

The Gillespie Central Appraisal District has prepared and published this reappraisal plan to provide our Board of Directors, citizens and taxpayers with a better understanding of the district's responsibilities and activities.

# Reappraisal Plan 2025-2026

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## **INTRODUCTION**

### **Scope of Responsibility**

The Gillespie Central Appraisal District (GCAD) has prepared and published this reappraisal plan as required by and in accordance with Texas Property Tax Code (Tax Code) Sections 6.05(i) and 25.18. It is intended to provide our Board of Directors, taxing units, and citizens with a better understanding of the district's responsibilities and activities. This report has several parts: a general introduction and several sections describing the appraisal effort by the appraisal district.

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

The appraisal district is responsible for local property tax appraisal and exemption administration for nine jurisdictions or taxing units in the district. The taxing units include:

- Gillespie County
- City of Fredericksburg
- Doss Consolidated Common School District
- Fredericksburg Independent School District
- Harper Independent School District
- Gillespie Water Control & Improvement District
- Hill Country Underground Water Conservation District
- Stonewall Water Control & Improvement District
- Gillespie County Municipal Utility District #1

Each taxing unit, such as the county, city, school district, water district, etc., sets its own tax rate to generate revenue to pay for such things as police and fire protection, public education, road and street maintenance, courts, water and sewer systems, and other public services. Property appraisals by the appraisal district allocate the year's tax burden on the basis of each taxable property's market value. The district also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, charitable, and religious organizations. Additionally, it determines special valuations such as agricultural productivity valuation and real property inventory valuation.

All taxable property is appraised at its "market value" as of January 1st, except as otherwise provided by the Tax Code. The Tax Code defines 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 buyer know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use, and;
- both the seller and buyer seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

The Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.23), real property other than residence homesteads (Sec. 23.231), agricultural land (Sec.23.41,

23.51), real property inventory (Sec. 23.12), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), nominally valued (Sec. 23.18) or restricted use properties (Sec. 23.83) and allocation of interstate property (Sec. 21.03). The owner of an inventory may elect to have the inventory appraised at its market value as of September 1<sup>st</sup> of the year preceding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1<sup>st</sup> (Sec. 23.12).

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

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

## **Tax Code Requirement**

### **Sec. 6.05. Appraisal Office**

- (a) Except as authorized by Subsection (b) of this section, each appraisal district shall establish an appraisal office. The appraisal office must be located in the county for which the district is established. An appraisal district may establish branch appraisal offices outside the county for which the district is established.
- (b) The board of directors of an appraisal district may contract with an appraisal office in another district or with a taxing unit in the district to perform the duties of the appraisal office for the district.
- (c) The chief appraiser is the chief administrator of the appraisal office. The chief appraiser is appointed by and serves at the pleasure of the appraisal district board of directors. If a taxing unit performs the duties of the appraisal office pursuant to a contract, the assessor for the unit is the chief appraiser. The chief appraiser must hold a professional designation listed in this section.
- (d) The chief appraiser is entitled to compensation as provided by the budget adopted by the board of directors. He may employ and compensate professional, clerical, and other personnel as provided by the budget.
- (e) The chief appraiser may delegate authority to his employees.
- (f) The chief appraiser may not employ any individual related to a member of the board of directors within the second degree by affinity or within the third degree by consanguinity, as determined under Chapter 573, Government Code. A person commits an offense if the person intentionally or knowingly violates this subsection. An offense under this subsection is a misdemeanor punishable by a fine of not less than \$100 or more than \$1,000.

- (g) The chief appraiser is an officer of the appraisal district for purposes of the nepotism law, Chapter 573, Government Code. An appraisal district may not employ or contract with an individual or the spouse of an individual who is related to the chief appraiser within the first degree by consanguinity or affinity, as determined under Chapter 573, Government Code.
- (h) The board of directors of an appraisal district by resolution may prescribe that specified actions of the chief appraiser relating to the finances or administration of the appraisal district are subject to the approval of the board.
- (i) To ensure adherence with generally accepted appraisal practices, the board of directors of an appraisal district shall develop biennially a written plan for the periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place for the hearing. Not later than September 15 of each even-numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

**Sec. 25.18. Periodic Reappraisals**

- (a) Each appraisal office shall implement a 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 all real and personal property in the district at least once every three years:
  - (1) identifying properties to be appraised through physical inspection or by other reliable means of identification, including deeds or other legal documentation, aerial photographs, land-based photographs, surveys, maps, and property sketches;
  - (2) identifying and updating relevant characteristics of each property in the appraisal records;
  - (3) defining market areas in the district;
  - (4) identifying property characteristics that affect property value in each market area, including:
    - (A) the location and market area of property;
    - (B) physical attributes of property, such as size, age, and condition;
    - (C) legal and economic attributes; and
    - (D) easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
  - (5) developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;
  - (6) applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
  - (7) reviewing the appraisal results to determine value.

**REVALUATION DECISION**

According to the Texas Property Tax Code Section 25.18, the plan shall provide for the following reappraisal activities of all real and personal property in the district at least once every three years.

Gillespie CAD evaluates properties annually. The 2025 year will be a reappraisal year. Properties will be evaluated based on their characteristics at the individual account, neighborhood, region, and county levels. Adjustments to their value in 2025 will be based on all characteristics. The 2026 year will be maintaining and updating appraisals, unless market conditions indicate some or all neighborhoods should be revalued.

## **INSPECTION TARGETS**

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 remeasurement of at least two sides of each improved property. Additionally, the use of aerial photography such as Pictometry ChangeFinder on a three-year cycle can be utilized to meet this requirement.

The district went through a series of years of personnel and office changes over the last several years and physical inspections lagged in some areas. The appraisal staff is working diligently on inspecting properties that have not been inspected in person for multiple years in addition to new construction and changed property inspections. This biennial there will be two targeted areas for physical inspections.

The first area will be the district's review of property utilizing updated Pictometry photography and the Pictometry ChangeFinder system. The ChangeFinder system is software that detects changes in structures; it finds properties that had structures added, modified, or deleted. After reviewing properties with Pictometry software, appraisers follow up with field inspections as necessary for individual properties. The annual re-inspection requirements for the 2025 and 2026 tax years are identified by property type and property classification and are scheduled on the calendars of appraisal events. The target time frame is to review the changes in the office in the spring of 2025, if the district receives new Pictometry data early enough, and complete the Pictometry review in August and September 2025. The field work from Pictometry ChangeFinder will begin in the spring of 2025, if the updated Pictometry information is available early enough to do so, and be completed by spring of 2026.

The second area of targeted properties are ones that have been flagged for reinspection. Reasons for being flagged include building permits, septic permits, utility connections reports, requests from property owners, and appraiser discovery. The number of flagged properties has grown to over 2,500 per year in recent years and span across all appraisal market areas. These inspections are conducted from late summer through spring cycle each year.

## **APPRAISAL RESOURCES AND RESPONSIBILITIES**

### **Personnel Resources**

The chief appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. The administration department's function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services. The appraisal department is responsible for the valuation of all real and personal property accounts, excluding the real and personal property accounts that are farmed out to an appraisal firm. The property types appraised include commercial, residential, farm and ranch, business personal, mineral, utilities, and industrial. The district's appraisers are subject to the provisions of the Property Taxation Professional Certification Act and must be duly registered with the Texas Department of Licensing and Regulation. Support functions including records maintenance, information and assistance to property owners, and protest hearings are

coordinated by personnel in support services. The property tax collections department's main function is the collection of property tax, but they do serve as a support to appraisal functions during parts of the year.

The field appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes. Accurate valuation of real and personal property by any method requires a comprehensive physical description of land and building characteristics for real property and furniture, fixtures, equipment, and inventory for business personal property. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system. The goal is to periodically field inspect residential, commercial, and personal properties in the district every sixth year. The appraisal opinion of value for all property located in the district is reviewed and evaluated each year.

