economies and economic trends for the different market areas.

Sales Comparison (Market) Approach

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

Final Valuation Schedules

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

Statistical and Capitalization Analysis

Statistical analysis of final values is an essential component of quality control. This methodology represents a comparison of the final value against the standard & provides a concise measurement of the appraisal performance. Statistical comparisons of many different standards are used including sales of

similar properties, the previous year's appraised value, audit trails, value change analysis and sales ratio analysis.

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

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

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

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The date of last inspection, extent of that inspection, and the Van Zandt CAD 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 subsequent years' 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 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 rate levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. While in the field, the appraisers physically inspect sold and unsold properties for comparability and consistency of values.

Office Review

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

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

PERFORMANCE TESTS

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

Van Zandt CAD has adopted the policies of the IAAO STANDARD ON RATIO STUDIES, circa July

1999 regarding its ratio study standards and practices. Ratio studies generally have six basic steps: (1) determination of the purpose and objectives, (2) data collection and preparation, (3) comparing appraisal and market data, (4) stratification, (5) statistical analysis, and (6) evaluation and application of the results.

Sales Ratio Studies

Sales ratio studies are an integral part of estimating equitable and accurate market values, and ultimately property assessments for these taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analysis; 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 Van Zandt 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 semi-annually (or more often in specific areas) to allow appraisers to review general market trends in their area of responsibility and for the Property Study from the Property Tax Division of the Comptroller's Office. The appraisers utilize desktop applications such as Microsoft EXCEL 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 sales and equity studies are performed prior to final appraisal and to annual noticing.

Business Personal Property Valuation Process

INTRODUCTION

Appraisal Responsibility

The Business Personal Property Valuation appraisers are responsible for developing equal uniform market values for business personal property. There are approximately 2400 Business Personal Property Parcels within the Van Zandt CAD territorial boundaries

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

- **Personnel** – The personal property accounts are appraised by one Business Personal Property Appraiser, the Appraisal Supervisor and clerical assistance is extended by the Appraisal Secretary.
- **Data** - The Business Personal Property Appraiser collects the field data and maintains the electronic property files making updates and changes gathered from field inspections, newspapers, property renditions, sales tax permit listings, Doing Business As (DBA's) or Assumed Name filings from the County Clerk Office, telephone listings, and interviews with property owners and internet site reviews. and local Chamber of Commerce information as well as industrial publications and listings.

VALUATION APPROACH

SIC Code Analysis

Business personal property is classified and utilizes a four digit numeric code, called Standard Industrial Classification (SIC) codes that were developed by the federal government to describe businesses. These classifications are used by Van Zandt County Appraisal District to classify personal property by business type.

SIC code identification and delineation is the cornerstone of the personal property valuation system at the district. Most of the personal property analysis work done in association with the personal property valuation process is SIC code specific. SIC codes are delineated based on observable aspects of business use.

Highest and Best Use Analysis

The highest and best use of property is the reasonable and probable use that supports the greatest income and the highest present value as of the date of the appraisal. The highest and best use must be physically

possible, legal, financially feasible, and productive to its maximum. The highest and best use of personal property is normally its current use.

DATA COLLECTION/VALIDATION

Data Collection Procedures

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

Sources of Data

Business Personal Property

The district's property characteristic data was 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, local telephone books, Assumed names, Abandonment of Names and Doing Business As documents filed with the County Clerk 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 Van Zandt County Appraisal District with a listing of vehicles within the jurisdiction. The vendor develops this listing from the Texas Department of Transportation (TXDOT) Title and Registration Division records. Other sources of data include property owner renditions and field inspections.

Leased and Multi-Location Assets

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

VALUATION AND STATISTICAL ANALYSIS

Cost Schedules

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

Statistical Analysis

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

Depreciation Schedule and Trending Factors

Business Personal Property

Van Zandt CAD's primary approach to the valuation of business personal property is the cost approach. The replacement cost new (RCN) is either developed by property owner reported historical cost or from CAD developed valuation models. The trending factors used by the CAD to develop RCN are based primarily utilizing Marshall and Swift data as well as other commonly used published valuation guides.

The percent good depreciation factors used by Van Zandt CAD are also based on published valuation guides with some modifications applied for the rural market conditions and actual service life of business personal property as opposed to a more urban region with a more active market resulting in shorter service life of said property.

