

**STERLING COUNTY  
APPRAISAL DISTRICT**

**REAPPRAISAL PLAN**

**FOR**

**TAX YEARS 2023 – 2024**

**AS ADOPTED BY THE BOARD OF DIRECTORS**

## Table of Contents

<b>Mission Statement</b> -----	5
<b>Executive Summary</b> -----	5
Tax Code Requirements	
Plan for Periodic Reappraisal	
Define Market Value	
<b>Revaluation Decision</b> -----	7
<b>Performance Analysis</b> -----	7
Ratio Study Results	
Appraisal Accuracy	
Appraisal Uniformity	
<b>Analysis of Available Resources</b> -----	8
Staffing for Reappraisal Year	
Proposed Budget FY 2023	
Pritchard & Abbott, Inc. Contract Services	
Existing Practices	
Information Systems (IS) Support	
<b>Planning and Organization</b> -----	8
Calendar of Key Events – FY 2023	
Calendar of Key Events – FY 2024	
Production Standards for Field Activities	
<b>Mass Appraisal System &amp; Process</b> -----	9
CAMA System Revisions as Required	
Real Property Valuation	
Personal Property Valuation	
Noticing Process	
Hearing Process	

<b>Data Collection Requirements-----</b>	<b>10</b>
New Construction/Demolition & Remodeling	
Re-inspection of Problematic Markets	
Re-inspection of Universe of Properties on Specific Cycles	
Verification of Sales Data and Property Characteristics	
<b>Pilot Study by Tax Year-----</b>	<b>12</b>
Test New/Revised Mass Appraisal Methods	
Ratio Studies by Market Category	
Test Accuracy and Reliability in Market Areas	
<b>Valuation by Tax Year-----</b>	<b>12</b>
Market Analysis	
Model Development	
Model Calibration	
Calculation of Preliminary Values	
Test Values for Accuracy and Uniformity	
Description of Valuation Methods by Property Type	
Approaches to Value	
Special Valuation Process	
<b>Ratio Study Procedures-----</b>	<b>18</b>
<b>Value Defense-----</b>	<b>20</b>
Informal Appeals	
Formal Appeals	
Burden of Proof Evidence for Market Value and Equity	
<b>The Mass Appraisal Report-----</b>	<b>20</b>
<b>The Written Reappraisal Plan-----</b>	<b>21-26</b>
Planning a Reappraisal	
Steps in a Reappraisal	
Sterling Co. Appraisal District Plan: 2023 & 2024	

<b>Reappraisal Schedule Tax Year 2023</b> -----	<b>27</b>
<b>Reappraisal Schedule Tax Year 2024</b> -----	<b>28</b>
<b>Attachment A – 2023 Approved Budget</b> -----	<b>29</b>
<b>Attachment B – P &amp; A’s Reappraisal Plan 2023-2024</b> -----	<b>30</b>

## MISSION STATEMENT

The Sterling County Appraisal District is dedicated to providing the taxpayers and taxing units of Sterling County with the highest quality of customer service and appraisal system. We strive to maintain continue excellence in our performance, continued growth in education, and fiscal responsibilities. We will administer the Texas Property Tax Code in a fair and uniform manner. We will promote the ideals of government transparency.

### Executive Summary

The Sterling County Appraisal District (SCAD) has prepared and published this plan, as required by law, to inform the taxpaying public of the; mission, legal requirements, organization, workload, past performance, and necessary changes to the district's operations to accomplish the plan requirements regarding the valuation and revaluation of taxable property within Sterling County Appraisal District as summarized in the last section of this document.

The Sterling County Appraisal District (SCAD) is a political subdivision of the State of Texas created by the Texas Legislature in 1979 to provide uniform and equal appraisals of taxable properties at market value for ad valorem tax purposes. The Texas Property Tax Code governs the legal, statutory, and administrative requirements of the appraisal district. The district is governed by a board of five directors appointed by the governing bodies of the participating taxing units. The board of directors are responsible for establishing the district's office; adopting the district's annual operating budget; contracting for necessary services; hiring the chief appraiser; appointing the Appraisal Review Board (ARB); and making general policies of the district's operation. The board's authority is limited. The board does not appraise property or review values on individual properties. These tasks are legally assigned to the chief appraiser and the ARB. The chief appraiser, appointed by the Board of Directors, is the chief administrator and chief executive officer of the appraisal district.

The Appraisal District is responsible for local property tax appraisal and exemption administration for the taxing units in the county. The purpose of the district is to discover, list and appraise property as accurately, ethically and impartially as possible in order to estimate the market value of all property within the boundaries of the district for ad valorem tax purposes. Each taxing unit sets its own tax rate to generate revenue to pay for police and fire protection, public schools, road and street maintenance, courts and other public services. Property appraisals by the appraisal district allocate the year's tax burden on the basis of each taxable property's market value. The District also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly and disabled, disabled veterans, charitable or religious organizations and agricultural productivity valuation.

**Tax Code Requirements:**

Section 6.05 of the Texas Property Tax Code

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

**Plan for Periodic Reappraisal Requirement:**

Section 25.18 of the Property Tax Code

- (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;
  2. identifying and updating relevant characteristics of each property in the appraisal records;
  3. defining market areas in the district;
  4. identifying property characteristics that affect property value in each market area, including:
    - a. the location and market area of property;
    - b. physical attributes of property, such as size, age, and condition;
    - c. legal and economic attributes; and
    - d. easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
  5. developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;
  6. applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
  7. reviewing the appraisal results to determine value.

**Definition of Market Value:**

Except as otherwise provided by the Property Tax Code, all taxable property is appraised at its "market value" as of January 1<sup>st</sup>.

Subsection (7), Section 1.04, Tax Code:

(7) "Market value" means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- (A) exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- (B) 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;
- (C) both the seller and buyer seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other

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

**Revaluation (Reappraisal Cycle)**

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 Sterling County Appraisal District, by policy adopted by the Chief Appraiser and the Board of Directors reappraises all property in the district every three years with the exception of the industrial, mineral, and personal property accounts which are appraised annually. All new construction will be added to the appraisal records; any adjustments in property characteristics, that affect value, will be applied to all property types of the same class within the district.

**Performance Analysis**

Performance Analysis – the equalized values from the previous tax year are analyzed with ratio studies of the current market to determine the appraisal accuracy and appraisal uniformity overall, and by market area, within property reporting categories. Ratio studies are conducted in compliance with the current *Standard on Ratio Studies* of the International Association of Assessing Officers. Mean, median, and weighted ratios are calculated for properties in reporting categories to measure the level of appraisal accuracy. The median

ratio is calculated in each reappraised category to indicate the level of appraisal accuracy by property reporting category. In 2023, the reappraisal year, this analysis is used to develop the starting point for establishing the level and accuracy of appraisal performance. In 2024, the reappraisal year, this analysis is used to develop the starting point for establishing the level and accuracy of appraisal performance. In 2023 and 2024, any reporting category that may have been previously excluded from reappraisal, due to lack of data, will be readdressed. If sufficient market data has been discovered and verified, the category will be tested and analyzed to arrive at an indication of uniformity or equity of existing appraisals.

### **Analysis of Available Resources**

Staffing and budget requirements for tax year 2023 are detailed in the 2023 budget, as adopted by the Board of Directors of the Sterling County Appraisal District and is attached to this written biennial plan for reference (Attachment A). This reappraisal plan may be adjusted as needed to reflect the available staffing in tax year 2023 and anticipated staffing for tax year 2024. Budget restraints can impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2023 - 2024 time period.

The Board of Directors of the Sterling County Appraisal District has contracted with Pritchard & Abbott, Inc. to provide personnel and expertise towards the completion of the appraisal of Mineral, Industrial, Utilities, and related Personal Property including field work, data analysis, and taxpayer protest portions of the reappraisal plan. Pritchard & Abbott, Inc. may also assist with the evaluation of some income producing real estate parcels. See attached Addendum for further detail.

Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current. Real property appraisal value tables are tested against verified sales data to ensure they represent current market data. Personal property values are evaluated and analyzed based on renditions, prior year documentation, and inspections. The Comptroller's Guide is utilized to appraise new and/or undocumented personal property and for verification purposes.

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

### **Planning and Organization**

A calendar of key events with critical completion dates is prepared for each area of work. This calendar identifies key events for appraisal, clerical, customer service, and information systems. A calendar is prepared for tax years 2023 and 2024. Production standards for field activities are calculated and incorporated in the planning and scheduling process.



