

ADOPTED  
AUGUST 31, 2020

# BIENNIAL REAPPRAISAL PLAN

2021-2022

PRESENTED BY: BOARD OF DIRECTORS  
WILBARGER CAD

\*DISCLAIMER\* THE PLAN MAY BE MODIFIED TO MEET THE REQUIREMENTS OF THE DISTRICT AND/OR TAX CODE



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# RESOLUTION

## REGARDING WILBARGER COUNTY APPRAISAL DISTRICT BIENNIAL REAPPRAISAL PLAN FOR YEARS 2021-2022

**WHEREAS**, per Section 6.05(i) of the Texas Property Tax Code as amended states:

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; and

**WHEREAS**, the Tax Entities within the boundaries of the Wilbarger County Appraisal District were notified of a public hearing to be held on August 31, 2020 @ 2:45 p.m.; and

**WHEREAS**, Wilbarger County Appraisal District Board of Directors held a public hearing in accordance with section 6.05(i) of the Texas Property Tax Code; and,

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Wilbarger County Appraisal District, pursuant to Section 6.05(i) of the Texas Property Tax Code, met in open session and approved the Reappraisal Plan for years 2021-2022.

**BE IT FURTHER RESOLVED** that 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.

Passed and approved this 31<sup>st</sup> day of August, 2020.

  
Emory Byars, Chairman

  
Sandy Burkett, Chief Appraiser

# Wilbarger County Appraisal District

## 2021-2022 Reappraisal Plan

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### INTRODUCTION

#### General Overview of Tax Code Requirement

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

#### The Written Plan

Section 6.05, Property Tax Code, is amended by adding Subsection (i) to read as follows:

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

#### Plan for Periodic Reappraisal

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

- a) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.05(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 the property;
    - b) Physical attributes of the property, such as size, age, and condition;
    - c) Legal and economic attributes; and
    - d) Easements, covenants, leases, reservations, contracts, declarations, special assessments; ordinances, or legal restrictions;
  - 5) Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;



- 6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- 7) Reviewing the appraisal results to determine value.

## Scope of Responsibility

The Wilbarger County Appraisal District (WCAD) 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.

The Wilbarger County Appraisal District (WCAD) is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. A member Board of Directors, appointed by the taxing units within the boundaries of Wilbarger County, constitutes the district's governing body. The chief appraiser, appointed by the Board of Directors, is the chief administrator and chief executive officer of the appraisal district.

The appraisal district is responsible for local property tax appraisal and exemption administration for 8 jurisdictions or taxing units in the county. Each taxing unit, such as the county, city, school district, hospital district, college, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Property appraisals and estimated values by the appraisal district allocate the year's tax burden on the basis of each taxable property's market value. We also determine eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, charitable or religious organizations and agricultural productivity valuation.

## Data

The district is responsible for establishing and maintaining approximately 22,744 Real, Mineral, Industrial, Utility and Personal property accounts covering 971 square miles within Wilbarger County. This data includes property characteristics, ownership, and exemption information. Property characteristic data on new construction is updated through an annual field effort; existing property data is maintained through a field review. Sales are routinely validated during a separate field effort; however, numerous sales are validated as part of the new construction and field inspections. General trends in employment, interest rates, new construction trends and cost and market data are acquired through various sources, including internally generated questionnaires to buyer and sellers, realtors, lenders and building contractors.

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

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

The 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 (Sec. 23.18) or restricted use properties (Sec. 23.83) and

allocation of interstate property (Sec. 23.03). The owner of real property inventory may elect to have the inventory appraised at its market value as of September 1st of the preceding year for the current appraisal year by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1<sup>st</sup>.

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

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

# A Written Appraisal Plan for WCAD

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## REAPPRAISAL

### PLANNING

Variation in reappraisal requirement requires Wilbarger County Appraisal district to carefully plan its work before beginning any reappraisal. Although the planning process may vary in specifics, it should involve four (4) basic steps.

1. Assess current performances
2. Set reappraisal goals
3. Assess available resources and determine needs
4. Re-evaluate goals and adjust as necessary

### STEPS

The International Association of Assessing Offices (IAAO) textbook Property Appraisal and Assessment Administration lists ten steps in a reappraisal. These steps outline those activities performed by Wilbarger County Appraisal District (WCAD) for the completion of periodic reappraisals.

*Activities are listed below in the order in which they occur:*

1. Performance Analysis
  - Ratio study
  - Equity of existing values
  - Consistency of values with market activity
2. Revaluation Decision
  - Statutory – at least once every three years
  - Administrative policy
3. Analysis of Available Resources
  - Staffing
  - Budget
  - Existing practices
  - Information system support
  - Existing data and maps
4. Planning and Organization
  - Target completing dates
  - Identify performance objectives
  - Specific action plans and schedules
  - Identify critical activities with completion dates
  - Set production standards for field activities
5. Mass Appraisal system
  - Forms and procedures revised as necessary
  - CAMA (Computer Assisted Mass Appraisal) system revision as required



6. Conduct Pilot Study
  - Test new/revised appraisal methods as applicable
  - Conduct ratio studies
  - Determine if values are accurate and reliable
7. Data Collection
  - Building permits and other sources of new construction
  - Check properties that have undergone remodeling
  - Re-inspection of problematic properties
  - Re-inspection of universe properties on a cyclic basis
8. Valuation
  - Market analysis (based on Ratio Studies)
  - Schedules development
  - Application of revised schedules
  - Calculations of preliminary values
  - Tests of values of accuracy and uniformity
9. The Mass Appraisal Report
  - Establish scope of work
  - Compliance with Standards Rule 6-7 of USPAP (Uniform Standards of professional Appraisal Practices)
  - Signed certification by the Chief Appraiser as required by Standards Rule 6-8 USPAP (Report after Reappraisal)
10. Value Defense
  - Prepare and deliver notices of value to property owners
  - Hold informal hearings
  - Schedule and hold formal appeal hearings

### PERFORMANCE ANALYSIS

Ratio studies are used to analyze appraisal and uniformity overall and by market area within property reporting categories. They are used to determine where appraisals meet acceptable standards and where it does not. This is where we check the equality of existing values and the consistency of values with market activity. By calculating the mean, median, and weighted ratios. In each reappraisal year of this plan, that will be the starting point for establishing the level and accuracy of appraisal performance.