The appraisal district office staff consists of 15 employees with the following classifications:

- 1 - Official/Administrator (executive level administration)
  - Scott Fair, RPA RTA CCA, Chief Appraiser
- 2- Professional (supervisory and management)
  - Melissa Rodriguez, RPA, Deputy Chief Appraiser
  - Leah Strackbein, RTA, Property Tax Collections Manager
- 5 - Technicians (appraisers)
  - Dustin Althaus, RPA, Appraiser
  - Keith Felps, Appraiser
  - Stan Hansen, Appraiser
  - Phillip Lozano, Appraiser
  - Emma Cleaton, Business Personal Property Appraiser
- 5 - Administrative Support (professional, customer service, clerical and other)
  - Amy Barlow, Deed Abstractor/Exemption Specialist
  - Aileen Hayes, Manufactured Homes/Data Entry
  - Carol Durst, Administrative Assistant
  - Kimberly Bauer, Administrative Assistant
  - Kim Whitley, Customer Service/Front Counter
- 2 – Property Tax Collections (primarily collections, also customer service, clerical and other)
  - Chelsea Grobe, Deputy
  - Ilka Evans, Clerk

### **Financial Resources**

According to Section 6.06 of the Texas Property Tax Code, the district must annually prepare and adopt a budget. This budget must then be submitted and approved by the voting taxing units within the district. The current year budget (2024) for GCAD is \$1,316,365 or \$36.81 per parcel. This does not include the budget for property tax collections. The 2025 and 2026 budgets have not been adopted as of the date of this Reappraisal Plan. The proposed 2025 budget is \$1,459,610 or \$40.81 per parcel.

### **Information Technology Resources**

The district utilizes a main computer-aided mass appraisal (CAMA) system provided by Harris Govern True Automation's PACS system to maintain all of the real, personal and mineral properties. This software resides on servers located in the district's office and is accessed by individual workstations on a local network. PACS maintains an individual property account with all information required by the Texas

Property Tax Code. Required information includes owner name, legal description, situs, and physical attributes. Additionally, PACS allows for pictures, maps, and scanned images to be placed in the individual accounts. PACS also allows the district to produce ratio studies, appraisal uniformity tests, and sales and equity grids on demand.

The district also utilizes several computer programs to maintain and view property maps. ArcMap, a product of ESRI, is used to build and maintain a map database of parcels, roads, and other layers. ArcGIS Runtime, a product of ESRI, and Pictometry CONNECTExplorer, are imbedded in PACS. Matix is a map program that works in conjunction with PACS. ArcMap, PACS GIS Viewer, Pictometry CONNECTExplorer, and Matix are used to view ownership maps and they allow for tracking of property ownership, roads, aerial photography, water influence, and topography. The district has utilized Pictometry since 2009, with new photography planned in 2025. This software is very beneficial in locating property and analyzing the uniformity of appraisal.

**Data Resources**

The district subscribes to multiple sources for appraisal information. The following is a list of data resources the district has used to obtain information for appraisal of property.

<b>Source</b>	<b>Property Type</b>	<b>Valuation Method</b>
Marshall & Swift Valuation Service	Residential, Commercial	Cost
NADA Appraisal Guides	Personal Property	Market
Realty Rates	Commercial	Income
Source Strategies	Commercial	Income
The Boulder Group	Commercial	Income
Texas Comptroller, PTAD (HOT receipts)	Short term rental	Income
Crexio	Residential and Commercial	Market

Local professionals provide the district with local construction costs and rental information. Septic permits, building permits, construction applications are gathered from city, county, and state offices and used for the discovery of new property.

Ownership information is obtained from deed records maintained in the Gillespie County Clerk’s office. Unrecorded Contracts for Deed are provided by grantors and grantees of the transactions. The internet is also a valuable tool in providing information on specific properties, sales and cost information, as well as market economy analysis.

**APPRAISAL FREQUENCY AND METHOD SUMMARY**

**Residential Property**

Residential property is examined at least every three years through field inspections and/or Pictometry. Appraisers inspect each structure, note condition of the improvements and looking for changes that might have occurred to the property since the last on-site check. Exterior pictures are taken of homes upon inspection. Every subdivision and neighborhood are statistically analyzed annually to ensure that sales that have occurred in the subdivision during the past 18 months are within an acceptable range of appraised value. If the sales do not indicate that range, adjustments are made to the subdivision and neighborhood using a process outlined in detail in the Residential Appraisal section of this report.

### **Commercial Property**

Commercial and industrial real estate is analyzed at least every three years through field inspections and/or Pictometry to verify class and condition. Real estate accounts are analyzed against sales of similar properties in GCAD. Sometimes a particular type of real estate is compared to sales outside of Gillespie County due to the particulars of that property type and the dearth of sales of similar properties in Gillespie County. The income approach to value is also utilized to appraise commercial properties such as shopping centers, apartment complexes, office buildings, restaurants, motels and hotels, and other types of property that typically sell based on net operating income. Most commercial improvements are contracted to Pritchard & Abbott, Inc. Their reappraisal plan is attached at the end of this plan.

### **Farm and Ranchland**

Farm and ranchland property are examined at least every six years through field inspections and Pictometry with appraisers inspecting each property, noting condition of any improvements, land characteristics, agricultural use, and looking for changes that might have occurred to the property since the last on-site check. In some subdivisions and neighborhoods where change of condition is frequent, properties are examined annually. Exterior pictures are taken of improvements during inspections. Every neighborhood is statistically analyzed annually to ensure that sales that have occurred in the neighborhood during the past 18 months are within an acceptable range of appraised value. If the sales do not indicate that range, adjustments are made to the subdivision and neighborhood.

### **Business Personal Property**

Business personal property (BPP) is appraised annually. Every business is required by state law to file a rendition of their personal property used for the production of income. A target of 20% of personal property accounts will be visited each year. Site inspections are conducted on a percentage of the BPP accounts annually. Similar businesses are analyzed annually to determine consistency of appraisal per unit of comparison. Businesses are categorized using NAICS codes. Renditions provide information on which to base values of all BPP accounts. The appraisal of BPP of more complex businesses, such as alcohol production facilities, is contracted to Pritchard & Abbott, Inc. Their reappraisal plan is attached at the end of this plan.

### **Minerals**

The GCAD has minimal mineral accounts and GCAD contracts with Pritchard & Abbott, Inc to value these properties. Their reappraisal plan is attached at the end of this plan.

### **Utilities and Pipelines**

The GCAD contracts with Pritchard & Abbott, Inc to annually value utility and pipeline properties. Their reappraisal plan is attached at the end of this plan.

## **DATA COLLECTION / VALIDATION**

Data collection of real property involves maintaining data characteristics of the property in the PACS CAMA system. The information contained in PACS includes site characteristics, such as land size and topography, and improvement data, such as square foot of living area, year built, quality of construction, and condition. Field appraisers are required to use a property classification system that establishes uniform procedures for the correct listing of real property. All properties are coded according to a classification system. The approaches to value are structured and calibrated based on this coding system and property description and characteristics. The field appraisers use property

classification manuals as a guide in the field inspection of properties. Data collection for personal property involves maintaining information on the PACS CAMA software designed to record and value business personal property. The type of information contained in the BPP file includes personal property such as business inventory, furniture and fixtures, and machinery and equipment, with details such as cost and location. The field appraisers conducting on-site inspections use a personal property classification manual as a guide to correctly list all personal property that is taxable. The listing procedure utilized by the field appraisers is available in the district office. Appraisers periodically update the classification system.

Section 25.02 (a) of the Property Tax Code defines the information that must be maintained in the appraisal records.

#### Sec. 25.02. Form and Content

- (a) The appraisal records shall be in the form prescribed by the comptroller and shall include:
- (1) the name and address of the owner or, if the name or address is unknown, a statement that it is unknown;
  - (2) real property;
  - (3) separately taxable estates or interests in real property, including taxable possessory interests in exempt real property;
  - (4) personal property;
  - (5) the appraised value of land and, if the land is appraised as provided by Subchapter C, D, E, or H, Chapter 23, the market value of the land;
  - (6) the appraised value of improvements to land;
  - (7) the appraised value of a separately taxable estate or interest in land;
  - (8) the appraised value of personal property;
  - (9) the kind of any partial exemption the owner is entitled to receive, whether the exemption applies to appraised or assessed value, and, in the case of an exemption authorized by Section 11.23, the amount of the exemption;
  - (10) the tax year to which the appraisal applies; and
  - (11) an identification of each taxing unit in which the property is taxable.

