



# **ORANGE COUNTY APPRAISAL DISTRICT**

**2025-2026  
Reappraisal Plan**

**As Adopted by the OCAD  
Board of Directors**

**July 23, 2024**

## **SCOPE OF RESPONSIBILITY**

The Orange County Appraisal District (OCAD) is a political subdivision of the State of Texas created effective January 1, 1980 and is responsible for establishing the fair market value of all property within the territorial boundaries of the appraisal district each year. The district has prepared and published this reappraisal plan to provide the district's board of directors, the taxing units and citizens with a better understanding of the district's responsibilities and reappraisal activities.

Provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. A five-member board of directors, elected by the taxing units within the boundaries of Orange 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.

OCAD is responsible for the discovery, listing and appraisal of approximately 70,360 accounts of which 54,900 are real property parcels; 9,128 are mineral accounts; and 6,332 are business and other personal property accounts with a total appraised value of \$11,241,572,869 (as of certification 2023). The Appraisal District serves 22 taxing units consisting of 5 school districts, 8 cities, the county, and 8 special use districts, such as navigation, drainage, water supply, and emergency services. Orange County Appraisal District employs an outside appraisal firm, Pritchard & Abbott, Inc., to appraise natural resources, utilities, industrial and various other complex properties and are guided by the principles set forth in USPAP.

The Orange County Appraisal District's estimated values are necessary to allocate each year's tax burden for all taxing units within the county. The district also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled veterans, charitable or religious organizations and agricultural productivity valuations. Each taxing unit, such as the county, a city, school district, etc., sets its own tax rate to generate revenue to fund its annual maintenance and operations budget, which includes police and fire protection, public schools, road and street maintenance, courts, water and sewer systems and other public services, and its debt service.

Orange County Appraisal District collects and maintains relevant data and characteristics of each property along with any improvements as well as a comprehensive Geographic Information System (GIS). Data pertaining to each property is maintained using a Computer Assisted Mass Appraisal (CAMA) system which enables the district to utilize mass appraisal techniques in accordance with the International Association of Assessing Officers (IAAO) standards and produces an appraisal that complies with the Uniform Standards of Professional Appraisal Practice (USPAP), as required in Section 23.01(b) of the Property Tax Code.

The purpose of this reappraisal plan is to provide Orange County Appraisal District with a foundation to organize and proceed annually with the reappraisal process through the implementation of the plan. The Chief Appraiser is authorized by the board of directors to modify the reappraisal plan as necessary in order to meet USPAP requirements or if circumstances affecting the district operations are significantly changed.

## ORANGE COUNTY TAXING ENTITIES

<b>Jurisdiction</b>	<b>Parcel Count</b>	<b>2023 Certified Value</b>
<b>Orange County</b>	70,360	\$11,241,572,323
<b>Lateral Road</b>		\$11,241,572,323
<b>Bridge City ISD</b>		\$1,873,072,789
<b>Little Cypress-Mauriceville</b>		\$2,773,798,351
<b>Orangefield ISD</b>		\$1,155,833,235
<b>Vidor ISD</b>		\$1,963,391,013
<b>West Orange-Cove</b>		\$3,387,347,359
<b>City of Bridge City</b>		\$793,925,103
<b>City of Orange</b>		\$1,964,185,786
<b>City of Pinehurst</b>		\$185,430,451
<b>City of Vidor</b>		\$759,116,715
<b>City of Pine Forest</b>		\$38,482,611
<b>City of Rose City</b>		\$62,000,795
<b>City of West Orange</b>		\$265,569,960
<b>City of Port Arthur</b>		\$218,581,486
<b>Navigation and Port Dist.</b>		\$11,241,572,323
<b>Drainage District</b>		\$11,241,572,323
<b>Water Control &amp; Imp Dist. #1</b>		\$858,833,538
<b>Emergency Service Dist. 1</b>		\$2,839,304,244
<b>Emergency Service Dist. 2</b>		\$2,189,308,686
<b>Emergency Service Dist. 3</b>		\$483,779,278
<b>Emergency Service Dist. 4</b>		\$1,191,129,681

## **LEGAL REQUIREMENTS**

The Texas Constitution contains the laws that form the foundation for the Texas Property Tax Code. The Tax Code provides an annotated and cross-referenced version of the tax laws that govern property tax administration in Texas. For the most part, Chapter 23 of the tax code defines the scope of work required for local property tax appraisals. Appraisals are based on each property's worth or market value as of January 1 of each year. Under the tax code, "market value" is defined as the price at which a property would transfer for cash or its equivalent under prevailing market condition if:

- 1) Exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- 2) 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
- 3) 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.

## **TAX CODE REQUIREMENT**

Section 6.05(i) of the Texas Property Tax Code requires each appraisal district to adopt a written biennial reappraisal plan every two years. Section 25.18 of the Tax Code requires the district to implement the plan.

## **THE WRITTEN PLAN**

Section 6.05, Tax Code, is amended by adding Subsection (i) to read 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 of the hearing. Not later than September 15 of each even numbered year, the board shall complete its hearings, make any amendments, and by resolution finally approve the plan. Copies of the approved plan shall be distributed to the presiding officer of the governing body of each taxing unit participating in the district and to the comptroller within 60 days of the approval date.

## **PLAN FOR PERIODIC REAPPRAISAL**

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

- 1) Each appraisal office shall implement the plan for periodic reappraisal of property approved by the board of directors under Section 6.08(i).
- 2) The plan shall provide for the following reappraisal activities for all real and personal property in the district at least once every three years: 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 sketch;

- b) Identifying and updating relevant characteristics of each property in the appraisal records;
- c) Defining market areas in the district;
- d) Identifying property characteristics that affect property value in each market area including:
  - 1. The location and market area of the property;
  - 2. Physical attributes of property, such as size, age, and condition;
  - 3. Legal and economic attributes; and
  - 4. Easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
- e) 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;
- f) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- g) Reviewing the appraisal results to determine value.

## **REVALUATION DECISION (REAPPRAISAL CYCLE)**

The Orange County Appraisal District reappraises all property in the district every three years. These properties include:

- 1. Residential Real Property (Land and Improvements)
- 2. Commercial Real Property (Land and Improvements)
- 3. Manufactured Homes
- 4. Business Personal Property
- 5. Industrial Real and Personal Property
- 6. Utilities
- 7. Natural Resources

The revaluation process includes the physical inspection of properties, when applicable, and the updating of all necessary information on the properties such as changes to condition, size, and amenities or outbuildings. In addition, OCAD appraisers inspect all new construction each year. Tax years 2025 and 2026 are reappraisal years. The chief appraiser will provide a notice of appraisal for each property in compliance with Section 25.19 of the Property Tax Code. The activities involved in the appraisal analysis are described below.

# **REAPPRAISAL ACTIVITIES**

## **ANALYSIS OF AVAILABLE RESOURCES**

In each tax year, 2025 and 2026, the previous tax year's equalized values are analyzed with ratio studies to determine appraisal accuracy and appraisal uniformity overall and, by market area within state property reporting categories. Ratio studies are conducted in compliance with the current Standard on Ratio Studies from the International Association of Assessing Officers. Mean, median, and weighted mean ratios will be calculated for properties in each reporting category to measure the level of appraisal accuracy. The coefficient of dispersion (COD) will be calculated to measure appraisal uniformity by property reporting category. This analysis will be used to establish the level and accuracy of appraisal performance.

Ratio studies are performed upon completion of the appraisal cycle as often as necessary to determine how the market is trending and to assist in developing plans to adjust appraisal schedules county-wide or in particular, areas (neighborhoods) to accurately reflect the market.

## **PERSONNEL RESOURCES**

Staffing and budget requirements for tax year 2025 are detailed in the 2026 appraisal district budget as adopted by the Board of Directors and attached to the written biennial plan by reference. This reappraisal plan is adjusted to reflect the available staffing in tax year 2025 and the anticipated staffing for tax year 2026. Staffing will impact accomplishment of real property re-inspection and personal property on-site review for each year.

The OCAD staff consists of the chief appraiser, deputy chief appraiser, appraisers, GIS, Information Systems, and Clerks. All personnel performing appraisal work must be registered with the Texas Department of Licensing and Regulation and are required to attend appraisal courses to achieve the status of Registered Professional Appraiser. Appraisers must complete all course work within 5 years of their registration date. After certification, appraisers must comply with continuing education requirements per the Texas Administrative Code, Rule 94.25. OCAD currently employs nine registered professional appraisers and one registered but not yet certified.

OCAD appraisers are actively involved in the discovery, listing, and appraisal of all types of property. Properties are grouped by location, type, use, quality, and a variety of other quantitative data elements. A common set of data characteristics on each specific type of property is observed, listed, and collected during field inspection. Each appraiser is trained in the use of the Orange County Appraisal District's appraisal manual, CAMA system, appraisal techniques, methodology, and philosophy in the use of this information.

