

REAPPRAISAL PLAN 2025-2026

Central Appraisal District of Nolan County

Adopted August 20, 2024

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EXECUTIVE SUMMARY

Passage of S.B. 1652 amended the Property Tax Code to require a written biennial reappraisal plan. This report has been adopted by the Board of Directors of the Central Appraisal District of Nolan County. Along with the annual Mass Appraisal Report, these required reports, allow the public a better understanding of the Appraisal District's responsibilities.

TAX CODE REQUIREMENT

Passage of SB 1652 amended the Tax Code to require a written biennial reappraisal plan. The following details the changes to the Tax Code:

The Written Plan

Section 6.05, 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 15th of each even numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

Plan for Periodic Reappraisal

Subsections (a) and (b), Section 25.18, 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 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 determine 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.

REVALUATION DECISION

REVALUATION DECISION

The Central Appraisal District of Nolan County, hereafter named Nolan CAD, by policy adopted by the Chief Appraiser and Board of Directors reappraises all property or monitors the market of certain real property in the district every year with schedule changes made if necessary. The reappraisal process does not mean that every property is re-inspected each year (the re-inspection process is mentioned later in the document). Both Tax year 2025 and 2026 are reappraisal years. Although, there may be some exception on certain classifications of property, when there is lack of data, budget constraints, or shortage of staff.

The reappraisal year consist of monitoring the market, picking up new construction, adjustments for changes in property characteristics that affect value, and making any adjustment to schedules for changes and equalization.

TAX YEAR 2025

Tax year 2025 is a reappraisal year.

TAX YEAR 2026

Tax year 2026 is a reappraisal year.

PERFORMANCE ANALYSIS

In each tax year 2025 and 2026 the previous tax year's equalized values are analyzed with some type of study or ratio studies to determine appraisal accuracy and appraisal uniformity overall and by market area within state property reporting categories. Ratio studies are conducted in compliance with the current *Standard on Ratio Studies* from the International Association of Assessing Officers. Mean, median, and weighted mean ratios (appraisal accuracy). The same type of study can include but is not limited to independent appraisals, due to the lack of sales in a category.

AVAILABLE RESOURCES

Staffing and budget requirements for tax year 2025 are summarized in the 2025 district budget, as adopted by the board of directors and attached to the written biennial plan reference Appendix A. This reappraisal plan is adjusted to reflect the available staffing in tax year 2025 and the anticipated staffing for tax year 2026. Staffing will impact the cycle of real property re-inspection and personal property on-site review that can be accomplished in the 2025-2026 time period.

Existing appraisal practices, which are continued from year to year, are identified and methods utilized to keep these practices current are specified. In the reappraisal year, real property appraisal schedules or models are tested against verified sales data to ensure they represent current market data. Commercial real property type is updated from commercial type properties located in this small area that cannot be compared to typical commercial properties and must be analyzed on an individual basis. Personal property density schedules are reviewed and compared to renditions and prior year's hearing documentation to determine accuracy of valuation.

Information Systems support is reviewed as needed with plans made for the future. Computer generated forms are reviewed for revisions based on year and reappraisal status. Legislative changes are scheduled for completion and testing by the district's software vendor. Existing maps and data requirements are maintained and updated as needed. The district has a program for mapping property, provided by Pritchard and Abbott, Inc. It is integrated with the CAMA appraisal records. Appraisers are also able to manipulate mapping data using the client map that is integrated with the CAMA system. Maps are viewable to the public on the district's website. All mapping changes to property are made by Pritchard and Abbott on a monthly basis after the deed is processed and a new account established. The district leases 10 personal computer terminals and 2 laptop computers from Pritchard & Abbott, Inc. The lease enables the district to ensure software and hardware are compatible. During the 2025 appraisal year, the district plans to continue leasing tablets for appraisers to use in the field.

PLANNING AND ORGANIZATION

A calendar of key events with critical completion dates is prepared for each major work area. This calendar identifies all key events for appraisal, clerical, customer service and information systems. A separate calendar is prepared for tax year 2025 and 2026. Production standards for field activities are calculated and incorporated in the planning and scheduling process.

2025 – 2026 TAX YEAR CALENDAR OF KEY EVENTS

The detailed calendar is located in Appendix B.

NOTE: This calendar is subject to change for unforeseeable reasons. Adjustments will be made to maximize efficiency of appraisal process.

Each year approximately 1/3 of the county parcels are planned for inspection and reappraisal as the chart below indicates.

Cat Code	2024		2025		2026	
	Parcels	Appraiser	Parcels	Appraiser	Parcels	Appraiser
A	976	DeLeon	668	Hurt	900	Hurt
A	648	Hurt			730	DeLeon
A2	180	DeLeon	81	Hurt	50	Hurt
A2						
AR	332	Hurt	332	Hurt	332	Hurt
B	50	DeLeon	50	Hurt	50	DeLeon
C	381	DeLeon	336	Hurt	810	Hurt
C	381	Hurt				
D1	944	DeLeon	2305	DeLeon	536	DeLeon
D2	124	DeLeon	438	DeLeon	148	DeLeon
E	309	DeLeon	911	DeLeon	565	DeLeon
F1	781	P&A	810	P&A	810	P&A
F2	42	Bock	42	Hurt	42	DeLeon
J	125	P&A	125	P&A	125	P&A
L1	471	P&A	481	P&A	481	P&A
M1	191	DeLeon	97	Hurt	63	Hurt
M1						
O	3	Bock				
S	8	Bock	7	Bock		
X	908	Hurt	320	Hurt	124	Hurt
TOTAL	6434		7003		5249	
	1109	Bock	7	Bock	1554	DeLeon
	3943	DeLeon	3654	DeLeon	2279	Hurt
			1926	Hurt	0	Bock

MASS APPRAISAL SYSTEM

Mass Appraisal System – Computer Assisted Mass Appraisal (CAMA) system revisions required are specific and scheduled. Pritchard and Abbott, Inc. software is the current CAMA system of the district. The system provides the district with the most efficient and economical program for appraisal under the current budget available. All computer forms and IT procedures, are reviewed and revised as required. The following details these procedures as it relates to the 2025-2026 tax years.

REAL PROPERTY VALUATION

Revisions to schedules or models are specified, updated and tested each tax year.

Modified Cost Schedules are tested with market sales data to ensure the appraisal district is compliant with Texas Property Tax Code, Section 23.011. Marshall and Swift Manual and local contractor data is used in valuing non-residential properties. Marshall and Swift Residential Cost Guide is used for new construction and when independent appraisal must be made on newer houses when there is a lack of sales data. It is also used in checking new construction factors that are currently used until the new residential schedules are made from mainly cost information then factored or depreciated for the market area.

Land tables are updated using current market sales data and then tested with ratio study tools.

Income, expense and occupancy data is updated for some commercial properties.

PERSONAL PROPERTY VALUATION

Density schedules are updated using data received during the previous tax year from renditions and hearing documentation. The comptroller depreciation schedule will be used in valuation of personal property. Valuation procedures are reviewed and modified as needed.