The projected dates incorporated into the calendar may be adjusted within the overall plan due to unforeseen changes in staffing, budgetary constraints, weather, and/or reevaluation of the priorities of the projects within the plan.

Periodic and concurrent examination of production standards, goals, and progress in the plan may very well require adjustments to the on-going plan or to the plan for the succeeding year(s). The CAD and the Chief Appraiser, together with the field staff provided by Pritchard and Abbott, Inc., will work together closely to identify issues that may affect the successful completion of the on-going plan and to resolve them.

### **Mass Appraisal System**

Computer Assisted Mass Appraisal (CAMA) system revisions are completed by the Information Systems Software Provider. System revisions and procedures are performed by the Provider. Sterling County Appraisal District contracts with the firm of Pritchard & Abbott, Inc. for these services.

#### **Real Property Valuation:**

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

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

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

#### **Personal Property Valuation:**

Valuation procedures are reviewed, modified as needed, and tested. The latest edition of the Comptroller's Guide and Marshall & Swift are utilized, as necessary, in the appraisal of personal property in the district.

#### **Noticing Process:**

25.19 appraisal notice forms are provided by the IS Provider. The Provider reviews and edits for updates and changes required by legislative mandates. The district publishes, in the local newspaper, information about the notices and how to protest. The district makes available the latest copy of the Comptroller's pamphlet *Taxpayer's Rights, Remedies, and Responsibilities*.

**Hearing Process:**

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

**Data Collection Requirements**

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

**New Construction/Demolition:**

New construction field and office review procedures are identified and revised as required. Sources of building permits (as available) are confirmed. Municipal, county, and other offices provide (as available) notification of utility hookups, septic system installation, development permits, demolition orders, etc. Official Public Records also indicate new development areas that must be inspected. New Mobile Home installations, as verified with the Texas Department of Housing & Community Affairs, are also included in the yearly inspections.

**Remodeling:**

Properties with extensive improvement remodeling are identified and field inspections are scheduled to update property characteristic data. Official Public Records provide indications of properties that may be undergoing enhancement through Deeds of Trust, Mechanics Liens, etc.

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

Market Areas are areas within the Appraisal District where values are considered consistent or in relative harmony among individual properties, an area where physical, economic, governmental and social forces and other influences (i.e. 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) have similar influences on property values. The affect on values may be real and quantifiable, or may be perceived. In either case, the market area is the first basis for market analysis.

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

Sterling CAD has identified two market areas. These areas have shown measurable variances in values on similar properties. These areas are: Sterling County in general including the City of Sterling City, and Rural Residential Improvements. These areas will be tested each year.

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. A "neighborhood" for analysis purposes is defined as the largest geographic groupings of properties where the property's physical, economic, governmental and social forces are generally similar and uniform.

Recently there have been several sales of lots in Sterling City, and land acreage outside the city. There has been a demand for the purchase of homes, as there is a shortage of housing for people relocating to Sterling City. The enrollment at the school district has increased dramatically due to the people moving to Sterling City. The cause appears to be the increase of work in the oil field. Thus, the sale of real estate property has been on the increase. Historically, real estate sales are slow.

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

The International Association of Assessing Officers' *Standard on Mass Appraisal of Real Property*, specifies that the universe of properties should be re-inspected on a cycle of 3 years. The re-inspection includes physically viewing the property, photographing (if possible), and verifying the accuracy of the existing data. The field appraiser has an appraisal card of each property to be inspected and makes notes of changes, depreciation, remodeling, additions, etc. The annual re-inspection requirements for tax years 2023 and 2024 are identified and scheduled in the written reappraisal plan.

**Verification of Sales Data and Property Characteristics:**

Sales information must be verified and property characteristic data contemporaneous with the date of sale captured. The sales ratio analysis requires that the sales record must accurately reflect the property appraised in order that statistical analysis results will be valid and therefore be an accurate example of the universe of properties to which any adjustments will be applied. The conditions of each sale are investigated and confirmed, to the greatest extent possible, to determine its applicability to the overall market analysis. Properties exhibiting atypically high or low sales ratios (outliers) are especially scrutinized with reference to the Texas Property Tax Code definition of Market Value, Sec. 1.04(7), and may be excluded from the general market analysis if the transaction conditions do not correspond to the aforementioned definition of Market Value.

## **Pilot Study by Tax Year**

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

1. Market Value of Residential Property =  
*Replacement Cost New X Total Percent Good + Depreciated Additive Values + Land Value*  
(Adjusted by Market Indicators as determined by Sales Data, as available)
2. Market Value of Commercial Property =  
*Replacement Cost New X Total Percent Good + Depreciated Additive Values + Land Value*  
(Adjusted by Market Indicators as determined by Sales Data, as available)
3. Market Value of Manufactured Housing =  
*Replacement Cost New X Total Percent Good + Depreciated Additive Values*
4. Market Value of Commercial Personal Property =  
*Units x (Price/Unit of Inventory) + Units x (Price/Unit of FFE x Percent Good) + Additive Values*  
(Verified and adjusted by yearly Personal Property Renditions)
5. Market Value of Vacant Lots or Acreage =  
*Units x Price/Unit*  
(As determined by Market Transactions)
6. 1-d-1 Special Use Valuation (Ag Value) =  
*Units x Value per Acre of Agricultural Use*  
(As determined by Net Income per Acre/State Mandated Cap Rate)

## **Valuation by Tax Year**

Using market analysis of comparable sales and locally tested cost data (if available), valuation models (Value Per Square Foot Schedules) are specified and calibrated in compliance with supplemental standards from the International Association of Assessing Officers and the Uniform Standards of Professional Appraisal Practice. The calculated

values are tested for accuracy and uniformity using ratio studies. Performance standards are those as established by the *IAAO Standard on Ratio Studies*.

**RESIDENTIAL REAL PROPERTY**

**Sales Comparison Approach to Value**

**Cost Approach to Value**

**Income Approach to Value**

**SPECIAL INVENTORY RESIDENTIAL PROPERTY**

**Sales Comparison Approach to Value**

**Cost Approach to Value**

**Income Approach to Value**

**MULTIFAMILY 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**

**Agricultural Use**

**Wildlife Management  
Timber Use**

**BUSINESS TANGIBLE PERSONAL PROPERTY**

**Sales Comparison Approach to Value**

**Cost Approach to Value**

**Income Approach to Value**

**INDUSTRIAL TANGIBLE PERSONAL PROPERTY**

**Sales Comparison Approach to Value**

**Cost Approach to Value**

**Income Approach to Value**

**Sales Comparison Approach to Value:**

The sales comparison approach to value is utilized by grouping or clustering sales within the specified neighborhoods and classification of properties. The sales are then tested against appraised values to indicate a ratio for the neighborhood. A neighborhood is a grouping of complementary land uses affected equally by the four forces that influence property value: social trends, economic circumstances, governmental contracts and regulations, and environmental conditions. These factors have an impact on the value of properties within this grouping and in turn on properties being appraised.

Individual neighborhood boundaries within the District vary according to market indications and the type of property being appraised. The boundaries of these neighborhoods may be physical, geographical, or political in nature. Generally, residential neighborhoods consist of individual subdivisions or clusters of subdivisions that contain similar properties located within the same school district. Commercial neighborhoods may be smaller areas within a city, an entire city, or rural area. Industrial neighborhoods may include the entire District. Defining neighborhood boundaries depends on the subject of the appraisal assignment.

If sufficient sales are not found, then sales from competing neighborhoods are found and appropriate adjustments are made in the form of market modifiers. These modifiers are applied to cost schedules to indicate mass appraisal values for a given neighborhood. Therefore, the sales comparison approach is actually blended with the cost approach to create a hybrid of these two approaches to value.

**Cost Approach to Value:**

The District uses a hybrid cost model developed from Marshall and Swift Valuation Service. The cost model categorizes and values property by class, age, condition, and extra items. Depreciation is derived by age/condition and any additional depreciation that may be necessary. Land value is added to indicate a

preliminary market value for like properties within the subject neighborhoods. After cost schedules, depreciation, and land values are applied, then a market modifier may be necessary to adjust the values to actual market conditions. These modifiers apply to improvements only and do not adjust land values. Therefore, the cost approach to value is actually a hybrid of the sales comparison and cost approaches to value.