Real property appraisal depreciation tables and cost new tables are tested against verified sales data to ensure they represent current market data. Personal property density schedules are tested and analyzed based on rendition and prior year hearing documentation.

## **COMPUTER RESOURCES**

Orange County Appraisal District contracts with Tyler Technologies, Inc. for appraisal administration software. OCAD employs the use of a server driven computer network with personal computers as workstations to form the CAD computer system. The OCAD appraisal software is a CAMA system (computer assisted mass appraisal). This system contains cost and depreciation schedules that utilize common data elements to assist in creating base values. The district also provides each appraiser with an iPad for use in the field. Each iPad is equipped with an annotator through the GIS software allowing the appraiser to make notes of necessary changes on the appraisal card. The appraisal card and pictures can be saved to the map for easy retrieval in the office.

The entire OCAD database is available to the public via the Internet at [www.orangecad.net](http://www.orangecad.net). This service provides instant access to individual property information including homestead, ownership, address, and all related appraisal data as of the last certified roll. This information includes square foot of building segment area, land size, age, class, construction type, and a variety of other useful information. Computer generated forms are reviewed for revisions based on year and reappraisal status. Links to tax information, the district's current budget, agricultural use guidelines, rendition guidelines, appeal information and videos, the district's GIS (mapping), and many other items are also available.

## **MAPPING RESOURCES**

Orange County Appraisal District uses a Geographic Information System (GIS) for the purpose of providing an accurate mapping system. The GIS System consists of one server and four PC computers operating on the ESRI software on which 100% of the district properties are mapped. Recent aerial photography is integrated into the GIS system and is available for employees and taxpayers to use. The mapping department receives scanned copies of all deeds on a daily basis. This information is used to make ownership changes and property splits as they are received. Footprint drawings of each improvement have been drawn over the aerial photographs. An inspection of the current aerial photography with the drawing of the improvements overlaid allows for an easy inspection of all improvements to determine changes.

## **INFORMATION RESOURCES**

OCAD appraisal staff and administration collect data on local and regional economic forces that may affect value. Locational forces are carefully observed as we find location to be the most significant factor in determining the market value of the property in our geographic area. General trends in interest rates, availability of vacant land, and new construction trends are closely monitored.

## **THE DATABASE**

The Orange County Appraisal District database was constructed from property data obtained originally from Orange County and the 5 school districts in 1981. Data received was on-site field-inspected and revised to create the foundation of our current database. Since the inception of the Orange County Appraisal District, this database has been continually updated to recognize the current status of the property records. A variety of programs designed to discover changes that may occur to data elements

are maintained. Property inspections occur periodically as well as resulting from information gathered during various forms of analysis. Building permits, field review, renditions, reports of value, local news publications, tax office, and the public are but a few of the sources of information considered by staff analysts during the discovery phase of the appraisal process. Information from building permits is compiled from local taxing units, sorted, and keypunched into our computer-assisted building permit system.

Data collection in the field has been made considerably more efficient using the iPads. During the year, any permits, potential changes to improvements or other notification of a new construction/change is “flagged” in the CAMA system for field review. This information is then downloaded into the GIS software. The flagged accounts show as color-coded tract on a map/aerial photograph indicating what needs to be inspected and giving the appraiser the ability to efficiently plan their inspection day. Each appraiser is assigned an area within the county and is responsible for the appraisal of all real property within that area.

## **PLANNING AND ORGANIZATION**

A calendar of key events with critical completion dates is prepared for each major work department. This calendar identifies all key events for appraisal, clerical, customer service, mapping and information systems. A separate calendar is prepared for each reappraisal year (2025 and 2026). Production standards for field activities are calculated and incorporated in the planning and scheduling process. The scope of work, available time frame, staffing resources, and any budgetary constraints have been considered in the development of this reappraisal plan and will be submitted to the Board of Directors for approval. (See Addendum) If necessary, the Chief Appraiser may make minor adjustments to these deadlines if necessary.

Apart from the work plan, key appraisal activities which occur every year include:

1. Any account that has been flagged for re-inspection or partial complete status as of January 1 of the prior year;
2. Any account that had a significant building permit issued from a city or the county during the year with construction beginning prior to January 1;
3. Any account where data or inquiry has been provided to OCAD that indicates the property has had a conditional change that is not currently reflected on the record;
4. The delineated market areas (neighborhoods), using statistical analysis and mass appraisal market factors;
5. Any account or area deemed to be in need of reappraisal by management;
6. All business personal property accounts;
7. Any accounts in accordance with contracted appraisal services for minerals, industrial or utilities;
8. Any neighborhoods showing a significant variance in ratio or coefficient of dispersion as compared to other neighborhoods.

A calendar is prepared showing important deadlines for each reappraisal year (2025 and 2026). See Addendum.

## **MASS APPRAISAL SYSTEM**

Computer Assisted Mass Appraisal (CAMA) system revisions and enhancements will be specified and scheduled with Information Systems. Legislative mandates will be addressed and implemented into system applications as warranted. All computer-generated forms and Information Systems procedures are reviewed and revised as required. Details of these procedures as they relate to the 2025 and 2026 tax years are as follows:

### **REAL PROPERTY VALUATION**

Revisions to cost models, income models, and market models will be specified, updated and tested each tax year.

Cost schedules will be tested against market data to ensure that the appraisal district complies with Section 23.011 of the Property Tax Code. Replacement cost new tables and depreciation tables will be tested for accuracy and uniformity using ratio studies as well as by comparing with nationally recognized costing services such as *Marshall & Swift Services*.

Land schedules will be updated using current market data (sales) and then tested with ratio study tools. Value modifiers will be developed for property categories by market area and tested on a pilot basis with ratio study tools. Other factors affecting value such as zoning, restrictions, etc. will be identified and analyzed. Standardized land influence factors for adjusting for differences in physical characteristics (topography, frontage, etc.) will be developed from appropriate paired sales analysis derived from sales used to calibrate the land schedules.

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

### **PERSONAL PROPERTY VALUATION**

Business personal property renditions are received from taxpayers between January 1<sup>st</sup> and May 15<sup>th</sup> of each year. Accounts will be reviewed as categories based on Standard Industrial Classification Codes. Variance among the categories will be analyzed. A review of the current commercial vehicles will be performed. This analysis will identify variances between currently assessed vehicle values and those commercially registered in the county.

Depreciation schedules will be compared to those released by the State Comptroller's office. Quality and density schedules, where utilized, will be updated as needed, using data received from renditions and hearing documentation. Valuation procedures will be reviewed modified as needed and tested.

### **DATA COLLECTION REQUIREMENTS**

Field and office procedures will be reviewed and revised as required for data collection and verification of value-related and descriptive property characteristics for each property. Activities scheduled for each tax year include inspection of new construction, demolition, remodeling, re-inspection of problematic

market areas, and re-inspection of the universe of properties on an annual basis. The appraisal district will rely on the use of on-site inspection and orthographic/oblique imagery which is updated biannually.

### **NEW CONSTRUCTION / DEMOLITION**

New construction field and office review and inspection procedures are identified and revised as required. Field production standards will be established and procedures for monitoring tested. Source of building permits is confirmed, and system input procedures will be identified. Process of verifying demolition of improvements is specified. The district has added the improvement footprints to the GIS system to aid the appraisers in the inspection and discovery process. This critical annual activity is projected and entered on the key events calendar for each tax year.

### **REMODELING**

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

### **RE-INSPECTION OF PROBLEMATIC MARKET AREAS**

Real property market areas, stratified by property classification, will be 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 be problematic. Field reviews are performed with special attention given to verify and/or correct property characteristic data. Additional sales data is to be researched and verified. In the absence of adequate market data, neighborhood delineation is verified, and neighborhood clusters are identified.

### **SALES DATA**

Sales data is gathered by sending sales letters to the buyers and sellers of properties that the district knows changed ownership. Sales are confirmed from the direct parties involved whenever possible. Confirmation of sales from local real estate appraisers is also considered a reliable source.

Data listed on the property record is verified and updated as needed such as building classification, building size, additions, condition of structures and any change in characteristics that would affect the value of the property. Individual sales are analyzed to verify whether they meet the definition of market value per Texas Property Tax Code Section 1.04(7). Arm's-length (valid) transactions are preferred for mass appraisal purposes. In accordance with Texas Property Tax Code, Section 23.01(c)(1), distressed sales will be considered. In neighborhoods where the number of sales is scarce, sales with non-typical financing may be used if the terms of financing are known and proper adjustments can be made to the sale price.

