

# OCHILTREE COUNTY APPRAISAL DISTRICT

## REAPPRAISAL PLAN AS ADOPTED BY THE BOARD OF DIRECTORS

# 2025-2026



Ochiltree County Appraisal District  
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## EXECUTIVE SUMMARY

Following is a summary of pertinent Texas Property Tax Code sections that indicate the elements required by law for a reappraisal plan.

### Written Reappraisal Plan

Passage of Senate Bill 1652 at the 79<sup>th</sup> regular session, amended Section 6.05 of the Texas Property Tax code by adding subsection (i) to read as follows:

- (i) To ensure adherence with generally accepted appraisal practices, the board of directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10<sup>th</sup> day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. Not later than September 15 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 the comptroller within 60 days of the approval date.

### Plan for Periodic Reappraisal

Senate Bill 1652 amends Section 25.18, subsections (a) and (b) to read as follows:

- (a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05 (i).
- (b) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years.
  - 1) Identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land based photographs, surveys, maps and property sketches;
  - 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.

## Ochiltree Appraisal District

### 2025 – 2026 Reappraisal Plan

## Introduction

### Scope of Responsibility

The Ochiltree Appraisal District has prepared and published this reappraisal plan and appraisal report to provide our Board of Directors, citizens, and taxpayers with a better understanding of the district's responsibilities and activities. This report has several parts: a general introduction and several sections describing the appraisal effort by the appraisal district. This document serves as a summary of the appraisal process planned for 2025-2026 at OCAD; details regarding the process of appraisal in the district are explained more fully in the OCAD appraisal manuals.

The Ochiltree County Appraisal District (CAD) is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. The Ochiltree Appraisal District has its own board of directors, appointed by the taxing units within the boundaries of Ochiltree County, constituting the district's governing body. The chief appraiser, appointed by the board of directors is the chief administrator and chief executive officer of the appraisal district.

The appraisal district is responsible for property tax appraisal and exemption administration for nine (9) jurisdictions or taxing units in Ochiltree County. Each taxing unit, such as the county, city, school, junior college, water district, etc., sets its own tax rate to generate revenue to pay for operating budgets and public services such as police and fire protection, public schools, road maintenance, courts, and water and sewer system. Our appraisal district also administers various types of property tax exemptions such as those for homeowners, the elderly, the disabled, disabled veterans, charitable or religious organizations, pollution control, minimum value, and vehicles used to produce income that are also used for personal use. We, in addition, maintain records on abatements, tax deferrals, historical designated properties and public improvement district (PID) boundaries and Tax Increment Reinvestment Zone (TIRZ) values.

Except as otherwise provided by the Texas Property Tax Code, all taxable property is appraised at its "market value" as of January 1<sup>st</sup>. Under the tax code, Sec 1.04(7), "market value" means the price at which a property would transfer for cash, or its equivalent, under prevailing market conditions if:

- Exposed for sale in the open market with a reasonable time for the seller to find a purchaser:
- Both the seller and the 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.

The Texas Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), productivity (Sec. 23.41), real property inventory (Sec. 23.12), dealer inventory (Sec 23.121, 23.124, 23.1241 and 23.127), nominal value (Sec 23.18) or restricted use property (Sec 23.83 and 23.93), low income housing (Sec 23.215) and allocation of interstate property (Sec 21.03). The owner of real or personal property inventory may elect to have the inventory appraised at its market value as of September 1<sup>st</sup> of the year preceding the tax year to which the appraisal applies by filing an application with Chief Appraiser before August 1<sup>st</sup> of the preceding year requesting that the inventory be appraised as of September 1<sup>st</sup> (Sec 23.12(f)).

The Texas Property Tax Code, Section 25.18, requires the appraisal district to implement a written plan to update appraised values for real property and personal property at least once every three years. The written plan is adopted by the appraisal district's boards of directors as required by Sec 6.05 in the Texas Property Tax Code. The district's current policy is to conduct a general reappraisal of real property at least every three years.

Any reference to a specific work plan contained in this document is to be considered tentative for OCAD. The work plan assumptions are made with the understanding that there are no natural disasters or new legislative requirements that will require the district to reallocate resources necessary to complete the normal work plan to address these possible high needs areas. These work plans are made under the assumption that there will be an ample supply of market data, and/or verifiable market activity in the district in order to conduct a reappraisal of properties.

### Property Damaged in a Disaster Area

In the case of a disaster in which part or all of the area declared by the governor as a disaster area falls within one or more of the taxing entities in this CAD, and in the event that one or more of the entities (by vote of its board) authorizes a reappraisal pursuant to Section 23.02 of the Texas Property Code, this appraisal office will complete a reappraisal of the affected property as soon as practicable.

The following data will be included on the appraisal records in accordance with requirements of the law:

- 1) The date of the disaster;
- 2) The appraisal value of the property after the disaster; and
- 3) If not all taxing entities authorize the reappraisal, a listing of those to which the reappraisal applies.

Cost for the reappraisal will be borne by the taxing entity or entities that authorized the reappraisal. In a case in which more than one entity is involved, the cost will be charged proportionately to each based on the percentage the preceding year's total dollar amount of taxes for each entity bears to the total of all the entities' taxes which are requesting the reappraisal.

If property that is damaged in a disaster is reappraised as described above, the governing body shall provide for prorating the taxes for the year/years in which the disaster occurred according to the methods described in Section 23.02(d) of the Texas Property Code.

### Personnel and Organization

The Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling the district operations. The Ochiltree Appraisal District staff consists of 5 full-time employees. The appraisal staff for all types of properties in the district which have not been contracted with a third party appraisal firm are as follows:

#### Appraisal Function:

Julia Morales Mendez – Chief Appraiser RPA, RTA, CCA (Commercial, Residential, Mobile Homes, Agriculture, Business Personal)

Marlee Jones – Appraiser (Commercial, Residential, Mobile Homes, Agriculture, Business Personal)

Lorena Cenicerros – Appraiser (Mobile Homes, Residential, Business Personal)

#### Support Function (Input):

Lorena Cenicerros —Ownership, Input

Loretta Mick, RTA—Collections, Input

Lissette Pallares, Receptionist—Exemptions, Collections input

Cristal Tarango---Collections, Input

The district operates with a philosophy of "team work" and our mission is to uphold and enforce the Texas Property Tax Code and to be public servants to the community in a fair and equitable manner. The district promotes the

highest standard of ethical conduct as described by the Texas Department of Licensing and Regulation and maintains the confidentiality of specific information as mandated by the Texas Property Tax Code.

The day-to-day operation of the district is, as stated, overseen by the Chief Appraiser with support personnel who plan, organize, direct and control the business support functions related to human resources (including staff education & training), budget, finance, records management, purchasing, fixed assets, facilities, postal services, and tax collection. The Appraisal function staff is responsible for the valuation of all real and personal property. The property types appraised include residential, commercial, business personal, and manufactured housing. As explained later in this document, industrial, and oil and gas properties are appraised by an external appraisal firm. The Information Technology function comprises systems analysis and application, records maintenance, information assistance to the public, programming, and production. During 2025-2026, the IT function will be outsourced. The district's appraisers are registered with the Texas Department of Licensing and Regulation, and have earned or are in the process of earning the Registered Professional Appraiser (RPA) designation. A minimum of 30 hours of continuing education units must be taken every two years which include classes on Ethics and Uniform Standards of Professional Appraisal Practices (USPAP). Additionally, all appraisal personnel receive extensive training in data gathering processes used in fieldwork and statistical analyses of all types of property to ensure equality and uniformity of appraisal of all types of property. The Chief Appraiser meets regularly with staff to introduce new procedures and regularly monitors appraisal activity to ensure that all personnel are following standardized appraisal procedures.

Field inspections are carried out by the field appraisers and or the Chief Appraiser as directed by the Chief Appraiser. The field appraisers or Chief Appraiser physically inspect areas required by the reappraisal cycle, check all existing data, work building permits, take photographs of improvements, draw plans of new improvements for entry into the computer, and recheck 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 appraisal district staff.

