

Zapata County Appraisal District

Re-Appraisal Plan

For
Calendar Years 2015-2016

Adopted by
The Zapata County Appraisal District
“ZCAD”
Board of Directors

On August 13th, 2014

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TAX CODE REQUIREMENT

Adoption Dates

Pursuant to Property Tax Code Subchapter A. Section 6.05 paragraph (i)
(i) To ensure adherence with generally accepted appraisal practices, the board of directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place for the hearing. Not later than September 15 of each even-numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

Plan for Periodic Reappraisal

Property Tax Code Section 25.18, Subsections (a) and (b) 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 6.05(i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:

- (1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches:

Zapata CAD physically inspects all real property at least once every three years. Zapata CAD is divided into three sections each section is appraised every three years. In 2015, property listed in section II, will be appraised and physical inspections will be made. In 2016, property listed in section III and in 2017, property listed in section I will be appraised and physical inspections made. ZCAD annually appraises business personal, mineral and utility properties. Only in cases where physical access is denied or impossible, will the CAD resort to the other means of property identification mentioned above.

(2) Identifying and updating relevant characteristics of each property in the appraisal records:

Identifying and updating relevant property characteristics occurs by physical inspection and by property owner interviews. Changes in age, condition, quality, size, remodels, demolitions and other property specific attributes contribute to relevant property characteristics. Relevant property characteristics are maintained on the property record card and within the CAMA system for each property account.

When performing field work, the appraisers carry property records cards that contain specific information regarding the property being appraised. These cards contain brief legal descriptions, ownership interests; property used codes, property addresses, land size, sketches of improvements as well as any available detailed information of the improvements. A copy of a property record card may be obtained at the appraisal office.

Field inspections require the appraiser to check all information on the property record cards and to update if necessary. If physical inspection of the property indicates changes to improvements, the appraiser notes these changes in the field. Examples of types of change may be condition or effective age of the improvements as well as additions or deletions to the improvement(s). The classification of residential properties is also reviewed during the revaluation process. New improvements are also added at this time.

(3) Defining market area in the district

Historically, Zapata CAD has not experienced sufficient market activity (sales) to identify significant market differences based on location or property type (s). Sales are collected by mailing sales confirmation/verification letters to recent buyers and sellers, from realtors, and fee/land appraisers. The CAD has only one school district. Currently, the District staff has established 11 neighborhood codes based on the property's primary use which is either residential or commercial. Distinguishing the neighborhood codes as residential and commercial enables the district to recognize and appropriately adjust the social, economic and governmental factors affecting each property type. The county's rural area is delineated into 2 sections in order to manage these numerous accounts.

(4) Identifying property characteristics that affect property value in each market area, including:

- (A) The location and market are of property;
- (B) Physical attributes of property, such as size, age, and condition;
- (C) Legal and economic attributes; and
- (D) Easements, covenants, leases, reservations, contracts, declaration, special assessments, ordinances, or legal restrictions;

When Zapata CAD has sufficient market data (sales) it uses techniques of the Market Approach to Value to adjust comparable sales to determine what differences in property

characteristics, if any, are affecting market value. Comparable sales analysis will identify and adjust differences in location, physical attributes, legal and economic attributes, easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances and legal restrictions. It should be noted that Zapata CAD does not *HAVE* enough market data to perform the type of ratio analysis recommended by IAAO and USPAP.

- (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;

Zapata CAD utilizes an appraisal model (CAMA) developed by its software vendor that values individual property characteristics based on their contributory value to the total property value. Contributory value for each property segment (characteristic) is determined by sales analysis (when available) and local building costs. The model accesses appraisal cost schedules for each segment developed and maintained by Zapata CAD and calculates a total market value for each property.

- (6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and

Zapata CAD uses conclusions reflected in appraisal model results to construct and maintain property classification guides identifying minimum property characteristics typical for each property class.

- (7) Reviewing the appraisal results to determine value.

Zapata CAD tests the results of its appraisal model values (appraisals) against market data (sales) when available and local building costs to determine the accuracy and level of appraisal, as well as to monitor the integrity of the appraisal model (CAMA). Results are used to maintain and update appraisal schedules to achieve market value appraisals.

Revaluation Decision (Re-Appraisal Cycle)

The Zapata County Appraisal District by policy adopted by the Board of Directors and the Chief Appraiser is to reappraise all property in the district every three (3) years. The reappraisal year is a complete appraisal of all properties within the Zapata County boundary. As indicated on the attached reappraisal schedule plan all properties are to be reappraised within the calendar / tax years 2015 and 2016 by categories.

Re-Appraisal and Non-Reappraisal Year Activities

Performance Analysis – the equalized values for the previous tax year are analyzed using local builder costs to determine the appraisal accuracy and uniformity overall and by market area within property reporting categories. Lack of current and reliable market (sales) data prevent the appraisal district from performing defensible and meaningful ratio studies, as recommended by IAAO.

Analysis of available Resources – Staffing and budget requirements for the calendar / tax year 2014 are detailed in the 2014 ZCAD budget, as adopted by the Zapata County Appraisal District Board of Directors. Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current are specified. Information systems (IS) support is detailed with year specific functions identified and system upgrades scheduled. Existing maps and data requirements are specified and updates scheduled.

Planning and Organization – A calendar of key events with critical completion dates is prepared for each major work area. Work areas are defined by section. The calendar identifies all key events for appraisal, clerical, customer service and information systems. A calendar is prepared for the calendar / tax years 2015 thru 2016. Production standards for field activities are calculated and incorporated in the planning and scheduling process.

Mass Appraisal System – Computer Assisted Mass Appraisal (CAMA) system revisions required are specified and scheduled with Information Systems (IS). All computer forms and IS Procedures are reviewed and revised as required.