### REVALUATION DECISION

### REAPPRAISAL CYCLE

The Wilbarger County Appraisal District, by policy adopted by the Board of Directors and the Chief Appraiser, reappraises all property in a designated area each year on a three-year cycle. The reappraisal year is a complete appraisal of all properties in this designated area.

- Tax year 2021 is a reappraisal year for designated are as City.
- Tax year 2022 Appraise all problematic areas, recheck, new construction, etc. (See page 8)
- Tax year 2023 is a reappraisal year for designated area of indicated as Rural.



Pursuant to section 25.18 of the Texas property tax Code, the Wilbarger County Appraisal District has established a reappraisal plan to provide for the reappraisal of all property within the district at least once every three (3) years.

### APPRAISAL FREQUENCY

For reappraisal or inspection purposes, the district is divided into Rural and City. This allows for a complete drive-out of Wilbarger County every three years.

#### 2021

##### City

All categories of properties of the City of Vernon (See Addendum "A")

#### 2022

Appraise all problematic areas, rechecks, new construction, adjust for changes in property characteristics that affect value, and adjust previous year values for equalization. Exceptions or adjustments to the annual reappraisal plan may occur when there is a lack of data in specific property classifications and marketing areas, time restraints, shortage of staff and budget constraints.

#### 2023

##### Rural

All categories of properties of the rural area in Wilbarger County (with the exception of the properties located inside the City of Vernon). This includes all School districts Vernon ISD, Harrold ISD, Northside ISD and Chillicothe ISD with the **exception** of the City of Vernon located within Vernon ISD. The Appraiser's will inspect rural properties referencing School District Maps (See Addendum "A") and appraisal card information. The appraiser's make use of the Appraisal District maps to draw the routes to travel to review properties.

There may be circumstances beyond our control such as weather condition which may cause delay of appraisals, but this is not anticipated.

### ANALYSIS OF AVAILABLE RESOURCES

Staffing and budget requirements for this reappraisal plan will be/are met by the Board of Directors each year. Existing appraisal practices, which are contained from year to year, are identified and methods utilized to keep these practices current. The information systems are kept current with schedule upgrades and the mapping system is continually updated with property splits and ownership data. Marshall and Swift is used to update schedules along with sales and ratio study information.

### PLANNING AND ORGANIZATION

All target dates for this plan will be, to complete each area of work and finalize reappraisal process by end of April. Wilbarger County Appraisal District has contracted with Pritchard & Abbott, Inc. to provide personnel and expertise towards the completion of the appraisal of Real, Mineral, Industrial, and Utilities including fieldwork, data analysis, and taxpayer protest portions of the reappraisal plan. Ratio Studies, market analysis, sales data and final market schedules are presented to the Chief Appraiser for discussion and application to the universe of properties.

### MASS APPRAISAL SYSTEM

All renditions, homestead, and special appraisal forms are updated to meet State requirements. All properties that have been coded on the computer to receive a form and all requests for forms will be properly worked.

All schedules that are programmed in the computer are reviewed with the sales ratio studies for any revisions that need to be made.

### MARKET AREAS

The general market areas for Wilbarger County are defined as:

- (a) The district uses the market areas of the City of Vernon, town-site of Odell and Harrold when setting the market for Categories A, B, C, F, and M.
- (b) The district uses county wide market areas for appraising Categories D and E.

The appraiser upon review of the properties within these areas may further subdivide some of these areas into neighborhoods or subdivisions sharing physical or geographical boundaries, or legal restrictions in order to be as equal and uniform as possible.

### PILOT STUDY

New and/or revised mass appraisal schedules are tested each year. Ratio studies are used to see if the revisions are accurate and reliable in the different market areas. These modeling tests (sales ratio studies) are conducted each tax year. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested.

### DATA COLLECTED and VALIDATION

Office and field procedures are reviewed and revised as required for data collection. Sales price certification letters are entered as they are received from buyers and sellers and used to check schedules. Building permits are used for any new construction and remodeling that has taken place. Re-inspections of problematic properties which for this plan are the growing residential areas to make sure all improvements are documented and schedules are up to par with the market.

Two basic types of data are collected: data which is specific to each property and data which is indicative of a particular class of property that has been predefined by Wilbarger County Appraisal District.

Property specific data is collected as part of the inspection process and through submission by the property owner.

As part of the inspection process, the improvements are measured and classified. The appraiser also estimates the effective age and condition of the improvements. Any additional or unusual features are also estimates the effective age and condition of the improvements. Any additional or unusual features are also noted at the time of the inspection. Data on individual properties is maintained and on the appraisal card for that property. Data on individual properties, and through submission by the property owner. Appraisal cards are available for review at the appraisal district office.

Data pertaining to a class of properties is grouped together according to the differing quality levels and then used to develop valuations models for each property class.

### VALUATION

Production of values begins with market analysis, schedule development and the calculation of preliminary values. A ratio study then evaluates the accuracy and consistency of the values between property type and areas. When the schedules produce acceptable results, they can be used to produce values. This includes the importing and exporting of values for overlapping properties in our district. WCAD considers market



characteristics such as size, age and condition in appraising properties. Conclusions are reflected in the model to characteristics of the property being appraised.

#### MASS APPRAISAL REPORT

Mass appraisal is the systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing. The purpose of mass appraisal is the equitable and efficient appraisal of all property in a jurisdiction for ad valorem tax purposes. Mass appraisal judgments relate to groups of properties rather than single properties. The required Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar. A written report is completed in compliance with STANDARD RULE 6-8 of the Uniform Standards of Professional Appraisal Practice. The signed certificate by the Chief Appraiser is compliant with STANDARD RULE 6-8 of USPAP.

#### VALUE DEFENSE

Appraisal Notice of Value are prepared and delivered to property owners as prescribed by law. WCAD sends notices to each taxpayer each year. Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review hearings is specified and tested. When the appeals process is completed, values are certified to each taxing entity.

### Overview of District Operations

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#### 2021-2022 Proposed **Calendar of Key Events** (*See Appendix A*)

##### Personnel Resources

The office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. The administration department's function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services. The Valuation of Real and Commercial Property accounts are appraised by outside appraisal firm, Pritchard & Abbott, Inc. Amarillo, Texas. The Valuation of Mineral, Utilities, and Industrial accounts are appraised by an outside appraisal firm, Pritchard & Abbott, Inc. Ft Worth, Texas. The valuation of BPP accounts are carried in-house. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be registered with the Texas Department of Licensing and Regulation. Support functions including records maintenance, information and assistance to property owners, and hearings are coordinated by WCAD personnel in support services.