## Data

The Ochiltree Appraisal District is responsible for establishing and maintaining approximately 32,300 real, oil and gas, and personal property accounts covering 975 square miles within the Ochiltree County boundaries. This data includes property characteristics and ownership and exemption information. Property characteristic data on new construction is updated through an annual field effort and in cooperation with the code enforcement offices of the City of Perryton. Property characteristic data on existing property is maintained through a field review and inspection. Sales are researched through various means including the district's sales letter, new construction reports, account review through field inspection, telephone conversations, or visitation in the office. General trends in some classifications of property are acquired through various sources, internal surveys conducted by district personnel, questionnaires to buyer, seller, current owner and vendors.

## Agricultural Valuation Process

The Texas Constitution (Art. VIII, Sec. 1-d-1) provides for the special valuation of "open space land devoted to farm or ranch purposes." In 1991, legislation was passed which allowed productivity appraisal for land used to manage indigenous wildlife.

At OCAD, agricultural or productivity value is based on the land's capacity to produce crops or livestock instead of its value on the real estate market. Although this lower value reduces the taxes on the property, a "rollback" of these taxes takes place when the land is no longer used for an agricultural purpose. The rollback recaptures with interest, the taxes saved for the three years preceding the change in use.

OCAD has an Agricultural Appraisal Advisory Board which meets annually to provide valuable information used by the Chief Appraiser in calculating 1-d-1 productivity values. Cash lease and share lease information are used to determine productivity value. This information is collected annually during the Agricultural Appraisal Advisory Board

meetings. The final productivity value for any given year is based on a five-year average of cash lease and share lease information.

All applications for agricultural valuation are reviewed for accuracy and may generate a field review and inspection before being input in the software system. Additional reviews are done as needed and on a three-year rotation basis.

## Approaches to Value

### Cost Approach

The cost approach to value uses cost data in an appraisal of market value and is based upon the economic principle of substitution. The cost approach typically drives value by first calculating replacement cost new (RCN) and then deducts depreciation in all its forms to arrive at current market value. At OCAD, the cost approach is used for most business personal property, for industrial and utility property, for unique properties and any other property for which value can most accurately be derived by using this approach.

### Market or Sales Comparison Approach

The market approach to value uses data available from actual transactions recorded in the market place itself such as sales of comparable properties from which a comparison to the subject property can be made. This approach is used in OCAD for valuation of most residential, some commercial, and most land properties. Its main drawback is that a number of reliable sales is needed in order to produce accurate comparisons. In the absence of sales, one of the other methods will need to be used instead.

### Income Approach

The income approach to value is best used for any type of income producing property. It is calculated by adjusting gross rent/income from the property for vacancy and other expenses and then capitalizing the resulting net operating income. In this district, it is the approach used for mineral properties, some multi-family residences, and some commercial properties

### Highest and Best Use

The concept of highest and best use, as applied at OCAD, is important and provides conclusions that guide the appraiser in applying the three approaches to value of real estate. Simply stated, the highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible and productive to its maximum. The highest and best use of residential property is normally its current use. (Also see note on residential homesteads and Section 23.01(c) of the TPTC under "Treatment of Residence Homesteads" in the text below.) Residential valuation undertakes reassessment of highest and best use in transition areas and areas of mixed residential and commercial use. In transition areas with ongoing change, the appraiser reviews the existing residential property use and makes a determination regarding highest and best use. Once the conclusion is made that the highest and best use remains residential, further highest and best use analysis is done to decide the type of residential use on a neighborhood basis. As an example, it may be determined in a transition area that older, non-remodeled homes are economic mis improvements, and the highest and best use of such property is the construction of new dwellings. In areas of mixed residential and commercial use, OCAD appraisers review properties on a periodic basis to determine if changes in the real estate market require reassessment of the highest and best use of a select population of properties. At present, because of the stagnant economic situation in the county, this analysis may not be mandated as often as in a growing, changing economy.

### Performance Tests

Property appraisers are responsible for conducting ratio studies and comparative analysis. Ratio studies are conducted on property located within certain neighborhoods or districts by appraisal staff. Ratio studies have six basic steps:



1. Determination of the purpose and objectives
2. Data collection and preparation
3. Comparing appraisal and market data
4. Stratification
5. Statistical analysis
6. Evaluation and application of the results

In some cases, if there are not enough sales, independent appraisals may be used as indicators for the market.

### Sales Ratio Studies

The sales ratio and comparative analysis of sold property to appraised property forms the basis for determining the level of appraisal and market influences and factors for a neighborhood. This information is the basis for updating property valuation for the entire area of property to be evaluated. In reappraisal it is used in the determination of the need for reappraisal, identification of problems with appraisal procedures, to calibrate models used to derive appraised values, to review and re-evaluate appraisals, and to assist in market analyses.

Field appraisers, in many cases, may conduct field inspections to ensure the accuracy of the property descriptions at the time of sale for the study. This inspection is to ensure that the ratios produced are accurate for the property sold and that appraised values utilized in the study are based on accurate property data characteristics observed at the time of the sale. Also, property inspections are performed to discover if property characteristics have changed as of the sale date or subsequent to the sale date. Sales ratios should be based on the value of the property as of the date of sale not after a subsequent or substantial change was made to the property after the negotiation and agreement in price was concluded. Properly performed ratio studies are a good reflection of the level of appraisal for the district.

In the OCAD, ratio data is generated by the software system, and these figures in conjunction with the use of MS Excel spreadsheets aid appraisers in analyzing and utilizing the data in the reappraisal process.

### Independent Performance Test

The State Comptroller's Property Tax Assistance Division (PTAD) conducts a bi-annual property value study (PVS) of each of the school districts and the Appraisal District. As a part of this bi-annual study, the code also requires the Comptroller to:

- Use sales and recognized auditing and sampling techniques;
- Review the district's appraisal methods, and standards and procedures to determine whether the district used recognized standards and practices;
- Test the validity of school district taxable values in the district and presume the appraisal roll values are correct when values are certified; and,
- Determine the level and uniformity of property tax appraisal in the district.

The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. This study utilizes statistical analysis of sold properties (sales ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For the Appraisal District, the reported measures include median level of appraisal for accuracy in smaller samples; coefficient of dispersion (COD) for the measure of appraisal uniformity and equity; the percentage of properties within 10% of the median, the percentage of properties within 25% of the median, and price-related differential (PRD) for properties overall which measures bias reported by category: A - residential, B - multi-living unit property, C - unimproved land, D - value of agricultural land and F1 - commercial improved property. The study also includes L1 - business personal property.

Annual Studies are developed for the independent school district located entirely within the district boundaries and the two independent school districts located partially within the district boundaries. The preliminary results of this study are released in January in the year following the year of certification. The final results of this study are certified

to the Education Commissioner of the Texas Education Agency (TEA) in the following July of each year for the certified year under study. This outside third-party ratio study provides additional assistance to the Appraisal District in determining the areas of market activity or changing market conditions.

## OCAD's Plan for Application of Code Requirements for Reappraisal

### Identifying properties to be appraised (Section 25.18(b)(1))

The code section cited above mandates that the Appraisal District adopt a reliable means of identification of all properties subject to taxation in the district. Following is a brief description of how the OCAD plans to implement this mandate for the various types of property that we appraise.

#### Residential Property

This Appraisal District will use several means of identifying residential properties that need to either be listed for the first time, or reappraised for one reason or another. These include examination of the following: deeds or other legal documents and surveys that are filed at the Ochiltree County Clerk's Office; building permits issued by the City of Perryton and the City of Booker; correspondence received at the district office; information gleaned from appraiser field inspections and drive-outs; information from fee appraisers; information from taxpayers themselves; and reports of new 911 addresses.

The appraisal district also has a GIS map that, in conjunction with other discovery methods, can be used to identify properties that may not be accounted for in our system and that should be considered for inspection and possible addition.

If it is discovered that a property needs to be re-evaluated and inspected, the fact is that it will be noted in the software system by showing a "task" pending on that property. This is a reminder to the appraiser that the property needs to be re-inspected for possible value adjustment/addition. The tasks in the system will be reviewed before the Notices of Appraised Value are sent out and again before tax statements are prepared.

#### Land (Vacant Lots—Commercial and Residential and Rural Land)

There are several factors that influence land values as listed in the IAAO's *Property Assessment Valuation* manual. These include size, shape, topography, soil type, location, frontage, and zoning restrictions.