Data Collection Requirements – Field and office procedures are reviewed and revised as required for data collections. Activities scheduled for each calendar / tax year include new construction, demolition, remodeling, re-inspection of problematic market areas, and re-inspection of universe of properties on a specific cycle and filed or office verification of sales data and property characteristics.

Ratio Studies - Pilot study by calendar / tax year and/or revised mass appraisal models are tested each calendar / tax year. Local builder costs and current Marshall and Swift data are reviewed on a countywide basis and compared against current appraisal district schedules. Proposed values on each category are tested for accuracy and reliability countywide due to the absence of defined market areas.

Valuation by Calendar / Tax Year- Using local builder costs, current Marshall and Swift data, and valuation models are specified and calibrated in compliance with supplement standards from the International Association of Assessing Officers “IAAO” and with the Uniform Standards of Professional Appraisal Practice “USPAP”. The calculated values are tested for accuracy and uniformity using local builder costs and current Marshall and Swift data.

The Mass Appraisal Report – Each calendar / tax year the tax code required Mass Appraisal Report is prepared and certified by the chief appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about the 15th of May). The Mass Appraisal Report is

completed in compliance with STANDARD RULE 6-8 of the Uniform Standards of Professional Appraisal Practice “USPAP”. This signed certification by which the chief appraiser is compliant with the STANDARD RULE 6-9 of ‘USPAP’.

Value Defense- Evidence to be used by the appraisal district is to meet its burden of proof for the market value and equity in both informal and formal Appraisal Review Board “ARB” hearings is specified and tested. Taxpayers are advised that they have the right to view and obtain copies of all evidence the appraisal district plans to present at the hearing as required by House Bill 201.

REVALUATION DECISION

The Zapata County Appraisal District, “ZCAD” by policy adopted by the ZCAD Board of Directors, reappraises all property in “ZCAD” every three (3) years. The reappraisal calendar is a complete appraisal of all properties within the Zapata County boundaries.

Tax Year 2015 – Calendar 2015 is a partial reappraisal Year

Tax Year 2016 – Calendar 2016 is a partial reappraisal Year

Tax Year 2017 – Calendar 2017 is a partial reappraisal Year

Performance Analysis

In each calendar year 2015 and 2016 the previous tax year’s equalized values are analyzed using local builder costs and current Marshall and Swift data to determine overall appraisal accuracy and uniformity countywide within the state property reporting categories. The lack of current and reliable market data prevents the appraisal district from conducting defensible ratio studies.

Analysis of available resources

Staffing and budget requirements for the calendar year 2013 are detailed in the 2013 appraisal district budget, as adopted by the Zapata County Appraisal District Board of Directors. This reappraisal plan is adjusted to reflect the available staffing in the calendar year 2015 and the anticipated staffing for calendar year 2016. Staffing will impact the cycle of real property re-inspection and personal property on-site reviews that can be accomplished in the 2015 thru 2016 time period.

Existing appraisal practices, which are continued form year to year, are identified and methods utilized to keep these practices current are specified. In, the reappraisal year, real property appraisal depreciation tables and cost new tables are tested against verified sales, when available, local builder costs and current Marshall and Swift data to ensure they represent current market data. Although seldom applicable due to the poor economy and high vacancies, cap rates, market rents and market expenses for commercial real property types are reviewed from local published data. Personal property density schedules are tested and analyzed based on rendition and prior year hearing documentation.

Information Systems (IS) support is detailed with year specific functions identified and scheduled system upgrades. Computer generated forms are reviewed for revisions based on year and reappraisal status, legislative changes are scheduled for completion and testing. Existing maps and data requirements are specified and updated are scheduled.

Planning and Organization

A calendar of key events with critical completion dates is prepared for each major work area. Work area defined by sections. The calendar identifies all key events for appraisal, clerical, customer service and information systems (IS). A separate calendar is prepared for tax years 2015 and 2016.

Production standards for field activities are calculated and incorporated into the planning and scheduling process.

2015 Calendar of Key Events

2016 Calendar of Key Events

Mass Appraisal Systems

Computer Assisted Mass Appraisal "CAMA" systems revisions will be specified and scheduled with Information systems "IS". All computer forms and IS procedures will be reviewed and revised as required. The following details these procedures as it relates to the 2015 thru 2015 calendar years:

Real Property Valuation:

Revision to cost models, income models and market models will be specified, updated and tested each calendar / tax year.

Cost schedules will be tested with market data, when available, local builder costs and current Marshall and Swift data to insure that the appraisal district in compliance with the Texas Property Tax Code, Section 23.011.

If the chief appraiser uses the cost method of appraisal to determine the market value of real property, the chief appraiser shall:

- (1) use cost data obtained from generally accepted sources;*
- (2) make any appropriate adjustment for physical, functional, or economic obsolescence;*
- (3) make available to the public on request cost data developed and used by the chief appraiser as applied to all properties within a property category and may charge a reasonable fee to the public for the data;*
- (4) clearly state the reason for any variation between generally accepted cost data and locally produced cost data if the data vary by more than 10 percent; and*
- (5) make available to the property owner on request all applicable market data that demonstrate the difference between the replacement cost of the improvements to the property and the depreciated value of the improvements.*

Replacement cost new tables, as well as depreciation tables will be tested for accuracy and uniformity using local builder costs and compared with cost data from recognized industry leaders, such as Marshall and Swift.

Land tables will be updated when current market data (sales) BECOME available. Publications from the Real Estate Center at Texas at Texas A&M assist in determining land values when sales are not available. In addition, Zapata CAD maintains contact with local realtors and land/fee appraiser for their interpretation of local market trends.

Income expense and occupancy data is reviewed for hotels and motels and compared against the cost approach. Due to the poor economy in Zapata County and the high vacancy rates, the cost approach is most often the best indicator of commercial value.

Personal Property Valuation

Density schedules will be updated using data received during the previous tax year from renditions and hearing documentation. Valuation procedures will be tested and revised and/or modified needed.