This and other relevant information is maintained through the district's PACS CAMA system and is regularly maintained and updated annually.

#### Sources of Data

The sources of data collection are through property inspection, Pictometry, Pictometry ChangeFinder, new construction field effort, data review/recheck field effort, data mailer questionnaires, deed records, hearings, sales validation field effort, commercial sales verification and field effort, newspapers and publications, the internet, and property owner correspondence. A principal source of data comes from building and septic permits received from taxing jurisdictions that require property owners to take out such permits. Permit reports are received and matched with the property's account for data entry. Area and regional real estate brokers, real estate agents, and appraiser are also sources of market and property information. Property owner's responses to data surveys requesting market information and property description information is also valuable data. Soil surveys and agricultural surveys of farming and ranching property owners and industry professionals are helpful for productivity value calibration. Improvement cost information is gathered from local building contractors and Marshall and Swift Valuation Service. Various income and rental surveys are performed by questionnaire or interviewing

property managers and operators to determine operating income and expenses for investment and income producing real property.

Data review of entire neighborhoods is generally a good source for data collection. Appraisers can inspect entire neighborhoods to review the accuracy of our data and identify properties that need to be visited. The sales validation effort in real property pertains to the collection of market data for properties that have sold. In residential appraisal the sales validation effort involves on-site inspection by field appraisers to verify the accuracy of the property characteristics and confirmation of the sales price. Property owners are one of the best sources for identifying incorrect data that generates a field check. Sometimes the property owner provides reliable data to allow correction of records without having to send an appraiser on-site. As the district has increased the amount of information available on the internet property owners have an easier opportunity to review information on their property. Accuracy and validity in property descriptions and characteristics data is the highest goal and is stressed throughout the appraisal process from year to year. Appraisal opinion quality and validity relies on data accuracy as its foundation.

### **Data Collection Procedures**

The appraisers are assigned specific areas throughout the district to conduct field inspections. These geographic areas of assignment are maintained for multiple years to enable the appraiser assigned to that area to become knowledgeable of all the factors that drive values for that specific area. Appraisers of real estate and business personal property conduct field inspections and record information for entry into the appraisal system software. The quality of the data used is extremely important in estimating market values of taxable property. While work performance standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. New appraisers are trained in the specifics of data collection and the classification system set forth and recognized as “rules” to follow. A quality assurance process exists through data entry review and supervisory review of the work being performed by the field appraisers. Quality assurance supervision is charged with the responsibility of ensuring that appraisers follow listing procedures, identify training issues, and provide uniform training throughout the field appraisal staff.

### **DISTRICT MARKET AREAS**

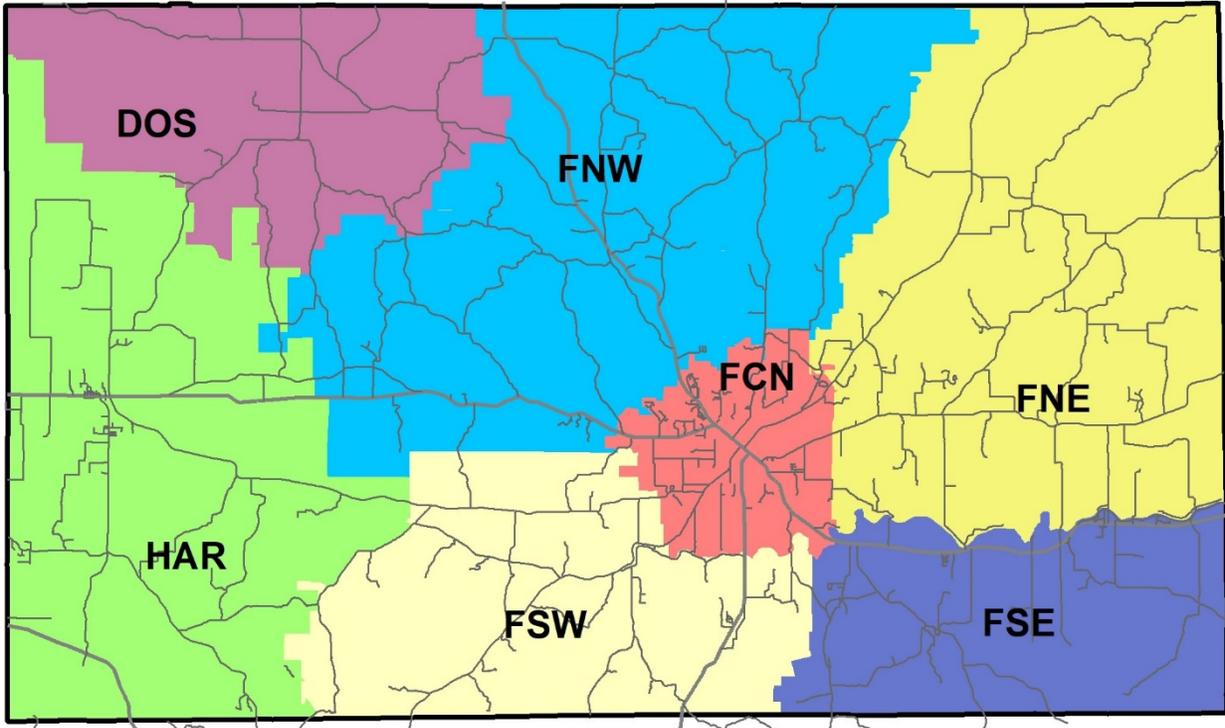
The GCAD utilizes three different classifications of market areas; regions, subsets, and neighborhoods. Market area is an encompassing general term and is further refined by each classification.

#### **Regions**

Regions are the broadest market area definition used by Gillespie CAD. There are 7 regions. These are geographical areas based primarily on school district lines and the quadrants. Regions give the district the ability to analyze sales and ownership regardless of subdivision or abstract. They are also utilized to distribute workload amongst the appraisers for reappraisal.

The following table and map of Gillespie County indicate the region market areas analyzed by GCAD.

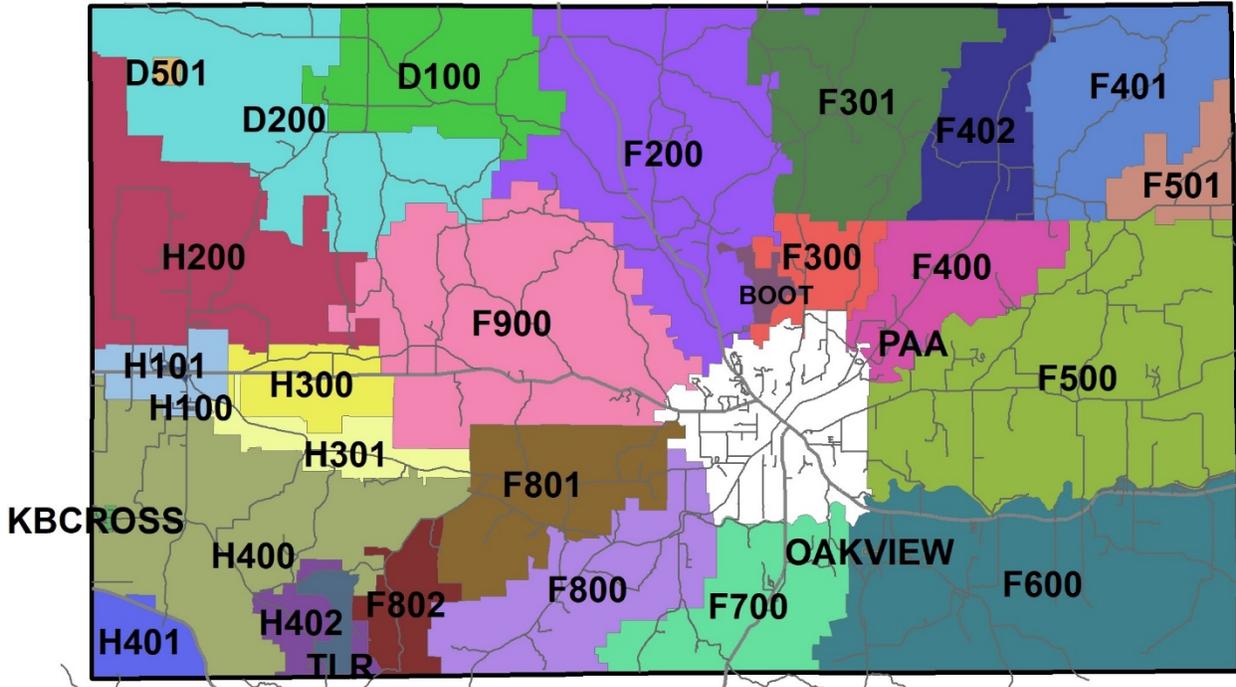
REGION	DESCRIPTION	GENERAL AREA
FCN	Fredericksburg ISD Central	City of Fredericksburg and ETJ
FNE	Fredericksburg ISD Northeast	Willow City Area
FNW	Fredericksburg ISD Northwest	Hilltop and Cherry Springs Areas
FSE	Fredericksburg ISD Southeast	Stonewall and Luckenbach Areas
FSW	Fredericksburg ISD Southwest	Highways 16 South and 87 South
HAR	Harper ISD	All of Harper ISD in Gillespie County
DOS	Doss CCSD	All of Doss CCSD in Gillespie County