Resources that will be used by the Appraisal District in identifying these properties include plat maps, GIS maps with Google Earth feature, topographical maps, information from taxpayers and deeds and other legal documents filed at the Ochiltree County Clerk's Office.

Any adjustments to the land parcels will also be adjusted in the GIS mapping system so that in the future, appraisers have updated information to work from in identifying new and/or updating old properties.

#### Commercial Property

In terms of commercial sales data, Ochiltree Appraisal District receives a copy of the deeds recorded in Ochiltree County that convey commercially classed properties. Those deeds involving a change in commercial ownership will be entered into the sales information system and researched in an attempt to obtain the pertinent sales information. Other sources that will be used are "assumed name" changes recorded by the County Clerk, local newspapers, and regional and national real estate and financial publications.

For those properties involved in a transfer of commercial ownership, a sales file is produced which begins the research and verification process. The initial step in sales verification involves a questionnaire, which will be mailed to both parties in the transaction (Grantor and Grantee). If a questionnaire is answered and returned, the documented responses will be recorded in the computerized sales database system. If no information is provided, verification of many transactions will then be attempted via phone calls to parties thought to be knowledgeable of the specifics of the sale. Other

sources to be contacted are the brokers involved in the sale, property managers or commercial vendors. In other instances, sales verification will be obtained from local appraisers or others that may have the desired information. Finally, closing statements are often provided during a hearings process; the actual closing statement is the most reliable and preferred method of sales verification.

### **Industrial and Utility Property**

The OCAD has contracted with Pritchard & Abbott. to appraise industrial and utility properties within the district, and the firm will be responsible for identifying properties in this category. Their reappraisal plan for these categories is added as an addendum to this document.

### **Business Personal Property**

There are four different personal property types appraised by the district's personal property section: business personal property accounts, leased assets, vehicles and aircraft, and multi-location assets. At this writing, there are approximately 1900 business personal property accounts located in Ochiltree County.

Appraisers in the district plan to identify new business personal properties by using resources such as websites for Texas Sales Tax Permits, Texas State Comptrollers Corporation search, TxDot website for heavy moving permits, telephone directories (on line and in book form), the Just Texas Commercial registry for commercial vehicles, our local newspaper *The Perryton Herald*, county filed assumed name certificates as well as information from commercial developers. Additions are also identified as the renditions are worked each year.

The information gleaned in this review of resources will then be evaluated and decisions will be made as to which businesses need to be marked in the computer system with a pending "task" and inspected by an appraiser.

### **Mobile Homes**

Identification of mobile homes occurs in several ways at OCAD: by appraiser field work in which the appraiser uses the prior year's mobile home listing as a basis to verify the existing mobile homes and in the process discovers the new ones that are not listed; by sales documents received; and by information from the state web site. Appraisers will field inspect all areas of the district in search of new additions as well as the movement of mobile homes that were already on the roll.

### **Mineral Interest Property**

OCAD has contracted with Pritchard & Abbott; Inc. to appraise all mineral (category G) properties within this district for the period covered by this report. This being the case, they will be responsible for identifying properties in this category. Their appraisal plan for these categories, including their identification methods, is attached to this as an addendum to this document.

## **Identifying and Updating Relevant Property Characteristics (Sec. 25.18(b)(2))**

### **Residential Property**

Property characteristic data on existing and new residential property will be mainly obtained from field review and inspection. As pending "tasks" in the system are reviewed by the appraiser and field inspections made, characteristic data will be noted on worksheets or cards internal to the system. This data may include, but not be limited to construction type, quality of construction, measurement of structures, percent completion of structures, and any other characteristic that in the judgment of the appraiser, would affect the value of the property. New construction characteristics may be obtained from examination of builder blue prints.

The updated data will then be entered into the software system either by the appraiser himself/herself or by support personnel tasked with data input.

### Land (Vacant Lots—Commercial and Residential and Rural Land)

Land characteristics will be identified using information from legal documents and maps as well as from inspection by appraisers. Characteristics will be notated on worksheets or cards or input directly in the software system, making corresponding notes in the note area of the parcel record. Since land characteristics directly affect value, much care will be taken to correctly identify and note them. Any input necessary to make adjustments to land characteristics may be made by the appraiser or given to support staff for input.

### Industrial and Utility Property

OCAD contracts with Pritchard & Abbott, Inc to appraise industrial and utility properties in the district and they will be responsible for identifying pertinent characteristics of the parcels which they appraise. The firm will also make the necessary updates for these additions/changes. At present, they make the updates in the Sigma system, then the totals from this system are electronically transferred to our software system. OCAD appraisers and support personnel will make spot checks of some accounts to ascertain accuracy and integrity of data.

### Commercial Property

Characteristics that affect value for commercial property include location; physical attributes such as size, age, and condition; any legal restrictions such as easements, covenants, leases, reservations, contracts etc.; and economic attributes. These may become apparent during field inspections or they may be identified by examination of legal documents, blue prints, information from taxpayers, or local area publications.

### Business Personal Property

Characteristics of business personal property usually are made apparent during identification and discovery as described under the first section above, but are also noted during any field inspections that are made. Often drive-outs will indicate needed changes or additions to characteristic data. Some of the information that is needed in order to correctly value BPP (according to IAAO's *Property Assessment Valuation*) includes the type of property. BPP in this district is characterized as inventory, machinery and equipment, furniture and fixtures, vehicles, trucks, signs, communication towers, and billboards. Notation will also be made as to whether part of the property is intangible in nature. Also, an appraiser must ascertain the quality, density, original cost, age, condition, year of acquisition and how long the property is expected to last. The data will be collected for those properties which are taxable with procedures as outlined in OCAD's Business Personal Property Manual, and support staff will input the data to the appraisal software system.

### Mobile Homes

Characteristics that affect value for mobile homes include year, make, size, identifying numbers, and condition of the home. OCAD will collect this information from bills of sale, the state web site, or from information provided by the taxpayer; the information will then be inputted to the software system. As the field inspection is made each year, characteristic data may be corrected or added.

### Mineral Interest Property

OCAD has contracted with Pritchard & Abbott, Inc. to appraise all mineral (category G) property within the district. They are responsible for identifying characteristics of mineral property as well as inputting them and maintaining ownership data. At present, they use a Miner/Legacy system to appraise and maintain mineral records, including any characteristics such as well operators, well depths, age of well, field, and formation. Values and pertinent characteristics will be uploaded electronically into OCAD's software system periodically.

### Defining Market Areas in the District (Sec. 25.18(b)(3))

The Texas Property Tax Code, Section 25.18, requires the appraisal district to implement a written plan to update appraised values for real property and personal property at least once every three years. The written plan is adopted by the appraisal district's board of directors as required by Sec 6.05 in the Texas Property Tax Code. The district's current policy is to conduct a general reappraisal of real property at least once every three years. The proposed reappraisals are subject to market conditions and possible unforeseen events.

1. **Reappraisal Areas - Three-Year Cycle:** The CAD is divided into three areas. Each year, all real, residential and commercial property within one of the areas will be reappraised, regardless of any ratio study report finding. The parcel counts as indicated below show parcels appraised by OCAD and not the parcels appraised by Pritchard & Abbott; Inc. These areas are identified as follows:

- a. **Area One:** All Sections of land East of Highway 83 and South of Highway 15 within Ochiltree County, including that portion of H&TC Survey Block 43 that lies West of Highway 83, and also including that portion of the City of Perryton, the City of Booker, the Town of Twitchell and the Town of Huntoon that lie within these boundaries. There are approximately 2800 parcels in this area to be completed in 2026.
- b. **Area Two:** All Sections of land West of Highway 70 and South of Highway 15 within Ochiltree County, Texas, including the strip of T&NO Survey, Block 13 that lies East of Highway 70, and also including that portion of the City of Perryton, The Town of Farnsworth and the Town of Waka that lie within these boundaries. There are approximately 4300 parcels in this area to be completed in 2027.
- c. **Area Three:** All Sections of land North of Highway 15 within Ochiltree County, Texas including that portion of the City of Perryton and Booker that lie within these boundaries. There are approximately 2100 parcels in this area to be completed in 2028.