Noticing Process

Property Tax Code Section 25.19 - Notice of Appraised Value. Updates and changes to the appraisal notice forms and/or procedures will be reviewed and/or edited for updates and will be signed off by “ZCAD” management. The latest copy of the State Comptroller Rights, Remedies and Responsibilities shall be included with the notices as required by law.

Hearing Process

Scheduling for informal (meeting with an appraiser) and formal (meeting with the Appraisal Review Board “ARB”) hearings will be reviewed and updated as needed and/or required. “ZCAD” hearing documentation will be reviewed and updated to reflect the current valuation process. Production and documentation will be tested to assure compliance with House Bill 201. Taxpayers will be notified via a 14 day Notice of Protest Hearing that they have the right to view and obtain copies of all evidence the appraisal district intends to present at the hearing, as required by House Bill 201.

Data Collection Requirements

Field and office procedures will be reviewed and revised as required for data collection. Activities scheduled for each calendar / tax year includes but are not limited to new construction, demolition, remodeling, re-inspection of problematic areas and re-inspection of the area(s) of properties on the specified reappraisal cycle of three (3) years.

New Construction / Demolition

Procedures for identification of new construction by field and office review will be identified and revised as needed and/or required. Field production standards will be established as well as procedures for monitoring and testing. System input procedures will be confirmed. Process of verifying demolition of improvements will be specified. This critical annual activity will be projected and entered on the key events calendar for each calendar / tax year.

Remodeling

When sufficient data exists, market areas with extensive improvement remodeling will be identified; verified and field activities will be scheduled to update property characteristic data. Updates to valuation procedures will be tested with sales, if available, local builder costs and current Marshall and Swift data before finalizing the valuation modeling. This field activity will be entered in the key events calendar and will be monitored carefully. To date, no market areas have been identified. Property characteristics are updated on a county-wide basis, as needed.

Re-Inspection of the Universe of Properties

Property tax code section 25.18(b) specifies that the universe of properties should be re-inspected on a three (3) year cycle.

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

(b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years:

(1) identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches;

Zapata CAD physically inspects all real property at least once every three years. In 2013, all property categories in section III will be physically inspected. In 2014, all property categories in Section I will be inspected. In 2015, property categories in section II will be inspected. ZCAD annually appraises business personal, mineral and utility properties. Only in cases where physical access is denied or impossible, will the CAD resort to the other means of property identification mentioned above.

(2) identifying and updating relevant characteristics of each property in the appraisal records;

Identifying and updating relevant property characteristics occurs by physical inspection, Zapata County does not issue building permit so information is obtained from property owner interview and any other available sources. Changes in age, condition, quality, size, remodels, demolitions and other property specific attributes contribute to relevant property characteristics. Relevant property characteristics are maintained on the property record card and within the CAMA system for each property account.

When performing field work, the appraisers carry property record cards that contain specific information regarding the property being appraised. These cards contain brief legal descriptions, ownership interests, property use codes, property addresses, land size, sketches of improvements as well as any available detailed information of the improvements. A copy of a property record card may be obtained at the appraisal office.

Field inspections require the appraiser to check all information on the property record cards and to update if necessary. If physical inspection of the property indicates changes to improvements, the appraiser notes these changes in the field. Examples of types of changes may be condition or effective age of the improvements as well as additions OR REMOVALS to the improvements. The

classification of residential properties is also reviewed during the revaluation process. New improvements are also added at this time

(3) defining market areas in the district;

Zapata CAD has been able to identify 11 market areas based on location or property type. Zapata CAD does not collect too many sales, but every effort is made to collect sales. Sales are collected by mailing sales confirmation/verification letters to recent buyers and sellers, from realtors, and fee/land appraisers. The CAD has four (4) taxing entities, county, school district and two water districts. For purposes of statistical analysis and appraisal schedule maintenance, Zapata County is considered the general market area and local builder costs and current Marshall and Swift data are used to test the appraisal district's schedules.

(4) identifying property characteristics that affect property value in each market area, including:

(A) the location and market area of property;

(B) physical attributes of property, such as size, age, and condition;

(C) legal and economic attributes; and

(D) easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;

When Zapata CAD has sufficient market data (sales) it uses techniques of the Market Approach to Value to adjust comparable sales to determine what differences in property characteristics, if any, are affecting market value. Comparable sales analysis will identify and adjust differences in location, physical attributes, legal and economic attributes, easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances and legal restrictions. It should be noted that Zapata CAD does not have enough market data to perform the type of ratio analysis recommended by IAAO and USPAP.

(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;

Zapata CAD utilizes an appraisal model (CAMA) developed by its software vendor that values individual property characteristics based on their contributory value to the total property value. Contributory value for each property segment (characteristic) is determined by sales analysis (when available) and local building costs and Marshall and Swift cost data. The model accesses appraisal cost schedules for each segment developed and maintained by Zapata CAD and calculates a total market value for each property.

(6) applying the conclusions reflected in the model to the characteristics of the properties being appraised; and

Zapata CAD uses conclusions reflected in appraisal model results to construct and maintain property classification guides identifying minimum property characteristics typical for each property class.

(7) reviewing the appraisal results to determine value.

Zapata CAD tests the results of its appraisal model values (appraisals) against market data (sales) when available and local building costs and current Marshall and Swift cost data to determine the accuracy and level of appraisal, as well as to monitor the integrity of the appraisal model (CAMA). Results are used to maintain and update appraisal schedules to achieve market value appraisals.

Field Office Verification of Sales Data and Property Characteristics

When there is enough sales data to do, sales information will be verified along with property characteristic data contemporaneous with date of sale. Validations of the statistical analysis results require that the sales ratios must reflect 100 percent the property appraised value. Historically, there has not been sufficient sales data to perform defensible and meaningful ratio studies.