*The appraisal district staff consists of 4 full-time employees*

<b>TITLE</b>	<b>NAME</b>	<b>TDLR #</b>
Chief Appraiser	Sandy Burkett	67478
Director of Operations/RE-BPP Supervisory	Lana Hopkins	
Financial Officer/Ownership Transfer Technician	Tissha Taylor	
Customer Relations/Exemption Clerk	Misty Bryson	

*Pritchard & Abbott, Inc Appraisal Staff*

<b>NAME</b>	<b>TDLR #</b>	<b>APPRAISAL RESPONSIBILITY</b>
Larry Womble	71931	Real and Commercial
Richard Taylor	72414	Real and Commercial
Danny Hamby	73029	Real and Commercial
Marty Seeley	71643	Real and Commercial
Brant Ballard	74393	Real and Commercial
Mark Helms	75549	Real and Commercial
John Rutledge	66052	Minerals, Industrial Utilities
Stanley Krenek	73191	Minerals, Industrial Utilities
Debbie Stribling	16645	Business Personal Property



### Staff Education and Training

All personnel that are performing appraisal work are registered with the Texas Department of Licensing and Regulation and are required to take appraisal courses to achieve the status of Registered Professional Appraiser (RPA) within five years of employment as an appraiser. After they are awarded their license, RPAs require 30 CEUs every two years. The Ethics course, Law & Rules Update and USPAP events must be completed as part of the 30 CEUs.

### **LIMITING CONDITIONS**

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

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

### **Certification Statement**

"I, Sandy Burkett, Chief Appraiser for the Wilbarger 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."

*Sandy Burkett*, RPA

Chief Appraiser

## Appendix A: 2021-2022 Calendar of Key Activities

*Wilbarger County Appraisal District forwards Sales Letters for any type of ownership transfer, Homestead Exemption, and 1-d-1 Applications at the time of ownership change. (Property Tax Code Sec 11.44 & Sec. 23.43). This process is a continuous process through each calendar year Renditions are mailed in the month of January annually.*

<u>PROJECTED DATE</u>	<u>REAPPRAISAL RELATED ACTIVITIES</u>
<b>July 2020</b>	<ul style="list-style-type: none"> <li>✓ Appraisal Review Board (ARB) Approves Appraisal Records to Create Appraisal Roll (if not approved earlier) <b>TPTC Sec. 41.12 (c)(1)</b></li> <li>✓ Chief Appraiser Certifies Appraisal Roll to Taxing Unit Assessors <b>TPTC Sec. 26.01(a)</b></li> </ul>
<b>August 2020</b>	<ul style="list-style-type: none"> <li>✓ Begin process of printing Appraisal Cards and sort by Geographical Order</li> <li>✓ In House Ratio Study Review for Accuracy</li> <li>✓ System Rollover of Data Records to begin next fiscal year (if not completed earlier)</li> <li>✓ E.A.R.S. (Electronic Appraisal Roll Submission)</li> <li>✓ Deadline to file for Sept. 1<sup>st</sup> Inventory Value</li> <li>✓ Chief Appraiser begins developing written Biennially Reappraisal Plan <b>TPTC Sec. 6.05(j)</b></li> </ul>
<b>September 2020</b>	<ul style="list-style-type: none"> <li>✓ Sept. 1 - Statutory Appraisal Date For Certain Inventory Properties <b>TPTC Sec. 23.12(f)</b></li> <li>✓ Newspaper Publication on Notice of Hearing on Budget (if not completed earlier) <b>TPTC Sec. 6.062</b></li> <li>✓ Sept. 15 - Statutory Deadline for WCAD Board of Directors to Approve Budget <b>TPTC Sec 6.06</b></li> <li>✓ Taxing unit's fourth quarterly payment <b>TPTC Sec. 6.06(e)</b></li> <li>✓ Collect data from assumed name filing, sales tax permits and verify new accounts for Business Personal Property</li> <li>✓ Chief Appraiser send notification to Entities of Board of Directors Appointment</li> <li>✓ Biennially develop a written plan for reappraisal of all property within the CAD, hold a public hearing with required notice, approve a plan and distribute to taxing units and the Comptroller <b>TPTC Sec. 6.05(j)</b></li> </ul>
<b>October 2020</b>	<ul style="list-style-type: none"> <li>✓ Reappraisal Field Work On-Site Inspections Begins</li> <li>✓ Taxing Units Mail Tax Bills <b>TPTC Sec. 31.01(a)</b> - Appraisal Support &amp; Customer Service</li> <li>✓ Ag Advisory Board Meeting (if not done before)</li> <li>✓ Reappraisal Field Work On-Site Inspections continue</li> </ul>
<b>November 2020</b>	<ul style="list-style-type: none"> <li>✓ In House Ratio Study Review for Accuracy</li> <li>✓ Review &amp; Return PTD Clerical Error Report for Property Value Study</li> <li>✓ Reappraisal Field Work On-Site Inspections continue</li> </ul>
<b>December 2020</b>	<ul style="list-style-type: none"> <li>✓ Taxing unit's first quarterly payment <b>TPTC Sec. 6.06(e)</b></li> <li>✓ Chief Appraiser's Annual Report</li> <li>✓ Reappraisal Field Work On-Site Inspections continues</li> </ul>
<b>January 2021</b>	<ul style="list-style-type: none"> <li>✓ Jan. 1 - Statutory Appraisal Date for Most Categories of Taxable Property</li> <li>✓ WCAD Board of Directors begin 2 year terms</li> <li>✓ ARB begins 2 year term (if staggered) <b>TPTC Sec. 6.41 (e)</b></li> <li>✓ Chief Appraiser eligibility verification sent to Comptroller</li> <li>✓ In House Ratio Study Review for Accuracy</li> <li>✓ Mail Business Personal Property Rendition Forms</li> <li>✓ Certification of Preliminary PVS results</li> </ul>