2. **Annual Ratio Reports:** In addition to the three-year reappraisal cycle stated above, ratio studies may be performed annually to determine areas or categories of properties within OCAD which need to be reappraised in the current year. If an area falls below percentages required by law, that area will be reappraised in the current year, without regard to whether it falls in the current year reappraisal area or not.

### Residential Property

For residential property appraisal purposes, market areas in OCAD are as follows:

- All Rural Residential Categories D & E
- Portion of Booker that is in Ochiltree County
- City of Perryton including fringe areas
- Farnsworth
- Waka

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. In the above listed market areas, submarkets exist and are referred to as neighborhoods. In the district, these neighborhoods often run along subdivision or addition boundaries, especially in the newer developments. Neighborhoods in rural, less populated areas are not as easily identified.

The process of setting neighborhood boundaries is known as delineation. Neighborhoods have previously been field-inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted such as when sales ratios are run on the reappraisal area and it is discovered that the boundaries need to be changed. OCAD's plan includes renewing and possibly re-delineating portions of the reappraisal areas if needed during this next biennium. Whereas neighborhoods involve similar properties in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations.

### Land (Vacant Lots—Commercial and Residential and Rural Land)

The market areas for vacant lots and rural land in OCAD follow the same boundaries as mentioned above under residential property. It is also true with land and vacant lots that submarkets or neighborhoods with similar characteristics will also be apparent. Commercial vacant lots may be grouped depending on how close they are to

the major commercial/industrial centers of the City of Perryton; residential vacant lots will generally be grouped the same as the residential property surrounding it.

**Highest and Best Use Analysis:** Another major consideration in identifying market area boundaries for land is the consideration of the principle of Highest and Best Use. The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible and productive to the maximum. The highest and best use of residential property is normally its current use. Land valuation undertakes reassessment of highest and best use in transition areas and areas of mixed residential and commercial use or in areas of agricultural use that are near the city limits. OCAD appraisers will review properties in these areas during their reappraisals to determine if changes in the real estate market require reassessment of the highest and best use of a select population of properties.

### Commercial Property

The neighborhood and market areas are comprised of all commercially classed properties located within the boundaries of this appraisal district. It may be necessary in some areas of the district to break the larger market area into smaller subsets or neighborhoods or economic groups. In actuality, because of the small size and limited number of commercial properties in this district, these groupings may not be practicable; they are used in this district when they add integrity to appraised values.

Economic areas, however, can be important in OCAD. Economic areas can be defined by each of the improved property use types in them (apartment, office, retail, warehouse and special use) based upon an analysis of similar economic or market forces. These include but are not limited to similarities of rental rates, classification of projects, date of construction, overall market activity or other pertinent influences. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system. All income model valuation (income approach to value estimates) is economic area specific. Economic areas are periodically reviewed to determine if delineation is required, though because of the present economic downturn, we anticipate little or no change during the period of this report.

### Industrial and Utility Property

The appraisal of industrial and utility property has been contracted by OCAD to Pritchard & Abbott, Inc. Market areas for utility property and pipelines are usually national in scope and are defined using sources available to our third-party appraisers.

### Business Personal Property

Business Personal Property market is defined as comprising all business personal property within the boundaries of the district, unless it is determined that a wider market exists (such as regional or statewide) for the particular type of property. This results because market value for business personal property is determined by the use and design of the property, using concepts such as "value in use," "value in exchange," and "trade-level values." Hence the need arises in some cases to expand the market area.

### Mobile Homes

Because of the nature and mobility of mobile homes, the market area for this type of home in OCAD is the whole county.

### Mineral Interest Property

Mineral Interest Property in the district is contracted to Pritchard & Abbott, Inc. to be appraised; minerals are unique and market area may be defined by irregular geographical areas.

## Developing an Appraisal Model Including Identifying Property Characteristics that Affect Value in Each Market Area (Sec. 25.18(b)(4&5))

Appraisers are responsible for developing equal and uniform market values for all property taxed in the district. Because property tax appraisals are mass appraisals, some type of model must be constructed that applies to similar properties as of a common date. The model must then be calibrated or adjusted to reflect the current market. At OCAD, models are maintained and calibrated using tables and schedules that are in our software system; however, an appraiser's independent thought and judgment are needed in reviewing and updating these tables and schedules as economic dynamics change.

### Residential Land Analysis

During the period covered by this report, the value of the land component of residential property will be estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales will be conducted based on a comparison of land characteristics found to influence the market price of land located in the neighborhood. A computerized land table file will then store the land information required to consistently value individual parcels within neighborhoods, given known land characteristics. Specific land influences will be considered where necessary, and depending on neighborhood and individual lot or tract characteristics, adjustment will be made to the neighborhood norm for such factors as access, view, shape, size and topography. Inventory lots will be appraised as provided by Section 23.12 of the Texas Property Tax Code. The appraisers use abstraction and allocation methods to ensure that estimated land values best reflect the contributory market value of the land to the overall property value.

Data on regional economic forces such as demographic patterns, regional locational factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs will be collected from private vendors and public sources when available and provide the field appraiser a current economic outlook on the real estate market. Information may be gleaned from real estate publications and sources such as continuing education in the form of TAAO, TAAD and IAAO classes.

### Single-Family Residences

There are approximately 3000 residential improved parcels in the district. Typically, appraisals for single residences are calculated by using the market sales approach as the model for valuation. In some instances, the cost method may be utilized, especially with new construction and for comparison with the market sales (or in cases where there are insufficient sales) in order to derive the most representative value figure. The district subscribes to resources such as Marshall and Swift, which is a nationally recognized cost estimator service and serves as a valuable comparison tool. The residential value schedule for each reappraisal area will be updated by review of the sales for the prior twelve months. The sales will be listed, non-market transactions and outliers disregarded, and this then will become the basis for further calculations and adjustments to the value schedule.

Once sales have been evaluated and shown to be representative of the market, they will then be grouped according to quality class, or neighborhood. Then, a sales ratio study will be conducted for each group of sales. At OCAD, this mathematical operation is conducted electronically by use of spreadsheets and by using reports produced by the software data base system, where parameters can be designated and sales figures for specific characteristics or geographical areas obtained. The sales ratio study is basically an easy math exercise in which the prior year appraisal for each property included in the study/list is divided by the sales price of that property. The result is expressed as a percentage. The purpose of the study is to determine how accurately the appraised value from the past year reflects current market value.

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

Statistical analysis will then continue in which these ratio studies will be used to evaluate the two primary aspects of mass appraisal: accuracy and level and uniformity of value. Appraisal statistics of central tendency (average ratio, median ratio, and weighted mean ratios) generated from sales ratios may be evaluated and analyzed for each neighborhood. The level of appraised values will be determined by the weighted mean ratio for sales of individual properties within a neighborhood, and a comparison of neighborhood weighted means reflects the general level of appraised value between comparable neighborhoods.

If the statistical analysis indicates that market values are increasing, it will be necessary to adjust the residential valuations schedule upward in order to satisfy the statutory obligation to appraise properties at 100% of market value. If statistical analysis shows market values are decreasing, it will be necessary to adjust the residential schedule downward.

Once the statistical comparisons have been completed and the schedule is updated, further adjustments to individual neighborhoods may be necessary (at OCAD, that will generally mean individual additions or subdivisions). This can be accomplished by working through values on ratio studies within these individual neighborhoods. Depending on results of these calculations, adjustments may need to be made to the residences in specific neighborhoods. All residences in the neighborhood will receive adjustment based on the results so that the appraisal retains uniformity.

### *Treatment of Residence Homesteads*

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

- the market value; or
- 110 Percent of the previous year's value (HB 438, effective January 1, 2008), PLUS the value of any improvements added since the last reappraisal.

Appraised values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1<sup>st</sup> of the year following sale of the property and the property is appraised at its market value. An analogous provision applies to new homes. While a developer owns them, unoccupied residences may be partially complete and appraised as part of an inventory. This valuation is estimated using the district's land value and the percentage of completion for the improvement contribution that usually is similar to the developer's construction costs as a basis of completion on the valuation date. However, in the year following changes in completion, occupancy, or sale, they are appraised at market value.