The percent good depreciation factors are used to develop a present market value by year of acquisition, as follows:

MARKET VALUE ESTIMATE = ORIGINAL/ACQUISITION COST X PERCENT GOOD FACTOR

The percent good depreciation factors are applied universally and are used to ensure that estimated values are uniform and consistent within the market and reflect current economic pressures of supply and demand.

Computer Assisted Personal Property Appraisal (CAPP)

The CAPP valuation process has two main objectives: 1) Analyze and adjust estimated asset cost with existing SIC models. 2) Develop new models for business classifications not previously integrated into CAPP. Van Zandt CAD is utilizing the CAPP system with its more sophisticated data capabilities to review for accuracy of SIC code, square footage, field data, and original cost information. This endeavor will require the input of a good deal of information into the computer system but should assist greatly in the creation and refinement of Models by using actual original cost data to derive a typical replacement cost new (RCN) per square foot for a specific category of assets. The RCN per square foot is depreciated by the estimated age using the depreciation table adopted for the tax year.

The data sampling process is conducted in the following order: 1) Prioritizing Standard Industrial Classification (SIC) codes for model analysis. 2) Compiling the data and developing the reports. 3)

Field checking the selected samples. The models will be built and adjusted using internally developed software as opposed to the old manual calculations. The models will then be tested against the previous year's data. The typical RCN per square foot (or applicable unit) will then be determined by a statistical analysis of the available data.

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

Vehicles

Value estimates for vehicles are provided by an outside vendor and are based on NADA published book trade in values, and there are also considerations available for high mileage and excessive usage. Vehicles that are not valued by the vendor are valued by an appraiser using percent good depreciation factors to develop present value or published guidelines.

Leased and Multi-Location Assets

Leased and multi-location assets are valued using the percent good depreciation factors to develop present value as above. If the asset to be valued in this category is a vehicle, then NADA trade in values are used. Assets that are not valued by the vendor are valued by an appraiser using the percent good depreciation factors to develop present value or published guides.

INDIVIDUAL VALUE REVIEW PROCEDURES

Office Review

Business Personal Property

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

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 Van Zandt CAD personal property values and ratios are indicated.

Minerals (Oil and Gas Reserves) Valuation Process

INTRODUCTION

Appraisal Responsibility

Minerals-in-place (oil and gas reserves) are real property. Appraisal of minerals, oil and gas reserves, is based on estimating the present value of the economically recoverable reserves of oil and gas. Mineral rights are property rights and may be separable property interests from the land surface property rights. Minerals being produced are a tangible asset and are appraised for ad valorem taxation. The valuation of minerals-in-place is based on estimating the discounted net present value of the oil and gas production over the economic life of the well(s). Basically, this method of valuation is an income approach using discounted cash flow analysis methodology. Oil and Gas Properties are also marketed based on proven reserves and the unit of comparison in this market is considered in barrels of oil or in cubic feet of natural gas. The market approach is based on sales of property based on barrels of proven reserves.

Mineral interests are commonly divided into property interest known as working interests and royalty interests. The valuation of this property begins with the valuation of the mineral lease and is divided into the property interests according to division orders for each lease. It is the goal and purpose of the CAD to identify every producing mineral property interest listed on the roll.

Appraisal Resources

- **Personnel** - The mineral property staff consists of the personnel employed by the **Capitol Appraisal Group** and under contract with the Van Zandt County Appraisal District
- **Data** - A common set of data characteristics for each mineral property account in Van Zandt CAD is collected from the Texas Railroad Commission Records and data entered to the district's computer. The property characteristic data drives the computer- assisted mineral property appraisal system. Railroad Commission records are searched to discover new leases as of January 1 of the year and legal descriptions are gathered to determine the location of the lease within Van Zandt CAD jurisdictional boundaries. Records are also reviewed for changes in production for existing wells and for abandoned wells with salvage value for equipment, tanks, and tubular goods. Production history for each mineral lease is gathered from IHS Energy production records and from the Texas Railroad Commission. Division Orders on each lease are requested annually from lease operators and checked against the appraisal roll for accuracy of owner name, address, and ownership percentage interest. To assist with operating information, an annual Confidential Lease Operating Expense Survey is mailed to the operator of each active

lease requesting lease-specific operating information on oil and gas pricing, operating expenses, and possible market sales of leases.