### **Market and Cost Reconciliation and Valuation**

The replacement cost new of property improvements (RCN) less accrued depreciation (AD) plus land value (LV) equals market value (MV). As the cost approach separately estimates both land and building value. Neighborhood analysis of market sales is used to achieve an acceptable sale ratio or level of appraisal. Market factors are developed from appraisal statistics provided from market analyses 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 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 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, 95% to

105%, 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 update 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 update and non-update neighborhoods and verifies appraised values against overall trends as exhibited by the local market, and finally, for the school district as a whole.

**Income Approach to Value:**

The income approach to value or rent multipliers are currently not a reliable indicator of value for residential mass appraisal reports unless rents are specified. Databases or data sources for income producing residential properties are not available in the Sterling County area. Therefore, the income approach to value is not used in the residential mass appraisal report but is used for other types of properties.

**Additional information concerning approaches to value for specific types of properties, such as minerals, utilities, industrial, railroads, pipelines, industrial personal property, etc. may be found in the Plan provided by the**

**Appraisal Company that performs those appraisals and is attached to this plan by reference.**

**Special Valuation Process:**

Agricultural Use: Market value for agricultural property is established by acceptable appraisal methodology.

The District also values agricultural property by the income approach as set forth in the Texas Property Tax Code. This is a special valuation process as there are parameters set forth in the Code regarding capitalization rates. Income and expenses for each different category of agricultural use is estimated from surveys, actual rental data obtained by property owners as well as conversations with local governmental agencies. The formula used is set out by the Texas Property Tax Code and is as follows: net-to-land (all ag related income streams – all ag related expenses) / cap rate = ag value

**Ratio Study Procedures**

I. Collect and Post Sales Data

- A. Solicit sales information from all new property owners through sales letters and/or personal contact
- B. Collect sales information from outside appraisers and from fee appraisals presented
- C. Utilize sales information from Comptrollers office.
- D. Post sales information to the sales database
  1. Record actual sale price
  2. Note unusual financing
  3. Note non-arm length participants
  4. Adjust sales price for inclusion of personal property or intangible value
  5. Initiate frozen characteristics/partial sale codes if necessary
    - a) Imminent construction/renovation can bias any later analysis by including values not part of the original transaction
    - b) Sale including only a portion of the property described can also produce skewed results

II. Preliminary Analysis

- A. Run sales analysis (by type, group, or class) which includes any and all sales collected to date
- B. Note median result and COD
- C. Examine each sale included
  1. Compare sale ratio to median result
  2. Ratios substantially higher or lower than the median result (outliers) are singled out for further, in-depth analysis
    - a) Note seller-financial institutions, known real estate opportunists, probates, known persons who finance their own transactions

- b) Note buyer-financial institutions, known real estate opportunists, and re-location companies
  - c) Examine deed records to confirm “arms length” violations not evident from examination of buyer and seller
    - i) contract for deed
    - ii) assumption of previous note
    - iii) atypical financing
  - d) Re-inspect properties to rule out any physical differences from the current property records
  - e) Outlier sales that cannot be excluded or adjusted due to the reasons given above are nonetheless included in the subsequent analysis
- D. Adjust original data set
- 1. Omit sales that are not arms length
  - 2. Adjust sales values for time or financing if necessary and possible
  - 3. Adjust appraisal values for physical differences if applicable

### III. Secondary Analysis

- A. Run sales analysis (by type, group, or class) utilizing information from preliminary analysis
- B. Note median result and COD
  - 1. Median value may or may not change significantly
  - 2. COD value should improve
- C. Note sample size
  - 1. Compare number of sales within the class to the perceived number of total properties within the class
  - 2. From experience and discussion among the appraisal staff, determine whether any median result different from 1.00 is significant
- D. Attempt to increase sample size—if necessary
  - 1. Utilize time adjustments if determinable
  - 2. Keep in mind marketing time for local market and any trends
  - 3. Be careful to not include more sales just for sales sake
  - 4. Changing markets and trends cannot be reflected in sales that are too old without accurate time adjustments.
- E. Apply results of analysis to current records
  - 1. Any class whose median value is **NOT SIGNIFICANTLY** different from 1.00 does not require adjustment.
  - 2. Any class whose median value indicates that an adjustment is necessary should be analyzed
    - a) Look at typical depreciation (age/condition) for that class as reflected in the sales analysis
    - b) Calculate increase necessary to raise the individual ratios to produce a median result of 1.00 (keeping in mind that because of depreciation, the percentage increase required is going to be

necessarily larger than the difference in percentage points needed to reach a 1.00 result)

c) Apply the calculated increase to the database

3. Repeat procedure for all classes determined to need adjustment

F. Run analysis again to test results

IV. Examine results to identify neighborhoods that need adjustment

A. As individual sales are examined, note any areas/neighborhoods/subdivisions that consistently show ratios significantly different from the median result

B. Run analysis excluding the area in question

C. Run analysis including only the neighborhood in question

D. Check for significant variance between the two results

E. Apply neighborhood factor to correct variance

### **Value Defense**

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is specified and tested. Taxpayers have the option to present their concerns informally to the chief appraiser, or by appointment with the Pritchard & Abbott staff. Should an understanding not be reached informally, the taxpayer may present their arguments to the Appraisal Review Board as a formal appeal. The chief appraiser and the appraisal staff provided by Pritchard & Abbott Inc. defend the position of the CAD before the ARB. The Appraisal District has the burden of proof for the value as notified. Evidence for further consideration by the CAD or the ARB should be presented by the taxpayer.

### **The Mass Appraisal Report**

Each 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 May 15<sup>th</sup>). The Mass Appraisal Report is completed in compliance with Standard Rule 6-8 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the Chief Appraiser is compliant with Standard Rule 6-9 of USPAP. This written reappraisal plan is attached to the Mass Appraisal Report by reference.

# **THE WRITTEN REAPPRAISAL PLAN FOR STERLING COUNTY APPRAISAL DISTRICT**

## **PLANNING A REAPPRAISAL**

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

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

## **STEPS IN A REAPPRAISAL**

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

1. Performance Analysis:
  - ratio study
  - equity of existing values
  - consistency of values with market activity
2. Revaluation Decision:
  - statutory – at least once every three years
  - administrative policy
3. Analysis of Available Resources:
  - staffing
  - budget
  - existing practices
  - information system support
  - existing data and maps
4. Planning and Organization
  - target completion dates
  - identify performance objectives
  - specific action plans and schedules
  - identify critical activities with completion dates
  - set production standards for field activities
5. Mass Appraisal System:
  - forms and procedures revised as necessary

- CAMA (computer assisted mass appraisal) system revisions as required
- 6. Conduct Pilot Study
  - test new/revised appraisal methods as applicable
  - conduct ratio studies
  - determine if values are accurate and reliable
- 7. Data Collection
  - building permits and other sources of new construction
  - check properties that have undergone remodeling
  - re-inspection of problematic properties
  - re-inspection of universe of properties on a cyclic basis
- 8. Valuation:
  - market analysis (based on ratio studies)
  - schedules development
  - application of revised schedules
  - calculation of preliminary values
  - tests of values for accuracy and uniformity
- 9. Value Defense:
  - prepare and deliver notices of value to property owners
  - hold informal hearings
  - schedule and hold formal appeal hearings

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

## **Sterling County Appraisal District Residential, Commercial, Rural, and Personal Property 2023 - 2024 Reappraisal Plan**

As required by the Texas Legislature and pursuant to Section 25.18 of the Texas Property Tax Code, the Sterling County Appraisal District establishes the following reappraisal plan to provide for the reappraisal of all property within the District at least once every three (3) years.

**Two-Year Cycle (Physical Inspections):** The CAD is divided into two areas. Each year, all real, residential and commercial property within one of the areas will be reappraised, regardless of any ratio study/report findings. The property categories include Category A, B, C, D, E, F, M and, verification by visual inspection, Category L. These areas, and the planned reappraisal cycle years, are identified as follows:

**Area One: (Reappraisal in the Fall of 2022 FY 2023)** Rural Land & Improvements in the **north half of Sterling County**. Bounded by Glasscock County on the west, Mitchell County on the north, and Coke County on the east, down to Highway 87 and Highway 158 on the south.