It should be noted that an exception to the appraisal of residence homesteads at market value appears in the Property Tax Code Section 23.01(d) and is observed by OCAD in appraising residence homesteads: "The market value of a residence homestead shall be determined solely on the basis of the property's value as a residence homestead regardless of whether the residential use of the property by the owner is considered to be the highest and best use of the property."



## Commercial Property

There are approximately 1000 commercial improved parcels and 300 vacant commercial land parcels in Ochiltree County. Any of the three approaches to value, Cost Approach, Market Approach, and Income Approach may be used at OCAD for commercial properties. Which of these methods is selected, depends upon the type of commercial property and whether sales data are readily available. (Commercial vacant land is discussed in another section of this document.) Income producing property is typically appraised using the income approach.

In appraising commercial property at OCAD certified appraisers appraise the fee simple interest of properties according to statute and court decisions. However, the effects of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisal of any non-exempt taxable fractional interests in real property (i.e. certain multi-family housing projects). Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided programmatically based on their prorated interests.

## Multi-Family Residential & Hotel/Motels

Because of the fact that most multi-family residential properties and motels/hotels are primarily used to generate income, and the net income that a property produces is an indication of its value, most of these properties will be valued using income method approaches in the OCAD. There are instances when these properties are best valued using the sales comparison approach, and in these cases OCAD will use sales to arrive at market value. If adequate sales or income information is not available, the cost approach to value will be used as an indication of value.

## Area Analysis

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

Looking at the next two years in terms of value for commercial property in this district mandates a close look at regional economic factors that have changed drastically since the down-turn in the oil and gas industry. Commercial property in the district has been directly impacted by the economy and other regional factors such as employment and income patterns. These will be taken into consideration in selecting the appropriate model to use in appraising commercial property in the next biennial period.

Valuation analysis or model price calibration for commercial property involves adjusting the mass appraisal formula, tables and schedules to reflect current local market conditions. The basic structure of the commercial appraisal model at OCAD can continue to be valid over an extended period of time by simply changing trending factors to reflect the current market. However, at some point, if the adjustment process becomes too involved, the model calibration can mandate new or revised model structure.

## Industrial and Utility Property (Including Industrial Personal Property)

OCAD has contracted with Pritchard & Abbott, Inc. to appraise all industrial and utility property in the district. They rely predominantly on the cost approach to value in the appraisal of this type of property as described fully in their reappraisal plan appended to this document.

## Business Personal Property

There are four different personal property types appraised by appraisers in the district: Business Personal Property accounts; leased assets; vehicles and aircraft; and multi-location assets. There are approximately 1900 personal property accounts on the OCAD's appraisal roll. The reappraisal of personal property accounts is conducted annually to comply with Section 22 of the Texas Property Tax Code.

The personal property accounts are classified by the State Use Codes to describe the business type. As soon as possible after January 1<sup>st</sup> of each year of this report, business personal property renditions with definitions for the various fields to be completed by the business owners for each account will be mailed to the business owners of record. Included in the mailing is a Guide to Personal Property Rendition that explains the requirements of mandatory rendition in Senate Bill 340 and Section 22.01 of the Texas Property Tax Code.

Generally, because of the readily available information, the cost approach is used to appraise market value for business personal property, though other methods may be used as well. Property owners report historical cost of their property; the appraiser will then use this information to calculate replacement cost new less depreciation (RCNLD) using depreciation schedules that are systematically and consistently used for all business personal property. National valuation guides such as Marshall and Swift and sales information may also be used in certain situations. Cost schedules are developed generally using a cost per square method, but may use other units where indicated by industry norms or other circumstances.

In the event that a property owner fails to comply with Section 22.01 of the Texas Property Tax Code, and does not render the business personal property for the business, the appraiser will compare the non-rendered account with comparable rendered property for an accurate appraised value to maintain the correct level of appraisal and of uniformity among the business personal property accounts. The appraiser will research the properties with current filed renditions or authoritative price guides in order to arrive at a value for the property. All non-rendered personal property accounts will be reappraised with a current appraised value prior to the printing and mailing of the business personal property rendition forms. The appraiser may place notes on each account that is reappraised that explain the changes in appraised value. New business personal property accounts follow the same procedure for the valuation process.

The district staff place account flags to identify each property that has not rendered timely so that the business personal property owner receives the 10 percent penalty for not filing timely as mandated by Section 22.28 of the Texas Property Tax Code. The appraiser will mark each account for which the property owner files a written request for the mandatory automatic extension filing deadline date of May 15<sup>th</sup>, or an extension filing deadline date of May 30<sup>th</sup> when the owner provides good cause to the chief appraiser. The chief appraiser has the discretion to approve or deny the May 30<sup>th</sup> extension. Both extension deadlines must be filed in writing to the district prior to the rendition-filing deadline of April 15 as provided in the Texas Property Tax Code Sec 22.23. Since OCAD does not have property exempted under Section 11.251, the earlier rendition-filing deadline of April 1 does not apply.

### Mobile Homes

Mobile homes are typically appraised using the cost approach to value. This will be accomplished by starting with the sales price and depreciating the home over its useful life. Mobile homes will be graded depending on condition, and a built-in software schedule will apply a price per square foot to arrive at total value; depreciation will be deducted from this figure.

### Oil & Gas Property

OCAD has contracted with Pritchard & Abbott, Inc. for the appraisal of mineral properties and their reappraisal plan describing the approach to value used for minerals is described in the appended Pritchard & Abbott, Inc. reappraisal plan.

## Review and Appraisal Results (Sec. 25.18(b)(6-7))

### Residential Property

1. **Statistical Analysis:** As a final check for level and uniformity of value, statistical tests will be performed on estimated values to make sure that they are consistent with the market. Sales ratio studies may once again be utilized to derive statistical measures of central tendency and these are compared to the neighborhoods in the reappraisal areas as well as any other areas that were adjusted during the current period.
2. **Field Review:** Appraisers may use fieldwork to make sure that the appraisal accurately describes the value of the property and if it does not, they will make any necessary adjustments. They may review items such as the quality of construction, condition, and physical, functional and economic obsolescence and verify that what is reflected in the mass appraisal of that property truly reflects market value. In this way, computer-assisted values are tested against an appraiser's own appraisal judgment.
3. **Office Review:** The appraiser may randomly review information that has been entered into the software system for consistency and accuracy. If there are values that were changed due to a protest hearing, these are reviewed to determine if the value remains appropriate for the current year. Once the appraiser is satisfied with the level and uniformity of value for each neighborhood within his area of responsibility, the estimates of value will be used to produce current year Notices of Appraised Value.

### Land (Vacant Lots—Commercial and Residential and Rural Land)

Statistical analysis of final values is an essential component of quality control for land. A comparison of the final value against a standard provides a good measurement of appraisal performance. Statistical comparisons of many different standards will be used during the time covered by this report including sales of similar properties, the previous year's appraised value, and sales ratio analysis.

Review of agricultural 1-d-1 values will be made to ensure that correct information has been entered into the software system. Random accounts may be pulled to determine that level and uniformity of value has been achieved.

Field review of proposed values may be necessary especially in areas of the district experiencing change and new activity. Again, field review allows an appraiser to test computer assisted values against his/her own appraisal judgment and is an important tool in reviewing appraisal results.

### Commercial Property

Commercial property values will be reviewed periodically during the appraisal process. In reviewing appraisal results of commercial property, statistical analysis as described above may be used if enough information exists to arrive at accurate statistical figures. In a small commercial area like that in this district, field review and observation, information from taxpayers, and office review of random parcels usually provides the best measure of appraisal level and uniformity.

For those properties where the income approach to value was most appropriate, potential gross rent estimates, occupancy levels, secondary income, allowable expenses (inclusive of replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed. Income model estimates and conclusions are compared to actual information obtained on individual commercial and industrial income properties, as well as with information from published sources and area property managers and owners.

### Industrial and Utility Property (Including Pipelines)

Appraisal review of industrial and utility property will be completed by Pritchard & Abbott, Inc. with whom OCAD has a contract to appraise this type of property. Appraisers at OCAD will also randomly check accounts appraised

by the firm to gain a level of assurance that the appraisal is correct and complete. Large accounts may also be checked in this manner.