NOTICING PROCESS

The Notice of Appraised Value (Sec. 25.19) are reviewed and edited each year by the Chief Appraiser to ensure accuracy of data. Proofs of notices are provided by Pritchard and Abbott for review. The request form is signed by the chief appraiser and notices are printed and mailed by the software provider. Appropriate protest forms and Homestead Exemption Applications are also mailed with the notice to the owner.

HEARING PROCESS

Scheduling of informal and formal Appraisal Review Board hearings is performed by clerical staff assigned to the ARB. These procedures are reviewed annually and updated as required.

Protests are received and a protest established in the system. The protest form and all documentation received from the owner is scanned and attached to the account at the time of receipt. The Appraiser assigned to the property is informed of the protest. If the parcel value is changed through the informal process the owner is sent a settlement and waiver of protest. Hearing Notices are sent to all protest not settled prior to the hearing dates. A copy of the ARB Hearing Procedures and the Taxpayer's Rights and Remedies are mailed with the hearing notice by certified mail. The software system provides updated reports on number of protests filed, protest status, as well as tracking of value loss due to protest.

DATA COLLECTION REQUIREMENTS

Field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include new construction, demolition, remodeling, re-inspection of problematic market areas, re-inspection of the universe of properties on a specific cycle (4-6 years), and field or office verification of sales data and property characteristics.

NEW CONSTRUCTION/DEMOLITION

New construction, filed, and office review procedures are identified and revised as required. Building permits are confirmed along with demo and fire reports and entered into the CAMA system for inspections. 9-1-1 Addressing documentation from West Central Texas Council of Governments is reviewed for new construction. This critical annual activity is projected and entered on the key events calendar for each tax year.

REMODELING

Mechanic Liens are reviewed with field card made and field activities scheduled to update property characteristic data. Building permits provided are reviewed and properties revisited for inspection.

RE-INSPECTION OF PROBLEMATIC MARKET AREAS

Real property market areas, by property classification, are tested for low or high sales ratios. Residential classes that fail any or all of these tests are determined to be problematic. Field reviews are scheduled to verify and/or correct property characteristic data.

RE-INSPECTION OF THE UNIVERSE OF PROPERTIES

The International Association of Assessing Officers, *Standard on Mass Appraisal of Real Property* specifies that the universe of properties should be re-inspected on a cycle of 4-6 years. The re-inspection includes the re-checking of measurements from estimating from the street if any changes have occurred to the improved property. If the appraiser feels the measurements are not correct or if changes need to be made a re-measurement will be made. The annual re-

inspection requirements for tax year 2025 and 2026 are identified by property type and property classification and scheduled on the key events calendar. Eagleview Change Finder is reviewed for changes since last flight data. Appraisal staff and personnel review and measure any properties that visually differ from year to year using Pictometry Change Finder technology. All properties inspected in the field are also reviewed in Pictometry against last flight data for correct appraisal recording of property data.

FIELD OR OFFICE VERIFICATION OF SALES DATA AND PROPERTY CHARACTERISTICS

Sale information must be verified and property characteristic data contemporaneous with the date of sale captured. The sales ratio tools require that the property that sold must equal the property appraised in order that statistical analysis results will be valid.

RATIO STUDY BY TAX YEAR

New and/or revised mass appraisal models (schedules) for residential properties are tested on yearly basis by using the sales ratio reports provided in the CAMA system. These modeling tests are conducted each tax year. Due to the amount of information needed to conduct analysis on non-residential sales, studies differ from those used by the district to study residential property. Instead of using the CAMA system sales ratio function, the district maintains these studies through spreadsheet type documents. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested. The procedures, used for model specification and model calibration, comply with *Uniform Standards of Professional Appraisal Practice*, STANDARD RULE 6. See Residential Real Property under Valuation by Tax Year for more details on sales studies.

VALUATION BY TAX YEAR

Valuation by Tax Year – using market analysis of comparable sales and locally tested cost data, market area specific income and expense data, valuation models are specified and calibrated with the supplemental standards from the International Association of Assessing Officers and the Uniform Standards of Professional Appraisal Practice. The calculated values for residential properties are tested for accuracy and uniformity using ratio studies. Performance standards are those as established by the IAAO Standard on Ratio Studies. Property values in all market areas are updated each reappraisal year if necessary.

RESIDENTIAL AND VACANT LOT REAL PROPERTY

Appraisal Resources

The residential appraisers are responsible for developing equal and uniform market values for residential improved and vacant property. There are approximately 4,582 single family residential improved parcels in the county. There are 52 Multi-Family residential properties. There are also 252 Manufactured Homes elected as real property and 288 personal property accounts. Residences located on farms or ranches total 1528. Vacant lot properties in Nolan County total 1,984. There are 332 residential properties identified as income producing (rental) properties.

Personnel - The following appraisers are responsible for determining residential and vacant lot

	Cat Codes
Robert DeLeon	A, A2, C, M1, E, E2, D1, D2, and B
Ruben Hurt	A, A2, C, M1, E, X, and AR

values:

Data – a common set of data characteristics for each residential dwelling in Nolan County is collected in the field and data entered to the computer. Single Family Residential (Category A only) are defined by market areas or neighborhoods as described below.

VALUATION APPROACH

Area Analysis

Data on regional economic forces such as demographic patterns, regional location factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and costs are collected from private vendors and public sources and provide the field appraiser a current economic outlook on the real estate market. Information is gleaned from real estate publications and sources such as continuing education in the form of IAAO and CEU classes approved by the Texas Department of Licensing and Regulation.

Neighborhood and Market Analysis

Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these forces are also

used to identify, classify, and stratify comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. Residential valuation and neighborhood analysis is conducted on various market areas within each of the political entities known as Independent School Districts (ISD). Analysis of comparable market sales forms the basis of estimating market activity and the level of supply and demand affecting market prices for any given market area, neighborhood or district. Market sales indicate the effects of these market forces and are interpreted by the appraiser into an indication of market price ranges and indications of property component change considering a given time period relative to the date of appraisal. Cost and Market Approaches to estimate value are the basic techniques utilized to interpret these sales. For multiple family properties the Income Approach to value is also utilized to estimate an opinion of value for investment level residential property.

The first step in neighborhood analysis is the identification of a group of properties that share certain common traits. A "neighborhood" for analysis purposes is defined as the largest geographic grouping of properties where the property's physical, economic, governmental and social forces are generally similar and uniform. Geographic stratification accommodates the local supply and demand factors that vary across a jurisdiction. Once a neighborhood with similar characteristics has been identified, the next step is to define its boundaries. This process is known as "delineation". Some factors used in neighborhood delineation include location, sales price range, lot size, age of dwelling, quality of construction and condition of dwellings, square footage of living area, and story height. Delineation can involve the physical drawing of neighborhood boundary lines on a map, but it can also involve statistical separation or stratification based on attribute analysis. Part of neighborhood analysis is the consideration of discernible patterns of growth that influence a neighborhood's individual market. Few neighborhoods are fixed in character. Each neighborhood may be characterized as being in a stage of growth, stability or decline. The growth period is a time of development and construction. As new neighborhoods in a community are developed, they compete with existing neighborhoods. An added supply of new homes tends to induce population shift from older homes to newer homes. In the period of stability, or equilibrium, the forces of supply and demand are about equal. Generally, in the stage of equilibrium, older neighborhoods can be more desirable due to their stability of residential character and proximity to the workplace and other community facilities. The period of decline reflects diminishing demand or desirability. During decline, general property use may change from residential to a mix of residential and commercial uses. Declining neighborhoods may also experience renewal, reorganization, rebuilding, or restoration, which promotes increased demand and economic desirability.