Examples of reasons why sales may be deleted or not considered are:

1. Property acquired through foreclosures or auction, if the transaction does not meet the definition of market value in the Texas Property Tax Code;
2. Property sold between relatives;
3. The buyer or seller is under duress and may be compelled to sell or purchase;
4. Financing may be non-typical or below or above prevailing market rates;
5. Considerable improvements or remodeling have been done since the date of the sale and the appraiser is unable to make judgments on the property's condition at the time of the transaction;
6. Sales may be unusually high or low when compared with typical sales located in the market area due to seller relocation or divorce proceedings;
7. The property is purchased through an estate sale;
8. The sale involves intangibles, such as goodwill;
9. There are value-related problems associated with the sale, i.e. incorrect land size or square footage of living area;
10. Property use changes occurring after the sale.

Several sources are explored for economic and market data which can be used in market analyses. Some examples include: the Loopnet, Zillow, Realtor.com, along with OCAD's own collection techniques using surveys and deed information.

Sales information must be verified and property characteristic data contemporaneous with the date of sale captured. The district will obtain sales prices through deeds, sales letter responses, third party sources, such as real estate agents or fee appraisers. The sales ratio tools require that the property that sold must equal the property appraised in order that statistical analysis results will be valid.

## **PILOT STUDY**

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 to test the models. Actual test results are compared with anticipated results and those models not performing satisfactorily will be refined and retested. The procedures used for model specification and model calibration will be in compliance with *Uniform Standards of Professional Appraisal Practice*, STANDARD RULE 6 for the applicable year.

## **MARKET AREA DELINEATION**

Market areas are defined by the physical, economic, governmental and social forces that influence property values. The effects of these forces were used to identify, classify, and stratify or delineate similarly situated properties into smaller, more comparable and manageable subsets for valuation purposes. Delineation can involve the physical drawing of neighborhood boundary lines on a map, or it can also involve statistical separation or stratification based on attribute analysis. In performing this analysis for Orange County, it was determined that the primary factor affecting market conditions were school districts. Further investigation showed other physical, legal, economic, and social factors had little or no effect when compared within school districts. The market areas used by the appraisal district are the five school districts: Bridge City ISD, Orangefield ISD, Little Cypress-Mauriceville CISD, Vidor ISD and West Orange-Cove CISD.

## **REINSPECTION OF THE UNIVERSE OF PROPERTIES**

As required by Section 23.18 of the Tax Code, the universe of properties should be re-inspected on a cycle of 3 years. The Orange County Appraisal District re-inspects all real property every three years. For years 2025 and 2026, re-inspection requirements will be identified by property type and classification and scheduled on the events calendar. Review of property for the 2025 and 2026 tax years will include the examination of aerial photographs, property sketches, and field review as appropriate.

## **QUALITY CONTROL**

Mass appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing. The scale of mass appraisal requires that many people work on the process. It requires standardized procedures across many properties. Quality is therefore measured differently in mass appraisal compared to single property appraisal. In mass appraisal, statistical methods are used to measure quality. These methods are described in this reappraisal plan under the topics of Reappraisal Cycle, Reappraisal Activities, Performance Analysis and Production of Values.

During the field review process, the deputy chief appraiser and/or the appraisal supervisor will measure performance keyed to the concepts of Mass Appraisal quality assurance as required by USPAP, IAAO, and State law. The quality of data is important in establishing accurate values of property. The quality control process is performed by supervisory review of the appraisal work being done by appraisers. The appraisers will be responsible for quality assurance of data entry.

The chief appraiser and/or the appraisal supervisor will be responsible for confirmation of the accuracy of collected field data of the appraisers for residential, commercial, and business personal property. A routine audit of field work of completed areas will be accomplished by performing random audits of property throughout the appraisal cycle.

## **APPRAISAL NOTICES**

In accordance with Section 25.18 of the Property Tax Code which states that all real and personal property in the appraisal district be reappraised at least once every three years, Section 25.19(a) requires that, "By April 1, or as soon thereafter as practicable", the chief appraiser, "shall deliver a clear and understandable written notice to a property owner of the appraised value of the property owner's property." Furthermore, the Tax Code outlines the circumstances in which a notice should be mailed which include:

1. The appraised value of the property is greater than it was in the preceding year;
2. The appraised value of the property is greater than the value rendered by the property owner;
3. The property was not on the appraisal roll in the preceding year.

Moreover, in accordance with Section 25.19(b)(1) – (b)(9), appraisal notices will be reviewed for legal sufficiency and correctness. Enclosures will be updated as needed to comply with legal requirements.

The Orange County Appraisal District board of directors may allow the chief appraiser to observe Property Tax Code Section 25.19(e), which states "The chief appraiser, with the approval of the appraisal district board of directors, may dispense with the notice required by subsection (a)(1) if the amount of increase in the appraised value is \$1,000 or less."

## **HEARING PROCESS**

Protest hearing scheduling for informal and formal Appraisal Review Board hearings will be reviewed and updated as required. Standards of documentation are reviewed and amended as required. The Orange County Appraisal District will conduct staff training beginning in early April of each year to ensure and understanding of procedures for informal and formal hearings. These hearings will typically begin in late April or early May. Any changes or enhancements affecting hearing scheduling procedures for Appraisal Review Board hearings will be reviewed and updated as necessary. The appraisal district hearing documentation is reviewed and updated to reflect the current valuation process. Production of documentation is tested and compliance with the Tax Code ensured.

## **LEGAL ATTRIBUTES AFFECTING VALUE**

The district will maintain an active procedure to identify and describe elements of recorded conveyances that will affect the use or value of the property, such as easements, covenants, reservations, and declarations. The district will also monitor the enactment or changes of governmental restrictions affecting property value, such as zoning, health ordinances, special assessments, and other legal restrictions. Where leases and other possessory interests are of a nature and duration that they affect value, they will be considered in the individual valuation of the property to which they apply.

## **VALUATION BY TAX YEAR**

Using market analysis of comparable sales and locally tested cost data, market area specific income and expense data, valuation models will be specified and calibrated in compliance with the supplemental standards from the International Association of Assessing Officers and the *Uniform Standards of Professional Appraisal Practice*. The calculated values will be tested for accuracy and uniformity using ratio studies. Performance standards are those as established by the IAAO *Standard on Ratio Studies*. 2025 and 2026 are reappraisal years and property values in all market areas will be updated.

## **RESIDENTIAL REAL PROPERTY**

### **MARKET ANALYSIS**

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

### **NEIGHBORHOOD ANALYSIS**

Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these forces are also used to identify, classify, and stratify comparable properties into smaller, manageable subsets of the universe of properties known as neighborhoods. The most common boundary used to define location is the school district boundary. In all types of property, valuation analysis and neighborhood analysis are conducted on school districts. The IAAO defines a neighborhood as the environment of a subject property that has a direct and immediate effect on value. For our purposes, the neighborhood boundary is the environment of the subject property. The neighborhood concept is used in the grouping of all taxable property located in Orange County Appraisal District with the exception of some special use properties.

### **HIGHEST AND BEST USE ANALYSIS**

In considering the fair market value of taxable property, OCAD employs the principle of highest and best use analysis. The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. Highest and best use is the first step in the district appraisers' economic analysis. For the purpose of ad valorem property taxation in Texas, the specific time is January 1 of each calendar year. The highest and best use must be legal, physically possible, and financially feasible. OCAD appraisers generally consider that the current use of the property is most likely its highest and best use. In certain types of property, local zoning and deed restrictions often determine highest and best use. However, in areas of transition, it may be necessary for the analyst to more carefully consider the concept of highest and best use. The chief appraiser and the deputy chief appraiser generally discuss decisions regarding changes in highest and best use determination. Highest and best use may not be the present use of the property when the agents of

production are not in alignment (i.e. land, labor, capital, and management), then highest and best use of the property may not currently exist.

### **COST APPROACH**

All residential parcels in the district will be valued based on cost schedules using a comparative unit method. The district's residential cost schedules were designed on a comparative unit method. Residential cost schedules will be designed and built using *Marshall & Swift Residential Cost Handbook* and are adjusted to fit Orange County local residential building and labor markets. Marshall and Swift is a nationally recognized costing service. When reliable data from the local market is available, it will be considered, particularly with regards to secondary structures. The results will be analyzed using several measures, including stratification by quality and review of estimated building costs, as well as land values to sales prices when appropriate. Neighborhood or market adjustment factors will be developed from appraisal statistics provided by ratio studies to ensure that appraisals reflect both the supply and demand side of the market. The cost schedules are reviewed regularly as a result of Section 23.011(4) requiring that the appraisal district cost schedules be within a range of 10% of generally accepted cost data. Cost data is adjusted each year in the software application.

### **SALES COMPARISON APPROACH**

In the absence of a sale of the subject property, sales prices of comparable properties are usually considered the best evidence of market value. The sales comparison approach models the behavior of the market by comparing the properties being appraised with comparable properties that have recently sold or for which offers to purchase have been made. Sales prices will then be adjusted for differences from the subject property and a market value for the subject is determined from the adjusted sales of the comparable properties. A sales file for the storage of sales data compared with the appraisal at the time of sale is maintained. Residential improved and vacant sales are collected from a variety of sources including: District questionnaires sent to the buyer, field discovery, protest hearings, builders and appraisers. A system of type, source, validity and verification codes is established, defining salient facts related to a property's purchase or transfer. School district neighborhood sales reports are generated as an analysis tool for the appraiser in the development of value estimates.