#### Business Personal Property (non-industrial)

Business Personal Property review will consist primarily of making sure that proposed values agree with industry standards for the region and that they are complete. Values will be checked for accuracy when rendered, then again when input is made to the software system. Appraisal district staff will make sure that business personal property values for similar types of business are equitable. Random accounts may be checked again before Notices of Appraised Value are sent out. Review will also be accomplished through examination of information received from taxpayers and agents who may provide new information.

All accounts will be checked for rendition information, and if no rendition was sent in, they will be marked accordingly in the software system and will then be charged the no-rendition fee.

#### Mobile Homes

Review of mobile home appraisals will be on-going throughout the appraisal period. Appraisers may randomly re-inspect mobile home areas or taxpayers may bring new information to the district office that necessitates verification and update. The appraiser may review random mobile home values as listed in the software system for correctness.

#### Oil & Gas Property

Appraisal review of Oil & Gas property will be completed by Pritchard & Abbott, Inc. who is engaged to appraise mineral property for OCAD. Their methods of review are noted in their reappraisal plan which is appended to this document. In addition to their review of values, staff at OCAD may randomly check oil and gas parcels using information from the Texas Rail Road Commission to check for completeness; to ascertain that no new producing wells have been omitted. OCAD staff may also review accounts for duplications.

#### Software Audit

In addition to the reviews delineated above, OCAD's appraisal data software providers will run a series of audits designed to spot incorrect accounts, duplications, and the use of incorrect exemptions, etc.

### Limiting Conditions

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

1. The appraisals will be prepared exclusively for ad valorem tax purposes.
2. The property characteristic data upon which the appraisals will be based will be assumed to be correct. Exterior inspections of the property appraised will be performed as staff resources and time will be allowed. Some interior inspections of property appraised will be performed at the request of the property owner and may be required by the district for clarification purposes and to correct property descriptions.
3. Validation of sales transactions will be attempted through questionnaires to buyer and seller, telephone surveys and field review. In the absence of such confirmation, residential sales data obtained from vendors will be considered reliable.

# Calendar

## AUGUST 2024

- Start field work in reappraisal area #3
- Start discovery process for all types of properties.
- Start reviewing tasks marked in the system for new appraisal year.
- Collect, verify and file assumed name changes of BPP discovery.
- Collect, verify and process sales and income/expense information.
- Calculate NNR and VATR – must be publicized by August 7.
- Post/Publish Tax Transparency
- Submit EARS to PTAD – P&A.
- Submit EPTS to PTAD – P&A.
- Oil & Gas Report to State – P&A.
- Staff Continuing Education as Training as needed.
- Review and respond to any request for Sept. 1 inventory appraisal (deadline August 1 to apply).
- Review public relations brochures for needed updates.
- Work quality control on GIS map sometime this quarter.
- Continue gathering information for MAPS 2024-2025.

## SEPTEMBER 2024

- Review building permits from the cities which arrive this month.
- Adopt 2025 Budget
- Adopt 2025-2026 Reappraisal Plan
- Set date for Ag Board Meeting which will meet by the end of November.
- Continue field work relating to reappraisal and inspection of properties identified.
- Continue discovery of all types of property.
- Collect, verify and file assumed name changes for BPP discovery.
- Review and update any ownership changes preparatory to sending statements out.
- Review agent listings for correctness preparatory to sending statements out.
- Determine value of inventories from property owner's written applications for Sept. 1 valuation.
- Chief appraiser evaluation sometime in this quarter.
- Clean-up budget accounts for year-end.
- Staff Education as needed.
- Make sure CAD is in receipt of fourth quarter fiscal year estimated payment from taxing units by Sept. 30. Apply penalty if it is not.
- All taxing entities should have adopted rates by the later of Sept. 30 or 60 days after certification.
- Continue gathering information for MAPS 2024-2025

## OCTOBER 2024

- Mail tax statements by Oct. 1 or as soon thereafter as practicable (P&A).
- Send 25.25(b) listing to ARB and BOD chairpersons by the 10<sup>th</sup> of October.
- Continue field work related to reappraisal—concentrate on inspection of real property within reappraisal area 3.
- Begin collection of taxes.

- Continue to collect, verify and process sales information and income and expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Continue to input ownership/address changes.
- Start to work through tasks marked in computer for the 2025 tax year.
- Staff education as needed.
- Continue verifying sales information and inputting to computer in preparation for use in ratio study and statistical analysis.
- Start preparatory work for schedules changes for reappraisal area as deemed necessary by Chief Appraiser.
- Prepare annual report and post to web site.
- Prepare mass appraisal report and post to web site.
- BOD meeting sometime this quarter.
- Continue gathering information for MAPS 2024-2025.

### **NOVEMBER 2024**

- Continue field work in reappraisal area.
- Continue discovery of all types of property.
- Continue to collect, verify and process sales information and income and expense information.
- Collect, verify and process sales information and income and expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Continue to input ownership/address changes.
- Complete calculations for the 1-d-1 agricultural values for 2025.
- Make adjustments in the agricultural schedules when calculations are completed.
- Staff education as needed.
- Work quality control on GIS map sometime this quarter.
- Continue heavy collections and customer service period.
- Review and update appraisal manuals.
- Review and update Disaster Plan.
- Work clean cut-off accounting for fiscal year end preparatory to financial audit
- Continue gathering information for MAPS 2024-2025.

### **DECEMBER 2024**

- Organize materials (books) in preparation for mobile home field work next month.
- Continue field work in reappraisal area.
- Review and reappraisal of rural land and subdivisions (especially in reappraisal area).
- Collect, verify and process sales and income/expense information
- Collect, verify and file assumed name changes for BPP discovery.
- Begin data entry for inspected/new properties including drawing improvements in software system and sending updates to GIS map firm.
- Staff education as needed.
- Finish gathering information for MAPS review.
- Work document retention policy with any updates.
- Work heavy collections/customer service.
- First fiscal quarter payments due from entities by Dec. 31.
- Chief appraiser may conduct a mail survey to verify homestead exemption eligibility (Sec. 11.47).

- Begin gathering information for Homestead Audits for group HSA2-2025.
- Chief appraiser must notify Comptroller's office of eligibility to serve by Jan. 1.

### **JANUARY 2025**

- Mail declarations to auto and heavy equipment dealers.
- New Fiscal Year begins January 1
- Mail Homestead Audit forms for group HSA2-2025.
- Mail applications for productivity valuation (if needed) and exemptions requiring annual applications.
- Mail renditions to business personal property owners. Rendition period is up through April 15.
- Send 25.25(b) listing to ARB and BOD chairpersons by the 10<sup>th</sup> of January.
- Continue field work in reappraisal area.
- Start mobile home field work and input.
- Continue discovery of new properties.
- Collect, verify and process sales and income/expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Register and pay for ARB training.
- Staff education as needed.
- Continue data entry on inspected properties
- Start gathering sales information and preparing to work sales ratios.
- Update cost schedules depending on the outcome of the sales ratios—this month and into next month.
- Start working on small tracts new schedule for area #3
- Taxes due without penalty by Jan. 31.
- Send curtesy reminders to taxpayers with unpaid 2024 taxes.
- Publish required property tax information for taxpayers in local newspaper by Jan. 31.
- BOD meeting sometime this quarter.
- Give public notice of the capitalization rate to be used to appraise property with low- and moderate-income house exemption according to Sec. 11.1825. Put it on the web-site.
- MAPS review this month or next.

### **FEBRUARY 2025**

- Continue field work in reappraisal area.
- Continue mobile home field work and input.
- Continue discovery of new properties.
- Collect, verify and process sales and income/expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Begin review of business personal property renditions as received.
- Begin inspections of productivity valuation applications to verify compliance.
- Continue work with ratio studies and statistical analysis.
- Finalize any schedule changes for 2025 including the small tracts rework in area #3.
- Send any changes in schedules to P&A for update to the system.
- Send PTAD sales submission to Comptroller.
- Staff education as needed.
- Work quality control on GIS map sometime this quarter.
- Dealer's inventory declarations must be filed by February 1.