Neighborhood identification and delineation is the cornerstone of the residential valuation system at the district. All the residential analysis work done in association with the residential valuation process is neighborhood specific. Neighborhoods are field inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted. Whereas neighborhoods involve

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

Highest and Best Use Analysis

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

VALUATION AND STATISTICAL ANALYSIS (Model Calibration)

Cost Schedules

All residential parcels in the district are valued with a replacement cost estimated from identical cost schedules based on the improvement classification system using a comparative unit method. The district's residential cost schedules are estimated from Marshall and Swift, a nationally recognized cost estimator service. These cost estimates are compared with sales of new improvements and evaluated from year to year and indexed to reflect the local residential building and labor market. Costs may also be indexed for neighborhood factors and influences

that affect the total replacement cost of the improvements in a smaller market area based on evidence taken from a sample of market sales. The cost schedules are reviewed regularly as a result of recent state legislation requiring that the appraisal district cost schedules be within a range of plus or minus 10% from nationally recognized cost schedules.

A review of the residential cost schedule is performed annually. As part of this review and evaluation process of the estimated replacement cost, newly constructed sold properties representing various levels of quality of construction in district are considered. The property data characteristics of these properties are verified and photographs are taken of the samples. CAD replacement costs are compared against Marshall & Swift, a nationally recognized cost estimator, and the indicated replacement cost abstracted from these market sales of comparably improved structures. The results of this comparison are analyzed using statistical measures, including stratification by quality and reviewing of estimated building costs plus land to sales prices. As a result of this analysis, a new regional multiplier or economic index factor and indications of neighborhood economic factors are developed for use in the district's cost process. This new economic index is estimated and used to adjust the district's cost schedule to comply with local building costs as reflected by the local market.

Sales Information

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

Land Analysis

Residential land valuation analysis is conducted prior to neighborhood sales analysis. The value of the land component to the property is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market price of land located in the neighborhood. Computerized land table files store the land

information required to consistently value individual parcels within neighborhoods given known land characteristics. Specific land influences are considered, where necessary, and depending on neighborhood and individual lot or tract characteristics, to adjust parcels outside the neighborhood norm for such factors as access, view, shape, size, and topography. The appraisers use abstraction and allocation methods to ensure estimated land values best reflect the contributory market value of the land to the overall property value.

Statistical Analysis

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

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

Market and Cost Reconciliation and Valuation (Hybrid Model)

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

The following equation denotes the hybrid model used:

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

Whereas, in accordance with the cost approach, the estimated market value (MV) of the property equals the land value (LV) plus replacement cost new of property improvements (RCN) less accrued depreciation (AD). As the cost approach separately estimates both land and building contributory values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales. Demand side, economic factors and influences, may be observed and considered. These market or location adjustments, may be abstracted and applied uniformly within neighborhoods to account for location variances between market value of the property equals the basic unit of property, under comparison times the market price range per unit for sale of comparable property. For residential property, the unit of comparison is typically the price per square foot of living area or the price indicated for the improvement contribution. This cost related factor is most appropriately measured by price, indicated the depreciated value of the improvement component, in effect, measuring changes in accrued depreciation, a cost factor. The level of improvement contribution to the property is measured by abstraction of comparable market sales, which is the property sale price less land value. The primary unknown for the cost approach is to accurately measure depreciation affecting the amount of loss attributed to the improvements as age increases and condition changes. This evaluation of cost results in the depreciated value of the improvement component based on age and condition. The evaluation of this market and cost information is the basis of reconciliation and indication of property valuation under this hybrid model.

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

If reappraisal of the neighborhood is indicated, the appraiser analyzes available market sales, appropriately adjusted for the apparent effects of time, by market abstraction of property components. This abstraction of property components allows the appraiser to focus on the rate of change for the improvement contribution to the property by providing a basis for calculating accrued depreciation attributed to the improvement component. This impact on value is usually the most significant factor affecting property value and the most important unknown to determine by market analysis. Abstraction of the improvement component from the adjusted sale price for the property indicted the effect of overall market suggested influences and factors on the price of improvements that were a part of this property, recently sold. Comparing this indicated price or value allocation for the improvement with the estimated replacement cost new

of the improvement indicates any loss in value due to accrued forms of physical, functional, or economic obsolescence. This is a market driven measure of accrued depreciation and results in a true and relevant measure of improvement marketability, particularly when based on multiple sales that indicate the trending of this rate of change over certain classes of improvements within certain neighborhoods. Based on this market analysis, the appraiser estimates the annual rate of depreciation for given improvement descriptions considering age and observed condition. After an acceptable level of appraisal is achieved within the sale sample, the entire neighborhood of property is recalculated utilizing the indicated depreciation rates taken from market sales. This depreciation factor is the basis for trending all improvement values and when combined with any other site improvements and land value, brings the estimated property value through the cost approach closer to actual market prices as evidenced by recent sales prices within a given neighborhood.

Market Adjustment and Trending Factors

Repeat sales are constantly monitored to see if time adjustments are necessary. Many repeat sales must be adjusted for remodeling or other factors prior to analyzing the sales.

TREATMENT OF RESIDENCE HOMESTEADS

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

- the market value; or
- the preceding year's appraised value;
PLUS 10 percent for each year;
PLUS the value of any improvements added since the last re-appraisal.

Assessed values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires and the property is appraised at its market value to bring its appraisal into uniformity with other properties. An analogous provision applies to new homes and inventory lots. While a developer owns them, unoccupied residences and inventory lots are appraised as part of an inventory using the district's land value and the developer's construction costs as of the valuation date. In the year following the sale, they are reappraised at market value.

Sales Ratio Studies

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

Management Review

Once the proposed value estimates are finalized, the Chief Appraiser reviews the sales ratios by class and area. This review includes comparison of level of value between related areas and classes within and across jurisdiction lines. The primary objective of this review is to ensure that the proposed values have met preset appraisal guidelines appropriate for the tax year in question.

COMMERCIAL REAL PROPERTY

Appraisal Responsibility

This mass appraisal assignment includes all of the commercially classed real property which falls within the responsibility of the commercial valuation appraisers of the Nolan County Central Appraisal District and located within the boundaries of this taxing jurisdiction. The appraisal district has basic schedules for metal shop buildings, motel, apartments, office buildings, banks and other properties that have similar features for comparison. However, many commercial properties are dealt with on an individual basis, due to unique characteristics. It is the goal of the district to re-class as we re-inspect commercial properties in the reappraisal process and create better schedules for particular groups of commercial properties. Commercial appraisers appraise the fee simple interest of properties according to statute. However, the effect of easements, restrictions, encumbrances, leases, contracts or special assessments are considered on an individual basis, as is the appraisal of any non-exempt taxable fractional interests in real property (i.e. certain multi-family housing projects). Fractional interests or partial holdings of real property are appraised in fee simple for the whole property and divided based on their prorated interests.