### **INCOME APPROACH**

The income approach is most suitable for types of properties frequently purchased and held for the purpose of producing income such as apartments, commercial buildings, office buildings, warehouses, RV parks, mobile home parks, and hotels. It is not conducive to the valuation of single-family residential properties that are seldom rented or where market demand factors such as personal preferences or location unduly influence the market.

### **STATISTICAL ANALYSIS**

The chief appraiser and appraisal supervisor will perform statistical analysis annually to evaluate whether values are equitable and consistent with the market. Ratio studies will be conducted by residential class and by neighborhood to measure appraisal accuracy. Appraisal statistics of central tendency and dispersion generated from sales ratios are calculated for each school district by residential

classification. These statistics provide the district a tool by which to determine both the level and uniformity of appraised value.

Neighborhoods are reviewed annually by way of the sales ratio analysis process. By comparing recent sales prices to values within each neighborhood, the appraiser is able to judge the present level and uniformity of appraised values. Based on this information, a decision can be made as to whether the neighborhood needs to be updated or if the level of market value is at an acceptable level.

### **MARKET ADJUSTMENT OR TRENDING FACTORS**

Neighborhood, or market adjustment, factors will be developed from appraisal statistics provided from ratio studies and are used to ensure that estimated values are consistent with the market. 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 specified in the cost model. The following equation denotes the hybrid model used:

$$MV = LV + MA(RCN-D)$$

Whereas, the market value equals the land value plus the depreciated replacement cost of buildings times the market adjustment factor. This adjustment factor is applied uniformly throughout the neighborhood to account for Locational variances between market areas or across a jurisdiction.

The market adjustment factor is calculated by using a cost ratio study that compares recent sales prices of properties with the properties' actual cost value. The calculated ratio derived from the sum of the sold properties' cost value divided by the sum of the sales prices indicates the neighborhood level of value based on the unadjusted cost value for the sold properties. This cost-to-sale ratio is compared to the appraisal-to-sale ratio to determine the market adjustment factor for each neighborhood. The sales used to determine the market adjustment factor will reflect the market influences and conditions only for the specified neighborhood, thus producing more representative and supportable values. The market adjustment factor calculated for each update neighborhood is applied uniformly to all properties within a neighborhood. Once the market-trend factors are applied, a second set of ratio studies is generated that compares recent sale prices with the proposed appraised values for these sold properties enabling the appraiser to judge appraisal levels in the updated neighborhood.

### **SPECIAL INVENTORY RESIDENTIAL PROPERTY**

Section 23.12 of the Property Tax Code says: "the market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business. An inventory shall include residential real property which has never been occupied as a residence and is held for sale in the ordinary course of a trade or business, provided that the residential real property remains unoccupied, is not leased or rented, and produces no income."

The methods used to appraise this property consist of the following steps:

- a) Using a rendition required by the Chief Appraiser, the appraiser determines how many properties are being held in inventory by the owner.

- b) A determination is made as to the age of the subdivision and the estimated number of years for sell out of the properties (typically 10 years). The remaining years to sell out the inventory is then calculated.
- c) The number of properties in inventory is then divided by the years remaining in the estimated sell out period to calculate the average properties selling per year.
- d) Using sales data as described in the Residential Real Property section above, the average sales price per property is developed.
- e) Annual income is then calculated by dividing the average sale price by the average number of lots sold per year.
- f) The present worth factor is calculated by dividing 1.0 by 1.0 plus the current capitalization rate.
- g) The present worth is calculated for all properties. The total market value for all properties is also calculated. The total present worth is divided by the total market value for a modification factor to be used on each property in inventory.

The three approaches to value are considered, depending on the type of property (vacant or improved), as described in the Residential Real Property section above.

## **MULTI-FAMILY RESIDENTIAL PROPERTY**

See Commercial Real Property below

## **COMMERCIAL REAL PROPERTY**

The Orange County Appraisal District employs all three approaches to value, when possible, in valuing income-producing property. The appraisal supervisor will be responsible for supervising the appraisal of commercial property types by the real property appraisers assigned to this task.

Data used by the district includes verified sales of vacant land and improved properties and the pertinent data obtained from each (sales price levels, capitalization rates, income multipliers, marketing period, etc.). Other data used by the appraiser includes actual income and expense data, actual contract rental data, leasing information and actual construction cost data. In addition to the actual data obtained from specific properties, market data publications will be also reviewed to provide additional support for market trends.

### **COST APPROACH**

The primary approach used to initiate the valuation process will be the cost approach to value. Each commercial property is listed according to its quantitative data elements. The data elements are entered into the Orion software system in which *Marshall & Swift Commercial MVP* runs in tandem with Orion. Using this information, a replacement cost for each segment of the improvements is calculated and totaled. Depreciation is calculated and assigned during this process. After deducting depreciation

estimated from all causes from the replacement cost new, a value estimate for the improvements is calculated and added to the estimated value of the land for a total value estimate via the cost approach. It will be sometimes necessary to consider the unit-in-place, quantity survey, or historical cost method to derive accurate cost estimates.

### **SALES COMPARISON APPROACH (MARKET APPROACH)**

Although all three 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 as a primary method for estimating land value, but also in comparing sales of similarly improved properties to each parcel on the appraisal roll. Pertinent data from actual sales of properties, both vacant and improved, will be obtained throughout the year in order to analyze relevant information, which is then 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 will also be used in ratio studies, which afford the analyst an excellent means of judging the present level and uniformity of appraised values.

Sales of commercial properties occur rarely in Orange County. Confirmation of these sales is extremely difficult. Due to this fact, the Sales Comparison Approach will typically be given less credence than the cost and income approaches.

### **INCOME APPROACH**

The income approach to value will be applied to those real properties that are typically viewed by market participants as "income producing", which are bought and sold based on the property's ability to produce income, 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. This is derived primarily from actual rent data furnished by property owners and from local market study publications. 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 on local market publications. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimated stabilized level. The market derived stabilized vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an effective gross rent. A secondary income or service income is calculated as a percentage of stabilized effective gross rent. Secondary income represents parking income, escalations, reimbursements, and other miscellaneous income generated by the operations of real property. The secondary income estimate is then added to effective gross rent to arrive at an effective gross income or EGI.

Allowable expenses and expense ratio estimates will be 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 will be included in the expenses. A non-recoverable expense represents costs that the owner pays to lease rental space. Different expense ratios will be developed for different types of commercial property based on use.

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 large lump sums. 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. Subtracting the allowable expenses from the effective gross income yields an estimate of net operating income.

Rates and multipliers will be used to convert income into an estimate of market value. These include income multipliers, overall capitalization rates, and discount rates. Each of these is used in specific applications. Rates and multipliers also vary between property application of the various rates and multipliers must be based on a thorough analysis of the market.

Capitalization analysis will be used in the income approach models. This methodology involves the capitalization of net operating income as an indication of market value for a specific property. Capitalization rates will be derived from the market. Sales of improved properties from which actual income and expense data are obtained provide a very good indication of what a specific market participant is requiring from an investment at a specific point in time. Overall capitalization rates may also be derived from using other recognized methods (band of investment, built-up, etc.). The capitalization rates relate to satisfying the market return requirements of both debt and equity positions of a real estate investment. This information will be obtained from real estate and financial publications as well as from other sources such as real estate appraisers and lenders.

Rent loss concessions will be made on specific properties with known 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 will be calculated by multiplying the rental rate by the percent difference of the property's stabilized occupancy and its actual occupancy.

## **VACANT REAL PROPERTY**

### **LAND ANALYSIS**

Residential land values will be estimated based on market sales. Adjustments to land appraisals may be based on parcel size, shape, rights-of-way or easements, slope, drainage issues, and where necessary, economic obsolescence. Land values will be calculated by any of the various units in place, or when data is insufficient to accurately determine the appropriate unit or unit values, by site value. Abstraction and allocation methods are used, when necessary, to ensure that the land values created best reflect the contributory market value of the land to the overall property value.

Land analysis will be supervised by the appraisal supervisor with the assistance of each of the residential appraisers. A computerized land table file, contained within the district's GIS, stores the land information required to consistently value individual parcels within neighborhoods. This GIS driven land schedule shows values as color-coded by value allowing the appraiser to visually analyze uniformity within competing areas.

Using sales within the neighborhood, a base lot and a base unit rate is developed. Specific land influences are used, where necessary, to adjust parcels outside the neighborhood norm for such factors as view, shape, size, and topography, among others. Abstraction and allocation methods are used, when necessary, to ensure that the land values created best reflect the contributory market value of the land to the overall property value.