February 2021	<ul style="list-style-type: none"> <li>✓ E.P.T.S. (Electronic Property Transfer Submission)</li> <li>✓ Reappraisal Field Work On-Site Inspections continue</li> </ul>
March 2021	<ul style="list-style-type: none"> <li>✓ ARB training begins</li> <li>✓ Begin Working Business Personal Property Renditions</li> <li>✓ Reappraisal Field Work On-Site Inspections continue</li> </ul>
April 2021	<ul style="list-style-type: none"> <li>✓ In House Ratio Study Review for Accuracy</li> <li>✓ Taxing unit's second quarterly payment <b>TPTC Sec. 6.06(e)</b></li> <li>✓ Operations survey data forwarded to Comptroller</li> <li>✓ Reappraisal Field Work On-Site Inspections continue</li> </ul>
May 2021	<ul style="list-style-type: none"> <li>✓ Newspaper Publication on Renditions, HS, AG, Deferrals, &amp; Disabled Veterans</li> <li>✓ Begin Preparation for Budget</li> <li>✓ Certify Estimate of Taxable Value to County, Schools &amp; Municipalities <b>TPTC Sec. 26.01(e)</b></li> <li>✓ Ratio Study Review for Appraisal Notice Process</li> <li>✓ Begin Application of Neighborhood Market Adjustments</li> <li>✓ BPP Rendition Deadline on April 15<sup>th</sup> <b>TPTC Sec. 22.23(a)</b></li> <li>✓ Deadline to File Abatement &amp; AG Application on April 30<sup>th</sup></li> <li>✓ Finalize Changes Prior To Notice Run</li> <li>✓ ARB training concludes</li> <li>✓ Finalize Reappraisal Field Work On-Site inspections (if not already completed)</li> </ul>
June 2021	<ul style="list-style-type: none"> <li>✓ Newspaper Publication of Protest and Appeal Procedures <b>TPTC Sec. 41.41 &amp; 41.70(b)</b></li> <li>✓ Newspaper Press Release for Notices Mailed</li> <li>✓ Mailing of Real and BPP Value Notices</li> <li>✓ Begin Informal Appeals</li> <li>✓ BPP Rendition Extension Deadline on May 15<sup>th</sup></li> <li>✓ Property Value Study Appeal Hearings-Austin TX</li> <li>✓ Statutory Deadline to File Notice of Protest (typically) <b>TPTC Sec. 41.44</b></li> </ul>
July 2021	<ul style="list-style-type: none"> <li>✓ Appraisal Review Board Hearings Begin</li> <li>✓ Chief Appraiser Submits Completed Appraisal Records to ARB</li> <li>✓ Employee Performance Reviews-Discussions with Staff</li> <li>✓ Chief Appraiser Submits Completed Appraisal Records To ARB</li> <li>✓ Appraisal Review Board Hearings Begin</li> <li>✓ Chief Appraiser evaluation</li> <li>✓ Taxing unit's third quarterly payment <b>TPTC Sec. 6.06(e)</b></li> </ul>
August 2021	<ul style="list-style-type: none"> <li>✓ Appraisal Review Board (ARB) Approves Appraisal Records to create Appraisal Roll (if not approved earlier) <b>TPTC Sec. 41.12 (c)(1)</b></li> <li>✓ Chief Appraiser Certifies Appraisal Roll to Taxing Unit Assessors <b>TPTC Sec. 26.01(a)</b></li> <li>✓ Chief Appraiser prepares Mass Appraisal Report</li> <li>✓ E.P.T.S. (Electronic Property Transfer Submission)</li> <li>✓ Begin process of printing Appraisal Cards and sort by Geographical Order</li> <li>✓ In House Ratio Study Review for Accuracy</li> <li>✓ System Rollover of Data Records to begin next fiscal year (if not completed earlier)</li> <li>✓ Deadline to file for Sept. 1<sup>st</sup> Inventory Value</li> <li>✓ Electronic Appraisal Roll Submission</li> <li>✓ Rollover of WCAD Data Records to begin new fiscal year</li> </ul>



## September 2021

- ✓ Sept. 1 - Statutory Appraisal Date For Certain Inventory Properties **TPTC Sec. 23.12(f)**
- ✓ Newspaper Publication on Notice of Hearing on Budget (if not completed earlier)
- ✓ **TPTC Sec. 6.062**
- ✓ Sept. 15 - Statutory Deadline for WCAD Board of Directors to Approve Budget **TPTC Sec 6.06**
- ✓ Taxing unit's first quarterly payment **TPTC Sec. 6.06(e)**
- ✓ Collect data from assumed name filing, sales tax permits and verify new accounts for Business Personal Property
- ✓ Reappraisal Field Work Inspections Begins
- ✓ Chief Appraiser send notification to Entities of Board of Directors Appointment

## October 2021

- ✓ Taxing Units Mail Tax Bills - Appraisal Support & Customer Service
- ✓ Before October 30 of each odd-numbered year chief appraiser prepares ballot of board of director candidates. **TPTC Sec 6.03 (j)**
- ✓ Ag Advisory Board Meeting (if not already done)
- ✓ Reappraisal Field Work Inspections continues
- ✓ Before October 15 of each (odd-numbered year) taxing units nominate board of director candidates **TPTC Sec 6.03 (g)** (*WCAD has Resolution guidelines dated June 22, 1987*)
- ✓ Resolution Determining Vote/Appointment for WCAD Board of Directors due to Chief Appraiser before October 15<sup>th</sup> **TPTC Sec. 6.03(g)**
- ✓ Chief Appraiser prepares ballot and delivers results for CAD Board of Directors to Commissioners Court as per Resolution dated June 22, 1987

## November 2021

- ✓ In House Ratio Study Review for Accuracy
- ✓ Appraiser In-House Review
- ✓ Reappraisal Field Work Inspections continues

## December 2021

- ✓ Taxing unit's first quarterly payment **TPTC Sec. 6.06(e)**
- ✓ Chief Appraiser's Annual Report
- ✓ Reappraisal Field Work Inspections continue
- ✓ Each taxing entity entitled to vote must determine its vote by resolution and submit to the Chief Appraiser before December 15 (is not done before) **TPTC Sec 6.03(k)**
- ✓ The chief appraiser shall submit the results before December 31 to the governing body of each taxing unit in the district and to the Board of Director candidates (if not done before) **TPTC Sec 6.03(k)**

## January 2022

- ✓ ARB begins 2-year term (if staggered) **TPTC Sec. 6.41 (e)**
- ✓ Chief Appraiser eligibility verification sent to Comptroller
- ✓ Jan. 1 - Statutory Appraisal Date for Most Categories of Taxable Property
- ✓ Mail Business Personal Property Rendition Forms
- ✓ In House Ratio Study Review for Accuracy
- ✓ Certification of Preliminary PBS results
- ✓ E.P.T.S. (Electronic Property Transfer Submission)
- ✓ Reappraisal Field Work Inspections continues