Appraisal Resources

Personnel - The improved real property appraisal responsibilities are categorized according to major property types. Category F1 office, retail, warehouse and special use (i.e. hotels, hospitals and, nursing homes) total 768 properties.

The following appraisers are responsible for estimating the market value of commercial:

	Cat Codes
Pritchard & Abbott	F1

Data - The data used by the commercial appraisers includes verified sales of vacant land and improved properties and the pertinent data obtained from each (sales price levels, capitalization rates, income multipliers, equity dividend rates, marketing period, etc.). Other data used by the appraisers includes actual income and expense data (typically obtained through the hearings process), actual contract rental data, leasing information (commissions, tenant finish, length of terms, etc.), and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications are also reviewed to provide additional support for market trends.

Sales Information

A sales file or a list of sales is maintained. Commercial vacant land sales, along with commercial improved and all vacant land sales are maintained in the CAMA system. Commercial improved and vacant sales are collected from a variety of sources, including: district questionnaires sent to buyer and seller, filed discovery, informal protest hearings, various sale vendors, builders and realtors. A system of verification codes was established to define market value transaction validity. Typically, sales are limited in certain classifications of commercial properties limiting what studies can be done to test performance. One of the best for such properties is an independent appraisal to test accuracy.

Land Analysis

Commercial land analysis has been conducted in the past by the appraiser, with land values again being reviewed as the reappraisal process continues. Lots within the cities of Blackwell, Roscoe and Sweetwater are based on front feet and are assigned to additions or areas while some of the commercial have a square foot basis. Specific land adjustments are used, where necessary, to adjust for such factors as view, shape, size, and topography, that may influence value.

MINERAL, UTILITIES, AND INDUSTRIAL REAL AND PERSONAL PROPERTY

Appraisal Responsibility

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

Minerals-in-place (oil and gas reserves) are real property. Appraisal of minerals, oil and gas reserves, is based on estimating the present value of the economically recoverable reserves of oil and gas. Mineral rights are property rights and may be separable property interests from the land surface property rights. Minerals being produced are a tangible asset and are appraised for ad valorem taxation. The valuation of minerals-in-place is based on estimating the discounted net

present value of the oil and gas production over the economic life of the well(s). Basically, this method of valuation is an income approach using discounted cash flow analysis methodology. Oil and Gas Properties are also marketed based on proven reserves and the unit of comparison in this market is considered in barrels of oil or in cubic feet of natural gas. The market approach is based on sales of property based on barrels of proven reserves.

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

Appraisal Resources

- **Personnel** - The utility property appraisal is performed by Pritchard & Abbott.

A copy of Pritchard and Abbott's reappraisal plan is attached to this document in Appendix E.

BUSINESS TANGIBLE PERSONAL PROPERTY

Appraisal Responsibility

There are four different personal property types appraised by the district's personal property section: Business Personal Property accounts, leased assets, business vehicles and aircraft; and multi-location assets. There are approximate 481 business personal property accounts in Nolan CAD.

Personnel - The personal property staff consists of the contracted appraiser and appraisal support staff.

- **Data** - A common set of data characteristics for each personal property account in Nolan CAD is collected in the field on the personal property worksheet and data entered upon returning to office. The property characteristic data drives the computer-assisted personal property appraisal system. The personal property appraisers collect the field data and maintain electronic property files making updates and changes gathered from field inspections, newspapers, property renditions, sales tax permit listing and interviews with property owners.

VALUATION APPROACH (Model Specification)

SIC Code Analysis

Business personal property is classified and utilizes a four-digit numeric codes, called Standard Industrial Classification (SIC) codes that were developed by the federal government to describe property. These classifications are used by Nolan CAD to classify personal property by business type.

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

Highest and Best Use Analysis

The highest and best use of property is the reasonable and probable use that supports the greatest income and the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to its maximum. The highest and best use of personal property is normally its current use.

DATA COLLECTION/VALIDATION

Data Collection Procedures

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

Sources of Data

Business Personal Property

The district's property characteristic data was collected through a massive field data collection effort coordinated by the district over the recent past and from property owner renditions. From year to year, reevaluation activities permit district appraisers to collect new data via an annual field inspection. This project results in the discovery of new businesses, changes in ownership, relocation of businesses, and closures of businesses not revealed through other sources. Tax assessors, city and local newspapers, and the public often provide the district information regarding new personal property and other useful facts related to property valuation.

Vehicles and Aircraft

An outside vendor provides Nolan CAD with a listing of vehicles within the jurisdiction. The vendor develops this listing from the Texas Department of Transportation (TXDOT) Title and Registration Division records. Other sources of data include property owner renditions and field inspections.

Leased and Multi-Location Assets

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

VALUATION AND STATISTICAL ANALYSIS (model calibration)

Cost Schedules

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

Statistical Analysis

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

Depreciation Schedule and Trending Factors:

Business Personal Property

Nolan CAD's primary approach to the valuation of business personal property is the cost approach. The replacement cost new (RCN) is either developed from property owner reported historical cost or from CAD developed valuation models. The trending factors used by the CAD to develop RCN are based on published valuation guides. The percent good depreciation factors used by Nolan CAD are also based on published valuation guides. The index factors and percent good depreciation factors are used to develop present value factors (PVF), by year of acquisition, as follows:

$$\text{PVF} = \text{INDEX FACTOR} \times \text{PERCENT GOOD FACTOR}$$

The PVF is used as an "express" calculation in the cost approach. The PVF is applied to reported historical cost as follows:

$$\text{MARKET VALUE ESTIMATE} = \text{PVF} \times \text{HISTORICAL COST}$$

This mass appraisal PVF schedule is used to ensure that estimated values are uniform and consistent within the market and reflect current economic pressures of supply and demand.

Vehicles

Value estimates for vehicles are provided by an outside vendor and are based on NADA published book values, and there are also considerations available for high mileage. Vehicles that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

Leased and Multi-Location Assets

Leased and multi-location assets are valued using the PVF schedules mentioned above. If the asset to be valued in this category is a vehicle, then NADA published book values are used. Assets that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

INDIVIDUAL VALUE REVIEW PROCEDURES

Office Review

Business Personal Property

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

Vehicles and Aircraft

A vehicle master file is received on hardcopy from an outside vendor and vehicles in the district's system from the prior year are matched to current DoT records. These vehicles that are not valued by the vendor are valued by an appraiser using schedules or published guides.

Leased and Multi-Location Assets

Leasing and multi-location accounts that have a high volume of vehicles are valued by the appraiser using NADA publications.

PERFORMANCE TESTS

Ratio Studies

Each year the Property Tax Division of the state comptroller's office conducts a property value study (PVS). The PVS is a ratio study used to gauge appraisal district performance. Results from the PVS play a part in school funding. Rather than a sales ratio study, the personal property PVS is a ratio study using state cost and depreciation schedules to develop comparative personal property values. These values are then compared to Nolan CAD's personal property values and ratios are indicated.