### **MARCH 2025**

- Continue field work in the reappraisal area.
- Start wrapping up mobile home field work and input.
- Continue discovery of new properties.
- Continue data entry on inspected properties.
- Collect, verify and process sales and income/expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Continue review of business personal property rendition and input new values in software system.
- Inspect new BPP accounts that exceed \$100,000 in value.
- Continue review of business personal property renditions and input new values in the software system.
- Wind up ratio and statistical studies.
- Work some quality control on parcels where there have been schedule changes.
- Schedule budget hearing.
- Second quarter payments due from entities by the 31<sup>st</sup>.
- Staff education as needed.

### **APRIL 2025**

- Send 25.25(b) listing to ARB and BOD chairpersons by the 10<sup>th</sup> of April.
- Inform tax entities regarding the form in which roll will be delivered by April 1.
- Conclude field work relating to reappraisal.
- Conclude discovery of all types of property.
- Wrap-up collection and filing of assumed name changes for BPP discovery for year.
- Deadline for Ag apps is April 30—after that date, penalty fee must be charged.
- Complete data entry for any inspected properties.
- Review renditions where extensions were filed—due April 1 unless apply for extension.
- Work through exemptions for vehicles used for personal and income-producing activities and enter in software system—last day to apply for exemption is April 15.
- Consult with contracted appraisers on their reappraisal efforts.
- BOD meeting sometime this quarter.
- Chief appraiser must certify estimate of taxable value to entities by April 30.

### **MAY 2025**

- Wrap up BPP Renditions.
- Our goal is to mail all Notices of Appraised Value near the first of May.
- Publish Notice of Protest procedures if not included in notice placed in the newspaper in January.
- Begin OCAD informal hearings.
- Deadline for protests is May 15 or 30 days after notices were mailed.
- By May 15 or as soon as practicable, Chief appraiser submits appraisal records to board to review along with affidavit (Code Section 22.22)
- Make sure initial dates for ARB hearings are still within the time parameters.
- Make updates to the website (P&A)
- Start paperwork processing of protests.
- Prepare materials (evidence) to be used for ARB hearings.



- Make clerical corrections for returned addresses and other minor errors in appraisal roll.
- Notify delinquent taxpayers of the July 1 additional penalty at least 30 days before July 1. (Not more than 60 days.)
- Work quality control on GIS map sometime this quarter.

#### **JUNE 2025**

- Collect, verify and process sales and income/expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Continue informal hearings with property owners and agents.
- Correct records with any information resulting from responses to the Notices of Appraised Value.
- Mail proposed 2026 budget to taxing entities and board members by June 15<sup>th</sup>.
- Financial audit possibly by month end
- Conduct safety meeting with staff.
- Third fiscal quarterly payments due from entities by the 30<sup>th</sup>.

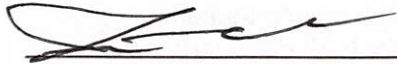
#### **JULY 2025**

- Send 25.25(b) listing to ARB and BOD chairpersons by the 10<sup>th</sup> of April.
- Collect, verify and process sales and income/expense information.
- Collect, verify and file assumed name changes for BPP discovery.
- Conclude informal hearings with property owners and agents.
- Appraisal Review Board hearings begin and end.
- Appraisal Review Board approves clerical changes.
- Chief appraiser certifies roll by the 25<sup>th</sup>.
- Start review of Sept. 1 inventory appraisal applications—they are due by July 1.
- Penalty added to accounts that are delinquent July 1.
- BOD meeting this quarter.

**Calendar for 2026 appraisal cycle will be developed in detail in 2025; however, the basic calendar items repeat from one cycle to another.**

## Certification Statement

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

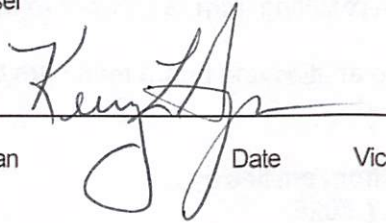


Julia Mendez, RPA, RTA, CCA  
Chief Appraiser

9-11-24  
Date

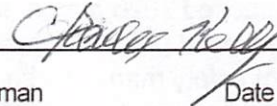
Approved by

Chairman



Date

Vice-Chairman



Date

## Appendix A

### Addition/Subdivision Listing by Reappraisal Area

ALLEN	Area #1
ALLRED	Area #1
ANDERSON	Area #1
B J HUGHES	Area #1
BEST WESTERN	Area #1
BEST WESTERN #2	Area #1
BOOKER W IND - S HWY 15	Area #1
CALDWELL	Area #1
CATALINA	Area #1
CENICEROS	Area #1
CENICEROS 3	Area #1
CNTRY CLUB	Area #1
CRANFILL	Area #1
DIEHL	Area #1
FAIRWAY OAKS	Area #1
FAIRWAY PK	Area #1
FARIES	Area #1
FIRST E OF MAIN	Area #1
FIRST NATIONAL	Area #1
FULTZ	Area #1
GOLDEN SPR	Area #1
GRACO	Area #1
HOLDEMAN	Area #1
HUNTOON S OF HWY 15	Area #1
IND 1	Area #1
IND 2	Area #1
IND 3	Area #1
IND 4	Area #1
IND 5	Area #1
IND 6	Area #1
IND 8	Area #1
MALLETT	Area #1
MC GIBBON	Area #1
MEDINA	Area #1
MEWBOURNE	Area #1
MURPHY	Area #1
NABORS WELL SVS	Area #1
NEWTON	Area #1
NORRIS IND	Area #1
NORTH	Area #1
ORIVISTA	Area #1
OT EAST OF MAIN	Area #1

OUTLOT 19	Area #1
OUTLOT 20	Area #1
OUTLOT 21	Area #1
OUTLOT 28	Area #1
OUTLOT 29	Area #1
OUTLOT 33	Area #1
OUTLOT 36	Area #1
OUTLOT 39	Area #1
OUTLOT 41	Area #1
OUTLOT 42	Area #1
OUTLOT 43	Area #1
OUTLOT 44	Area #1
OUTLOT 45	Area #1
OUTLOT 46	Area #1
OUTLOT 47	Area #1
OUTLOT 49	Area #1
PATTON	Area #1
PCDC 5	Area #1
PER HOSPITALITY	Area #1
PERR FEEDERS	Area #1
PERR CLUB	Area #1
PERRYTON SQUARE	Area #1
RAWLINS	Area #1
SAN HOSP	Area #1
SC-HCREST	Area #1
SHAFFER	Area #1
SOUTH PARK	Area #1
SUNNY SIDE	Area #1
SWNG-CTTR	Area #1
THE RIGHT PLACE	Area #1
TUCKER	Area #1
TWICHEL SD	Area #1
WALLACE	Area #1
WINTERS SD	Area #1
BARLOW	Area #2
BAUMANN	Area #2
BENTREE #1	Area #2
BENTREE #2	Area #2
BENTREE #3	Area #2
BENTREE #4	Area #2
BENTREE #5	Area #2
BENTREE #6	Area #2
CENICEROS 2	Area #2
CITY OF PERRYTON TRA	Area #2
COOK	Area #2
ESTACADO	Area #2
EZZELL	Area #2

FARNSWORTH S OF HWY 15	Area #2
FIRST W OF MAIN	Area #2
FIRST ASSEM	Area #2
FIRST BAPT	Area #2
FORBES	Area #2
FPC	Area #2
FULL GOSPEL	Area #2
FULL GOSPEL 2	Area #2
FULTON	Area #2
GLENDALE	Area #2
GONZALEZ	Area #2
GOOD	Area #2
HANSFORD IMPLEMENT C	Area #2
HIGHSCHOOL	Area #2
HOOVER 1	Area #2
IND SOUTH	Area #2
J A WRIGHT	Area #2
J L BRYAN	Area #2
J L BRYAN #2	Area #2
KENT	Area #2
KLAPP	Area #2
LAMASTER 1	Area #2
LAMASTER 2	Area #2
LAMASTER 3	Area #2
LAMASTER 4	Area #2
MACIAS	Area #2
MC GREGOR	Area #2
MORMON	Area #2
OT WEST OF MAIN	Area #2
OUTLOT 11	Area #2
OUTLOT 12	Area #2
OUTLOT 13	Area #2
OUTLOT 18	Area #2
OUTLOT 22	Area #2
OUTLOT 4	Area #2
OUTLOT 5 & 6	Area #2
PANHANDLE HOT OIL	Area #2
PCDC 3	Area #2
PCDC 6	Area #2
PEAR BROWN	Area #2
PEAR MCCOY	Area #2
PEARSON	Area #2
PER VIEW 1	Area #2
PER VIEW 2	Area #2
PUGH	Area #2
RIDGELAWN	Area #2
ROOSEVELT	Area #2