To assist with the economic parameters influencing these properties, general economic data is gathered for the valuation process. The method of appraisal for minerals-in-place is the discounted cash flow method which looks at the net present value of operating the lease. Current interest rates, market rates of return and levels of discounting the investment are factors to consider when evaluating the returns necessary to attract investment capital for this type property. Capitalization rates are estimated based on data from the general market for oil and gas property. West Texas Intermediate Crude product prices are tracked on a daily basis from Plains Marketing, a regional product gathering and marketing company and the primary buyer for oil and gas produced in the area. Other capital market information and return rates for investors participating in the oil and gas market is taken from the Oil and Gas Journal, Ibbotson's SBBI Valuation Edition, Wall Street Journal, Merchant Bond Record, Moody's Corporate Bond Yield Averages, and Value Line Investment Survey "Ratings and Reports".

VALUATION AND STATISTICAL ANALYSIS

Pricing, Operating Expenses and Reserve Analysis

Crude oil and natural gas prices are important information in the valuation of mineral property because these prices help determine income to the lease and are a significant factor in determining the economic life of the production from the lease. Price analysis and estimates for crude oil and natural gas produced is based on the previous year's average price as per Texas Property Tax Code (Sec. 23.175). Prices paid for production for each lease is analyzed and averaged to evaluate the estimated average for the area.

Lease operating expenses are estimated based on rendered information and actual operating cost and expense from surveys of lease operators in Van Zandt CAD. Decline curve analysis estimates the rate of production decline and is formulated using past production operating expenses and recent operating parameters such as water production, lease repairs, and secondary recovery efforts. Current operating income and expenses for the lease are considered and estimated in a discounted cash flow model to allow the appraiser to evaluate and estimate the net present value of producing oil and gas from the lease. Capitalization rates and discounting return rates are estimated for each lease based upon the particular risks inherent with production of oil and gas from that property. These risks may vary considerably from one lease to another depending upon several factors influencing the production from that particular lease. The discounted cash flow model method will allow the appraiser to evaluate current market value of the lease based on the estimated recoverable reserves. This methodology is approved and recommended by the Property Tax Division of the Comptroller's Office and is a recognized method of appraisal by industry standards. We have utilized the discounted cash flow model to estimate the market value of each lease located in Van Zandt CAD.

Value Review Procedures

The method of value review for this type of property is based on the review of the factors estimated within the discounted cash flow analysis methodology such as the discount rate, product prices, and operating expenses. Evaluation and verification of these economic factors as to their validity within current economic times and based on current capital requirements for investment in this type property is re-confirmed and reviewed for reasonableness. Sales of mineral properties are considered but adequate sale data is usually not available due to difficulty in confirming sales. The market for this type of property is neither an active nor an efficient market, there are very few participants and pricing information is mostly confidential. There is no central source for tracking these transactions and property owners are reluctant to reveal market information concerning prices paid or terms of the transaction. Because of a lack of market sales on mineral property, appraised values are regularly compared to similar properties within the same production field, field of exploration, strata of formation, or production history and expense level.

Ratio studies are a source of comparison to evaluation level and uniformity of appraisal. When market sales are available the ratio study is based on a comparison of the appraised value to the sale price. For mineral property, which lacks available market sales, a ratio study is a comparison of another appraisal opinion with the opinion of the district to determine level and uniformity of appraisal. The Property Tax Division of the Comptroller's Office conducts an annual ratio study of selected mineral properties to gauge the districts appraisal performance. The PTD utilizes the same valuation methodology to appraise individual mineral properties. This opinion of value is then utilized as market evidence with the same significance as if the property sold for that value. The estimated value of the property by Van Zandt CAD is compared to the appraisal by the PTD to calculate the ratio and the indicated level of appraisal. This study indicates the median and mean levels of appraisal for mineral property and is considered reliable as a review and evaluation tool.

Utility Property Valuation Process

INTRODUCTION

Appraisal Responsibility

Utility properties are the tangible assets of various businesses including electric production, transmission, and distribution companies, railroads, petroleum product gathering and delivery pipelines, telephone and communication providers and others. The valuation of these properties is considered to be complex due to the involvement of both tangible and intangible property elements that comprise these businesses and due to the size of some of the utilities that are regional and national companies. The appraisal of these companies becomes complex when considering the valuation of the property as a unit in place, evaluating the property by the approaches to value at the company level. Once the value of the unit is estimated, the estimated market value is allocated based on the tangible property assets that are located within Van Zandt CAD.