SPECIAL VALUATION PROPERTIES

AGRICULTURAL USE

Appraisal Responsibility

The appraisal of Agricultural Land in Nolan County is based on the *Manual for Appraisal of Agricultural Land* published by the State. Agricultural valuation is updated annually. Agricultural properties are constantly monitored for degree of intensity for Nolan County and the area it is located. Section 23.51 of the Property Tax Code sets the standard for determining qualification of agricultural land.

SOURCES

One of the most important sources of information is the appraisal district's agricultural advisory committee. The advisory board is made up of three members that include the producers/rancher, land owners, extension service and other individuals involved in agriculture.

VALUATION

Every year, information is gathered about crops, expenses, leases, government payments and other agricultural information, for the valuation of agricultural land. This information is kept until needed for a certain year's valuation. To determine agricultural value a net to land method is used using a period of 5 years that precede the year before the year of appraisal. (i.e. for the 2025 year the crops, expenses and lease information from crop years 2023, 2022, 2021, 2020, and 2019 are used for the 5-year average net to land income) calculation. For more details regarding agricultural valuation, consult the district Appraisal Manual.

THE MASS APPRAISAL REPORT

The Mass Appraisal Report – each tax year the tax code required Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15th). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6 – 8 of the Uniform Standards of Professional Appraisal Practice. The signed certification by the Chief Appraiser is compliant with STANDARD RULE 6-9 of USPAP. This written reappraisal plan is referenced in this document.

VALUE DEFENSE

Evidence to be used by the appraisal district to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is specified and tested.

After notices have been sent, the taxpayer may protest a variety of issues: excessive appraisal, unequal appraisal, inclusion of property, denial of exemption, denial of special use valuation, inclusion of taxing unit, ownership determination of change of use, or any other action by Nolan CAD that applies to and affects the taxpayer.

During this time the taxpayer may meet with the appraiser for an informal hearing by written correspondence, generally email, by phone or in person. The taxpayer and Nolan CAD appraiser will go over the property first to see if the information is correct. The property owner must provide evidence, preferably images, that indicate the property value should be lowered. The appraiser and taxpayer may come to an agreement regarding the value of the property. The property owner and appraiser will sign a Settlement and Waiver of Protest stating any changes made to the noticed value. Should the opinion of value, determination of special use valuation, exemption status or any other matter, remain unsettled the protest will be scheduled for hearing before the ARB. Evidence used in the formal hearing will include sales ratios, sales of comparable property, income analysis, cost information, and any other information that would be pertinent to the hearing.

Appraisers will strive to present all protests in a clear and concise manner. Defending the value of the district as correct or agreeing to a value change if the value is found to be incorrect based on the evidence provided at the hearing.

APPENDIX – A

2025 Budget

2025 PROPOSED BUDGET

BUDGET ITEM		2025 BUDGET			2024	
		APPRAISAL	COLLECTIONS	ADMIN		TOTAL
Income						
Charges for Services	\$844,026.33	\$307,041.83		\$1,151,068.16	\$1,105,502.28	
Investment Income			\$4,000.00	\$4,000.00	\$4,500.00	
Other Income			\$14,000.00	\$14,000.00	\$13,550.00	
Total Income		\$844,026.33	\$307,041.83	\$18,000.00	\$1,169,068.16	\$1,123,552.28
Expenses						
1 ARB Expenses	\$6,000.00			\$6,000.00	\$8,100.00	
2 Taxpayer Liason Officer	\$600.00			\$600.00	\$600.00	
3 Financial Audit		\$6,500.00		\$6,500.00	\$6,500.00	
4 Payroll Prep	\$900.00	\$900.00		\$1,800.00	\$1,100.00	
5 Bank Charges and CC Fees		\$2,300.00		\$2,300.00	\$2,440.00	
6 Bonds		\$1,300.00		\$1,300.00	\$1,200.00	
7 Board of Directors	\$500.00	\$500.00		\$1,000.00	\$1,000.00	
8 Automobile: Insurance	\$3,000.00			\$3,000.00	\$2,500.00	
9 Automobile: Maintenance	\$2,000.00			\$2,000.00	\$500.00	
10 Automobile: Fuel	\$1,500.00			\$1,500.00	\$1,500.00	
11 Building: Insurance	\$3,820.00	\$3,820.00		\$7,640.00	\$6,000.00	
12 Building: Maintenance	\$8,500.00	\$8,500.00	\$14,000.00	\$17,000.00	\$14,000.00	
13 Utilities: Electric	\$5,500.00	\$5,500.00		\$11,000.00	\$8,000.00	
14 Utilities: Gas	\$1,250.00	\$1,250.00		\$2,500.00	\$4,000.00	
15 Utilities: Water	\$550.00	\$550.00		\$1,100.00	\$1,500.00	
16 Utilities: Trash	\$600.00	\$600.00		\$1,200.00	\$700.00	
17 Janitorial Service	\$3,600.00	\$3,600.00		\$7,200.00	\$7,200.00	
18 P&A: Mineral/Industrial/Personal Property	\$102,000.00			\$102,000.00	\$102,375.00	
19 P&A: Commercial/AG/BPP Appraisal Services	\$76,800.00			\$76,800.00	\$68,020.00	
20 P&A: Mapping Services	\$11,602.00			\$11,602.00	\$11,602.00	
21 P&A: Hardware & Third Party Software	\$7,675.00	\$7,675.00		\$15,350.00	\$14,350.00	
22 P&A: Real Estate Appraisal System	\$22,600.00			\$22,600.00	\$19,600.00	
23 P&A: Appraisal Notices & Statement Software	\$5,665.00	\$5,665.00		\$11,330.00	\$10,430.00	
24 P&A: Electronic Data Submission	\$1,900.00			\$1,900.00	\$1,800.00	
25 P&A: Mobile Assessor	\$7,832.00			\$7,832.00	\$7,832.00	
26 P&A: Website for Nolan CAD	\$2,700.00	\$2,700.00		\$5,400.00	\$3,600.00	
27 P&A: Collection Software		\$15,350.00		\$15,350.00	\$14,350.00	
28 P&A: Software Licensing Fee	\$4,000.00	\$4,000.00		\$8,000.00	\$9,000.00	
29 Dues and Subscriptions	\$10,000.00	\$4,000.00		\$14,000.00	\$4,000.00	
30 Acttax: 2024 Truth in Taxation Online		\$1,200.00		\$1,200.00	\$1,200.00	
31 Pictometry	\$32,400.00			\$32,400.00	\$32,400.00	
32 Equipment: Copier Lease	\$4,200.00	\$4,200.00		\$8,400.00	\$7,600.00	
33 Technology: Email Service	\$750.00	\$750.00		\$1,500.00	\$900.00	
34 Technology: Quickbooks		\$1,000.00		\$1,000.00	\$1,000.00	
35 Technology Insurance: Cybersecurity Coverage	\$200.00	\$200.00		\$400.00	\$400.00	
36 Personnel: Employee Salaries	\$313,787.95	\$112,967.68		\$426,755.63	\$435,524.70	
37 Personnel: Employee Benefits	\$124,861.72	\$64,651.28		\$189,513.00	\$169,922.92	
38 Personnel: Payroll Taxes	\$24,324.08	\$8,687.73		\$33,011.81	\$33,333.60	
39 Personnel: Workers Compensation	\$4,908.58	\$815.14		\$5,723.72	\$4,452.06	
40 Postage	\$11,000.00	\$11,000.00		\$22,000.00	\$14,000.00	
41 Envelopes	\$1,500.00	\$1,500.00		\$3,000.00	\$3,000.00	
42 Print Fold & Stuff Service Mailings	\$5,000.00	\$5,000.00		\$10,000.00	\$5,000.00	
43 Deed Copies	\$300.00	\$300.00		\$600.00	\$1,000.00	
44 Deed Filing Fees	\$200.00	\$200.00		\$400.00	\$500.00	
45 Publishing Legal Fees		\$1,600.00		\$1,600.00	\$600.00	
46 Supplies	\$8,000.00	\$8,000.00	\$2,000.00	\$16,000.00	\$14,600.00	
48 Sales Tax		\$60.00		\$60.00	\$50.00	
49 Telephone Service	\$1,300.00	\$1,300.00		\$2,600.00	\$2,800.00	
50 Cell Service	\$1,600.00			\$1,600.00	\$1,500.00	
51 Internet	\$1,100.00	\$1,100.00		\$2,200.00	\$2,200.00	
52 Staff Development	\$1,000.00	\$1,000.00	\$2,000.00	\$2,000.00	\$1,800.00	
53 Training: Registration/Seminars	\$8,000.00	\$2,600.00		\$10,600.00	\$7,320.00	
54 Training: Travel Reimbursements	\$8,500.00	\$4,200.00		\$12,700.00	\$13,800.00	
Removed from Budget					\$16,800.00	
		\$844,026.33	\$307,041.83	\$18,000.00	\$1,151,068.16	\$1,105,502.28