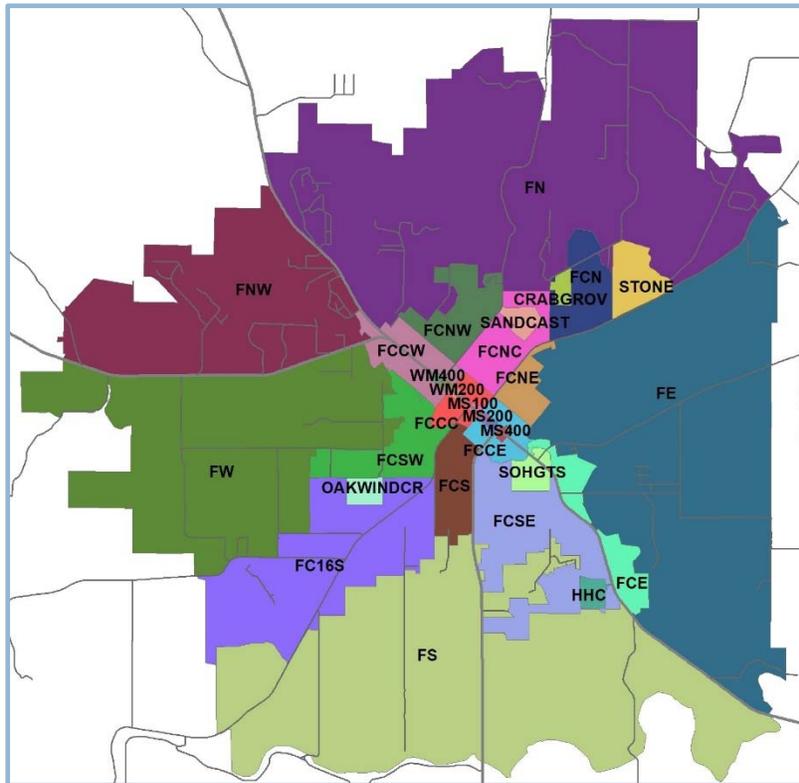
**Neighborhoods**

Neighborhoods are the most precise or refined market area the CAD utilizes. They are typically divided into two categories, rural abstract land and subdivisions. There are 27 rural abstract land neighborhoods and 5 rural subdivision neighborhoods. Each of these neighborhoods is analyzed annually for sales ratio analysis and these Neighborhoods are also utilized for allocating property inspections. In addition to the rural neighborhoods, the city of Fredericksburg is broken into 30 neighborhoods. Each of these neighborhoods is analyzed annually for sales ratio analysis and these neighborhoods are also utilized for allocating property inspections. The following maps indicate the neighborhood market within Gillespie County and the City of Fredericksburg.

Rural Neighborhoods in Gillespie County



Neighborhoods in and Around Fredericksburg



## PERFORMANCE TEST

The chief appraiser is responsible for conducting ratio studies and comparative analysis. Ratio studies are conducted on properties by neighborhood, region, school district, or county by appraisal staff. The sale ratio and comparative analysis of sale property to appraised property forms the basis for determining the level of appraisal and market influences and factors for the neighborhood. This information is the basis for updating property valuation for the entire area of property to be evaluated. Field appraisers, in many cases, may conduct field inspections to ensure the accuracy of the property descriptions at the time of sale for this study. This inspection is to ensure that the ratios produced are accurate for the property sold and that appraised values utilized in the study are based on accurate property data characteristics observed at the time of sale. Also, property inspections are performed to discover if property characteristics had changed as of the sale date or after the sale date. Sale ratios should be based on the value of the property as of the date of sale not after a subsequent or substantial change was made to the property after the negotiation and agreement in price was concluded. Properly performed ratio studies are a good reflection of the level of appraisal for the district.

### Ratio Studies

Ratio studies are conducted by the appraisal staff to determine the accuracy of appraisals to market value. A ratio study compares the appraised value to market value. Typically, a sample of properties is compared to sales of comparable properties. In some instances, independent appraisals are compared to the district's appraised values of like property. To compute this ratio the following formula is utilized:

$$\text{Appraised Value} / \text{Market Value} = \text{Ratio}$$

The district is required to appraise most properties at 100% of market value. There are several exceptions, such as agricultural productivity value.

In addition to the CAD preparing its own multiple "in house" ratio studies, the district is independently audited biennially by the Texas Comptroller's Property Tax Assistance Division (PTAD). According to these Property Value Study results, the district has historically been appraising property district wide within the required ratio range.

### Appraisal Uniformity

Appraisal uniformity is a measure of appraisal consistency and equity. Appraisal uniformity is used to gauge ratio study performance. According to the International Association of Assessing Officers (IAAO), the Coefficient of Dispersion (COD) is the most used measure of uniformity in ratio studies. The COD measures the average percentage deviation of the ratios from the median ratio and it is expressed as a percentage. Low COD's tend to be associated with good appraisal uniformity. The IAAO has set standards for COD's based on the type of property in the ratio study.

The formula for computing the COD is as follows:

$$(\text{Average Absolute Deviation}) / (\text{Median assessment} / \text{sale price}) \times 100 = \text{COD}$$

$$(\text{AAD} / \text{Median A/S}) \times 100 = \text{COD}$$

The IAAO standards are as follows:

<u>Type of Property</u>	<u>COD</u>
Single-family residential	
Newer, more homogenous areas	5.0 to 10.0
Older, more heterogeneous areas	5.0 to 15.0
Rural, residential and seasonal	5.0 to 20.0
Income-producing properties	
Larger, urban jurisdictions	5.0 to 15.0
Smaller, rural jurisdictions	5.0 to 20.0
Vacant land	5.0 to 25.0

The district receives COD's as part of the Property Value Study conducted independently by the PTAD as well as having COD levels on ratio studies conducted through the appraisal software.

## **MASS APPRAISAL SYSTEM**

The district has been operating in the Harris Govern True Automation's PACS appraisal software mentioned earlier since 2007. PACS enables the efficient entry, analysis and export of appraisal data. All computer forms and procedures in PACS are reviewed and revised as required. The following details these procedures as it relates to the 2025 and 2026 tax years.

### **Real Property Valuation**

Revisions to cost models, income models, and market models are specified and tested each tax year and updated as needed. Modified cost schedules are tested with market data (sales) to ensure that the appraisal district complies with Texas Property Tax Code, Section 23.011. Replacement cost new tables as well as depreciation tables are tested for accuracy and uniformity using ratio study tools and comparing cost data from recognized industry leaders, such as Marshall & Swift.

Land tables are updated using current market data (sales) and then tested with ratio study tools. Value modifiers are developed for property categories by market area and tested on a pilot basis with ratio study tools.

Income, expense, and occupancy data is updated in the income models for each market area and cap rate studies are completed using current sales data. The resulting models are tested using ratio study tools.

### **Personal Property Valuation**

Appraisals and schedules are updated using data received from renditions, discovery, and Appraisal Review Board hearing documentation. Valuation procedures are reviewed, modified as needed, and tested.