Valuation by Tax Year

Valuation by calendar tax year- Using local builder costs, current Marshall and Swift data, valuation models are specified and calibrated in compliance with supplement standards from the International Association of Assessing Officers “IAAO” and with the Uniform Standards of Professional Appraisal Practice “USPAP”. The calculated values are tested for accuracy and uniformity using building permits, local builder costs and current Marshall and Swift data. Property values countywide will be updated each calendar re-appraisal year. Calendar / Tax year 2015 is a reappraisal year. Calendar / Tax year 2016 is a reappraisal year.

Residential Real Property

Sales Comparison approach to value
Cost Approach to value
Income Approach to value

Inventory Residential Property

Sales Comparison approach to value
Cost Approach to value
Income Approach to value

Multi-Family Residential Property

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Commercial Real Property

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Vacant Real Property

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Industrial Real Property

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Utilities

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Mineral Interest

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Special Valuation Properties

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Business Tangible Personal Property

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

Rendition Information

Industrial Tangible Personal Property

Sales Comparison approach to value

Cost Approach to value

Income Approach to value

The Mass Appraisal Report

Each tax year the property tax code requires a mass Appraisal Report to be prepared and certified by the chief appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about the 15th of May). The Mass Appraisal Report is completed in compliance with the STANDARD RULE 6-8 of the Uniform Standards of Professional Appraisal Practice “USPAP”. The signed certification by the chief appraiser is in compliance with the STANDARD RULE 6-9 of USPAP. This written reappraisal plan is attached to the Mass Appraisal report by reference.

Value Defense

Evidence to be used by the appraisal district is to meet the burden of proof of the market value and equity in both informal and formal Appraisal Review Board “ARB” hearings is specified and tested. Taxpayers are notified via a 14 day Notice of Protest Hearing of their right to view and obtain copies of all evidence the appraisal district intends to present at a hearing, as required by House Bill 201.

Residential Property
Inventory Residential Property
Multi-Family Residential Property
Commercial Real Property
Vacant real Property
Industrial Real Property
Utilities
Mineral Interests
Special Valuation Properties
Business Tangible Personal Property
Industrial Tangible Personal Property

Defining Market Areas

According to the Dictionary of Real Estate Appraisal, 3rd Edition, the market area is defined as “the geographic or locational delineation of the market for a specific category of real estate; i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users”. The District staff group properties by market area, also known as “neighborhoods”, for the purposes of valuation and analysis. Additionally, in consideration to market characteristics and the specific life cycle of the neighborhood in compliance with USPAP Standards, the District staff assigns neighborhood codes to comparable properties conforming to the definition of a market area.

Currently, the District staff has established 12 neighborhood codes based on the property’s primary use which is either residential or commercial. Distinguishing the neighborhood codes as residential and commercial enables the district to recognize and

appropriately adjust the social, economic and governmental factors affecting each property type.

The county's rural area is delineated into 2 sections in order to manage these numerous accounts. Rural Market Areas consisted of the following property classes in 2012.

- Irrigated Cropland 1,757 Acres**
- Improved Pasture Land 29 Acres**
- Native Pasture Land 608,714 Acres**
- Other 20 Acres**

All neighborhood codes begin with a comprehensible acronym for easy and quick identification, for example:

OT	Properties outside township
SS	Siesta Shores
SY	San Ygnacio
LF	Lakefront Property
C	Commercial Property
SR	Rural property South of Zapata
NR	Rural property North of Zapata
MH	Mobile Home Park
MA	Medina Addition
FLEE	Falcon Lake Estate East
APT	Apartment Complex
RR	Ranchetts

Market Area: The defined area in which the subject property competes for the attention of market participants is the market area.

Life Cycle of Market Area: The typical but not necessarily universal, four stage cycle that describes the life pattern of market areas. The four stages include:

Growth – a life cycle stage in which the market area gains public favor and acceptance.

Stability – a life cycle stage in which the market area experiences equilibrium without market gains or losses.

Decline – a life cycle stage of diminishing demand in a market area.

Revitalization – a life cycle stage characterized by renewal, redevelopment, modernization and increasing demand.

Market Area Analysis: focuses on the four forces that influence value:

- Social
- Economic
- Governmental
- Environmental

In compliance with USPAP, STANDARD RULE 6-2 (e):

Identify the characteristics of the properties that are relevant to the type and delimitation of value and intended use, including:

The group with which a property is identified according to similar market influence;
The appropriate market area and time frame relative to the property being valued; and
Their location and physical, legal and economic characteristics;

In compliance with USPAP, STANDARD RULE 6-2 (f):

Identify characteristics of the market that are relevant to the purpose and intended use of the mass appraisal including:

Location of the market area;
Physical, legal, and economic attributes;
Time frame of market activity; and
Property interests reflected in the market.

When there are enough current valid ARMSLENGTH sales, market analysis is performed. Both general and specific data is collected and analyzed. In most cases, local builder costs and current Marshall and Swift data are used in the absence of current market data.

Examples of sources of general data include “*Trends*” issued by The Real Estate Center at Texas A&M University, “*The Appraiser*” published by The Texas Association of Appraisal Districts, and the “*Texas Assessor’s News*” published by the Texas Association of Assessing Officers. When possible, local sources such as lending institutions, local realtors, the Chamber of Commerce, and articles published in the local and area newspapers are used to obtain financing information, market trends and information, demographics, and labor statistics.

ZCAD attempts to collect sales information from various sources. Sales confirmation letters are mailed to each buyer and seller when a property changes hands. In addition, ZCAD tries to obtain sales information from, local realtors, fee/LAND appraisers, and lending institutions. Since sales activity is very limited in Zapata County. The number of sales confirmed and verified does not allow ZCAD to perform reliable ratio studies. County deed records are regularly checked for new real estate transactions. ZCAD uses county deed records to generate sales confirmation letters for each buyer and seller to obtain detailed information on the sale. Because full sales disclosure is not mandatory in the State of Texas only a small percentage of sales letters are returned with useful information. This is a serious problem in that there is usually inadequate sales data to perform a thorough an analysis of sales data as USPAP would require. However, every effort is made to use what data is available. The Property Tax Assistance Division also sends out sales letters and that data is made available to the ZCAD at least once a year.