APPENDIX - B

CALENDAR OF KEY EVENTS – 2025 -2026 Tax Years

2025 – 2026 TAX YEAR CALENDAR OF KEY EVENTS

NOTE: This calendar is subject to change for unforeseeable reasons. Adjustments will be made to maximize efficiency of appraisal process.

Each year 1/3 of the county is inspected for reappraisal along with all new improvements and new inspections for the remainder of the county. Appraisal Assignments are located in Appendix A.

AUGUST

Following certification of Appraisal Roll, time should be devoted to clean up of accounts using parcel edit reports and any other real estate reports available in the CAMA system. The Chief Appraiser will conduct an annual written evaluation of all appraisal personnel at this time. Educational objectives and goals will be set for each appraiser. Additional training on appraisal methods used by the district will be implemented when deficiencies are noted. Appraisal assignment will be made according to strengths and ability. The Chief Appraiser will present to appraisal staff a detailed plan for conducting the next annual appraisal. Additional resources needed to conduct the upcoming appraisal should be brought to the Chief Appraiser's attention so that any budget adjustments can be made prior to the Budget Hearing.

SEPTEMBER

- Begin Appraisal Assignment review and inspection
- New Construction inspection and appraisal
- Building permits and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds and mail sales survey letters
- Ag Committee Meeting – Farm and Ranch Survey
- Review heavy activity areas
- Make note of any new commercial activity

OCTOBER

- Appraisal Assignment review and inspection
- Agricultural Advisory Board annual meeting
- New Construction inspection and appraisal
- Building permit and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds and mail sales survey letters
- Make address and ownership changes using tax statements returned through mail.
- Review heavy activity areas
- Make note of any new commercial activity

NOVEMBER

- Appraisal Assignment review and inspection
- New Construction inspection and appraisal
- Building permits and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds and mail sales survey letters
- Review heavy activity areas
- Make note of any new commercial activity

DECEMBER

- Appraisal Assignment review and inspection
- New Construction inspection and appraisal
- Building permits and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds and mail sales survey letters
- Review heavy activity areas
- Make note of any new commercial activity

JANUARY

- Appraisal Assignment review and inspection
- New Construction inspection and appraisal
- Building permit and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds and mail sales survey letters
- Review heavy activity areas
- Make note of any new commercial activity
- Mail Personal Property Renditions to owners on previous roll
- Mail Personal Property Renditions to new business owners
- Mail letter requesting income and expense data from residential rental property owners
- Mail 1-d-1 applications to new owners of ag land.

FEBRUARY

- Review results of 2025 Property Value Study
- Identify areas of improvement needed through PVS and In-House Ratio Study
- Run Weekly Parcel Edit Reports in CAMA system – correct error codes
- Run Weekly Inquiry reports – update and correct all property inquiries
- Appraisal Assignment review and inspection
- New Construction inspection and appraisal
- Update Cost Tables based on Marshall & Swift data
- Perform Ratio studies of various categories & neighborhoods for 2025/2026 neighborhood adjustments
- Building permit and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds and mail sales survey letters
- Review heavy activity areas
- Make note of any new commercial activity
- Update Personal Property accounts
- Process any renditions received, forward industrial and mineral accounts to P&A.
- Delete any Personal Property known to be out of business as of January 1, 2024/2025.
- Mail the **Agricultural Use Lease Questionnaire** to random property owners in county.
- Gather information from local producers, gins, Ag Advisory Board meetings, State (Capitalization Rate) and other agricultural sources. Reconcile information to calculate productivity value. Analyze land sales for market study.

MARCH

- Notify taxing jurisdictions that they will be receiving the Appraisal Roll via email.
- Run Weekly Parcel Edit Reports in CAMA system – correct error codes
- Run Weekly Inquiry reports – update and correct all property inquiries
- Appraisal Assignment review and inspection
- New Construction inspection and appraisal
- Building permits and mechanic lien review and field appraisal
- Monitor market, analyze sales
- Process deeds, and mail homestead applications and sales survey letters
- Review heavy activity areas
- Make note of any new commercial activity
- Begin Appraisal Card verification using new mapping/imaging software
- Gather other income information on commercial properties including Motel/Motel reports from the Comptroller's office.
- Review and reappraise apartment complex units in county
- Begin valuing Personal Property accounts
- Delete any Personal Property known to be out of business as of January 1, 2024/2025.