## February 2022

- ✓ ARB training begins
- ✓ Begin Working Business Personal Property Renditions
- ✓ Reappraisal Field Work Inspections continues

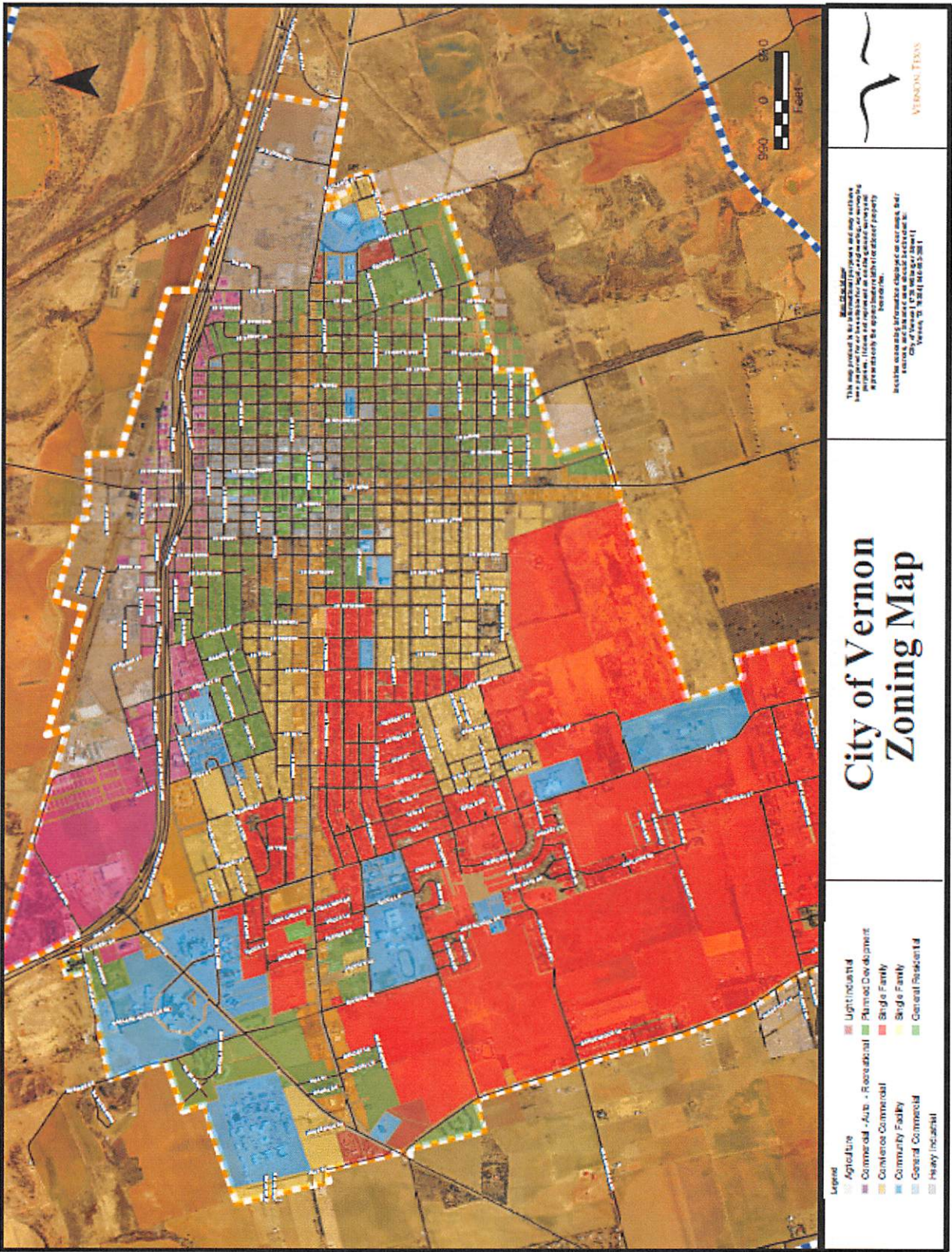
## March 2022

- ✓ In House Ratio Study Review for Accuracy
- ✓ Taxing unit's second quarterly payment **TPTC Sec. 6.06**