**Area Two: (Reappraisal in the Fall of 2023 FY 2024) The City of Sterling City** bounded by the City boundaries. Rural Land & Improvements in the **south half of Sterling County**. Bounded by Glasscock and Reagan Counties on the west, Coke and Tom Green Counties on the east, Tom Green County on the south, and Highways 87 and 158 on the north.

As mentioned prior, these yearly plans are designed to be flexible within the overall reappraisal plan. The specific workload within and between plan years may need to be adjusted to provide for complete and accurate reappraisals.

Note: all income producing personal property within the CAD is appraised on an annual basis. Pritchard & Abbott will appraise annually the MIUP properties – Minerals, Industrial, Utilities, and Personal Properties in each of the three areas. Pritchard & Abbott will appraise new properties that will need to be added to the Appraisal Roll, including existing properties where changes have been made affecting the Appraisal Roll.

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

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

- Each inspection of property will identify and verify or update the relevant characteristics of the property. These characteristics include but are not limited to: Name and address of owner, physical address, legal description, multiple ownerships, and any other means of differentiating the property.
- Market area 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 market areas. In an area of very stable and homogenous values, the market area may be the entire district. More often, the market areas are School Districts, Cities, or Sub-divisions. If adequate and accurate information is available, further delineation is possible. During the reappraisal, field appraisers are directed to be complete and consistent in the gathering of information on each property's characteristics. Once recorded, these

characteristics can be used to sort market data (sales) to determine whether these characteristics have any effect on the value of properties within the market area. Further, the degree of effect that these characteristics have on the value can be used to define and delineate the market areas, one from another. In homogeneous markets, the market areas will be fairly consistent over time. On the other hand, once the determination has been made to recognize a distinct market area, that area may change both qualitatively and quantitatively from year to year. Therefore, it is imperative that reappraisal data collection be complete.

- Each property inspection should verify the existing data for each property as recorded on the property appraisal card, record, or worksheet. Any changes from the existing records must be noted. These changes in data, or characteristics, of the property would include any and all things that may have an effect on property value. These characteristics include but are not limited to Site Value (location, footage, topography, agricultural usage, etc.), Improvement description (construction method, quality, condition, perceived and actual age, configuration, additives, etc.), and economic or legal limitations. These characteristics form the basis of differentiation and value development in our mass appraisal Value Schedules.
- Each property has an appraisal record or "card". This record shows the current characteristics and their contributory value to the property value as a whole. During reappraisal, these are the characteristics that must be verified, modified, and updated so that not only the property is described fully and valued completely, the market data from sale transactions can be analyzed to verify, modify, and update the characteristics Value Schedules.
- The previous mentioned Market Analysis is the method used to test the appraisal results. If all pertinent and relevant characteristics are recorded and valued, and the resulting appraisal value is not statistically consistent with a sample of market value indicators (market sales, construction cost analysis, income stream valuation), then the contributory values one or more of the characteristics must be modified or adjusted.

## **Organization**

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

Data entry of field work notes and sketches is performed by Pritchard and Abbott staff.



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

The Sterling County Appraisal District also contracts with Pritchard and Abbott (P&A) for professional appraisal services for the Mineral, Industrial, Utility, and Personal Property categories. The Reappraisal Plan for these categories is contained in a separate document which is attached and made part of the Sterling CAD Reappraisal Plan

### **SCAD Plan for Periodic Reappraisal of Agricultural Use Properties**

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

- (a) CAD shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05(i).
- (b) The plan provides for annual reappraisal of all agricultural use property appraised by the CAD. The CAD has a professional services contract with Pritchard and Abbott, Inc., to appraise these properties for the CAD.
  - (1) Meet with the Sterling CAD Ag Advisory Board
  - (2) Provide an Ag Use Schedule; and,
  - (3) Meet with property owners who appear before the ARB to provide Ag Use Support.
  - (4) Represent the CAD at informal and/or formal Texas Comptroller of the Public Account Property Tax Assistance Division hearings relative to the Ag Use Schedule values.

### **SCAD Plan for Periodic Reappraisal of Industrial Real Property**

The SCAD Board of Directors contract with, Pritchard & Abbott, Inc., for all Industrial Real Property. (See Attachment B)

### **SCAD Plan for Periodic Reappraisal of Industrial Real Property**

The SCAD Board of Directors contract with Pritchard & Abbott, Inc., for all Industrial Personal Property. (See Attachment B)

### **Industrial Personal and Utility Property, Railroad and Pipeline Property**

The SCAD Board of Directors contract with Pritchard & Abbott, Inc., for all Utility Property, Railroad and Pipeline Property. (See Attachment B)

**SCAD Plan for Periodic Reappraisal of Oil and Gas Property**

The SCAD Board of Directors contract with Pritchard & Abbott, Inc., for all Oil and Gas Property. (See Attachment B)

(See Attachment A)

(See Attachment B)

## **Reappraisal Schedule Tax Year 2023**

**Area One: (Reappraisal in the Fall of 2022 FY 2023)** Rural Land & Improvements in the **north half of Sterling County**. Bounded by Glasscock County on the west, Mitchell County on the north, and Coke County on the east, down to Highway 87 and Highway 158 on the south.

**September 2022** - Plan for and conduct field inspections.

**Mid December 2022** - Begin planning sales ratio studies for all areas within the CAD. Gather current sales data from sales confirmation letters, deed records, and other sources.

**Jan. to March 2023** - Mail homestead applications, special-use valuation applications, personal property renditions, exemption applications, and any other required forms. Complete field inspections as provided by the reappraisal plan area. Conduct rechecks. Begin running sales ratio reports. Compare with CAD values and sales information. Identify necessary schedule adjustments.

**March – April 2023** - Continue running sales ratio reports. Refine sales analysis and mass appraisal schedules. Statistically test schedules. Complete data entry of all reappraisal and maintenance changes. Assist field appraiser with reappraisal functions as needed. Finalize all field work and data collection activities. Execute mass appraisal/maintenance activities as required. Prepare for mailing Notices of Appraised Value.

**May – July 2023** - Hold informal hearings. Respond to property owners' inquiries, protests, and questions from notice mailings. Provide certified estimated values to taxing units. Hold ARB hearings.

**July 2023** - Process and mail ARB orders. Enter into computer all changes as ordered by ARB and notify other CADs if the ordered change falls into an overlapping area. ARB approval of appraisal records by July 20<sup>th</sup> or as soon thereafter as is practical. Certification of appraisal records and values to taxing units by July 25<sup>th</sup> or as soon thereafter as is practical.

**As needed throughout the year** - Sterling CAD will work to resolve all appraisal issues with property owners or their agents.

The same timetable and duties apply for each year. The Chief Appraiser and P&A staff shall continue to complete the same duties and reappraisal steps for each year. Sterling CAD will administer all other responsibilities such as PVS and the MAP Review.

## **Reappraisal Schedule Tax Year 2024**

**Area Two: (Reappraisal in the Fall of 2023 FY 2024)** **The City of Sterling City** bounded by the City boundaries. Rural Land & Improvements in the **south**

**half of Sterling County.** Bounded by Glasscock and Reagan Counties on the west, Coke and Tom Green Counties on the east, Tom Green County on the south, and Highways 87 and 158 on the north.

**September 2023** - Plan for and conduct field inspections.

**Mid December 2024** - Begin planning sales ratio studies for all areas within the CAD. Gather current sales data from sales confirmation letters, deed records, and other sources.

**Jan. to March 2024** - Mail homestead applications, special-use valuation applications, personal property renditions, exemption applications, and any other required forms. Complete field inspections as provided by the reappraisal plan area. Conduct rechecks. Begin running sales ratio reports. Compare with CAD values and sales information. Identify necessary schedule adjustments.

**March – April 2024** - Continue running sales ratio reports. Refine sales analysis and mass appraisal schedules. Statistically test schedules. Complete data entry of all reappraisal and maintenance changes. Assist field appraiser with reappraisal functions as needed. Finalize all field work and data collection activities. Execute mass appraisal/maintenance activities as required. Prepare for mailing Notices of Appraised Value.

**May – July 2024** - Hold informal hearings. Respond to property owners' inquiries, protests, and questions from notice mailings. Provide certified estimated values to taxing units. Hold ARB hearings.

**July 2024** - Process and mail ARB orders. Enter into computer all changes as ordered by ARB and notify other CADs if the ordered change falls into an overlapping area. ARB approval of appraisal records by July 20<sup>th</sup> or as soon thereafter as is practical. Certification of appraisal records and values to taxing units by July 25<sup>th</sup> or as soon thereafter as is practical.