Appraisal Resources

- **Personnel** – The mineral property staff consists of the personnel employed by the **Capitol Appraisal Group** and under contract with the Van Zandt County Appraisal District.
- **Data** – A common set of data characteristics for each utility property account in Van Zandt CAD is collected from the various government regulatory agency records, field inspections, and property owner renditions. This data is entered into the district’s computer. Individual company financial information is gathered through industry specific governmental filings such as Federal Energy Regulatory Commission Reports, Securities and Exchange Commission 10-k filings, and Public Utility Commission publications. Other company information is gathered from annual reports, internal appraisals, and other in-house and industry publications. Property owner renditions are requested to document and list property owned and located in our particular jurisdictions (i.e.: track mileage, number of meters, pipeline size and mileage, substation and transmission capacity, etc.). The property characteristic data drives the computer-assisted appraisal of the property.

The appraisal of utility property utilizes three-approach analysis to form an opinion of value for the property. Financial and capital market information is pertinent to understanding factors affecting valuation of complex property. Gathering financial data to attempt to understand investor and corporate attitudes for capital return expectations giving considering return components such as current interest rates, capital debt structure, bond market rates, and capital supply and demand trends. These financial factors result in overall return rates and capital structure for these companies and affects capitalization rates. The weighted average cost of capital is the most commonly used method of estimating capitalization rates for utility properties. Capitalization rates are estimated using capital return expectations from various publications: Ibbotson’s SBBI Valuation Edition, Wall Street Journal, Merchant Bond Record, Moody’s Corporate Bond Yield Averages, Value Line Investment Survey “Ratings and Reports”. Industry specific information is also gathered from web sites, publications, periodicals, and reference manuals. Van Zandt CAD utilizes the weighed average cost of capital to estimate the capitalization rate for utility appraisal under the income approach.

VALUATION AND STATISTICAL ANALYSIS

Approaches to Valuation, Reconciliation

Valuation of tangible assets for utility companies relies primarily on indications of value based on the cost and income approaches to value under the unit value approach. This methodology involves developing and estimating market value considering the entirety of the company’s tangible assets and resolving an allocated value for that portion of specific tangible assets located in particular tax jurisdictions. The valuation opinion is based on three approach analysis utilized for the indicated unit appraisal of all company tangible assets, then an estimated allocation of unit value for only assets located in the district and particular jurisdictions. This methodology is approved and recommended by the Property Tax Division of the Comptroller’s Office and is an accepted standard within the industry and appraisal community.

Value Review Procedures

Review of the valuation of utility property is based on verifying economic and financial factors utilized in the methodology as relevant to current capital markets and that these factors reflect current return expectations. Market sales of utility properties do occur and are a good source for comparison and review when the price of the tangible assets can be abstracted or allocated from the selling price. Typically, the sale of utility companies involve significant intangible property assets such as customer base, goodwill, favorable contracts, name recognition, etc. and the contributory value and allocation of these assets is subjective and unknown. In Texas, intangible property assets are exempt from taxation and must not be included on the appraisal roll as taxable property. Therefore, because of the lack of specific market information on sales of utility properties, appraised value is regularly compared to the valuation of similar property within the same set of property characteristics, business type and size. More of comparison for equity concerns on valuation rather than the full recognition of a market level certainty about appraisal level. Of course, the estimated value is based on recognized methodology for considering the valuation of these tangible assets, but true market confirmation of these factors may not be possible due to minimal market knowledge and experience.

Ratio studies are also a method of review for relevance of appraisal valuation to market value. Again, in the absence of full disclosure of prices paid and without the abstraction of prices paid for the tangible asset components from recent utility property acquisitions or sales, market based analysis and review is not possible. Ratio studies for utility property must rely on a comparison of one appraisal opinion as the basis for the reasonable property valuation with the district's appraised value to determine the ratio for level and uniformity of appraisal. The PTD conducts the annual ratio study of selected utility properties to gauge the appraisal district's performance. The PTD utilizes the same valuation methodology to estimate appraisal valuations of utility properties and the results, when compared to the appraisal valuation estimated by Van Zandt CAD for these properties yield ratios. This ratio study of certain utility properties indicates the level and uniformity of appraisal for this category of property.