APRIL

- Run Weekly Parcel Edit Reports in CAMA system – correct error codes
- Run Weekly Inquiry reports – update and correct all property inquiries
- Input all Sale Data needed to conduct Ratio Study
- Calculate Land Values for Market and Productivity
- Present recommendation to Chief Appraiser for annual changes is needed
- Prepare Final In-House Ratio Studies
- Analyze market and adjust Cost Schedules
- Test results of changes made to schedules
- Send Preliminary Appraisal Roll to Taxing Jurisdictions

MAY

- Run Weekly Parcel Edit Reports in CAMA system – correct error codes
- Run Weekly Inquiry reports – update and correct all property inquiries
- Notices of Appraised Value mailed
- Turn Appraisal Records over to ARB
- Present any supplemental changes to prior year appraisal roll to ARB
- Handle all value inquiries
- Conduct Informal Hearings with Property Owners
- Process Settlement and Waiver Forms
- Prepare for Formal Hearings

JUNE

- Run Weekly Parcel Edit Reports in CAMA system – correct error codes
- Run Weekly Inquiry reports – update and correct all property inquiries
- Handle all value inquiries
- Conduct Informal Hearings with Property Owners
- Process Settlement and Waiver Forms
- Prepare for Formal Hearings

- Present value defense in Formal Hearings with ARB

JULY

- Run Weekly Parcel Edit Reports in CAMA system – correct error codes
- Run Weekly Inquiry reports – update and correct all property inquiries
- Present value defense in Formal Hearings with ARB
- Receive Appraisal Records from ARB
- Verify all wind value located within the county
- Request wind value from overlapping cads
- Certify Appraisal Roll to taxing jurisdictions by July 25th
- Prepare and publish Mass Appraisal Report
- Prepare breakdown of wind value for overlapping cads
- Produce listing of all new improvements (and personal property located within these improvements) by jurisdiction
- Produce listing of all new ag located within the county

APPENDIX – C

Neighborhoods

LOC CODE	NUMBERS	ADDITION NAME	PARCELS			AREA
			A	AR	A2	Total
42	51425	Sweetwater Inside	8			8
42	51450	CLUB PLACE	14			14
42	51450	CLUB SOUTH	12			12
42	51700	CORONADO RIDGE	44			44
42	51800	COUNTRY CLUB	25			25
42	51900	COUNTRY CLUB EST	25			25
42	52150	DANES	4	1		5
42	53450	HERITAGE	40			40
42	54300	LAKENVIEW	148	3		152
42	55250	MONTICELLO NORTH	22			22
42	57200	SIMMONS	14			14
42	50300	BELLEVUE	332	4	0	336
42	50700	BONNIES	24	2		26
42	52350	ELM GROVE	32	4		36
42	53100	GRANVILLE	111	22		133
42	53600	HILLCREST	15	2		17
42	53700	HUBBARD & CURTIS	241	44	1	286
42	54100	JUNIOR HEIGHTS	12	2		14
42	54600	LISK	26	5	31	62
42	54900	MEADOW LARK	12	2		14
42	55100	MONTICELLO	57	2		59
42	55200	MONTICELLO 2ND	46	9		55
42	55300	MORRIS 1ST	101	10		111
42	55400	MORRIS 2ND	7	2		9
42	55500	MUSGRAVE 1ST	9	1		10
42	55600	MUSGRAVE 2ND	5	2		7
42	56000	NEWMAN 2ND	9	2		11
42	56100	NEWMAN 3RD	30	10		40
42	56400	PAGE B C	87	5		92
42	56900	RITTER	12	3		15
42	58300	WOODRUFF HEIGHTS	7	2		9
42	58300	WOODRUFF HEIGHTS	110	36	1	147
42	NO273	Fringe	9			9
42	NO274	Fringe	18			18
42	NO277	Fringe	5			5
42	NO279	Fringe	1			1
42	NO280	Fringe	2			2
42	NO284	Fringe	32	1		34
42	NO301	Fringe	0			0
42	NO344	Fringe	23			23
42	NO345	Fringe	1			1
42	NO346	Fringe	8	1		9
42	NO607	Fringe	1			1
42	NO704	Fringe	9			9
42	NO722	Fringe	1			1
42	NO740	Fringe	2			2
42	NO754	Fringe	1			1
42	NO807	Fringe	1			1
42	NO810	Fringe	34			34
42	NO844	Fringe	12			12
42	NO854	Fringe	5			5
42	NO206	Fringe	1			1
42	NO208	Fringe	1			1
42	NO388	Fringe	11			11
42	NO428	Fringe	3	1		4
42	NO757	Fringe	2			2
42	NO757	Fringe	181	3	11	195

LOC CODE	NUMBERS	ADDITION NAME	PARCELS			AREA
			A	AR	A2	Total
42	50400	BENNETT	9			9
42	51100	CAUTHERN	25			25
42	51200	CHILDRESS	12			12
42	51500	COLE	2			2
42	51950	COLLEGE HEIGHTS	12			12
42	52100	COWAN J P	8	1		9
42	52100	CRUTCHER	84	4	16	104
42	52300	EASTRIDGE	7			7
42	53300	GLASS	11			11
42	53800	HUGHES S & W	10			10
42	54200	KENDALL	2			2
42	55800	NEBLETT	359	26	38	423
42	56200	ORIENT	9	1		10
42	56500	PIRYON	5			5
42	57300	SHELL PARK	8			8
42	58100	WASHAM	21	3		24
42	58200	WHITWORTH	1			1
42	58400	WOOD	692	43	67	712
42	50100	ARCHER	10	3		13
42	50200	BARRECK	1			1
42	50500	BLUEBONNETT GARDEN	0			0
42	50800	BRADFORD	274	19	30	323
42	50900	BRISCOE	1			1
42	51000	CARLISLE	4			4
42	51300	CHRYSLER ACRES	38	9		47
42	51400	CLARK	18			18
42	51600	COLLEGE HEIGHTS	2			2
42	51800	COUNTRY VILLAGE	33			33
42	52000	COWAN & NEWMAN	16			16
42	52200	EASTERN	11			11
42	52400	FAIRVIEW HEIGHTS	70	6	4	80
42	52600	FORD	10	2		12
42	52700	GOULD 2ND	7			7
42	53000	GOULD 2ND	1			1
42	53200	GREEN	9			9
42	53400	HENLEY	29	3	2	34
42	53500	HIGHLAND	323	17	46	386
42	54400	HULL	20	1		21
42	54500	LEWIS	1			1
42	54700	LONG	34			34
42	54800	MALPHETZ	5			5
42	54900	MARTINEZ	2			2
42	55000	MINERAL WELLS	78	4		82
42	55700	MUSTANG	76	3		79
42	56300	ORIGINAL	258	7	35	300
42	56700	RAGLAND & CRANE	4	1		5
42	56800	RANSLEY	7			7
42	57100	SHUFF	3			3
42	57400	SOUTH ORIENT	2			2
42	57500	SOUTHERN & WESTERN	19	1	1	21
42	57600	SOUTH SIDE	29	1	13	43
42	57700	STALLINGS	14	2		16
42	57800	TRAMMELL/MCCULLLEY	8			8
42	57900	WADE	15			15
42	58000	WALDIE	28			28

LOC CODE	ACCOUNT IN	ADDITION NAME	PARCELS			AREA
			A	AR	A2	Total
31	BO100*	Blackwell Inside	119	0	33	152
46	NO169	Blackwell Outside	1			1
48	N* or M210	Highland				
35	NO200*	Rescoe Inside	468	6	40	514
35	NO100	Rescoe Inside - Banders	28			28
50	N*	Rescoe Outside				0
55	N*	Trent Outside				0

53	51000*	Sweetwater Outside	164			164
53	51000*	Sweetwater Lake	164	0	13	177
53	51000*	Sweetwater Lake	164			164