The district uses market transactions to define factors that influence rural land value. Unlike fee appraisers, the district cannot compare each tract individually to each market transaction to make adjustments due to the volume of the properties to be appraised. The district appraisers must incorporate the factors indicated by market transactions into general standards or schedules of value. Such schedules are normally comprised of per acre, per front foot, per lot or per square foot prices that will be multiplied by the number of acres in an individual tract to develop an estimate of value. Schedules of this kind are divided into categories or classes as necessary to reasonably reflect market values when applied to individual tracts of land. Ratio studies are then run by neighborhood throughout the district to determine the level and accuracy of the schedules. The district's land schedules are contained as a layer within the GIS (mapping system).

## **SPECIAL VALUATION PROPERTIES**

### **AGRICULTURAL LAND**

Section 23.52 of the Property Tax Code requires that “the appraised value of qualified open-space land is determined on the basis of the category of the land, using accepted income capitalization methods applied to average net to land. The appraised value so determined may not exceed the market value as determined by other appraisal methods.”

For these properties, two values are maintained by the district; market value and “ag” or special value based on the income attributable to the land. The market value is established as described in other sections of this report. To be eligible for this special valuation, an application must be timely filed providing the district with pertinent information about the agricultural history of the property. When a determination is made by the district agricultural appraiser that the property meets minimum requirements, approval for this special appraisal is granted.

The district annually calculates a price per acre schedule for the various types of agricultural products and uses of the property. These prices are derived using five-year averages of land rent information as well as income attributable to the land from products grown on the property. The net income to the land is then capitalized using a formula spelled out in the property tax code in Section 23.53.

### **TIMBER LAND**

Section 23.73 of the Property Tax Code requires that “the appraised value of qualified timber land is determined on the basis of the category of the land, using accepted income capitalization methods applied to average net to land. The appraised value so determined may not exceed the market value of the land as determined by other appraisal methods.”

The district annually calculates a price per acre schedule for the various types of timber products and uses (hardwood, pine, mixed timber, etc) of the property. The prices are derived using five-year averages of land rent information as well as income attributable to the land from products grown on the property. The net income to the land is then capitalized using a formula spelled out in the Property Tax Code in Section 23.74.

## **BUSINESS TANGIBLE PERSONAL PROPERTY**

All income-producing business personal property located within the OCAD boundaries is subject to appraisal by the district. Business personal property types appraised by district personnel include such items as inventory, furniture and fixtures, leased assets, vehicles and multi-location assets. There are approximately 6,332 business personal property accounts in Orange County Appraisal District. The district employs 1 personal property appraiser.

OCAD uses the Standard Industrial Code to group like types of personal property. The codes are incorporated within the account numbers used on each account. Each year, schedules are reviewed for accuracy by comparing owner renditions considered to be accurate by the appraiser, against calculated values using district schedules. Adjustments are made as necessary. Section 22.01 of the Property Tax Code requires each owner of tangible personal property used for the production of income to render said property. This information is used in the discovery phase and the valuation phase of the appraisal.

The personal property appraiser will make an onsite inspection of appropriate businesses over a two-year cycle. A comparison of the listed personal property gathered from previous inspections as well as renditions is made, and any changes noted. The information is entered into the personal property section of Orion and an appraisal performed. Depreciation of the property is determined using the age/life method. Special equipment, airplanes, automobiles and trucks, etc. are valued using various trade publications. The rendered amount is then compared with the appraisal to determine similarity. If similar, the rendered amount is generally used. If not, the appraisal is used.

## **INDUSTRIAL VALUATION (REAL, PERSONAL, UTILITIES, PIPELINE & MINERALS)**

Orange County Appraisal District has contracted with Pritchard and Abbott, Inc for the 2025 and 2026 tax years for the appraisal of Industrial Real, Industrial Personal, Utilities and Minerals located within the district. Appraisers and engineers with Pritchard and Abbott, Inc. make annual inspections on all industrial properties and utilities and use methods following USPAP procedures to appraise these properties. Natural resources (minerals) are valued using information provided by the Texas Railroad Commission as well as trade and other publications. The cost approach is most applicable in valuation of these properties. Industrial personal property is appraised using similar techniques to those in the Business Tangible Personal Property section.

# **FINAL PERFORMANCE ANALYSIS**

## **INDEPENDENT PERFORMANCE TEST**

In addition to sales ratio studies performed by the appraisal district, the State Comptroller's Property Tax Assistance Division conducts a biannual property value study (PVS) of each Texas school district and each appraisal district. As part of this study, the code requires the Comptroller to use sales and recognize auditing and sampling techniques to test the validity of the school district taxable values in each appraisal district and determine the level and uniformity of property tax appraisal in each appraisal district. Each school district is arrayed by value and stratified into quartiles with the lowest 5% of a school districts value omitted from the study. Moreover, real estate is separated into several categories to test each independently.

The Property Tax Study, ratio studies, and the prior year's mass appraisal report are all used in conjunction to determine proper direction for the future year's reappraisal efforts. Results from the upcoming 2024 Property Value Study will be reviewed and analyzed by the appraisal district. Geographic areas or property categories with unsatisfactory ratio results will be added to the work plan for the 2025 reappraisal cycle.

## **VALUE DEFENSE**

Evidence to be used by Orange County Appraisal District to meet its burden of proof for market value and equity in both informal and formal appraisal review board hearings is specified and tested. The district makes every attempt to notify the taxpayer of any property value changes through required notices which are sent annually to all properties. Informal hearings are held with the district appraisers in an attempt to allow the taxpayer to present evidence that may not have been considered in the appraisal. The district also provides the ability for owners of real property to file informal appeals on-line. Formal protests are scheduled and if requested, district evidence is presented as required by the Property Tax Code before the hearing. Inspection and/or disclosure of evidence and related materials will comply with Section 41.461 of the Property Tax Code. Disclosure of such data will be compliant with statutory confidentiality requirements. At the formal hearing, district personnel, at the instruction of the Appraisal Review Board, present a defense of the appraisal using the evidence listed below.

Evidence provided (as deemed necessary) includes but is not limited to:

- Sales of similar properties
- Appraisal Manual
- Photos of property and comparable
- Aerial photography integrated with GIS (Pictometry)
- Appraisal card
- Testimony by appraiser
- Ratio Studies by neighborhood
- Income / Expense information
- Income Approach calculations

## **THE MASS APPRAISAL REPORT**

Each tax year, the tax code required Mass Appraisal Report is prepared and certified by the Chief Appraiser at the conclusion of the appraisal phase of the ad valorem tax calendar (on or about May 15<sup>th</sup>). The Mass Appraisal Report is completed in compliance with STANDARD RULE 6-8 of the *Uniform Standards of Professional Appraisal Practice*. The signed certification by the Chief Appraiser is compliant with STANDARD RULE 6-9 OF *USPAP*. This written reappraisal plan is attached to the Mass Appraisal Report by reference.



**THE APPRAISAL OF**  
**MINERAL, INDUSTRIAL, UTILITY, PERSONAL PROPERTY**  
**AND**  
**RESIDENTIAL REAL ESTATE**  
**AS PER**  
**UNIFORM STANDARDS OF**  
**PROFESSIONAL APPRAISAL PRACTICE**  
**(USPAP)**

**Effective January 1, 2024\***

*\*Per the Appraisal Standards Board (ASB) of The Appraisal Foundation, the 2024 edition of USPAP has an effective start date but no end date. Per the ASB, the need for the standards to be updated on a regular basis has decreased. Therefore, the 2024 edition of USPAP will be effective for an indeterminate number of tax years, until the next edition of USPAP is released by the ASB.*

**Includes, in part, the Written Mass Appraisal Report and Certification as promulgated by USPAP Standards 6-1 through 6-3. This report was assembled in part with direct reference to the 2024 Edition of USPAP as published by the Appraisal Standards Board of The Appraisal Foundation, authorized by United States Congress as the Source of Appraisal Standards and Appraiser Qualifications.**

*This report is intended to satisfy the requirements of S.B. 841, enacted by Acts 1997, 75th Leg., ch. 1039, § 22, effective January 1, 1998; amended by Acts 1999, 76th Leg., ch. 1295 (S.B. 1641), § 1, effective January 1, 2000, when performing mass appraisals for ad valorem (property) tax purposes. This report is a work product of Pritchard & Abbott, Inc., Valuation Consultants (P&A), developed on behalf of, and for exclusive use by, P&A's valuation clients. Written permission must be obtained before reproduction of these contents or distribution to outside parties.*

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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.