### **Notice Process**

Notices of Appraised Value (Tax Code, Section 25.19) are reviewed and edited to ensure conformity with the Tax Code . Updates include the latest version of the Comptroller's *Property Tax Remedies*.

## **Hearing Process**

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

## **DATA COLLECTION REQUIREMENTS**

Field and office procedures are reviewed and revised as required for data collection. Activities scheduled for each tax year include inspections of new construction, demolition, or remodeling; re-inspection of changing market areas; and physical re-inspection of the universe of properties.

### **New Construction / Demolition**

New construction field and office review procedures are identified and revised as required. Field review standards are established and procedures for monitoring are tested. Source of building permits is confirmed and system input procedures are identified. Process of verifying demolition of improvements is specified. This critical annual activity is projected and entered on the key events calendar for each tax year.

### **Remodeling**

Market areas with extensive improvement remodeling are identified, verified and field activities scheduled to update property characteristic data. Updates to valuation procedures are tested with ratio studies before being finalized in the valuation modeling. This field activity when entered in the key events calendar must be monitored carefully.

### **Re-Inspection of Changing Market Areas**

Real property market areas, by property classification, are tested for: low or high protest volumes; low or high sales ratios; or high coefficient of dispersion. Market areas that fail any or all of these tests are determined to need reappraisal. Field reviews are scheduled to verify and/or correct property characteristic data. Additional sales data is researched and verified. In the absence of adequate market data, neighborhood delineation is verified and neighborhood clusters are identified.

### **Field or Office Verification of Sales Data and Property Characteristics**

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

New and/or revised mass appraisal models are tested on randomly selected market areas. These modeling tests (sales ratio studies) are conducted each tax year. Actual test results are compared with anticipated results and those models not performing satisfactorily are refined and retested. The procedures used for model specification and model calibration are following *Uniform Standards of Professional Appraisal Practice*, STANDARD RULE 6.

## **VALUATION BY PROPERTY TYPE**

The district is required to categorize property according to the Comptroller's rules on property classification. The following table is a summary of the district's property types at 2024 Certification.

Category	Description	No. of Accts / Units	Market Value
A	Residential Real, Single Family	7,387	\$ 3,816,153,159
B	Residential Real, Multi Family	100	\$ 92,280,094
C	Real, Vacant Platted Lots	1,657	\$ 358,004,143
D1	Qualified Ag Land	636,315.2525 acres	\$ 7,451,869,482
D2	Improvements on Qualified Agriculture Land	3,631	\$ 73,953,628
E	Rural, Non-Qualified Open Space Land	16,483.9419 acres	\$ 3,060,666,037
F	Real, Commercial and Industrial	2,821	\$ 2,124,613,182
G	Real, Oil, Gas, and Minerals	0	\$ 0
J	Real and Personal Utilities	142	\$ 262,056,530
L	Business Personal Property	3,327	\$ 317,158,930
M	Other Personal, Manufactured Homes	526	\$ 43,661,326
O	Real, Inventory	40	\$ 5,582,420
S	Special Inventory	11	\$ 10,253,590
X	Exempt	1,805	\$ 522,590,753
Total			\$18,138,843,274

### Residential Real, Improved and Vacant (Cat A, B, C, D, E)

#### Cost Schedules

All residential parcels in the district are valued with a modified replacement cost estimated from identical cost schedules based on the improvement classification system using a comparative unit method. The district's residential cost schedules were initially based on *Marshall & Swift* values. 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.

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 the 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* 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 follow local building costs as reflected by the local market.

### Sales Information

A sales file for the storage of sales data at the time of sale is maintained for real property. Residential improved and vacant land sales, along with commercial improved and vacant land sales are maintained in a sales information system. Residential improved and vacant sales are collected from a variety of sources including CAD questionnaires sent to buyer and seller, field discovery, protest hearings, builders, and real estate professionals. 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 ratio 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, regarding price, as indicated by sale prices for similar property within the current market.

The effect of time as an influence on price is considered by paired comparison and applied in the ratio study to the sales as indicated within each neighborhood area. When the sales market is strong the district might need to use monthly time adjustments. Adjustments are estimated based on comparative analysis using paired comparison of sold property. Sales of the same property were considered and analyzed for any indication of price change attributed to a time change or influence. Property characteristics, financing, and conditions of sale were compared for each property sold in the pairing of property to isolate only the time factor as an influence on price.

### Statistical Analysis

The chief appraiser performs 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 chief 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 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

Neighborhood analysis of market sales to achieve an acceptable sale ratio or level of appraisal is also the reconciliation of the market and cost approaches to valuation. Market factors are developed from appraisal statistics provided from market analyses and ratio studies and are used to ensure that estimated values are consistent with the market and to reconcile cost indicators. The district's primary approach to the valuation of 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.

When the appraiser analyzes a neighborhood, the appraiser reviews and evaluates a ratio study that compares recent sales prices of properties, appropriately adjusted for the effects of time, within a delineated neighborhood, with the value of the properties based on the estimated depreciated replacement cost of improvements plus land value. The calculated ratio derived from the sum of the sold properties' estimated value divided by the sum of the time adjusted sales prices indicates the neighborhood level of appraisal based on sold properties. This ratio is compared to the acceptable appraisal ratio, 95% to 105%, to determine the level of appraisal for each neighborhood. If the level of appraisal for the neighborhood is outside the acceptable range of ratios, adjustments to the neighborhood are made.

### **Commercial and Industrial Real Property (Cat F)**

This mass appraisal assignment includes all of the commercially described real property which falls within the responsibility of GCAD and is located within the boundaries of the district's jurisdiction. Appraisers appraise properties at market value according to statute. However, appraisers take in to consideration the effect of easements, restrictions, encumbrances, leases, contracts or special assessments that may affect value. These are considered on an individual basis, as is the appraisement 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 entire property as a whole and divided programmatically based on their prorated interests.

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 when available, 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.

## **PRELIMINARY ANALYSES**

### **Market Study**

Market studies are utilized to test new or existing procedures or valuation modifications in a limited sample of properties located in the district and are also considered and become the basis of updating whenever substantial changes in valuation are made. These studies target certain types of improved property to evaluate current market prices for rents and for sales of commercial and industrial real property. These comparable sale studies and ratio studies reveal whether the valuation system is producing accurate and reliable value estimates or whether procedural and economic modifications are required. The appraiser implements this methodology when developing cost approach, market approach, and income approach models.

Gillespie CAD administration and personnel interact with other assessment officials through professional trade organizations including the International Association of Assessing Officers (IAAO), Texas Association of Appraisal Districts (TAAD), the Texas Association of Assessing Officers (TAAO), and the Texas Rural Chiefs Appraisers, Inc (TRCA). District staff strives to maintain appraisal skills and professionalism by continuing education in the form of courses that are offered by several professional associations such as IAAO, TAAO, and TAAD. District staff also attends seminars and webinars conducted by the Texas Comptroller's Property Tax Assistance Division, professional trade organizations, and professional trade vendors.

### **Land Value**

Commercial land is analyzed annually to compare appraised values with recent sales of land in the market area. If appraised values differ from sales prices being paid, adjustments are made to all land in that region. Generally, urban property is appraised on a price per square foot basis. Factors may be placed on individual properties based on corner influence, depth of site, shape of site, easements across site, and other factors that may influence value. The land is valued as though vacant at the highest and best use.

### **Area Analysis**

Area 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.

### **Neighborhood Analysis**

The neighborhood and market areas are comprised of the land area and commercially classed properties located within the boundaries of this appraisal jurisdiction. These areas consist of a wide variety of property types including multiple-family residential, commercial, and industrial. Neighborhood and area analysis involve the examination of how physical, economic, governmental, and social forces and other influences may affect property values within subgroups of property locations. The effects of these forces are also used to identify, classify, and organize comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. In the mass appraisal of commercial and industrial properties these subsets of a universe of properties are generally referred to as market areas, neighborhoods, or economic areas.

Economic areas are defined by each of the improved property use types (apartment, office, retail, warehouse, and special use) based upon an analysis of similar economic or market forces. These include but are not limited to similarities of rental rates, classification of projects (known as building class by area commercial market experts), date of construction, overall market activity or other pertinent influences. Economic area identification and delineation by each major property use type is the benchmark of the commercial valuation system. All income model valuation (income approach to value estimates) is economic area specific. Economic areas are periodically reviewed to determine if re-delineation is required. The geographic boundaries as well as income, occupancy and expense levels and capitalization rates by age within each economic area for all commercial use types and its corresponding income model have been estimated for these properties.