APPENDIX – D

Pritchard and Abbott, Inc Reappraisal Plan

S.B. 1652* BIENNIAL REAPPRAISAL PLAN

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

For Tax Years:

2025 and 2026**

Originally Printed: July 2024

***This biennial reappraisal plan is largely predicated on the Scope of Work Rule in the most recent version of Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by The Appraisal Foundation's Appraisal Standards Board (ASB). The 2024 edition of USPAP has an effective start date but no end date. Because the standards have matured, the ASB now states that the need for the standards to be updated on a regular basis has decreased. Therefore, the 2024 USPAP will be effective for an indeterminate number of tax years, or until the next USPAP version is produced.*

*Senate Bill 1652 passed by the Texas Legislature, 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 applicable for ad valorem tax purposes in Texas, if mass appraisal practices are in fact being used to appraise the subject property. USPAP Advisory Opinion 32 suggests several USPAP standards other than Standards 5 or 6 can apply in ad valorem tax work. It appears that an appraiser engaged in ad valorem tax work in Texas is not specifically required by law to rigorously follow USPAP standards if in fact mass appraisal practices have not been used to appraise the subject property. The Jurisdictional Exception Rule could then be invoked because of a contradiction between the requirements of USPAP and the law or regulation of a jurisdiction. Please see the P&A Policy Statement on USPAP as provided elsewhere in this report for a more detailed discussion regarding this matter.

ETHICS RULE

Because of the fiduciary responsibilities inherent in professional appraisal practice, the appraiser must observe the highest standards of professional ethics. This Ethics Rule is divided into four (4) sections:

- Nondiscrimination;
- Conduct;
- Management;
- Confidentiality.

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

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

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

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

NONDISCRIMINATION

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

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

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

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

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

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

CONDUCT

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

An appraiser:

- must not perform an assignment with bias;
- must not advocate the cause or interest of any party or issue;
- ***must not accept an assignment that includes the reporting of predetermined opinions and conclusions;***
- must not misrepresent his or her role when providing valuation services that are outside of appraisal practice;
- must not communicate assignment results with the intent to mislead or to defraud;
- must not use or communicate a report or assignment results known by the appraiser to be misleading or fraudulent;
- must not knowingly permit an employee or other person to communicate a report or assignment results that are misleading or fraudulent report;
- must not engage in criminal conduct;
- must not willfully or knowingly violate the requirements of the RECORD KEEPING RULE; and must not perform an assignment in a grossly negligent manner.

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

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

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

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

MANAGEMENT

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

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

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

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

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

CONFIDENTIALITY

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

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

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

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

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

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

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

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

RECORD KEEPING RULE

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

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

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

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

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

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

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

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

SCOPE OF WORK RULE

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

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

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

Scope of work includes, but is not limited to:

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

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

PROBLEM IDENTIFICATION

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

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

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

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

SCOPE OF WORK ACCEPTABILITY

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

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

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

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

DISCLOSURE OBLIGATIONS

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

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

JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

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

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

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

A mass appraisal includes:

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

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

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

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

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

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

- **Standard 5-6:** Defines requirements for application of a calibrated model to the property being appraised. This rule calls for: the appraiser to recognize methods or techniques based on the cost, market, and income approaches for improved parcels; the appraiser to value sites by recognized methods or techniques such as allocation method, abstraction method, capitalization of ground rent, and land residual; the appraiser to develop value of leased fee or leasehold estates with consideration for terms and conditions of existing leases, and, when applicable by law, as if held in fee simple whereas market rents are substituted for actual contract rents; the appraiser to analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or component parts of a property; the appraiser to analyze anticipated public or private improvements located on or off the site, and analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in market actions.
- **Standard 5-7:** Defines the reconciliation process of a mass appraisal. Specifically, appraisers must analyze the results and/or applicability of the various approaches used while ensuring that, on an overall basis, standards of reasonableness and accuracy are maintained with the appraisal model selected (underline added for emphasis). It is implicit in mass appraisal that, even when properly specified and calibrated models are used, some individual value conclusions will not meet standards of reasonableness, consistency, and accuracy. Appraisers have a professional responsibility to ensure that, on an overall basis, models produce value conclusions that meet attainable standards of accuracy.
- **Standard 6-1:** Defines general requirements of a mass appraisal report which is required to be in writing; no option exists for oral reports. This standard addresses the level of information required so that the report is clearly understood (i.e., not misleading) and sufficiently qualified with any assumptions and conditions (elements of which are further detailed in the next three sections of this report that discuss P&A appraisal procedures with regards to specific categories of property).
- **Standard 6-2:** Defines specific content required to be included in a mass appraisal written report.
- **Standard 6-3:** Defines the certification of the mass appraisal written report.

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

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appraisal Resources

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

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

Information Systems: The mainframe systems are augmented by the databases that serve the various in-house and 3rd-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 cash flow software dynamically generates various benchmark indicators that the appraiser reviews concurrent with the value being generated. These benchmarks often prompt the appraiser to reevaluate some or all of the parameters of data entry so as to arrive at a value more indicative of industry standards. Examples of indicators are dollars of value per barrel of oil reserve, years payout, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values, either before or after Notices of Appraised Value are prepared. Operators routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as individual lease operating expense and reserve figures. And of

course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as an extension of the Office of the Chief Appraiser.

PERFORMANCE TESTS

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

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appraisal Resources

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

Data: A set of data characteristics (i.e. original cost, year of acquisition, quantities, capacities, net operating income, property description, etc.) for each industrial, utility and personal property is collected from various

sources. This data is maintained in either hard copy or computer files. Each property's characteristic data drives the appropriate computer-assisted appraisal approach to valuation.

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

VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

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

Approaches to Value for Industrial, Utility, and Personal Property

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

Market Approach: This approach is characterized as one that uses sales data available from actual transactions in the market place. There are two factors that severely limit the usefulness of the market approach for appraising industrial, utility and personal properties. First, the property sales data is seldom disclosed; consequently there

is insufficient market data for these properties available for meaningful statistical analysis. Second, all conditions of sale must be known and carefully investigated to be sure one does have a comparative indicator of value. Many times when these properties do change hands, it is generally through company mergers and acquisitions where other assets and intangibles in addition to the industrial, utility and personal property are involved. The complexity of these sales presents unique challenges and hindrances to the process of allocation of value to the individual components of the transaction.

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

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

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

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

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

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

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

DATA COLLECTION/VALIDATION

Sources of Data: The main source of P&A's property data for industrial and personal property is through fieldwork by the appraisers and commercially/publicly available schedules developed on current costs. Data for

performing utility appraisals is typically provided by the taxpayer or is otherwise available at various regulatory agencies (Texas Railroad Commission, Public Utilities Commission, FERC, et. al.). Other discovery tools are financial data from annual reports, information from chief appraisers, renditions, tax assessors, trade publications and city and local newspapers. Other members of the public often provide P&A information regarding new industry and other useful facts related to property valuation.

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

VALUATION ANALYSIS (MODEL CALIBRATION)

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

INDIVIDUAL VALUE REVIEW PROCEDURES

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

PERFORMANCE TESTS

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