This “USPAP Report” provides general information about the rather comprehensive USPAP Scope of Work rule, as well as the specific steps P&A takes in the actual appraisal of various property types per our contractual obligations. This report, as well as the Biennial Reappraisal Plan that P&A provides our clients before the appraisal season, 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 report discusses all additional USPAP rules that interact with the Scope of Work Rule, such as the Ethics Rule, the Competency Rule, the Record Keeping Rule, and Jurisdictional Exception Rule, as well as USPAP Definitions. This report, and specifically the certification page at the end, is meant to accompany 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 this “USPAP report” is a reiteration of the Biennial Reappraisal Plan.

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

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

Per USPAP Advisory Opinion 32: *Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments*, in the interests of equity, the scope of work in mass appraisal assignments for ad valorem taxation can include consideration of appraisal level (the overall proximity between appraised values and actual prices) and the uniformity of property values (equity within groups of like properties). The appraiser is responsible for

recognizing when the concepts of appraisal level and appraisal uniformity are necessary for credible assignment results in a mass appraisal assignment for ad valorem taxation.

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

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

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

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

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

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

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

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

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

## CHANGES FROM 2020-21 EDITION OF USPAP

The Appraisal Foundation, through its Appraisal Standards Board (ASB), constantly seeks to clarify and improve where possible the previously published edition of USPAP. This update is the first since the adoption of the 2020-2021 edition in 2019, which was subsequently extended through the end of 2023.

Unlike other editions, the 2024 USPAP will be the first with an effective date but no expiration date. ASB says having no expiration date offers “greater flexibility to thoroughly examine proposed changes and respond in a timely manner to a changing marketplace.”

### **Changes to the ETHICS RULE**

The Board adopted a Nondiscrimination Section in the ETHICS RULE and deleted all language relating to supported and unsupported conclusions in the Conduct section of the ETHICS RULE. There are no changes to the Management and Confidentiality sections of the ETHICS RULE.

### **Transfers and Sales**

The Board adopted the addition of “and other transfers,” words to Standards Rule 1-5(b), Standards Rule 2-2(a)(x)(3), Standards Rule 2-2(b)(xii)(3), Standards Rule 7-5(b), Standards Rule 8-2(a)(x)(3) Standards Rule 8-2(b)(xii)(3), and Standards Rule 9-4(b).

### **Retired Definitions**

The Board retired the definition of *ASSIGNMENT ELEMENTS*, *MISLEADING*, and *RELEVANT CHARACTERISTICS*.

### **Modified Definitions**

The Board modified the definition of *APPRAISER* (adds a comment that makes it clear where the expectation that an appraiser has an obligation to comply with USPAP comes from), *PERSONAL INSPECTION* (clarifies it must be in-person by the appraiser and specifically performed for the appraiser’s assignment), and *WORKFILE* (can now include documentation not necessarily to show compliance with USPAP).

### **Minor Edits**

The Board adopted replacement of the words “a summary” with “the description” in one sentence in each of the following Standards Rules: Standards Rule 2-3(c)(ii), Standards Rule 4-3(c)(ii), Standards Rule 6-3(c)(ii), Standards Rule 8-3(c)(ii), and Standards Rule 10-3(c)(ii). The Board also adopted the addition of words “in writing and” to a sentence in STANDARD 6. The Board adopted adding words to a requirement in Standards Rule 8-2(b) so that it is consistent with the exact wording in 8-2(a).

### **Revisions to Advisory Opinion 2**

The Board adopted changes to Advisory Opinion 2, Inspection of Subject Property, in part, to reflect adopted changes in the definition of Personal Inspection.

### **Retirement of Advisory Opinion 16**

The ASB retired Advisory Opinion 16, Fair Housing Laws and Appraisal Report Content. With the removal of a prohibition and the addition of the Nondiscrimination section of the ETHICS RULE, the guidance in this Advisory Opinion is no longer relevant.

### **Creation of new Advisory Opinion 39**

The Board adopted Advisory Opinion 39, Anti-discrimination. This Advisory Opinion provides guidance on the new Nondiscrimination section of the ETHICS RULE.

**Creation of new Advisory Opinion 40**

The Board adopted Advisory Opinion 40, Antidiscrimination and the Research, Analysis, and Reporting of Location Data, including Demographics, for Residential Real Property Appraisal Assignments to provide guidance on the new Nondiscrimination section of the ETHICS RULE.

## DEFINITIONS

For the purpose of *Uniform Standards of Professional Appraisal Practice*, the following definitions apply:

**APPRAISAL:** (noun) the act or process of developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

Comment: An appraisal is numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

**APPRAISAL PRACTICE:** valuation services performed by an individual acting as an appraiser, including but not limited to appraisal or appraisal review.

Comment: Appraisal practice is provided only by appraisers, while valuation services are provided by a variety of professionals and others. The terms appraisal, appraisal review, and appraisal consulting are intentionally generic and are not mutually exclusive. For example, an opinion of value may be required as part of an appraisal review assignment.

**APPRAISAL REVIEW:** the act or process of developing and communicating an opinion about the quality of another appraiser's work (i.e., a report, part of a report, a workfile, or some combination of these), that was performed as part of an appraisal or appraisal review assignment; (adjective) of or pertaining to an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment.

**APPRAISER:** one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

Comment: Such expectation occurs when individuals, either by choice or by requirement placed upon them or upon the service they provide by law, regulation, or agreement with the client or intended users, represent that they comply.

**APPRAISER'S PEERS:** other appraisers who have expertise and competency in a similar type of assignment.

**ASSIGNMENT:** a valuation service that is provided by an appraiser as a consequence of an agreement with a client.

**ASSIGNMENT CONDITIONS:** Assumptions, extraordinary assumptions, hypothetical conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the scope of work.

**ASSIGNMENT RESULTS:** An appraiser's opinions or conclusions, not limited to value, that were developed when performing an appraisal assignment, an appraisal review assignment, or a valuation service other than an appraisal or appraisal review.

Comment: Physical characteristics are not assignment results.

**BIAS:** a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an assignment.

**BUSINESS ENTERPRISE:** an entity pursuing an economic activity.

**BUSINESS EQUITY:** the interests, benefits, and rights inherent in the ownership of a business enterprise or a part thereof in any form (including but not limited to capital stock, partnership interests co-operatives, sole proprietorships, options, and warrants).

**CLIENT:** the party or parties (i.e., individual, group, or entity) who engage, an appraiser by employment or contract in a specific assignment whether directly or through an agent.

**CONFIDENTIAL INFORMATION:** information that is either: (a) identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or (b) classified as confidential or private by applicable law or regulation.\*

\*Notice: For example, pursuant to the passage of the Gramm-Leach-Bliley Act in November 1999, some public agencies have adopted privacy regulations that affect appraisers. The Federal Trade Commission issued two rules. The first rule (16 CFR 313) focused on the protection of “non-public personal information” provided by consumers to those involved in financial activities “found to be closely related to banking or usual in connection with the transaction of banking.” These activities include “appraising real or personal property.” The second rule (16 CFR 314) required appraisers to safeguard customer non-public personal information. Significant liability exists for appraisers should they fail to comply with these FTC rules.

**COST:** the actual or estimated amount required to create, reproduce, replace, or obtain a property.

**CREDIBLE:** worthy of belief.

Comment: Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use.

**EFFECTIVE DATE:** the date to which an appraiser’s analyses, opinions, and conclusions apply; also referred to as date of value.

**EXPOSURE TIME:** an opinion, based on supporting market data, of the length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

**EXTRAORDINARY ASSUMPTION:** an assignment-specific assumption as of the effective date that is used in an analysis despite indications that the assumption could be false, and which, if found to be false, could alter the appraiser’s opinions or conclusions.

Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

**FEASIBILITY ANALYSIS:** a study of the cost-benefit relationship of an economic endeavor.

**HYPOTHETICAL CONDITION:** a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the appraisal results, but is used for the purpose of analysis.

Comment: Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends, or about the integrity of data used in an analysis.

**INTANGIBLE PROPERTY (INTANGIBLE ASSETS):** non-physical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities, and contracts, as distinguished from physical assets such as facilities and equipment.

**INTENDED USE:** the anticipated use(s) of assignment results as identified by the appraiser based on communication with the client.

**INTENDED USER:** the client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser based on communication with the client.

*Per Advisory Opinion 32: In ad valorem taxation assignments, the client is typically the government or taxing authority that engages the appraiser. As defined in USPAP, the client is an intended user. Through communication with the client, the appraiser may identify other intended users. A party [such as a taxpayer] 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.*

**JURISDICTIONAL EXCEPTION:** an assignment condition established by applicable law or regulation, which precludes an appraiser from complying with a part of USPAP.

**MARKET VALUE:** a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the value definition that is identified by the appraiser as applicable in an appraisal.

Comment: Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value.

**MASS APPRAISAL:** the process of valuing a universe of properties as of a given date utilizing standard methodology, employing common data, and allowing for statistical testing.

**MASS APPRAISAL MODEL:** a mathematical expression, tool, or formula that describes how supply and demand factors interact in a market.