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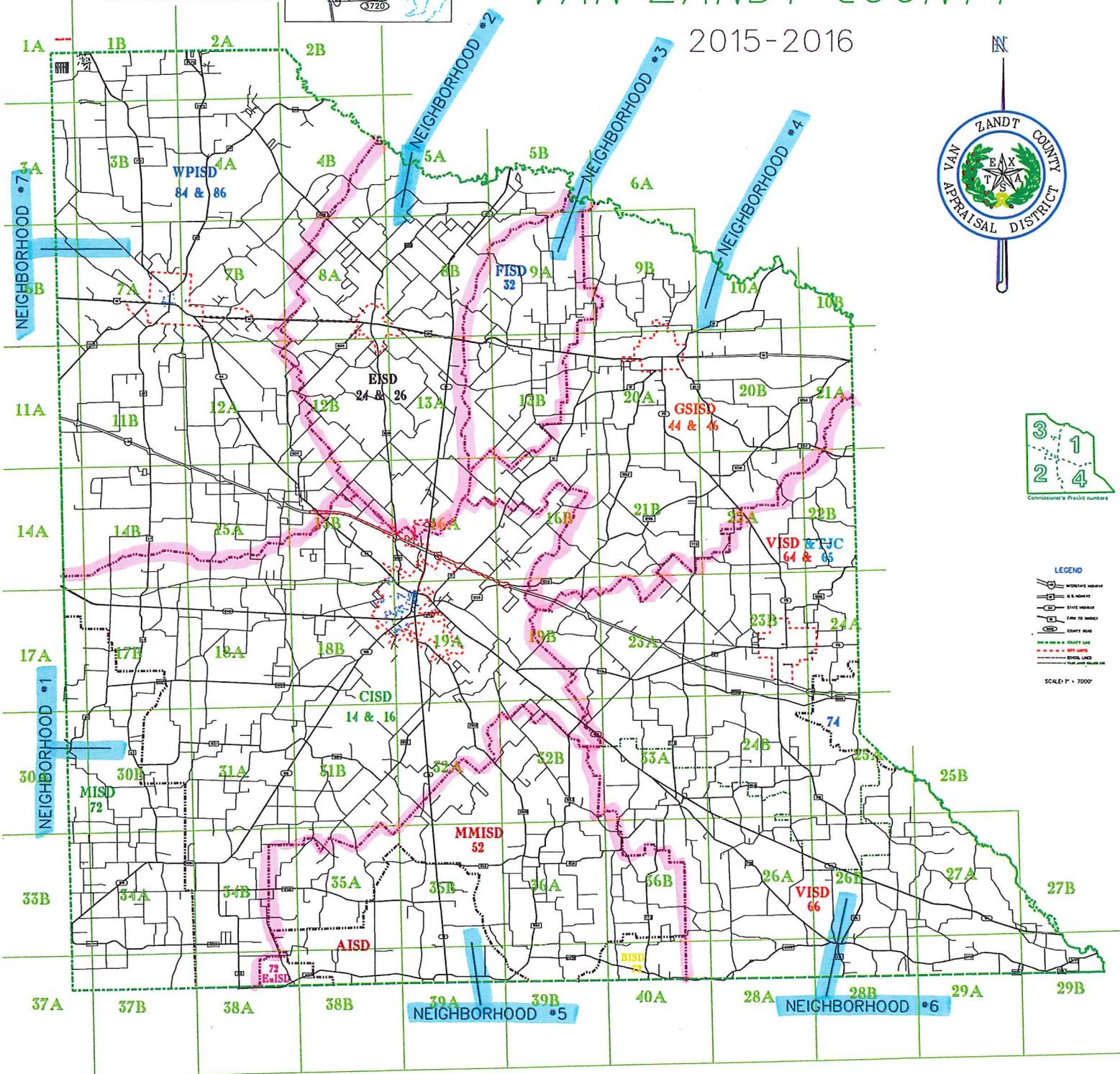
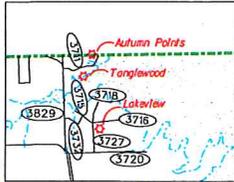
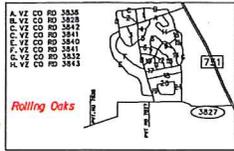
Scott S. Hyde
Scott Hyde, RPA
Chief Appraiser

Adopted by the Board of Directors 7-15-14
Date

Dennis Torney
Chairman
Tony Bulmer
Secretary

REAPPRAISAL PLAN FOR VAN ZANDT COUNTY

2015-2016



PREPARED BY: VAN ZANDT COUNTY APPRAISAL DISTRICT 07/2014

WORK BY THE OPERATOR, NOT SUPPLIER ONLY