**As needed throughout the year** - Sterling CAD will work to resolve all appraisal issues with property owners or their agents.

**PUBLIC MEETING HELD**

**SEPTEMBER 8, 2022**

**APPROVED by STERLING COUNTY APPRAISAL DISTRICT BOARD OF DIRECTORS**



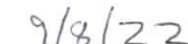
BOD CHAIRMAN



DATE



BOD SECRETARY



DATE

STERLING COUNTY  
APPRAISAL DISTRICT

REAPPRAISAL PLAN

(Attachment A)

SCAD

## 2023 Approved Budget

NAME	2022	2023	Dollar Amt	% Change
<b>Payroll Costs</b>				
Appraisal Office	\$ 75,000.00	\$ 75,000.00	\$ -	0.00%
Business Allowances	\$ 600.00	\$ 600.00	\$ -	0.00%
Professional Services	\$ 300.00	\$ -	\$ (300)	-100.00%
Clerk/Part-time/Merit	\$ 18,100.00	\$ 18,100.00	\$ -	0.00%
FICA/Medicare	\$ 7,650.00	\$ 7,650.00	\$ -	0.00%
Retirement	\$ 14,800.00	\$ 22,000.00	\$ 7,200	48.65%
Health Insurance	\$ 9,000.00	\$ 9,000.00	\$ -	0.00%
Workman's Compensation	\$ -	\$ 1,000.00	\$ 1,000	100.00%
Unemployment Compensation	\$ -	\$ 1,000.00	\$ 1,000	100.00%
	\$ 125,450.00	\$ 134,350.00	\$ 8,900	7.09%
<b>Purchases &amp; Contract Services</b>				
Appraisal Review Board	\$ 1,040.00	\$ 1,500.00	\$ 460.00	44.23%
Audit Services	\$ 3,500.00	\$ 3,500.00	\$ -	0.00%
CPA Services	\$ 2,000.00	\$ 2,000.00	\$ -	0.00%
Disposal Services	\$ 1,200.00	\$ 1,200.00	\$ -	0.00%
Data Processing Services	\$ 20,825.00	\$ 21,585.00	\$ 760.00	3.65%
Electricity Service	\$ 2,880.00	\$ 2,100.00	\$ (780.00)	-27.08%
Telephone Service	\$ 1,900.00	\$ 1,900.00	\$ -	0.00%
Insurance-Contents & Bldg.	\$ 1,800.00	\$ 1,800.00	\$ -	0.00%
Legal Services	\$ 4,000.00	\$ 3,500.00	\$ (500.00)	-12.50%
Equipment Maint. & Repair	\$ 1,800.00	\$ 1,800.00	\$ -	0.00%
Evaluation Services	\$ 119,400.00	\$ 121,700.00	\$ 2,300.00	1.93%
Mapping	\$ 3,991.00	\$ 3,991.00	\$ -	0.00%
Cleaning Services	\$ -	\$ 1,500.00	\$ 1,500.00	100.00%
	\$ 164,336.00	\$ 168,076.00	\$ 3,740.00	2.28%
<b>Supplies and Materials</b>				
Deeds, Books, & Periodicals	\$ 1,500.00	\$ 1,500.00	\$ -	0.00%
Foms/Printing	\$ 1,500.00	\$ 1,500.00	\$ -	0.00%
Postage	\$ 600.00	\$ 600.00	\$ -	0.00%
Supplies and Materials	\$ 2,000.00	\$ 5,000.00	\$ 3,000.00	150.00%
	\$ 5,600.00	\$ 8,600.00	\$ 3,000.00	53.57%
<b>Other Operating Expenses</b>				
Assn Dues/Membership	\$ 750.00	\$ 1,200.00	\$ 450	60.00%
Legal Notice & Adv.	\$ 1,200.00	\$ 1,200.00	\$ -	0.00%
Education & Travel	\$ 7,000.00	\$ 10,000.00	\$ 3,000	42.86%
Building Rent	\$ 12,000.00	\$ 10,000.00	\$ (2,000)	-16.67%
PU Fuel & Maintenance	\$ 500.00	\$ 500.00	\$ -	0.00%
Contingency Fund	\$ 12,160.00	\$ -	\$ (12,160)	-100.00%
	\$ 33,610.00	\$ 22,900.00	\$ (10,710)	-31.87%
SCAD FUND BAL as of 07/14/2021	\$ 2,165.00	\$ 2,165.00	\$ -	0.00%
LITIGATION EXP (LOF 2018 & 2019) as of 05/12/2021	\$ 18,388.00	\$ 18,388.00	\$ -	0.00%
BUILDING NEEDS (LOF 2020) as of 05/12/2021	\$ 10,647.00	\$ 10,647.00	\$ -	0.00%
	\$ 31,200.00	\$ 31,200.00	\$ -	0.00%
	\$ 380,186.00	\$ 365,126.00		
LESS SCAD, LITIGATION, & BUILDING FUNDS	\$ 31,200.00	\$ 31,200.00		
	\$ 328,986.00	\$ 333,926.00	\$ 4,930.00	1.50%

*Reed Stewart*  
Chairman

9/8/2022  
Date

STERLING COUNTY  
APPRAISAL DISTRICT

REAPPRAISAL PLAN

(Attachment B)

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

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

**For Tax Years:**

**2023 and 2024\*\***

**Originally Printed: July 21, 2022**

*\*\*This biennial reappraisal plan is largely predicated on the Scope of Work Rule in the most recent version of Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by The Appraisal Foundation's Appraisal Standards Board (ASB). On February 19, 2021, the ASB announced that the 2020-2021 edition of USPAP would be extended for use into 2022. Subsequently, this plan does not have a newer edition of USPAP to draw upon and therefore is substantially similar to the 2021-2022 biennial reappraisal plan.*

\*Senate Bill 1652 passed by the Texas Legislature, 79<sup>th</sup> Regular Session in 2005, amending Section 6.05 of the Texas Property Tax Code, adding Subsection (i) as follows:

*"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."*





## Table of Contents

<u>Item</u>	<u>Page</u>
P&A POLICY STATEMENT .....	2
PREAMBLE .....	5
ETHICS RULE .....	7
RECORD KEEPING RULE .....	10
SCOPE OF WORK RULE.....	11
JURISDICTIONAL EXCEPTION RULE.....	13
STANDARDS 5 & 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING (General).....	14
STANDARDS 5, 6-1, 6-2: MINERAL INTERESTS.....	17
STANDARDS 5, 6-1, 6-2: INDUSTRIAL, UTILITY, AND RELATED PERSONAL PROPERTY ...	23

## POLICY STATEMENT OF PRITCHARD & ABBOTT, INC., ON THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

Pritchard & Abbott, Inc., (P&A), a privately held company engaged primarily, but not wholly, in the ad valorem tax valuation industry endorses Uniform Standards of Professional Appraisal Practice (USPAP) as the basis for the production of sound appraisals. Insofar as the statutory requirement to appraise groups (or a “universe”) of real and personal property within an established period of time using standardized procedures—and subjecting the resulting appraisals to statistical measures—is the definition of mass appraisal, P&A subscribes to USPAP Standards 5 and 6 (Mass Appraisal, Development and Reporting) whenever applicable in the development and defense of values. When circumstances clearly dictate the use of single property appraisal procedures, P&A adheres to the spirit and intent of the remaining USPAP Standards within all appropriate, practical, and/or contractual limitations or specifications.

A biennial reappraisal plan is, at its core, a discussion of the CAD’s intended implementation of the Scope of Work Rule in USPAP. This plan provides general information about this rather comprehensive USPAP rule, as well as the specific steps P&A takes in the actual appraisal of various property types per our contractual obligations. This Biennial Reappraisal Plan should not be confused or conflated with an “appraisal manual” or other “how-to” guide which may or may not exist within P&A for any particular property type we appraise.

This reappraisal plan discusses a few other USPAP rules that interact with the Scope of Work Rule, such as the Ethics Rule, the Record Keeping Rule, and Jurisdictional Exception Rule. For further information regarding other sections of USPAP, including the Competency Rule, definitions, and appraisal reports, please reference P&A’s “USPAP report” which accompanies our appraisals and supporting documentation provided to clients per Property Tax Code, Sec. 25.01(c) at the completion of each tax year. ***An appraisal season thus begins with an appraisal plan (approved by the CAD’s Board of Directors) and ends with appraisal reports.*** Providing these reports is definitely part of the plan. Likewise, much of the verbiage in the “USPAP report” is a reiteration of the Biennial Reappraisal Plan.