S WOOD 1	Area #2
S WOOD 2	Area #2
SAGE RIDGE	Area #2
SAMMONS	Area #2
SANTA ROSA	Area #2
SIEWERT	Area #2
STARK 1	Area #2
STARK 2	Area #2
STARK COMM	Area #2
STARK PK 1	Area #2
STARK PK 2	Area #2
STARK PK 3	Area #2
STK ANX 1	Area #2
STK ANX 2	Area #2
STK ANX 3	Area #2
STK PKSD 1	Area #2
STK PKSD 2	Area #2
STK TER 1	Area #2
STK TER 2	Area #2
STK TER 3	Area #2
STK TER 4	Area #2
STK TER 5	Area #2
STK TER 6	Area #2
STK TER 7	Area #2
STK TER 8	Area #2
SUN SOUTH	Area #2
SW SCHOOL	Area #2
TARANGO	Area #2
TEVIS HGHT	Area #2
TEVIS LAWN	Area #2
W HEART 1	Area #2
W HEART 2	Area #2
W HEART 3	Area #2
W HEART 4	Area #2
W HEART 5	Area #2
W HEART 6	Area #2
W Heart 7	Area #2
W WOOD 1	Area #2
W WOOD 2	Area #2
W WOOD 3	Area #2
W WOOD 4	Area #2
W WOOD 5	Area #2
W WOOD 6	Area #2
WAGNER	Area #2
WAKA TOWN S of HWY 15	Area #2
WATERHOLE	Area #2
WESTLAWN	Area #2

WHEART 4EX	Area #2
WHIPPO PARK	Area #2
WHIRL WEST	Area #2
WHRT COM 1	Area #2
WHT HOUSE	Area #2
YMCA	Area #2
BELMONT	Area #3
BENTLEY	Area #3
BIRD DUVAL	Area #3
BLAIR IN OUTLOT 27	Area #3
BOOKER W IND - N HWY 15	Area #3
BLAIR	Area #3
BLODGETT	Area #3
BOZEMAN	Area #3
BRYAN	Area #3
CITY IND 1	Area #3
CITY IND 2	Area #3
CITY IND 3	Area #3
CITY IND 4	Area #3
CITY IND 5	Area #3
ELLIS IND	Area #3
ESLIN	Area #3
FARNSWORTH N OF HWY 15	Area #3
H&W SD	Area #3
HARGUES	Area #3
HUNTOON N OF HWY 15	Area #3
IND 7	Area #3
JERRY L FARNEY	Area #3
JOHNSON SD	Area #3
KEY HGHTS	Area #3
LEATHERMAN	Area #3
LEMON IND	Area #3
LILLY	Area #3
MC LAIN	Area #3
MUNGER	Area #3
NORTH PARK	Area #3
NW FLATS	Area #3
OUTLOT 27	Area #3
OUTLOT 3	Area #3
PARKER	Area #3
PCDC 4	Area #3
PER IND PK	Area #3
PLAINVIEW CROSSING	Area #3
POWERS	Area #3
SAMCO	Area #3
SCHOOL	Area #3
SILVERDALE	Area #3

TODD SD  
VILLAGRAN  
W PLACE  
WAKA TOWN N OF HWY 15  
WARREN

Area #3  
Area #3  
Area #3  
Area #3  
Area #3



**Appendix: B**

**Pritchard & Abbott Inc. 2023-2024 Reappraisal Plan**

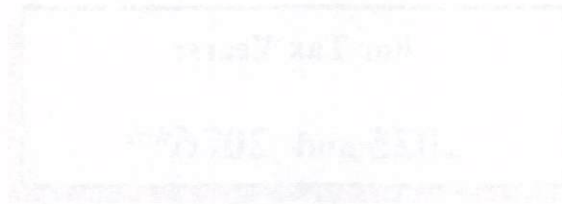
APPENDIX B: REAPPRAISAL PLAN

FOR THE ANNUAL APPRAISAL FOR

THE FRESH TAX PROVISIONS

IN THE INDUSTRIAL PROPERTY ACT

AND THE REVENUE ACT



2023-2024

The purpose of this Reappraisal Plan is to ensure that the property values used for the assessment of the property are fair and equitable. This plan outlines the process for the annual appraisal of the property and the methods used to determine the value of the property.

The property is located at [Address] and is currently used for [Use]. The property is owned by Pritchard & Abbott Inc. and is subject to the Industrial Property Act and the Revenue Act.

The property is assessed for the purpose of the annual appraisal. The value of the property is determined based on the market value of the property as of the valuation date. The value of the property is determined based on the market value of the property as of the valuation date.



## 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:

**2025 and 2026\*\***

Originally Printed: July 2024

*\*\*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). The 2024 edition of USPAP has an effective start date but no end date. Because the standards have matured, the ASB now states that the need for the standards to be updated on a regular basis has decreased. Therefore, the 2024 USPAP will be effective for an indeterminate number of tax years, or until the next USPAP version is produced.*

\*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."*



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## 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 applicable 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 rigorously follow USPAP standards if in fact mass appraisal practices have not been used to appraise the subject property. The Jurisdictional Exception Rule could then be invoked because of 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 four (4) sections:

- Nondiscrimination;
- 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.

### NONDISCRIMINATION

An appraiser must not act in a manner that violates or contributes to a violation of federal, state, or local anti-discrimination laws or regulations. This includes the Fair Housing Act (FHA), the Equal Credit Opportunity Act (ECOA), and the Civil Rights Act of 1866.

An appraiser must have knowledge of anti-discrimination laws and regulations and when those laws or regulations apply to the appraiser or to the assignment. An appraiser must complete an assignment in full compliance with applicable laws and regulations.

1. An appraiser, when completing a residential real property assignment, must not base their opinion of value in whole or in part on race, color, religion, national origin, sex, disability, or familial status.
2. An appraiser, when completing an assignment where the intended use is in connection with a credit transaction, not limited to credit secured by real property, must not base their opinion of value in whole or in part on race, color, religion, national origin, sex, marital status, age, source of income, or the good-faith exercise of rights under the Consumer Credit Protection Act.
3. An appraiser must not violate any state or local anti-discrimination laws or regulations applicable to the appraiser or to their assignment.

Whether or not any anti-discrimination law or regulation applies:

1. An appraiser must not develop and/or report an opinion of value that, in whole or in part, is based on the actual or perceived race, ethnicity, color, religion, national origin, sex, sexual orientation, gender, gender identity, gender expression, marital status, familial status, age, receipt of public assistance income, or disability of any person(s).
2. An appraiser must not base an opinion of value upon the premise that homogeneity of the inhabitants of a geographic area is relevant for the appraisal.
3. An appraiser must not perform an assignment with bias with respect to the actual or perceived race, ethnicity, color, religion, national origin, sex, sexual orientation, gender, gender identity, gender expression, marital status, familial status, age, receipt of public assistance income, or disability of any person(s).
4. An appraiser must not use or rely upon another characteristic as a pretext to conceal the use of or reliance upon race, ethnicity, color, religion, national origin, sex, sexual orientation, gender, gender identity, gender expression, marital status, familial status, age, receipt of public assistance income, or disability of any person(s), when performing an assignment.

If an assignment does not involve residential real property and the intended use is not in connection with a credit transaction, the FHAct and ECOA do not apply. If the FHAct and ECOA do not apply, and no other law or regulation prohibits the use of or reliance upon a protected characteristic,<sup>5</sup> then the use of or reliance upon that characteristic is permitted only to the extent that it is essential to the assignment and necessary for credible assignment results.

### 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 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 written 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 cash flow 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 report which is required to be in writing; no option exists for oral reports. This standard addresses the level of information required so that the report is clearly understood (i.e., not misleading) 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 prerequisites.

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 reasonable 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 cash flow 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.