**PERSONAL INSPECTION:** (for an appraisal assignment) the appraiser's in-person observation of the subject property performed as part of the scope of work; (for an appraisal review assignment) the reviewer's in-person observation of the subject of the work under review, performed as part of the scope of work.

Comment: An appraiser's personal inspection is typically limited to those things readily observable without the use of special testing or equipment. Appraisals of some types of property, such as gems and jewelry, may require the use of specialized equipment. A personal inspection is not the equivalent of an inspection by an inspection professional (e.g., a structural engineer, home inspector, or art conservator).

**PERSONAL PROPERTY:** Any tangible or intangible article that is subject to ownership and not classified as real property, including identifiable tangible objects that are considered by the general public as being "personal," such as furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; and intangible property that is created and stored electronically such as plans for installation art, choreography, emails, or designs for digital tokens.

**PHYSICAL CHARACTERISTICS:** attributes of a property that are observable or measurable as a matter of fact, as distinguished from opinions and conclusions, which are the result of some level of analysis or judgment.

**PRICE:** the amount asked, offered, or paid for a property.

Comment: Once stated, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.

**REAL ESTATE:** an identified parcel or tract of land, including improvements, if any.

**REAL PROPERTY:** the interests, benefits, and rights inherent in the ownership of real estate.

**REPORT:** any communication, written or oral, of an appraisal or appraisal review that is transmitted to the client or a party authorized by the client upon completion of an assignment.

**SCOPE OF WORK:** the type and extent of research and analysis in an appraisal or appraisal review assignment.

**SIGNATURE:** personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for content, analyses, and the conclusions in the report.

**VALUATION SERVICE:** a service pertaining to an aspect of property value, regardless of the type of service and whether it is performed by appraisers or by others.

**VALUE:** the monetary relationship between properties and those who buy, sell, or use those properties.

Comment: Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value.

**WORKFILE:** documentation necessary to support an appraiser's analysis, opinions, and conclusions.

## PREAMBLE

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

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

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

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

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

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

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

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

## ETHICS RULE

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

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

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

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

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

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

### NONDISCRIMINATION

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

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

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

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

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

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

### CONDUCT

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

An appraiser:

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

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

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

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

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

### MANAGEMENT

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

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

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

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

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

### CONFIDENTIALITY

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

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

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

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

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

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

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

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

## RECORD KEEPING RULE

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

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

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

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

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

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

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

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

## COMPETENCY RULE

An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment. In all cases, the appraiser must perform competently when completing the assignment.

### BEING COMPETENT

The appraiser must determine, prior to agreeing to perform an assignment, that he or she can perform the assignment competently. Competency requires:

- the ability to properly identify the problem to be addressed;
- the knowledge and experience to complete the assignment competently; and
- the recognition and compliance with all laws and regulations that apply to the appraiser or the assignment.

Competency applies to factors such as, but not limited to, an appraiser's familiarity with a specific type of property, a market, a geographic area, or an analytical method. The background and experience of appraisers varies widely, and a lack of knowledge or experience can lead to inaccurate or inappropriate appraisal practice. *The Competency Rule requires an appraiser to have both the knowledge and the experience required to perform a specific appraisal service competently.* If an appraiser has been deemed to not have the required competency, the following steps must be taken in acquiring competency in order for that appraiser to perform the assignment under USPAP requirements.

For assignments with retrospective opinions and conclusions (which are allowed under certain prescribed circumstances in property tax work), the appraiser must meet the requirements of this Competency Rule at the time the assignment is performed, rather than the effective date of the appraisal.

### ACQUIRING COMPETENCY

If an appraiser determines he or she is not competent prior to accepting an assignment, the appraiser must:

- disclose the lack of knowledge and/or experience to the client before accepting the assignment;
- take all steps necessary or appropriate to complete the assignment competently; and
- describe, in the report, the lack of knowledge and/or experience and the steps taken to complete the assignment competently.

Competency can be acquired in various ways, including, but not limited to, personal study by the appraiser, association with an appraiser reasonably believed to have the necessary knowledge and/or experience, or retention of others who possess the necessary knowledge and/or experience.

In an assignment where geographic competency is required (certainly useful if not outright necessary in property tax appraisal assignments), an appraiser who is not familiar with the relevant market characteristics must acquire an understanding necessary to produce credible assignment results for the specific property type and market involved. Pritchard & Abbott, Inc., takes great pride in assigning and retaining appraisers who gain and then employ local knowledge and geographic competency in their appraisal assignments.

When an appraiser determines in the course of the assignment that he or she lacks the required knowledge and/or experience to complete the assignment competently, the appraiser must:

- notify the client;
- take all steps necessary or appropriate under the circumstances to complete the assignment competently;  
and
- describe, in the report, the lack of knowledge and/or experience and the steps taken to complete the assignment competently.

**LACK OF COMPETENCY**

If the appraiser cannot complete the assignment competently, the appraiser must decline or withdraw from the assignment.

## 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 cashflow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction. Terms and conditions of any leases should be analyzed, as well as the need for and extent of any physical inspection of the properties being appraised.

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

*Note: This section, in conjunction with any attached or separately provided P&A-generated appraisal reports specific to the subject property or properties, constitutes the “mass appraisal written report” as required by USPAP Standards 6-1 and 6-2. For mass appraisal, a written report is not provided for each individual property. An individual property record or worksheet may describe the valuation of a specific property after the application of the mass appraisal model. USPAP Standards 6-3 (certification) can be found at the end of this report. USPAP Standards 5-1 through 5-7 (instructions and explanations regarding the development, application, and reconciliation of mass appraisal values), as they apply to P&A mass appraisal procedures, are discussed below. USPAP DOES NOT DICTATE THE FORM, FORMAT, OR STYLE OF APPRAISAL REPORTS, WHICH ARE FUNCTIONS OF THE NEEDS OF USERS AND PROVIDERS OF APPRAISAL SERVICES. USPAP ALSO DOES NOT MANDATE THAT EACH APPRAISAL REPORT BE LENGTHY AND FULL OF DISCLAIMERS. Readers should note that all P&A reports, unless stated otherwise, are of a “restricted” nature whereas additional documentation and detail may be available per certain Texas Property Tax Code provisions.*

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

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

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

### **VALUATION APPROACH (MODEL SPECIFICATION)**

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

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

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

## Approaches to Value for Petroleum Property

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

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

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

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

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

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

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

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

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

## **DATA COLLECTION/VALIDATION**

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

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

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

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

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

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

Individual property values are reviewed several times in the appraisal process. P&A's discounted cashflow software dynamically generates various benchmark indicators that the appraiser reviews concurrent with the value being generated. These benchmarks often prompt the appraiser to reevaluate some or all of the parameters of data entry so as to arrive at a value more indicative of industry standards. Examples of indicators are dollars of value per barrel of oil reserve, years payout, etc. In addition to appraiser review, taxpayers are afforded the opportunity to review the appraised values, either before or after Notices of Appraised Value are prepared. Operators routinely meet with P&A's appraisers to review parameters and to provide data not readily available to P&A through public or commercial sources, such as individual lease operating expense and reserve figures. And of course, all property values are subject to review through normal protest and Appraisal Review Board procedures, with P&A acting as an extension of the Office of the Chief Appraiser.

## **PERFORMANCE TESTS**

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

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

*Note: This section, in conjunction with any attached or separately provided P&A-generated appraisal reports specific to the subject property or properties, constitutes the “mass appraisal written report” as required by USPAP Standards 6-1 and 6-2. For mass appraisal, a written report is not provided for each individual property. An individual property record or worksheet may describe the valuation of a specific property after the application of the mass appraisal model. USPAP Standard 6-3 (certification) can be found at the end of this report. USPAP Standards 5-1 through 5-7 (instructions and explanations regarding the development, application, and reconciliation of mass appraisal values), as they apply to P&A mass appraisal procedures, are discussed below. USPAP DOES NOT DICTATE THE FORM, FORMAT, OR STYLE OF APPRAISAL REPORTS, WHICH ARE FUNCTIONS OF THE NEEDS OF USERS AND PROVIDERS OF APPRAISAL SERVICES. USPAP ALSO DOES NOT MANDATE THAT EACH APPRAISAL REPORT BE LENGTHY AND FULL OF DISCLAIMERS. Readers should note that all P&A reports, unless stated otherwise, are of a “restricted” nature whereas additional documentation and detail may be available per certain Texas Property Tax Code provisions.*

### 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.

## USPAP STANDARDS 5, 6-1, 6-2: MASS APPRAISAL OF RESIDENTIAL REAL ESTATE

*Note: This section, in conjunction with any attached or separately provided P&A-generated appraisal reports specific to the subject property or properties, constitutes the “mass appraisal written report” as required by USPAP Standards 6-1 and 6-2. For mass appraisal, a written report is not provided for each individual property. An individual property record or worksheet may describe the valuation of a specific property after the application of the mass appraisal model. USPAP Standard 6-3 (certification) can be found at the end of this report. USPAP Standards 5-1 through 5-7 (instructions and explanations regarding the development, application, and reconciliation of mass appraisal values), as they apply to P&A mass appraisal procedures, are discussed below. USPAP DOES NOT DICTATE THE FORM, FORMAT, OR STYLE OF APPRAISAL REPORTS, WHICH ARE FUNCTIONS OF THE NEEDS OF USERS AND PROVIDERS OF APPRAISAL SERVICES. USPAP ALSO DOES NOT MANDATE THAT EACH APPRAISAL REPORT BE LENGTHY AND FULL OF DISCLAIMERS. Readers should note that all P&A reports, unless stated otherwise, are of a “restricted” nature whereas additional documentation and detail may be available per certain Texas Property Tax Code provisions.*

### INTRODUCTION

Definition of Appraisal Responsibility (Scope of Effort): The Residential Division of Pritchard & Abbott, Inc. (“P&A” hereinafter), is responsible for developing fair and uniform market values for real estate parcels within certain Appraisal Districts. P&A contractually provides a wide degree of professional services depending upon each contract requirement.