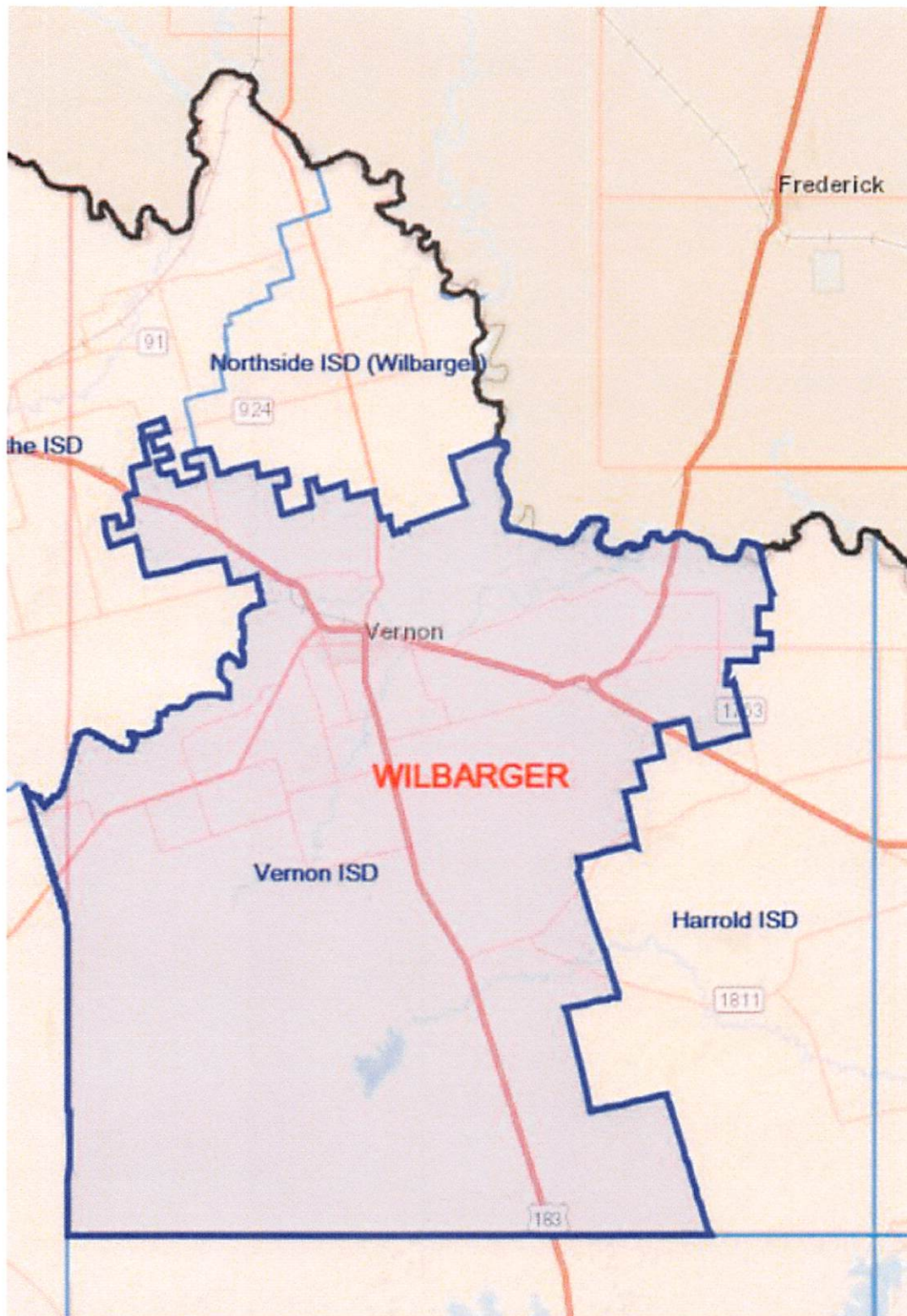
- ✓ Operations survey data forwarded to Comptroller
  - ✓ Reappraisal Field Work Inspections continues
- April 2022**
- ✓ Newspaper Publication on Renditions, HS, AG, Deferrals, & Disabled Veterans
  - ✓ Begin Preparation for Budget
  - ✓ Certify Estimate of Taxable Value to County, Schools & Municipalities **TPTC Sec. 26.01(e)**
  - ✓ Ratio Study Review for Appraisal Notice Process
  - ✓ Begin Application of Neighborhood Market Adjustments
  - ✓ BPP Rendition Deadline on April 15<sup>th</sup> **TPTC Sec. 22.23(a)**
  - ✓ Deadline to File Abatement & AG Application on April 30<sup>th</sup>
  - ✓ Finalize Changes Prior To Notice Run
  - ✓ ARB training concludes
- May 2022**
- ✓ Newspaper Publication of Protest and Appeal Procedures **TPTC Sec. 41.41 & 41.70(b)**
  - ✓ Newspaper Press Release for Notices Mailed
  - ✓ Mailing of Real and BPP Value Notices
  - ✓ Begin Informal Appeals
  - ✓ BPP Rendition Extension Deadline on May 15<sup>th</sup>
  - ✓ Property Value Study Appeal Hearings-Austin TX
  - ✓ Statutory Deadline to File Notice of Protest (typically) **TPTC Sec. 41.44**
- June 2022**
- ✓ Chief Appraiser Submits Completed Appraisal Records to ARB
  - ✓ Appraisal Review Board Hearings Begin
  - ✓ Chief Appraiser Submits Completed Appraisal Records to ARB
  - ✓ Employee Performance Reviews-Discussions with Staff
  - ✓ Proposed Budget Presentation to Board of Directors **TPTC Sec. 6.06(b)**
  - ✓ Chief Appraiser evaluation
  - ✓ Taxing unit's third quarterly payment **TPTC Sec. 6.06(e)**
- July 2022**
- ✓ Appraisal Review Board (ARB) Approves Appraisal Records to create Appraisal Roll (if not approved earlier) **TPTC Sec. 41.12**
  - ✓ Chief Appraiser Certifies Appraisal Roll to Taxing Units
- August 2022**
- ✓ Begin process of printing Appraisal Cards and sort by Geographical Order
  - ✓ In House Ratio Study Review for Accuracy
  - ✓ System Rollover of Data Records to begin next fiscal year (if not completed earlier)
  - ✓ Deadline to file for Sept. 1<sup>st</sup> Inventory Value