Due to the population size and rural nature of Zapata County, it is often difficult to obtain sufficient sales data to meet USPAP standards for analysis of sales to determine well-defined market areas and exception is taken to USPAP Standard 6 in this area.

Income Approach

Zapata County Appraisal District “ZCAD” uses the following steps to apply the income approach to value in mass appraisal which are as follows:

- Collect samples of income & expenses for specified market(s)
- Identify any economic classes (submarkets)
- Determine median lease & expense rates
- Create schedule per submarket(s) & populate appropriate fields in PACS
 - Include additional data and make adjustments that are deemed necessary
 - Test model for accuracy
 - Develop & apply appropriate overall rates
- Apply schedule to all properties within specified market(s)

DATA COLLECTION & REVIEW

Determination of income streams are accomplished by surveys of various types of rental and/or leased properties. Surveys of this nature are typically performed during the first calendar quarter.

ZCAD also incorporates data collected during the appeals process for income and expenses that have been provided by owners’ or their agents. Income streams also include information gathered by publication(s) and data collected from websites, such as MLS. *Note: there is no MLS in ZCAD.*

TYPES OF LEASES

First you must identify the type of lease a property has to develop various income streams. A variety of lease structures exist depending on the needs of the landlord and tenant. Leases will generally be categorized by one of the following lease types:

- Gross Lease
- Triple Net Lease (NNN)
- Modified Net Lease

For a Gross Lease, the landlord pays for the taxes, insurance and maintenance. The landlord collects rents then pays the expenses out of rent collected. The rents may be a fixed amount or it may increase at an agreed amount over a specified period of time. Increases to a base rent are referred to as escalation clauses in a lease agreement.

In a Triple Lease Net (aka, NNN), the tenant is responsible for the taxes, insurance, and most of the maintenance costs. Rents are generally fixed over a specified period of time. This type of lease structure is more common with newer multi-tenant buildings.

In a Modified Net Lease, the tenant is responsible for the taxes and insurance, and an agreement is made on the split of the maintenance costs. There can be many variations of responsibilities with this type of lease.

CONTRACT RENT VS. MARKET RENT

The contract rent is the property's actual rent. Market rent is what a property should be leasing at based on comparable property data. When reviewing income data, an appraiser will need to identify if the actual rent is at market rent rates.

LEASE EXPIRATIONS

The date a lease is scheduled to expire is an important consideration when reviewing income data. A landlord will be required to negotiate a renewal lease with an existing tenant, or to secure a new tenant for the space. It is important to determine what the absorption period will be to lease the space.

HIGHEST & BEST USE

In reviewing all income, it is important to determine how the property is being used. An appraiser should ask if the current use of the property is to the highest and best use. If the rental income is low, then it may be a result of a property not being used at its best use.

QUANTITY, QUALITY AND DURATION

All income streams will then be analyzed in terms of the quantity, quality and duration. The following questions should be asked:

Quantity - How much income can the property produce?

Quality - What are the type of tenants and their financial rating?

Duration - What is the length of time the income will be received? Will the amount of income change from year to year? Will it vary, decline, increase or remain the same?

After answering the questions about the income streams, the following steps should be used to arrive at an indication of value.

1. Estimate the Potential Gross Income (PGI).
2. Subtract the estimated vacancy and collection loss from the PGI.
3. Add secondary income to arrive at the Effective Gross Income (EGI).
4. Calculate the applicable operating expenses
5. Subtract the expenses from the EGI to arrive at an Net Operating Income (NOI)
6. Capitalize the NOI using the appropriate capitalization method, technique and rate.

These steps can be expressed as a mathematical formula:

$$\begin{array}{r} \text{PGI} \\ - \text{Vacancy \& Collection} \\ + \text{Secondary Inc} \\ = \text{EGI} \\ - \text{Exp} \\ = \text{NOI} \end{array}$$

CONFIDENTIAL POLICY

ZCAD will treat all information received during the gathering phase as confidential. Income is considered confidential regardless of the source or of the lack of any verbal or written agreement. All income and expense reports, leases, contracts and rent rolls should not be scanned into PACS. This information shall be filed in the Chief Appraiser file cabinet. This information will only be entered into excel in the income property use spreadsheets for the development of income models, as well as entered into each account's income calculation worksheet in PACS. Once the property is leased, then the listing stating the actual income or agreed leased rates will also not be scanned. The listing is to be considered confidential also.

INCOME ANALYSIS

All income data will be analyzed in order to identify trends in the local rents and expenses. When there is sufficient income and expense data, an income schedule will be developed. This schedule will then be applied to all properties within a specified market.

When analyzing income data, the following steps are necessary to determine if an income schedule can be developed.

- Determine if the sample size of the income data is sufficient to draw a conclusion about that market. Too small of a sample may not give an accurate representation of the rents for a particular type of property. Obviously a large sample size is ideal, but not always possible for certain types of property uses. For example, most apartment complexes publish their asking rents. As a result, there generally is sufficient income data to draw conclusions about typical rents for this type of property within ZCAD. In general, ZCAD should have a minimum of 5% sample in order to make conclusions. ZCAD may need to include prior years' data in order to increase the sample size.
- Identify the range of rents (low to high) for property uses. Is there a wide range between the lowest and highest rents? If there is a wide range, then determine the cause. A vast difference between the rents could be a result of the differences in age and type of lease, the age of a building or location. Finding a reason for a wide range in rents will be essential in determining the typical rents (or market rents) for each property use and any submarkets within the property use.
- Calculate the median and mean rents for each property use and its economic classes (or submarkets) if any.
- Identify the range in expenses (low to high) for property uses. Determine if a wide range in expenses for the same property use is due to type of lease, age of building or location. For example, in areas of ZCAD many commercial properties do not have a public water or sewer system. This could mean that a property's reported utility expense is lower. Comparing this example with that of a property in an area where these services are available may result in a difference between the properties' operating expenses. Understanding the differences in the expenses is essential to determining the typical expenses for a property use.
- Calculate the median and mean expenses for each property use and its economic classes (or submarkets) if any.