### **Highest and Best Use Analysis**

The highest and best use is the most reasonable and probable use that generates the highest net to land and present value of the real estate as of the date of valuation. The highest and best use of any given property must be physically possible, legally permissible, financially feasible, and maximally productive. For improved properties, highest and best use is evaluated as improved and as if the site were still vacant. This perspective assists in determining if the existing improvements have a transitional use, interim use, nonconforming use, multiple uses, speculative use, is excess land, or a different optimum use if the site were vacant. For vacant tracts of land within this jurisdiction, the highest and best use is considered speculative based on the surrounding land uses. Improved properties reflect a wide variety of highest and best uses which include, but are not limited to: office, retail, apartment, warehouse, light industrial, special purpose, or interim uses. In many instances, the property's current use is the same as its highest and best use. This analysis ensures an accurate estimate of market value.

### **Market Analysis**

A market analysis relates directly to examining market forces affecting supply and demand. This study involves the relationships between social, economic, environmental, governmental, and site conditions. Current market activity including sales of commercial properties, new construction, new leases, lease rates, absorption rates, vacancies, allowable expenses, expense ratio trends, and capitalization rate studies are analyzed to determine market ranges in price, operating costs, and investment return expectations.

## **DATA COLLECTION / VALIDATION**

### **Sources of Data**

In terms of commercial sales data, Gillespie CAD accesses and reviews the deeds recorded in Gillespie County that convey commercially classed properties. These deeds involving a change in commercial ownership are entered into the sales information system and researched in an attempt to obtain the pertinent sale information. Other sources of sale data include the protest hearings process and local, regional, and national real estate and financial publications.

### **Cost Schedules**

The cost approach to value is applied to improved real property utilizing the comparative unit method. This methodology involves the utilization of national cost data reporting services as well as actual cost information on local comparable properties whenever possible. Cost models are typically developed based on the Marshall & Swift Valuation Service which indicates estimated hard or direct costs of various improvement types. Cost models include the derivation of replacement cost new (RCN) of all improvements represented within the district. These include comparative base rates, per unit adjustments, and lump sum adjustments for variations in property description, design, and types of improvement construction. This approach and analysis also employs the sales comparison approach in the evaluation of soft or indirect costs of construction.

Evaluating market sales of newly developed improved property is an important part of understanding total replacement cost of improvements. What total costs may be involved in the development of the property, as well as any portion of cost attributed to entrepreneurial profit can only be revealed by market analysis of pricing acceptance levels. In addition, market related land valuation for the underlying land value is important in understanding and analyzing improved sales for all development costs and for the abstraction of improvement costs for construction and development. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and

changes in costs over a period of time. Because a national cost service is used as a basis for the cost models, location modifiers and estimates of soft cost factors are necessary to adjust these base costs specifically for various types of improvements located in Gillespie County. Thusly, local modifiers are additional cost factors applied to replacement cost estimated by the national cost service. Estimated replacement cost new will reflect all costs of construction and development for various improvements located in Gillespie CAD as of the date of appraisal.

Accrued depreciation is the sum of all forms of loss of value affecting the contributory value of the improvements. It is the measured loss against replacement cost new taken from all forms of physical deterioration, functional obsolescence, and economic obsolescence. Accrued depreciation is estimated and developed based on losses typical for each property type at that specific age. Depreciation estimates have been implemented for what is typical of each major class of commercial property by economic life categories. Estimates of accrued depreciation have been calculated for improvements with a range of variable years expected life based on observed condition considering actual age. These estimates are continually tested to ensure they are reflective of current market conditions. The actual and effective ages of improvements are noted in PACS. Effective age estimates are based on the utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace. Effective age estimates are considered and reflected based on five levels or rankings of observed condition, given actual age.

Additional forms of depreciation such as external and/or functional obsolescence can be applied if observed. A depreciation calculation override can be used if the condition or effective age of a property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific condition adequacy or deficiency, property type or location and can be developed via ratio studies or other market analyses. The result of estimating accrued depreciation and deducting that from the estimated replacement cost new of improvements indicates the estimated contributory value of the improvements. By adding the estimated land value, as if vacant, to the contributory value of the improvements indicates a property value by the cost approach. Given relevant cost estimates and market related measures of accrued depreciation, the indicated value of the property by the cost approach becomes a very reliable valuation technique.

### **Income Models**

The income approach to value is applied to those real properties which are typically viewed by market participants as “income producing” and for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to the estimation of market rent on a per unit basis. This is derived primarily from actual rent data furnished by property owners and from local market surveys conducted by the district and by information from area rent study reviews. This per unit rental rate multiplied by the number of units results in the estimate of potential gross rent.

A vacancy and collection loss allowance is the next item to consider in the income approach. The projected vacancy and collection loss allowance is established from actual data furnished by property owners and local market survey trends. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. This feature may also provide for a reasonable lease-up period for multi-tenant properties, where applicable. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an indication of estimated annual effective gross rent to the property.

Next, a secondary income or service income is considered and, if applicable, calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, rent escalations, reimbursements, and other miscellaneous income generated by the operations of real property. The secondary income estimate is derived from actual data collected and available market information. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income, when applicable.

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements may be included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Relevant expense ratios are developed for different types of commercial property based on use and market experience. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for all operating expenses, such as ad valorem taxes, insurance, and common area and property maintenance. In comparison, a general office building is most often leased on a base year expense stop. This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. As a result, expense ratios are implemented and estimated based on observed market experience in operating various types of commercial property.

Another form of allowable expense is the replacement of short-lived items (such as roof or floor coverings, air conditioning or major mechanical equipment or appliances) requiring expenditures of lump sum costs. When these capital expenditures are analyzed for consistency and adjusted, they may be applied on an annualized basis as stabilized expenses. When performed according to local market practices by commercial property type these expenses, when annualized, are known as replacement reserves. For some types of property typical management does not reflect expensing reserves and is dependent on local and industry practices.

Subtracting the allowable expenses (inclusive of non-recoverable expenses and replacement reserves when applicable) from the annual effective gross income yields an estimate of annual net operating income to the property.

Return rates and income multipliers are used to convert operating income expectations into an estimate of market value for the property under the income approach. These include income multipliers, overall capitalization rates, and discount rates. Each of these multipliers or return rates are considered and used in specific applications. Rates and multipliers may vary between property types as well as by location, quality, condition, design, age, and other factors. Therefore, application of the various rates and multipliers must be based on a thorough analysis of the market for individual income property types and uses. These procedures are supported and documented based on analysis of market sales for these property types.

Capitalization analysis is used in the income approach models to form an indication of value. This methodology involves the direct capitalization of net operating income as an indication of market value for a specific property. Capitalization rates applicable for direct capitalization method and yield rates for estimating terminal cap rates for discounted cash flow analysis are derived from the market. Sales of improved properties from which actual income and expense data are obtained provide a very good indication of property return expectations a specific market participant is requiring from an investment at a specific point in time. In addition, overall capitalization rates can be derived and estimated from the built-up method (band-of-investment). This method relates to satisfying estimated market return

requirements of both the debt and equity positions in a real estate investment. This information is obtained from available sales of property, local lending sources, and from real estate and financial publications.

Rent loss concessions are estimated for specific properties with vacancy problems. A rent loss concession accounts for the impact of lost rental income while the building is moving toward stabilized occupancy. The rent loss is calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy. Build out allowances (for first generation space or retrofit/second generation space as appropriate) and leasing expenses are added to the rent loss estimate. The total adjusted loss from these real property operations is discounted using an acceptable risk rate. The discounted value (inclusive of rent loss due to extraordinary vacancy, build out allowances, and leasing commissions) becomes the rent loss concession and is deducted from the value indication of the property at stabilized occupancy. A variation of this technique allows a rent loss deduction to be estimated for every year that the property's actual occupancy is less than stabilized occupancy.