CITY OF VERNON

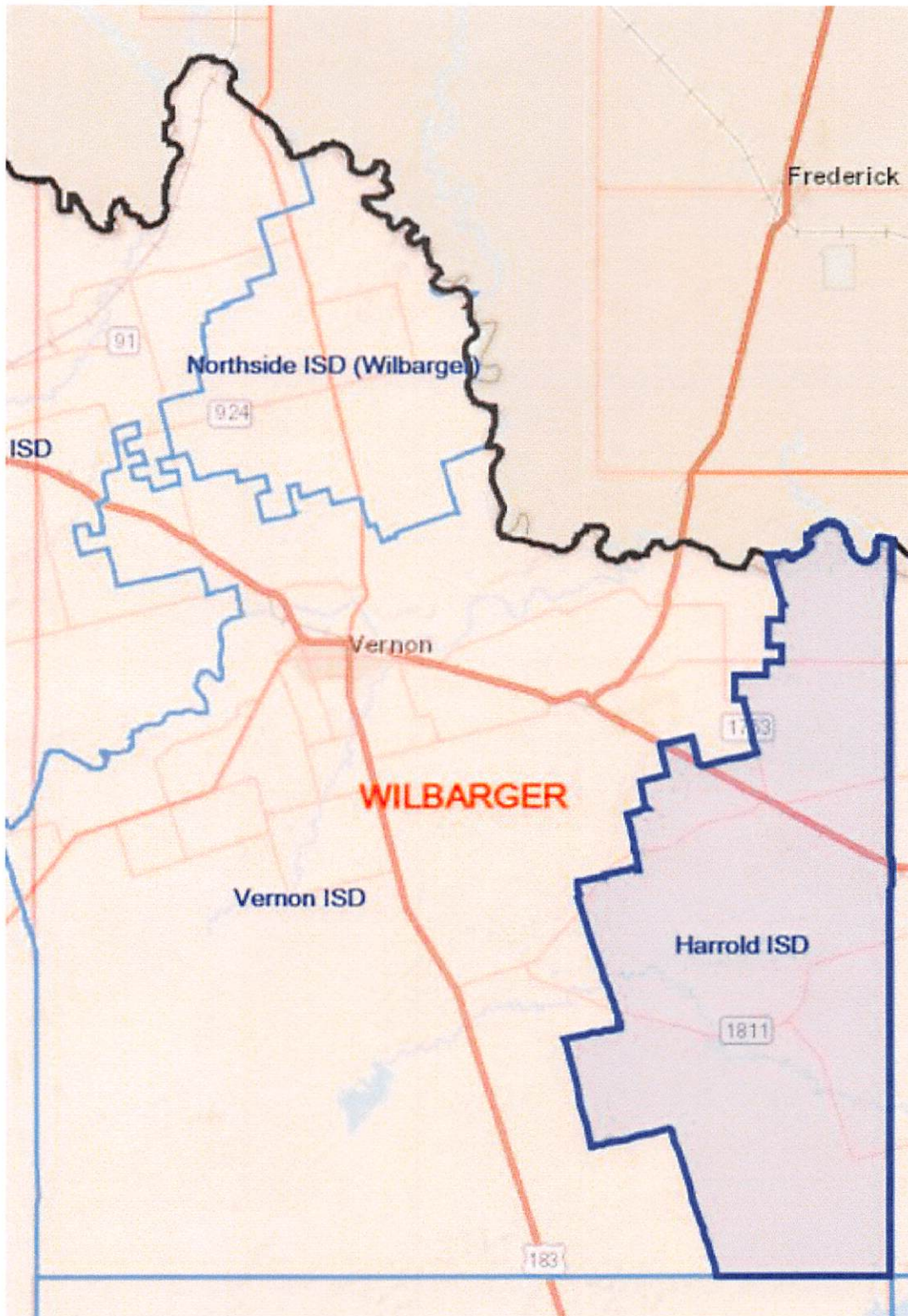




## Vernon ISD

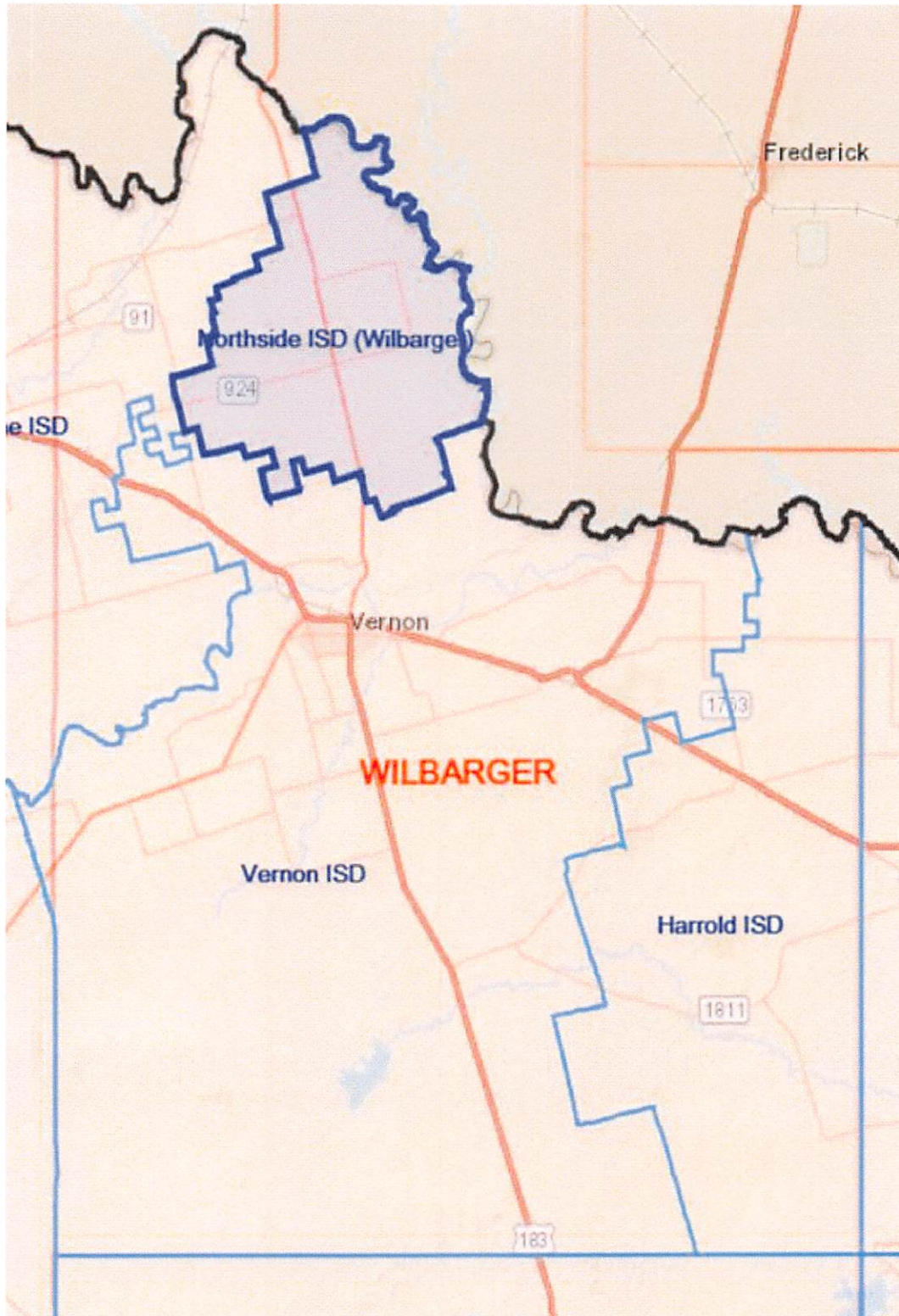


## Harrold ISD

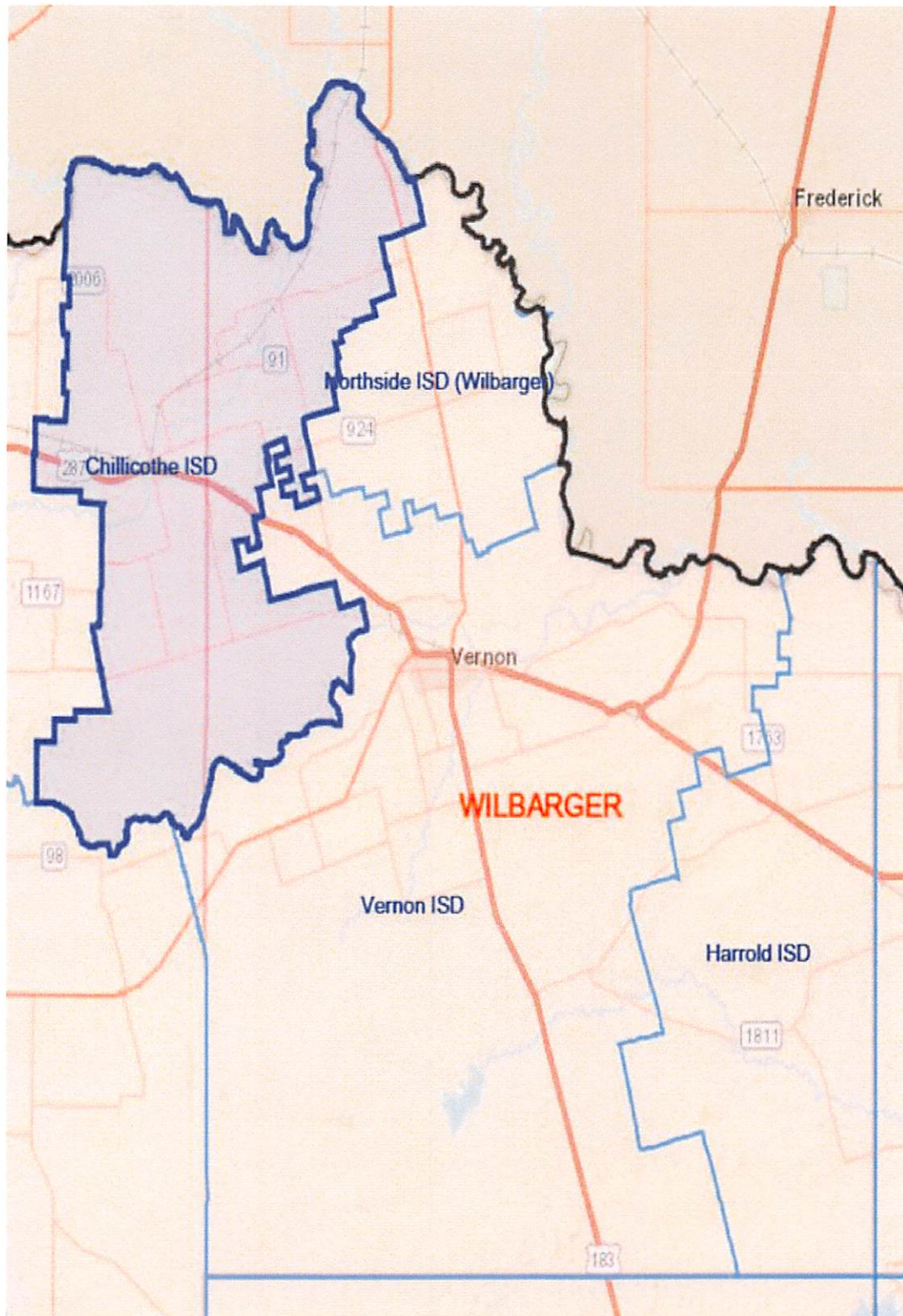




## Northside ISD



## Chillicothe ISD







## **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:**

**2021 and 2022**

**Originally Printed: June 29, 2020**

\*Senate Bill 1652 passed by the Texas Legislature, 79th 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 the applicable standard for ad valorem tax purposes in Texas, if mass appraisal practices are in fact being used to appraise the subject property. USPAP Advisory Opinion 32 suggests several USPAP standards other than Standards 5 or 6 can apply in ad valorem tax work. It appears that an appraiser engaged in ad valorem tax work in Texas is not specifically required by law to follow these USPAP standards if in fact mass appraisal practices have not been used to appraise the subject property. In this case it could be deemed appropriate to invoke the Jurisdictional Exception Rule which is applicable when



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

## ETHICS RULE

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

- Conduct;
- Management;
- Confidentiality.

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

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

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

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

### CONDUCT

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

An appraiser:

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

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

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

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

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

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

## MANAGEMENT

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

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

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

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

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



## **CONFIDENTIALITY**

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

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

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

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

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

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

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

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

## RECORD KEEPING RULE

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

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

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

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

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

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

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

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

## SCOPE OF WORK RULE

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

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

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

Scope of work includes, but is not limited to:

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

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

## PROBLEM IDENTIFICATION

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

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

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

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



### SCOPE OF WORK ACCEPTABILITY

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

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

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

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

### DISCLOSURE OBLIGATIONS

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