- Determine the typical vacancy for each property use. Identify any property with a low vacancy and determine the cause. An unusually low vacancy may be a result of poor management, a physical or functional obsolescence with the building, and/or poor location due to limited access or visibility.

Once the median income and expenses has been established for a specified market, then the information is entered into various screens in PACS to create an income schedule. For actual current income schedules, please refer to the Annual Commercial Report.

DATA ENTRY

Within PACS Appraisal Software there are only a limited number of fields available to create an income schedule. Certain fields must be populated in order for the income schedule to work. Those required fields are identified by an asterisk *. For more information on how to create a schedule with the software, please refer to the PACS Training Manual or the True Automation help star.

<u>Field</u>	<u>Meaning and Use</u>
* Property Use	Select property use. Not all property uses have schedules due to insufficient income data.
* Economic Area	Used to describe geographic or market area.
* Class	Refers to Economic Class or Submarket not building class. (This should match the submarket field in the Property Codes screen.) Select: 1 High Economic Class 2 Mid Economic Class 3 Low Economic Class
* Level	Used to further subdivide an economic class or submarket. No additional classification exists at this time so it should default to "1"
Lease Type	Select: NNN Gross Modified
Rent Type	Used only for properties that do not use leases. Select: Daily Monthly Semi Annually
Expense Structure	ZCAD at this time does not use this field.
* Lease Rate	\$/sq ft. Expressed in terms of annual rent per square foot. \$/unit Expressed in terms of annual rent per unit.
* Occupancy Rate	expressed as %
Secondary Income	expressed in \$/sq ft or \$/unit
* Cap Rate	expressed as %
Expense	expressed in \$/sq ft or \$/unit
Tenant Improvement Rate	expressed in \$/sq ft
Reserve for Replacement	expressed as %
Management Rate	expressed as %

TESTING THE MODEL

The income schedule will be tested with a sample of properties from the same market. This sample should include properties that were used to develop the model. ZCAD will determine if an appropriate value is calculated for each property. If erroneous values are appearing as the final value, then the data entry fields may need to be checked. The following steps are used to test the model:

- After creating the income schedules, add the schedule to each property in the sample in the Schedule screen. Be sure to recalculate each account.
- All properties in the sample with actual income should have its income data entered in the Direct Cap screen. Those properties in the sample that did not have actual income will not have a value calculated in the Direct Cap screen. Be sure to recalculate each account.
- Determine if any “Error” messages appear.
- Compare the indicated property values from the Schedule vs. those produced from the Direct Cap. Are the values in the schedule similar?
- Compare the indicated property values from the Schedule screen vs. those calculated on the excel spread sheets. Are they producing the desired price/sq ft or total value?
- Make any adjustments necessary to the schedule and repeat all the steps.
- When satisfied with the results, then an appraiser will have to add the schedule to the remaining properties in the same market.
- The final step is reviewing all values in the commercial equity screen to identify any properties whose values do not conform.

REPORTS

The Annual Commercial Report is prepared when the property values are finalized. It is usually prepared in late April or early May. The report will not include the actual income and expenses of any property, since that information is considered confidential. The annual report should include a summary of all property uses that were analyzed and valued per income approach. The report will also include information about sales, growth in the county and other statistical data.

Zapata Count y Appraisal District re-appraisal schedule

2015 Section II

PTD Code	Category	Description	Parcel count
A	Land & Improvements	Residential, single family	1651
B	Land & Improvements	Residential, multi Family	12
F	Land & Improvements	Commercial	280
D	Acreage	Verify Ag-status	1732
C	Land	Vacant	807
L	Personal Property	Commercial	annually
G	Oil, Gas, Utilities	Wardlaw Appraisal Group	Annually

September-November, 2014

January-March, 2015

(45) Zapata	1536	(31) New Lopeno	24
(6) Black Bass	51	(49) Los Lobos	38
(16) Falcon Shores	103	(61) Ramirez Addn	20
(18) Flores Addn	183	(44) Veleno	6
(11) Falcon	116	(59) Guzman Addn	34
(17) falcon Shores	149	(51) Bob's Knob	4
(22) Falcon Lake East	307	(56) Twin Cove	3
(33) Morales	35	(57) Bell Camp	1
(79) Sanchez	15	(60) El Tigre	35
(30) Lopeno	68	(73) Veleno Estate	6
Sunset Villa	3	Ranch Impvts & AG	1732
		Total All Subdivisions	4469

December 1-December 31, 2014 New Improvements

2016 Section III

PTD Code	Category	Description	Parcel count
A	Land & Improvements	Residential, single family	2252
B	Land & Improvements	Residential, multi Family	6
F	Land & Improvements	Commercial	59
M	Mobile Home	Improvements only	39
C	Land	Vacant Land	791
Total all categories			3158
G	Oil, Gas, Utilities	Wardlaw Appraisal Group	Annually
L	Personal Property	Commercial	Annually

September-November, 2015**January-March, 2016**

Siesta Shores	1604	(7) JE Bravo	10
(8) Buena Vista	98	(9) Colorado	13
(12) Falcon Estate	75	(13) Falcon Lakeshore	99
(21) Haynes	28	(23) Tepozan	22
(28) Linda Vista	23	(35) Phelps	23
(36) Pierce	12	(58) Alaniz	14
(770) San Joaquin	8	(15) Falcon Mesa	291
Ranch Impvts & ag	1933		
		Total all Subdivision	4253

December 1-December 31, 2015 New Improvements***ZCAD 2015 thru 2016 Calendar of Key Events***

January thru April

January 1ST OR AS SOON THEREATER AS POSSIBLE mail out personal property renditions and VIT declarations, State Comptroller requirements.