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 real estate 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 residential real estate. 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 an extension of 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. 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 the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures. P&A also subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP). P&A submits annual or biannual contract proposals to the Office of the Chief Appraiser and is bound to produce mass appraisal estimates on real estate properties within the cost constraints of said proposals. 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 or at the specific request or direction of the Office of the Chief Appraiser.

## Appraisal Resources

**Personnel:** The Real Estate staff consists of licensed Registered Professional Appraisers through the Texas Department of Licensing and Regulation (TDLR), and are qualified to provide the complete range of professional appraisal services required.

**Data:** Common data characteristics (within each county) for each property are collected in the field and entered into each respective district's computer data base. This property data drives the computer-assisted mass appraisal (CAMA) approach to valuation.

**Information Systems:** The mainframe systems are augmented by the 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. The appraiser supervising any given contract fields many of the public's questions or redirects them to the proper division.

## VALUATION APPROACH (MODEL SPECIFICATION)

**Area Analysis:** Data involving economic forces such as demographic, patterns, employment and income patterns, trends in real estate property prices and rents, interest rates, availability of property, economic and climatic factors that may affect production of rural lands, are collected from various sources. Any information particular to a given region or appraisal district helps the appraisal staff determine market conditions or trends that may affect market value.

**Neighborhood and Market Analysis:** Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effect 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. A neighborhood is defined by natural, man-made, or political boundaries and is established by a commonality based on land users, types and age of buildings or population, the desire for homogeneity, or similar factors.

Each neighborhood may be characterized as being in a stage of growth, stability, or decline. The growth period is a time of development and construction. In the period of stability, or equilibrium, the forces of supply and demand are about equal. The period of decline reflects diminishing demand or desirability. During decline general property use may change. Declining neighborhoods may become economically desirable again and experience renewal, reorganization, rebuilding, or restoration, marked by modernization and increasing demand. The appraisal staff must analyze whether a particular neighborhood is in a period of growth, stability, or decline and predict changes that will affect future use and value. In mass appraisal applications the information can be useful for comparing or combining neighborhoods or for developing neighborhood ratings, which are introduced as adjustments in mass appraisal models.

Site descriptions and analysis provide a description of the subject property and an analysis of factors that affect the market value of the site. Site analysis also provides a basis for allocating values to land and improvements, for analyzing comparable sales to determine the highest and best use of the site, and for estimating locational obsolescence. A description of the subject building and other improvements provides a basis for analysis of comparable sales and rents; for the development of capitalization rates or multipliers; for highest and best use analysis of the site as improved; and for estimation of reproduction or replacement cost new and physical and functional depreciation. The analysis should show how the factors relate to the utility and marketability of the subject property, and, ultimately, its market value. The improvement analysis and the neighborhood analysis

focus on similar considerations; for example, whether the improvements represent highest and best use and conform to the neighborhood.

The improvement analysis describes relationships among items and compares them to those in competing properties and to neighborhood standards. Items that will be treated as functional obsolescence in the cost approach need through analysis. The condition of building components is particularly important because it provides the basis for estimates of effective age and remaining economic life.

Currently P&A provides most of its real estate appraisal services in primarily rural areas. The ability to perform detailed neighborhood and market analysis is somewhat limited in these areas where the necessary data is sometimes nonexistent.

Highest and Best Use Analysis: Highest and best use analysis is the culmination of regional, neighborhood, and site analysis. All three are used to help the appraisal staff understand the factors affecting property values in the market being analyzed and the most probable use of the site in long-run economic equilibrium. Highest and best use is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use must be physically possible, legal, financially feasible, and productive to the maximum, that is, highest and best use. The analysis should be done as of the date of appraisal. Just as real estate values change, the highest and best use of a property may change over time.

## **DATA COLLECTION/VALIDATION**

Data Collection Manuals: Appraisal manuals are developed and distributed to all appraisers involved in the appraisal and valuation of real estate properties. The appraisal manual is reviewed and revised to meet the changing requirements of field data collection.

Sources of Data: Each District's appraisal manual and schedules are adopted and maintained by the P&A appraisal staff. Data used to perform appraisals are generally collected with a joint effort among appraisers and Appraisal District staff. Physical inspections are performed by the appraisers for various situations whether it be a normal reappraisal, a reinspection requested by the District, working building permits, etc.

Data Collection Procedures: Field data collection is coordinated and organized by the field appraisers to insure uniformity in appraisal technique. The staff conducts field inspections and record information on a particular property field worksheet. This data is entered into the respective computer database and serves as the basis for the valuation.

## **VALUATION ANALYSIS**

Cost Schedules: P&A generally adopts existing cost schedules within each Appraisal District in which we provide appraisal services. These schedules are maintained and adjusted as needed to reflect the current market value conditions that are present in each respective district.

Sales Information: Sales are generally collected by the Appraisal District staff and provided to P&A appraisal personnel for sales ratio analysis.

Statistical Analysis: Appraisers perform statistical analysis annually to evaluate whether values are equitable and consistent with market conditions. Appraisal statistics, central tendency and dispersion generated from sales are available for each class of property. These summary statistics include mean and median ratios, standard deviation,

and coefficient of dispersion. They provide the analysis information to determine both the level and uniformity of the appraised values involved in the study.

Market Adjustment: Depending upon the data provided by the sales ratio analysis, market value tables may be adjusted accordingly to reflect accurate market values within a particular class of property.

## **INDIVIDUAL VALUE REVIEW PROCEDURES**

Field Review: P&A provides field inspections depending upon the contractual arrangement with the appraisal district. In most cases field inspections are done within the outline of the respective Appraisal District's Reappraisal Plan.

## **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 real estate 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 the Comptroller considers appropriate.

**USPAP STANDARD 6-3: CERTIFICATION**

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no (or the specified below) present or prospective interest in the property that is the subject of this report, and I have no (or the specified below) personal interest with respect to the parties involved.
- I have performed no (or the specified below) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to any property that is the subject of this report or the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have (or have not, if specified below) made a personal inspection of the properties that are the subject of this report. *(Any other signatories to this report have either made or not made a personal inspection of the properties as noted below.)*
- No one provided significant mass appraisal assistance to the person signing this certification. *(The name of each individual providing significant mass appraisal assistance, if any, is stated below.)*

	Inspected Property?	Provided Significant Appraisal Assistance?
_____ <i>Appraiser (a)</i> <span style="float: right;"><i>Date</i></span>	_____ <i>Yes / No</i>	_____ <i>Yes / No</i>
_____ <i>Appraiser (b)</i> <span style="float: right;"><i>Date</i></span>	_____ <i>Yes / No</i>	_____ <i>Yes / No</i>
_____ <i>Supervising Appraiser / Dept. Manager</i> <span style="float: right;"><i>Date</i></span>	_____ <i>Yes / No</i>	_____ <i>Yes / No</i>
_____ <i>District Manager</i> <span style="float: right;"><i>Date</i></span>	_____ <i>Yes / No</i>	_____ <i>Yes / No</i>

List of other individuals who provided significant mass appraisal assistance and/or personal inspection statement of any signatories:

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**A signed certification is an integral component of the appraisal report. The above certification is not intended to disturb an elected or appointed assessor's work plans or oaths of office.**

- **An appraiser who signs any part of the mass appraisal report, including a letter of transmittal, must also sign this certification. This certification applies to all assignment results and well as all contents of the appraisal report(s).**
- **When a signing appraiser has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser is required to have a reasonable basis for believing that: a) those individuals performing the work are competent; and b) that the work of those individuals is credible.**
- **The names of individuals providing significant mass appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of this assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards 6-2(g). This disclosure may be in any part(s) of the report.**