### **Sales Comparison (Market) Approach**

Although all three of the approaches to value are based on market data, the Sales Comparison Approach is most frequently referred to as the Market Approach. This approach is utilized not only for estimating land value but also in comparing sales of similarly improved properties to parcels on the appraisal roll. As previously discussed in the Data Collection / Validation section of this report, pertinent data from actual sales of properties, both vacant and improved, is pursued throughout the year to obtain relevant information which can be used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules in the Cost Approach, rates and multipliers used in the Income Approach, and as a direct comparison in the Sales Comparison Approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of the appraised values.

### **Final Valuation Schedules**

Based on the market data analysis and review discussed previously in the cost, income and sales approaches, the cost and income models are calibrated and finalized. The calibration results are keyed to the schedules and models in the PACS system for utilization on all commercial properties in the district. Market factors reflected within the cost and income approaches are evaluated and confirmed based on market sales of commercial and industrial properties. The appraisers review the cost, income, and sales comparison approaches to value for each of the types of properties with available sales information. The final valuation of a property is estimated based on reconciling these indications of value considering the weight of the market information available for evaluation and analysis in these approaches to value.

### **Statistical and Capitalization Analysis**

Statistical analysis of final values is an essential component of quality control. This methodology represents a comparison of the final value against the standard and provides a concise measurement of the appraisal performance. Statistical comparisons of many different standards are used including sales of similar properties, the previous year's appraised value, audit trails, value change analysis and sales ratio analysis.

Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each property type with available sales data. These summary statistics including, but not limited to, the weighted mean provide the appraisers an analytical tool by which to determine both the level and uniformity of appraised value of a particular property type. The level of appraised values can be determined by the weighted mean for individual properties within a specific type and a comparison of weighted means can reflect the general level of appraised value.

The appraisers review every commercial property type annually through the sales ratio analysis process. The first phase involves ratio studies that compare the recent sales prices of properties to the appraised values of the 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 appraised values. The appraiser, based on the sales ratio statistics and designated parameters for valuation update, makes a preliminary decision as to whether the value level of a particular property type needs to be updated in an upcoming reappraisal, or whether the level of market value is at an acceptable level.

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses, net operating income and capitalization rate and multipliers are continuously reviewed. Income model estimates and conclusions are compared to actual information obtained on individual commercial and industrial income properties during the protest hearings process, as well as with information from published sources and area property managers and owners.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

### **Field Review**

The date of last inspection, extent of that inspection, and the Gillespie CAD appraiser responsible are listed in the CAMA system. If a property owner disputes the GCAD's records concerning this data in a protest hearing, PACS data and values may be altered based on the credibility of the evidence provided. Normally, a new field check is then requested to verify this information for the current year's valuation or for the next year's valuation. In addition, if a building permit is filed for a particular property indicating a change in characteristics, that property is added to a work file for review.

A major effort is made by appraisers to field review as many properties as possible or economic areas experiencing large numbers of remodels, renovations, or retrofits, changes in occupancy levels or rental rates, new leasing activity, new construction, or wide variations in sale prices. Field review of real property accounts is accomplished while business personal property is reviewed and inspected in the field. Additionally, the appraisers frequently field review subjective data items such as building class; quality of construction; condition; and physical, functional, and economic obsolescence factors contributing significantly to the market value of the property. In some cases, field reviews are warranted when sharp changes in occupancy or rental rate levels occur between building classes or between economic areas. With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. While in the field, the appraisers physically inspect sold and unsold properties for comparability and consistency of values.

### **Office Review**

Office reviews are completed on properties subject to field inspections and are performed in compliance with the guidelines required by the existing classification system. The appraiser may review methodology for appropriateness to ascertain that it was completed in accordance with USPAP or more stringent statutory and district policies. This review is performed after preliminary ratio statistics have been applied. If the ratio statistics are generally acceptable overall the review process is focused

primarily on locating skewed results on an individual basis. Previous values resulting from protest hearings are individually reviewed to determine if the value remains appropriate for the current year based on market conditions. Once the appraiser is satisfied with the level and uniformity of value for each commercial property within their area of responsibility the estimates of value are considered finished and are ready to be sent in the Notice of Appraised Value. Each parcel is subjected to the value parameters appropriate for its use type.

### **Performance Tests**

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market prices. In a ratio study, market values (value in exchange) are typically represented with the range of sale prices, i.e. a sales ratio study. Independent, expert appraisals may also be used to represent market values in a ratio study, i.e. an appraisal ratio study. If there are not enough examples of market price to provide necessary representativeness, independent appraisals can be used as indicators for market value. This can be particularly useful for commercial or industrial real property for which sales are limited. In addition, appraisal ratio studies can be used for properties statutorily not appraised at market value, but reflect the use-value requirement.

### **Sales Ratio Studies**

Sales ratio studies are an integral part of estimating equitable and accurate market values, and ultimately property assessments for these taxing jurisdictions. The primary uses of sale ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of property types for reappraisal; identification of potential problems with appraisal procedures; assist in market analyses; and, to calibrate models used to estimate appraised values during valuation or reappraisal cycles. However, these studies cannot be used to judge the accuracy of an individual property's appraised value. The Appraisal Review Board may make individual value adjustments based on unequal appraisal (ratio) protest evidence submitted on a case-by-case basis during the hearing process.

### **Comparative Appraisal Analysis**

The commercial appraiser performs an average unit value comparison in addition to a traditional ratio study. These studies are performed on commercially classed properties by property use type (such as apartment, office, retail and warehouse usage or special use). The objective to this evaluation is to determine appraisal performance of sold and unsold properties. An appraiser averages the unit price of sales and unit appraised value of the same parcels. They then compare the average value changes of sold and unsold properties. These studies are conducted on substrata such as building class and on properties located within various economic areas. In this way, overall appraisal performance is evaluated geographically by specific property type to discern whether sold parcels have been selectively appraised. When sold parcels and unsold parcels are appraised equally, the average unit values are similar. These sales and equity studies are performed prior to final appraisal and to annual noticing.

## **VALUATION BY PROPERTY TYPE (NON-RESIDENTIAL, NON-COMMERCIAL)**

### **Mineral Properties (Cat G) and Utilities (Cat J)**

Gillespie CAD has a minimal number of mineral properties. Minerals and utilities have been contacted out and Pritchard & Abbott, Inc. appraises these properties.

## **Business Personal Property (Cat L)**

### NAICS Code Analysis

Business personal property is classified by numeric codes called the North American Industry Classification System (NAICS, pronounced Nakes) codes that were developed by the federal government to describe property. These classifications are used by Gillespie CAD to classify personal property by business type. NAICS code identification and delineation is the cornerstone of the personal property valuation system at the district. All the personal property analysis work done in association with the personal property valuation process is NAICS code specific. NAICS codes are delineated based on observable aspects of homogeneity and business use.

### Sources of Data

The district's property characteristic data was collected through a field collection effort coordinated by the district over the recent past and from property owner renditions. Annual reevaluation activities permit district appraisers to collect new data via field and/or office inspections. This project results in the discovery of new businesses, changes in ownership, relocation of businesses, and closures of businesses not revealed through other sources. County Clerk records, state sales tax lists, local advertisements, internet searches, and the public often provide the district information regarding new personal property and other useful facts related to property valuation.

### Vehicles

The Texas Department of Transportation (TxDOT) Title and Registration Division records provide Gillespie CAD with a listing of vehicles registered within the jurisdiction.

### 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.

### Cost Schedules

Cost schedules are developed based on the NAICS code by the Property Tax Assistance Division of the Comptroller's Office and by the district's personal property appraiser. 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 NAICS codes 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 NAICS code. Review of the standard deviation can discern appraisal uniformity within NAICS codes.

### Depreciation Schedule and Trending Factors

Gillespie 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 Gillespie CAD are also based on published valuation guides.

### **Real Property Inventory (Cat O)**

Certain residential property that is being held for resale can qualify for a special valuation. This property is typically vacant residential lots that are held by a developer for sale. However, a speculative home being held by a homebuilder can also qualify under certain restrictions

In arriving at a value for special inventory, a discounted cash flow analysis utilizing actual comparable lot sales, and projected holding periods, is prepared by the chief appraiser.

### **Special Inventory (Cat S)**

The property tax code has a provision for special valuation of vehicle, trailer, and manufactured housing dealer inventory. The district utilizes the formula as set forth in the Property Tax Code for qualified properties.