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

## JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

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

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

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

A mass appraisal includes:

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

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

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

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

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



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

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

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

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

### INTRODUCTION

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

## Appraisal Resources

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

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

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

## VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

## Approaches to Value for Petroleum Property

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

**Market Approach:** This approach may be defined as one which uses data available from actual transactions recorded in the market place itself; i.e., sales of comparable properties from which a comparison to the subject property can be made. Ideally, this approach's main advantage involves not only an opinion but an opinion supported by the actual spending of money. Although at first glance this approach seems to more closely incorporate the aspects of fair market value per its classical definition, there are two factors that severely limit the usefulness of the market approach for appraising oil and gas properties. First, oil and gas property sales data is seldom disclosed (in non-disclosure states such as Texas); consequently there is usually a severe lack of market data sufficient for meaningful statistical analysis. Second, all conditions of each sale must be known and carefully investigated to be sure one does have a comparative indicator of value per fair market value 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 reasonably estimates a future income stream to the property. This future income may then be converted (discounted) into an estimate of current value. Many refer to this as a capitalization method, because capitalization is the process of converting an income stream into a capital sum (value). As with any method, the final value is no better than the reliability of the input data. The underlying assumption is that people purchase the property for the future income the property will yield. If the land or improvements are of any residual value after the cessation of oil and gas production, that value should also be included (if those components are also being appraised).

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

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



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

## DATA COLLECTION/VALIDATION

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

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

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

## VALUATION ANALYSIS (MODEL CALIBRATION)

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

## INDIVIDUAL VALUE REVIEW PROCEDURES

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

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

## **PERFORMANCE TESTS**

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

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

### INTRODUCTION

**Definition of Appraisal Responsibility:** 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.

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.

***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.

**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). 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.