USPAP defines “appraisal” as the act or process of developing an opinion of value or pertaining to appraising and related functions such as appraisal practice or appraisal services. Valuation services is defined as services pertaining to an aspect of property value, regardless of the type of service and whether it is performed by appraisers or by others. The USPAP definition of “appraiser” is one who is expected to perform valuation services competently and in a manner that is ***independent, impartial, and objective.*** USPAP Advisory Opinion 21: *USPAP Compliance* states that this expectation (by clients and intended users of appraisal reports) is the basis that creates an ethical obligation to comply with USPAP, even if not legally required. Advisory opinions do not establish new standards or interpret existing standards, but instead are issued to illustrate the applicability of appraisal standards in specific situations.

The majority of property types that P&A typically appraises for ad valorem tax purposes are categorized as unique, complex, and/or “special purpose” properties (mineral interests, industrial, utility, and related personal property). These categories of properties do not normally provide sufficient market data of reliable quality and/or quantity to support the rigorous use of all USPAP-prescribed mass appraisal development mandates (Standard 5: Mass Appraisal, Development), particularly with regards to some, but not all, of the *model calibration* and *statistical performance testing* confines. However, P&A does strive to employ all or most elements of mass appraisal techniques with regards to the *definition* and *identification of property characteristics* and *model specification* and application.

Per USPAP Advisory Opinion 32: *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*, in the

interests of equity, the scope of work in mass appraisal assignments for ad valorem taxation can include consideration of appraisal level (the overall proximity between appraised values and actual prices) and the uniformity of property values (equity within groups of like properties). The appraiser is responsible for recognizing when the concepts of appraisal level and appraisal uniformity are necessary for credible assignment results in a mass appraisal assignment for ad valorem taxation.

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

Regarding mass appraisal reports due the client and other intended users per USPAP (Standard 6 (Mass Appraisal, Reporting), a written report of the mass appraisal as described in Standards 6-2 is not provided for each individual property. An individual property record or worksheet may describe the valuation of the specific property after the application of the mass appraisal model. To understand the individual property result developed in a mass appraisal requires the examination of all the information and analysis required by Standards 6-2.

P&A will clearly state or otherwise make known all extraordinary assumptions, hypothetical conditions, limitations imposed by assignment conditions, and/or jurisdictional exceptions in its appraisal reports as they are conveyed to our clients. ***Intended users of our reports are typically the client(s) for which we are under direct contract.*** Although taxpayers or their agents who own and/or represent the subject property being appraised often receive these reports either by law or as a courtesy of the client or P&A, this receipt does not mean these parties automatically become Intended Users as defined by USPAP. ***A party receiving a copy of a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser specifically identifies such party as an intended user.*** Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

USPAP does not currently address communications of assignment results prior to completion of the assignment, thus such communications have no requirements other than to comply with the general requirements in the Ethics Rule, the Competency Rule, and the Jurisdictional Exception Rule. The client and all intended users should be aware that mass appraisals, as opposed to most "fee" appraisals, are somewhat inherently "limited" versus "complete" and that appraisal reports, unless otherwise contracted for by the client, will most often be of a "restricted" nature whereas explanations of appraisal methods and results are more concise versus lengthy in order to promote brevity, clarity, and transparency to the intended user(s).

Per USPAP, the appropriate reporting option and level of information in a report are dependant on the intended use and the intended users. Although the reporting verbiage in USPAP Standard 6 does not specifically offer or promulgate a "Restricted Appraisal Report" such as in Standard 2 (Real Property Appraisal, Reporting) and Standard 8 (Personal Property Appraisal, Reporting), it should be noted that: a) all mass appraisals and mass appraisal reports deal with real and personal property in some form or fashion; and b) P&A is a private consulting firm, a fact which may necessitate the withholding of certain data and/or appraisal models/techniques which are deemed confidential, privileged and/or proprietary in nature. The use of "limited" appraisals in conjunction with "restricted" reports in no way implies non-compliance with USPAP. ***The substantive content of a report***

*determines its compliance.*

P&A believes that, with its vast experience and expertise in these areas of appraisal, all concluded values and reports thereof are credible, competent, understandable, uniform and consistent; and most importantly for ad valorem tax purposes, accomplished in a cost-efficient and timely manner.

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

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

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

## PREAMBLE

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

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

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

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

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

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

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

Consequently, USPAP Standards 5 and 6 are assumed to be the applicable standard for ad valorem tax purposes in Texas, if mass appraisal practices are in fact being used to appraise the subject property. USPAP Advisory Opinion 32 suggests several USPAP standards other than Standards 5 or 6 can apply in ad valorem tax work. It appears that an appraiser engaged in ad valorem tax work in Texas is not specifically required by law to follow these USPAP standards if in fact mass appraisal practices have not been used to appraise the subject property. In this case it could be deemed appropriate to invoke the Jurisdictional Exception Rule which is applicable when

there is a contradiction between the requirements of USPAP and the law or regulation of a jurisdiction. Please see the P&A Policy Statement on USPAP as provided elsewhere in this report for a more detailed discussion regarding this matter.

## ETHICS RULE

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

- Conduct;
- Management;
- Confidentiality.

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

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

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

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

### CONDUCT

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

An appraiser:

- must not perform an assignment with bias;
- must not advocate the cause or interest of any party or issue;
- *must not accept an assignment that includes the reporting of predetermined opinions and conclusions;*
- must not misrepresent his or her role when providing valuation services that are outside of appraisal practice;
- must not communicate assignment results with the intent to mislead or to defraud;
- must not use or communicate a report or assignment results known by the appraiser to be misleading or fraudulent;
- must not knowingly permit an employee or other person to communicate a report or assignment results that are misleading or fraudulent report;
- must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value;
- must not engage in criminal conduct;



- must not willfully or knowingly violate the requirements of the RECORD KEEPING RULE; and must not perform an assignment in a grossly negligent manner.

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

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

The appraiser can agree with the client to keep the mere occurrence of a prior appraisal assignment confidential. If an appraiser has agreed with the client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignment that fall with the three year period. In assignments in which there is no report, only the initial disclosure to the client is required.

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

#### MANAGEMENT

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

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

Advertising for or ***soliciting assignments in a manner that is false, misleading, or exaggerated*** is unethical. Decisions regarding finder or referral fees, contingent compensation, and advertising may not be the responsibility of an individual appraiser, but for a particular assignment it is the responsibility of the individual appraiser to ascertain that there has been no breach of ethics, that the assignment consulting assignment has been prepared in accordance with USPAP Standards, and that the report can be properly certified when required by USPAP Standards 2-3, 4-3, 6-3, 8-3, or 10-3.

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

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

## CONFIDENTIALITY

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

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

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

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

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

An appraiser must take reasonable steps to safeguard access to confidential information and assignment results by unauthorized individuals, whether such information or results are in physical or electronic form. In addition, an appraiser must ensure that employees, coworkers, subcontractors, or others who may have access to confidential information or assignments results, are aware of the prohibitions on disclosure of such information or results.

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

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

## RECORD KEEPING RULE

An appraiser must prepare a workfile for each appraisal or appraisal review assignment. A workfile must be in existence prior to the issuance of any report or other communication of assignment results. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.

The workfile must include the name of the client and the identity, by name or type, of any other intended users, and true copies of all written reports, documented on any type of media. (A true copy is a replica of the report transmitted to the client. A photocopy or an electronic copy of the entire report transmitted to the client satisfies the requirement of a true copy.) A workfile must contain summaries of all oral reports or testimony, or a transcript of testimony, including the appraiser's signed and dated certification; and all other data, information, and documentation necessary to support the appraiser's opinions and conclusions and to show compliance with USPAP, or references to the location(s) of such other data, information, and documentation.

A workfile in support of a Restricted Appraisal Report or an oral appraisal report must be sufficient for the appraiser to produce an Appraisal Report. A workfile in support of an oral appraisal review report must be sufficient for the appraiser to produce an Appraisal Review Report.

An appraiser must retain the workfile for a period of at least *five years after preparation* or at least two years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.