## **PLANNING AND ORGANIZATION**

### **Target Dates for 2025 and 2026**

Mail Agricultural – Use Application resets	January 31
Mail Homestead and Exemption resets	January 31
Appraisal Field work completed	March 31
Generate Notices for Real Property for Printing	April 15
Mail Notices of Appraisal Value for Real Property	May 1
Generate Notices for Business Personal Property for Printing	May 15
Mail Notices of Appraisal Value for Business Personal Property	May 22
Appraisal Review Board Hearings Begins	June 14
Appraisal Review Board Approve Appraisal Records	July 19
Chief Appraiser Certifies Appraisal Roll	July 25
Begin Next Year’s Field work	August 1
Mail Wildlife Management Annual Reports (for current year)	November 15
Mail BPP Renditions (for following year)	December 31

# Calendar of Appraisal Events for 2025 Tax Year

	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Update GIS Map												
Discover and Enter Sales information												
Update Ownership Due to Sale or Transfer of Properties												
Mail Sales Letters to Grantors and Grantees												
New Subdivisions - Account Creation and Valuation												
Account Splits and Merges												
Land Analysis and Valuation												
Correction Hearings with ARB												
Notices of Appraised Value Mailed												
Taxing Unit Estimates of Value Delivered												
Current Year Staff Review/Informal Reviews												
Current Year ARB Protest Hearings												
Entity Values Certified												
Discovery of New Construction												
Review of Pictometry Changefinder												
Inspections Determined by Pictometry												
Inspections for New Construction/Value Review												
Inspections for City Permits and Septic Permits												
Inspections/Reinspections for All Other Reasons												
Inspection/Reinspection for Sales Validation												
Inspections for Areas from Ratio Studies/Value Review at Neighborhood Level												
BPP Inspection and Discovery												
BPP Discover/Research New Businesses and Assumed Names												
Mail BPP Renditions												
Mail BPP Vendor and Tenant Letters												
BPP Rendition Review/Finalize Values												
Mail BPP Penalty Letters												
Open-space appraisal field review												
Wildlife management annual reports reviewed												
Open-space appraisal reapplication letters mailed												
Open-space appraisal applications inspected												

## Calendar of Appraisal Events for 2026 Tax Year

	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Update GIS Map												
Discover and Enter Sales information												
Update Ownership Due to Sale or Transfer of Properties												
Mail Sales Letters to Grantors and Grantees												
New Subdivisions - Account Creation and Valuation												
Account Splits and Merges												
Land Analysis and Valuation												
Property Value Study Appeal, if necessary												
Correction Hearings with ARB												
Notices of Appraised Value Mailed												
Taxing Units Value Estimates Distributed												
Current Year Staff Review/Informal Reviews												
Current Year ARB Protest Hearings												
Entity Values Certified												
Discovery of New Construction												
Review of Pictometry Changefinder												
Inspections Determined by Pictometry												
Inspections for New Construction/Value Review												
Inspections for City Permits and Septic Permits												
Inspections/Reinspections for All Other Reasons												
Inspection/Reinspection for Sales Validation												
Inspections for Areas from Ratio Studies/Value Review at Neighborhood Level												
BPP Inspection and Discovery												
BPP Discover/Research New Businesses and Assumed Names												
Mail BPP Renditions												
Mail BPP Vendor and Tenant Letters												
BPP Rendition Review/Finalize Values												
Mail BPP Penalty Letters												
Open-space appraisal field review												
Wildlife management annual reports reviewed												
Open-space appraisal reapplication letters mailed												
Open-space appraisal applications inspected												

## LIMITING CONDITIONS

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

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

## CERTIFICATION STATEMENT

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



\_\_\_\_\_  
Scott Fair, RPA  
Chief Appraiser

August 22, 2024

\_\_\_\_\_  
Date



## Resolution 2024- 2

The undersigned, being the Chairman and the Secretary of the Board of Directors of the Gillespie Central Appraisal District, certify that the foregoing is a true and correct record of a resolution passed by the Board of Directors of the Gillespie Central Appraisal District at a duly noticed and called meeting of the Board of Directors of the Gillespie Central Appraisal District on August 22, 2024.

### **APPROVAL OF THE 2025-2026 REAPPRAISAL PLAN**

WHEREAS, Section 6.05 (i) of the Texas Property Tax Code requires that the Board of Directors of an Appraisal District biennially approve a written plan for periodic reappraisal of all property within the boundaries of the district, according to Section 25.18 of the Texas Property Tax Code, and

WHEREAS, the Gillespie Central Appraisal District Board of Directors (GCAD BOD) has notified the presiding officer of the governing body of each taxing unit participating in the DISTRICT a written notice of the time, date, and place of the public hearing, and

WHEREAS, the GCAD BOD has held a public hearing on to consider any amendments to the written plan, and there were no amendments made to the written plan, and

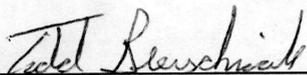
NOW THEREFORE, be it RESOLVED that the GCAD BOD adopts the written reappraisal plan.

RESOLVED FURTHER, that the CHIEF APPRAISER of the DISTRICT is authorized and directed to deliver copies of the approved written reappraisal plan in compliance with the remainder of Section 6.05(i) to the presiding officer of the governing body of each taxing unit participating in the DISTRICT and to the state comptroller of public accounts within 60 days of the approval date.

IN WITNESS WHEREOF, we have executed this Resolution this 22<sup>nd</sup> day of August, 2024, in Fredericksburg, Texas.



\_\_\_\_\_  
Don Davis, Chairman



\_\_\_\_\_  
Todd Bierschwale, Secretary



**Addendum 1.**  
**Pritchard and Abbott, Inc. Reappraisal Plans for 2025 and 2026**



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

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

**For Tax Years:**

**2025 and 2026\*\***

**Originally Printed: July 2024**

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

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

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



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

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

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

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

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

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

Per USPAP Advisory Opinion 32: *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*, in the interests of equity, the scope of work in mass appraisal assignments for ad valorem taxation can include consideration of appraisal level (the overall proximity between appraised values and actual prices) and the

uniformity of property values (equity within groups of like properties). The appraiser is responsible for recognizing when the concepts of appraisal level and appraisal uniformity are necessary for credible assignment results in a mass appraisal assignment for ad valorem taxation.

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

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

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

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

Per USPAP, the appropriate reporting option and level of information in a report are dependant on the intended use and the intended users. Although the reporting verbiage in USPAP Standard 6 does not specifically offer or promulgate a "Restricted Appraisal Report" such as in Standard 2 (Real Property Appraisal, Reporting) and Standard 8 (Personal Property Appraisal, Reporting), it should be noted that: a) all mass appraisals and mass appraisal reports deal with real and personal property in some form or fashion; and b) P&A is a private consulting firm, a fact which may necessitate the withholding of certain data and/or appraisal models/techniques which are deemed confidential, privileged and/or proprietary in nature. The use of "limited" appraisals in conjunction "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 (FHAct), the Equal Credit Opportunity Act (ECOA), and the Civil Rights Act of 1866.

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

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

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

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

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

## CONDUCT

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

An appraiser:

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

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

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

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

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

### MANAGEMENT

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

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

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

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

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

### CONFIDENTIALITY

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

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

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

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

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

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

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

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

## RECORD KEEPING RULE

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

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

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

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

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

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

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

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

## SCOPE OF WORK RULE

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

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

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

Scope of work includes, but is not limited to:

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

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

### PROBLEM IDENTIFICATION

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

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

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

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

### SCOPE OF WORK ACCEPTABILITY

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

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

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

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

### DISCLOSURE OBLIGATIONS

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

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

## JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

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

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

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

A mass appraisal includes:

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

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

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

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

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

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

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

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

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

### INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Appraisal Resources

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

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

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

## VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

### Approaches to Value for Petroleum Property

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

Market Approach: This approach may be defined as one which uses data available from actual transactions recorded in the market place itself; i.e., sales of comparable properties from which a comparison to the subject

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

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

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

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

Income Approach: This approach to value most readily yields itself to the appraisal of mineral interests. Data is readily available whereby a model can be created that 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.