Jan 25th data transmission. Data Verification, Testing Tables [real and commercial property improvements, land (real and commercial)]

February 14th OR AS SOON THEREAFTER AS POSSIBLE exemptions applications (both reset and new construction),

April 30th OR AS SOON THEREAFTER AS POSSIBLE MAIL appraisal notices

May thru July

Submit records to Appraisal Review Board

June 15th submit proposed budget to board of directors and taxing entities.

June 21st & July 12th Tentative hearing date,

July 17th ARB roll approval OR AS SOON THEREAFTER AS POSSIBLE,

July 25nd Appraisal Roll Certification,

July 30TH submission to Comptroller, Odd year Board of Director election procedure (*PTC, Sec 6.03*), Next year's preliminary operating budget (*PTC, Sec 6.06*), State Comptroller requirements

August thru September

Transfer certified data to Tax Collector,

September 15 adoption of budget (*PTC, Sec 6.06*), State Comptroller requirements

Begin next year appraisal preparation; Late ARB roll changes, taxpayer mailing address updates, property ownership changes, exemption applications, update computer

forms, Odd year Board of Director election procedure (PTC, Sec 6.06)

WARDLAW APPRAISAL GROUP

CLIENT APPRAISAL DISTRICT

Reappraisal Plan 2015 – 2016

Contract Valuation Support

Appraisal Responsibility

Wardlaw Appraisal Group, LC (Wardlaw) provides complex property appraisal support services for client Central Appraisal Districts (CADs). The complex properties Wardlaw appraises are generally referred to as mineral, utility, and industrial properties and fall under the F, G, J, and L Categories. Client CADs contract with Wardlaw when they lack the in-house expertise to appraise these complex properties. Under the contracts, Wardlaw acts as an agent of the CAD and provides many of the appraisal and support services required under the Texas Property Tax Code and the Uniform Standard of Professional Appraisal Practices. This document details the reappraisal practices that Wardlaw performs on behalf of the client CADs and is intended to be incorporated by the CADs into their own Reappraisal Plan.

Appraisal Calendar

Wardlaw adheres to the property tax calendar as established by the State of Texas Property Tax Code. The Wardlaw appraisal calendar generally follows this schedule:

November – April:	Field Appraisal Inspections of Properties
January 1:	Beginning of the Tax Year
Prior to January 31:	Mail out Rendition Request Letters
January 31:	Last day for receipt of 25.25 protests from prior year.
April 15:	Last day for timely filing of renditions
Around May 1:	Mail Notices of Appraised Value

May 1:	Begin Equalization Process. Work with property owners to explain appraisals and work on formal and informal protests
Around June 1:	Mail Notices of Appraised Value for properties with an Extension
Late June – Early July:	ARB Hearings
Mid-July:	Deliver totals and Certified Rolls to CADs
August – November:	Process Property Supplements, Deletions, and Additions.
November:	Begin Field Appraisals for Subsequent Tax Year

Equalization Period

Preliminary values established by the 25.19 Notices of Appraised Value are subject to change during the equalization period. The changes can be initiated by property owner formal or informal protests. The changes can also be initiated by Wardlaw if new information regarding a property becomes available. Formal and informal protests on the mineral, utility and industrial properties are handled directly by Wardlaw, within the appropriate timetables established by the Property Tax Code. Wardlaw attempts to contact protesting taxpayers so that we can, 1) provide the taxpayer an opportunity to explain the reason for their protest, 2) explain the appraisal methodology and appraisal parameters used on each protested property, 3) consider whether the preliminary appraisal should be adjusted in light of taxpayer evidence, and 4) provide settlement and withdrawal paperwork to the taxpayer if appropriate.

Wardlaw directly responds to taxpayer requests for appraisal information and supporting appraisal documentation by providing the requested information in a timely manner. Wardlaw then goes on to represent the CAD before the ARB (Appraisal Review Board) to justify appraised values for all protested properties that fall under the mineral, utility and industrial contract.

Documentary evidence of formal and informal changes is then provided to the CAD and ARB in the form of Withdrawal of Protest Settlement waivers on formally protested accounts. The final values are then delivered for certification.

Minerals (Oil and Gas Reserves) Valuation Process

Appraisal Responsibility

Minerals-in-place (oil and gas reserves) are real property classified as Category G property under the Texas Property Tax Code. As a commodity, minerals in place are part of a national market so there is no local market area to consider. Wardlaw performs an appraisal as of

January 1 each year on every producing mineral property in the CAD to determine the market value of the oil and gas mineral reserves for ad valorem tax purposes.

DCF analysis is the primary method used for appraising mineral properties. The Market Data Comparison Method of Appraisal (Section 23.013) and the Cost Method of Appraisal (Section 23.011) can be used when appropriate and when the necessary data is available. However, because the sales and purchase prices of oil and gas properties are not generally disclosed, the Market Data Comparison method can seldom be used and the Cost Method of Appraisal does not estimate the market value as defined in Section 1.04 of the Texas Property Tax Code.

Discounted Cash Flow (DCF) analysis is the Income Method of Appraisal (Section 23.012 of the Texas Property Tax Code) and is used as the most appropriate technique for determining the market value of mineral properties. WAG uses DCF analysis to appraise every producing lease in the appraisal districts we support. The appraised value of each lease is distributed to each working interest, royalty interest, and overriding royalty interest owner based upon their decimal interest in the lease.