An appraiser must have custody of the workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile. This includes ensuring that a workfile is stored in a medium that is retrievable by the appraiser throughout the prescribed record retention period. An appraiser having custody of a workfile must allow other appraisers with workfile obligations related to an assignment appropriate access and retrieval for the purpose of:

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

A workfile must be made available by the appraiser when required by a state appraiser regulatory agency or due process of law.

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

## SCOPE OF WORK RULE

For each appraisal or appraisal review assignment, an appraiser must:

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

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

Scope of work includes, but is not limited to:

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

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

### PROBLEM IDENTIFICATION

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

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

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

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

### SCOPE OF WORK ACCEPTABILITY

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

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

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

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

### DISCLOSURE OBLIGATIONS

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

Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed. ***The appraiser has broad flexibility and significant responsibility in the level of detail and manner of disclosing the scope of work in the appraisal report or appraisal review report.*** The appraiser may, but is not required to, consolidate the disclosure in a specific section or sections of the report, or use a particular label, heading or subheading. An appraiser may choose to disclose the scope of work as necessary throughout the report.

## JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

## USPAP STANDARDS 5 AND 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING (General Discussion)

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

Standards 5 and 6 apply to all mass appraisals of real and personal property regardless of the purpose or use of such appraisals. It is directed toward the substantive aspects of developing and communicating competent analyses, opinions, and conclusions in the mass appraisal of properties, whether real property or personal property. Standard 5 is directed toward the substantive aspects of developing credible analyses, opinions, and conclusions in the mass appraisal of properties, while Standard 6 addresses the content and level of information required in a report that communicates the results of a mass appraisal. The reporting and jurisdictional exceptions applicable to public mass appraisals prepared for purposes of ad valorem taxation do not apply to mass appraisals prepared for other purposes.

A mass appraisal includes:

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

**The Jurisdictional Exception Rule may apply to several sections of Standards 5 and 6 because ad valorem tax administration is subject to various state, county, and municipal laws.**

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

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

The various sections of Standard 5 (development of mass appraisal) and Standard 6 (communication of the mass appraisal results) are briefly summarized below:

- **Standard 5-1:** Establishes the appraiser's technical and ethical framework. Specifically, appraisers must recognize and use established principles, methods and techniques of appraisal in a careful manner while not committing substantial errors of fact or negligence that would materially affect the appraisal results and not give a credible estimate of fair market value. To this end appraisers must continuously improve his or her skills to maintain proficiency and keep abreast of any new developments in the real and personal property appraisal profession. This Standards does not imply that competence requires perfection, as perfection is impossible to attain. Instead, it requires appraisers to employ every reasonable effort with regards to due diligence and due care.
- **Standard 5-2:** Defines the introductory framework requirements of developing a mass appraisal, focusing on the identification and/or definition of: client(s), intended users, effective date, appraisal perspective, scope of work, extraordinary assumptions, hypothetical conditions, the type and definition of value being developed (typically "fair market value" for ad valorem tax purposes), characteristics of the property being appraised in relation to the type and definition of value and intended use, the characteristics of the property's market, the property's real or personal attributes, fractional interest applicability, highest and best use analysis along with other land-related considerations, and any other economic considerations relevant to the property.
- **Standard 5-3:** Defines requirements for developing and specifying appropriate mass appraisal data and elements applicable for real and personal property. For real property, the data and elements include: existing land use regulations, reasonably probable modification of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use analysis. For personal property, the relevant data and elements include: identification of industry trends, trade level, highest and best use, and recognition of the appropriate market consistent with the type and definition of value.
- **Standard 5-4:** Further defines requirements for developing mass appraisal models, focusing on development of standardized data collection forms, procedures, and training materials that are used uniformly on the universe of properties under consideration. This rule specifies that appraisers employ recognized techniques for specifying and calibrating mass appraisal models. Model specification is the formal development of a model in a statement or mathematical equation, including all due considerations for physical, functional, and external market factors as they may affect the appraisal. These models must accurately represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. Models must be calibrated using recognized techniques, including, but not limited to, multiple linear regression, nonlinear regression, and adaptive estimation. Models may be specified incorporating the income, market, and/or cost approaches to value and may be tabular, mathematical, linear, nonlinear, or any other structure suitable for representing the observable property characteristics such as adaptive estimation. Model calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model.
- **Standard 5-5:** Defines requirements for collection of sufficient factual data, in both qualitative and quantitative terms, necessary to produce credible appraisal results. The property characteristics collected must be contemporaneous with the effective date of the appraisal. The data collection program should incorporate a quality control procedure, including checks and audits of the data to ensure current and consistent records. This rule also calls for calls for an appraiser, in developing income and expense statements and cashflow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction. Terms and conditions of any leases should be analyzed, as well as the need for and extent of any physical inspection of the properties being appraised.



- **Standard 5-6:** Defines requirements for application of a calibrated model to the property being appraised. This rule calls for: the appraiser to recognize methods or techniques based on the cost, market, and income approaches for improved parcels; the appraiser to value sites by recognized methods or techniques such as allocation method, abstraction method, capitalization of ground rent, and land residual; the appraiser to develop value of leased fee or leasehold estates with consideration for terms and conditions of existing leases, and, when applicable by law, as if held in fee simple whereas market rents are substituted for actual contract rents; the appraiser to analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or component parts of a property; the appraiser to analyze anticipated public or private improvements located on or off the site, and analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in market actions.
- **Standard 5-7:** Defines the reconciliation process of a mass appraisal. Specifically, appraisers must analyze the results and/or applicability of the various approaches used while ensuring that, on an overall basis, standards of reasonableness and accuracy are maintained with the appraisal model selected (underline added for emphasis). It is implicit in mass appraisal that, even when properly specified and calibrated models are used, some individual value conclusions will not meet standards of reasonableness, consistency, and accuracy. Appraisers have a professional responsibility to ensure that, on an overall basis, models produce value conclusions that meet attainable standards of accuracy.
- **Standard 6-1:** Defines general requirements of a mass appraisal written report by addressing the level of information required that will allow the report to be non-misleading, clearly understood, and sufficiently qualified with any assumptions and conditions (elements of which are further detailed in the next three sections of this report that discuss P&A appraisal procedures with regards to specific categories of property).
- **Standard 6-2:** Defines specific content required to be included in a mass appraisal written report.
- **Standard 6-3:** Defines the certification of the mass appraisal written report.

The following sections of this report discuss in more detail the various elements of the development of P&A's mass appraisals and associated written reports as required by USPAP Standards 5 and 6, with regards to P&A appraisal of Mineral Interests, Industrial, Utility, Related Personal Property, and Real Estate.

## USPAP STANDARDS 5, 6-1, 6-2: MASS APPRAISAL OF MINERAL INTERESTS

### INTRODUCTION

Definition of Appraisal Responsibility (Scope of Effort): The Mineral Valuation Department of Pritchard & Abbott, Inc. ("P&A" hereinafter), is responsible for developing credible values for mineral interests (full or fractional percentage ownership of oil and gas leasehold interest, the amount and type of which are legally and/or contractually created and specified through deeds and leases, et.al.) associated with producing (or capable of producing) leases. Mineral interests are typically considered real property because of their derivation from the bundle of rights associated with original fee simple ownership of land. Typically all the mineral interests that apply to a single producing lease are consolidated by type (working vs. royalty) with each type then appraised for full value which is then distributed to the various fractional decimal interest owners prorata to their individual type and percentage amount.

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

P&A hereby makes the **assumption** that, in all appraisal assignments performed for governmental entities in satisfaction of contractual obligations related to ad valorem tax, the client does not wish to or cannot legally request the appraisal report not identify the client.

Intended users of our reports are typically the client(s) for which we are under direct contract. Although taxpayers or their agents who own and/or represent the subject property being appraised often receive these reports either by law or as a courtesy of the client or P&A, this receipt does not mean these parties automatically become Intended Users as defined by USPAP. **A party receiving a copy of a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser specifically identifies such party as an intended user.** Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

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

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

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

- exposed in the open market with a reasonable time for the seller to find a purchaser;

- both the buyer and seller know of all the uses and purposes to which the property is, or can be, adapted and of the enforceable restrictions on its use; and
- both the buyer and seller seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other. [Exigencies are pressing or urgent conditions that leave one party at a disadvantage to the other.]

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

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

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

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

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

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

## Appraisal Resources

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

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

Information Systems: The mainframe systems are augmented by the databases that serve the various in-house and 3<sup>rd</sup>-party applications on desktop personal computers. In addition, communication and dissemination of appraisals and other information is available to the taxpayer and client through electronic means including internet and other phone-line connectivity. The appraiser supervising any given contract fields many of the public's questions or redirects them to the proper department personnel.

## VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

### Approaches to Value for Petroleum Property

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

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

Many times when these properties do change hands, it is generally through company mergers and acquisitions where other assets in addition to oil and gas reserves are involved; this further complicates the analysis whereby a total purchase price must be allocated to the individual components - a speculative and somewhat arbitrary task at best. In the case of oil and gas properties, a scarcity of sales requires that every evidence of market data be investigated and analyzed. Factors relative to the sale of oil and gas properties are:

- current production and estimated declines forecast by the buyer;
- estimated probable and potential reserves;
- general lease and legal information which defines privileges or limitation of the equity sold;
- undeveloped potential such as secondary recovery prospects;
- proximity to other production already operated by the purchaser;
- contingencies and other cash equivalents; and
- other factors such as size of property, gravity of oil, etc.

In the event that all these factors are available for analysis, the consensus effort would be tantamount to performing an income approach to value (or trying to duplicate the buyer's income approach to value), thereby making the market approach somewhat moot in its applicability. **As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., rarely employs a rigorous application of the market approach in the appraisal of mineral interests.**

Income Approach: This approach to value most readily yields itself to the appraisal of mineral interests. Data is readily available whereby a model can be created that reasonably estimates a future income stream to the property. This future income may then be converted (discounted) into an estimate of current value. Many refer to this as a capitalization method, because capitalization is the process of converting an income stream into a capital sum (value). As with any method, the final value is no better than the reliability of the input data. The underlying assumption is that people purchase the property for the future income the property will yield. If the land or improvements are of any residual value after the cessation of oil and gas production, that value should also be included (if those components are also being appraised).

The relevant income that should be used is the expected future net income. Assumptions of this method are:

- Past income and expenses are not a consideration, except insofar as they may be a guide to estimating future net income.
- That the producing life as well as the reserves (quantity of the minerals) are estimated for the property.
- Future income is less valuable than current income, and so future net income must be discounted to make it equivalent to the present income. This discount factor reflects the premium of present money over future money, i.e., interest rate, liquidity, investment management, and risk.

**As a general rule, and for the reasons stated above, Pritchard & Abbott, Inc., relies predominantly on the income approach to value in the appraisal of mineral interests.**

## **DATA COLLECTION/VALIDATION**

Sources of Data: The main source of P&A's property data is data from the Railroad Commission of Texas as reported by operators. As a monthly activity, the data processing department receives data tapes or electronic files which have updated and new well and production data. Other discovery tools are fieldwork by appraisers, financial data from operators, information from chief appraisers, tax assessors, trade publications and city and local newspapers. Other members of the public often provide P&A information regarding new wells and other useful facts related to property valuation.

Another crucial set of data to obtain is the ownership of these mineral interests. Typically a mineral lease is fractionated and executed with several if not many owners. This information is typically requested (under a promise of confidentiality concerning owners' personal information) from pipeline purchasers and/or other entities (such as operators) who have the responsibility of disbursing the income to the mineral interest owners. Another source of ownership information is through the taxpayers themselves who file deeds of ownership transfer and/or correspond with P&A or the appraisal district directly.

Data Collection Procedures: Electronic and field data collection requires organization, planning and supervision of the appraisal staff. Data collection procedures for mineral properties are generally accomplished globally by the company; i.e., production and price data for the entire state is downloaded at one time into the computer system. Appraisers also individually gather and record specific and particular information to the appraisal file records, which serves as the basis for the valuation of mineral properties. P&A is divided into four district offices covering different geographic areas. Each office has a district manager, appraisal and ownership maintenance staff, and clerical staff as appropriate. While overall standards of performance are established and upheld for the various district offices, quality of data is emphasized as the goal and responsibility of each appraiser.

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

Appropriate revisions and/or enhancements of schedules or discounted cash flow software are annually made and then tested prior to the appraisals being performed. Calibration typically involves performing multiple discounted cash flow tests for leases with varying parameter input to check the correlation and relationship of such indicators as: Dollars of Value Per Barrel of Reserves; Dollars of Value Per Daily Average Barrel Produced; Dollars of Expense Per Daily Average Barrel Produced; Years Payout of Purchase Price (Fair Market Value). In a more classical calibration procedure, the validity of values by P&A's income approach to value is tested against actual market transactions, if and when these transactions and verifiable details of these transactions are disclosed to P&A. Of course these transactions must be analyzed for meeting all requisites of fair market value definition. Any conclusions of this analysis are then compared to industry benchmarks for reasonableness before being incorporated into the calibration procedure.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

Individual property values are reviewed several times in the appraisal process. P&A's discounted cashflow software dynamically generates various benchmark indicators that the appraiser reviews concurrent with the value being generated. These benchmarks often prompt the appraiser to reevaluate some or all of the parameters of data

entry so as to arrive at a value more indicative of industry standards. Examples of indicators are dollars of value per barrel of oil reserve, years payout, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values, either before or after Notices of Appraised Value are prepared. Operators routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as individual lease operating expense and reserve figures. And of course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as an extension of the Office of the Chief Appraiser.

## **PERFORMANCE TESTS**

An independent test of the appraisal performance of properties appraised by P&A is conducted by the State of Texas Comptroller's Office through the annual Property Value Study for school funding purposes. This study determines the degree of uniformity and the median level of appraisal for mineral properties. School jurisdictions are given an opportunity to appeal any preliminary findings. After the appeal process is resolved, the Comptroller publishes a report of the findings of the study, including in the report the median level of appraisal, the coefficient of dispersion around the median level of appraisal and any other standard statistical measures that the Comptroller considers appropriate.

## USPAP STANDARDS 5, 6-1, 6-2: MASS APPRAISAL OF INDUSTRIAL, UTILITY AND RELATED PERSONAL PROPERTY

### INTRODUCTION

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

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

P&A hereby makes the **assumption** that, in all appraisal assignments performed for governmental entities in satisfaction of contractual obligations related to ad valorem tax, the client does not wish to or cannot legally request the appraisal report not identify the client.

Intended users of our reports are typically the client(s) for which we are under direct contract. Although taxpayers or their agents who own and/or represent the subject property being appraised often receive these reports either by law or as a courtesy of the client or P&A, this receipt does not mean these parties automatically become Intended Users as defined by USPAP. **A party receiving a copy of a report in order to satisfy disclosure requirements does not become an intended user of the appraisal or mass appraisal unless the appraiser specifically identifies such party as an intended user.** Potential other users include parties involved in adjudication of valuation disputes (review board members, lawyers, judges, etc.), governmental agencies which periodically review our appraisals for various statutory purposes (such as the Texas Comptroller's Office) and private parties who may obtain copies of our appraisals through Open Records Requests made to governmental agencies.

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

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

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

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



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

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

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

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

Legal and Statutory Requirements: The provisions of the Texas Property Tax Code and relevant legislative measures involving appraisal administration and procedures control the work of P&A as a subcontractor to the Appraisal District. P&A is responsible for appraising property on the basis of its market value as of January 1 for ad valorem tax purposes for each taxing unit that imposes ad valorem taxes on property in the contracted Appraisal District. All industrial, utility and personal properties are reappraised annually. The definition of Fair Market Value is provided and promulgated for use in ad valorem tax work in Texas by the Texas Property Tax Code, and therefore as a **Jurisdictional Exception** supercedes the definition of “market value” as found in USPAP definitions.

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

## **Appraisal Resources**

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

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

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

## VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## DATA COLLECTION/VALIDATION

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

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

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

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

### **INDIVIDUAL VALUE REVIEW PROCEDURES**

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

### **PERFORMANCE TESTS**

An independent test of the appraisal performance of properties appraised by P&A is conducted by the State of Texas Comptroller's Office through the annual Property Value Study for school funding purposes. This study determines the degree of uniformity and the median level of appraisal for utility properties. School jurisdictions are given an opportunity to appeal any preliminary findings. After the appeal process is resolved, the Comptroller publishes a report of the findings of the study, including in the report the median level of appraisal, the coefficient of dispersion around the median level of appraisal and any other standard statistical measures that the Comptroller considers appropriate.