Mineral interests are commonly divided into property ownership interests known as working interests, overriding interest, and royalty interests. The valuation of each type of interest begins with the valuation of the producing well on the mineral lease and that value is allocated to the property ownership interests based on the decimal ownership value identified in the division orders for each lease. It is the goal and purpose of the CAD to identify every producing mineral property within the district and estimate the market value of each property listed on the roll.

Appraisal Resources

- *Personnel - The mineral appraisal firm provides adequate personnel.*
- Data - A common set of production data for each mineral property account in each CAD is collected from the Texas Railroad Commission Records and data entered to the appraisal firm's computer. The property characteristic data are gleaned from the production data and 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 descriptive information is gathered to determine the location of the lease within the CAD jurisdictional boundaries. Records are also reviewed for changes in production for existing wells, for abandoned wells, and for non-producing wells with salvage value for the equipment, tanks, and tubular goods. Production history for each mineral lease is gathered from HPDI, Drilling Info, Petroleum Information, and from the Texas Railroad Commission. Division Orders on each lease are requested annually from lease operators and checked against the existing division orders for changes and for accuracy of owner name, address, and ownership percentage interest. To help determine operating expense information on each active lease, lease-specific operating expenses are requested annual. A Confidential Lease Operating Expense Detail

request letter is e-mailed or mailed, to the operators or agents representing operators requesting lease-specific operating expenses.

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 analysis which looks at the net present value of the future income that is derived from 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. The annual capitalization rates are calculated using the "Manual for Discounting Oil and Gas Income" as developed by the Texas Comptroller's Office. Data is obtained from Ibbotson's SBBi Valuation Edition, Wall Street Journal, Standard & Poor's Bond Guide, and Value Line Investment Survey "Ratings and Reports".

VALUATION AND STATISTICAL ANALYSIS (model calibration)

Pricing, Operating Expenses and Reserve Analysis

Crude oil and natural gas prices are required information in the valuation of mineral property because these prices are necessary to determine income to the lease and the economic life of the production from the lease. The crude oil sales price and natural gas sales price used for the first year of the appraisal analysis is based on the previous year's average price multiplied by the Price Adjustment Factor (PAF). The prices are then escalated or de-escalated for five (5) years according to the Texas Property Tax Code Sec. 23.175 Section (a). Lease operating expenses are estimated based on rendered information, actual operating cost and expenses, and from surveys of lease operators in the CAD. The January 1 production starting rate is based on the actual production rate or upon a projection of past average production. The past oil and gas production history of the lease is analyzed to estimate the future rate of production decline of the lease. Other considerations include past lease expenses and recent operating parameters such as water production, workover operations, and secondary recovery efforts. Current operating income and expenses for the lease are calculated in a discounted cash flow model used by the appraiser to evaluate and estimate the net present value of producing oil and gas income from the lease. Discount rates established for each lease based upon the particular risks inherent with production of oil and gas from that property. The discounted cash flow model allows the appraiser to establish current market value of the lease based on the discounted value of the future 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. The appraisal firm has utilized the discounted cash flow model to estimate the market value of each lease located in each 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 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 Assistance Division of the Comptroller's Office conducts biennial ratio studies of selected mineral properties to gauge the districts appraisal performance. The PTAD utilizes the same valuation methodology as the CAD 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 in each CAD is compared to the appraisal by the PTAD 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 & Industrial Property Valuation Process

Appraisal Responsibility

Utility and Industrial 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. Utility properties are identified in the Texas Property Tax Code as Category J property. Industrial properties are identified under the Texas Property Tax Codes as categories L2 (Industrial, Personal) and F2 (Industrial, Real). 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. The appraisal district does not have personnel qualified to perform this type of appraisal. An appraisal firm is employed to provide the expertise to perform this type of appraisal. Once the estimated value of the unit is determined by the appraisal firm, that estimated market value is allocated based on the tangible property assets that are located within each CAD.

Appraisal Resources

- **Personnel** – The appraisal firm provides adequate personnel to perform the appraisals.

Data - A common set of data characteristics for each utility and industrial property account in each CAD is collected from the various government regulatory agency records, field inspections, data resources, and property owner renditions. This data is entered to the appraisal firm'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 (ie: 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 and industrial 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. It is necessary to gather financial data to attempt understanding investor and corporate attitudes for capital return expectations and to give consideration to 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, Mergent 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. The appraisal firm then estimates the capitalization rate for utility appraisal under the income approach.

VALUATION AND STATISTICAL ANALYSIS (model calibration)

Approaches to Valuation, Reconciliation

Valuation of tangible assets for utility and industrial 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 Assistance 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 PTAD conducts the annual ratio study of selected utility properties to gauge the appraisal district's performance. The PTAD utilizes the same valuation methodology to estimate appraisal valuations of utility properties and the results, when compared to the appraisal valuation estimated by the appraisal firm for these properties yield ratios. This ratio study of certain utility properties indicates the level and uniformity of appraisal for this category of property.

**STAFF PROVIDING SIGNIFICANT
MASS APPRAISAL ASSISTANCE**

<u>NAME</u>	<u>TITLE</u>	<u>TDLR NUMBER</u>	<u>TYPE OF ASSISTANCE</u>
Peggy Wardlaw	President	66026	Mineral, Utility & Industrial Appraisals
Charles Williams	Vice President	70182	Mineral, Utility & Industrial Appraisals
Paula Davis	Appraiser	71699	Utility & Industrial Appraisals
Haziel Williams	Appraiser	71700	Mineral, Utility & Industrial Appraisals
Jose Cantu	Appraiser	73246	Mineral, Utility & Industrial Appraisals
Noah Williams	Appraiser	73672	Utility & Industrial Appraisals
Kathleen McFarlane	Appraiser	73616	Utility & Industrial Appraisals
Al Grall	Appraiser	73759	Utility & Industrial Appraisals

LIMITING CONDITIONS

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

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

Certification Statement:

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

Amada Gonzalez
Chief Appraiser