

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

Approved by the Board of Directors August 21, 2024

Introduction

General Overview of Tax Code Requirements

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

The Written Plan

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

- (i) To ensure adherence with generally accepted appraisal practices, the board of directors of an appraisal district shall develop, biennially, a written plan for periodic reappraisal of all property within the boundaries of the district according to the requirements of Section 25.18 and shall hold a public hearing to consider the proposed plan. Not later than the 10th day before the date of the hearing, the secretary of the board shall deliver to the presiding officer of the governing body of each taxing unit participating in the district a written notice of the date, time, and place of the hearing. Not later than September 15 of each even-numbered year, the board shall complete its hearing, making 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, Texas Property Tax Code, are amended to read as follows:

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

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- (3) Defining market areas in the district;
- (4) Identifying property characteristics that affect property value in each market area including:
 - (a) The location and market area of the property;
 - (b) Physical attributes of the property, such as size, age, and condition;
 - (c) Legal and economic attributes; and
 - (d) Easements, covenants, leases, reservations, contracts, declarations, special assessments, ordinances, or legal restrictions;
- (5) Developing an appraisal model that reflects the relationship among the property characteristics affecting value in each market area and determines the contribution of individual property characteristics;
- (6) Applying the conclusions reflected in the model to the characteristics of the properties being appraised; and
- (7) Reviewing the appraisal results to determine value.

Scope of Responsibilities

Victoria Central Appraisal District (VCAD) has prepared and published this reappraisal plan to provide its Board of Directors, taxing units, citizens, and taxpayers with a better understanding of the District's responsibilities and reappraisal activities. This report has several parts: a general introduction and then, several sections describing the proposed 2025-2026 reappraisal effort by the appraisal departments within VCAD.

The Victoria Central Appraisal District (VCAD) is a political subdivision of the State of Texas created effective January 1, 1980. The provisions of the Texas Property Tax Code govern the legal, statutory, and administrative requirements of the appraisal district. The Board of Directors comprises five members, appointed by the taxing units within the boundaries of Victoria County, the Victoria County Tax Collector, and three at large elected members, who must reside in Victoria County, TX, constituting the district's governing body. The Chief Appraiser is appointed by the Board of Directors and is the Chief Administrator and Executive Director of the appraisal district.

Victoria Central Appraisal District is responsible for local property tax appraisal and exemption administration for 17 jurisdictions and/or taxing units in the County of Victoria. Each taxing unit, such as the county, city, school district, municipal utility district, etc., sets its own tax rate to

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generate revenue to pay for such things as police and fire protection, public schools, road and street maintenance, courts, water and sewer systems, and other public services. Property appraisals are estimated values by the appraisal district and used by the taxing units to distribute that annual tax burden. They are generally based on each property's worth or market value. VCAD also determines eligibility for various types of property tax exemptions such as those for homeowners, the elderly, disabled persons, disabled veterans, and charitable or religious organizations. The Victoria Central Appraisal District also determines the eligibility of properties for agricultural special valuations.

The Property Tax Code, except as otherwise provided, states that all taxable property is to be appraised annually at its “market value” as of January 1st. Under the tax code, “market value” means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

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

The Property Tax Code defines special appraisal provisions for the valuation of residential homestead property (Sec. 23.01 & 23.23), productivity (Sec. 23.41 & 23.51), real property inventory (Sec. 23.12), dealer inventory (Sec. 23.121, 23.124, 23.1241 and 23.127), nominal (Sec. 23.18) or restricted use properties (Sec. 23.83) and allocation of interstate property (Sec. 21.03, 21.04, 21.05 and 21.055).

The owner of real or personal property inventory may elect to have the inventory appraised at its market value as of September 1st of the year proceeding the tax year to which the appraisal applies by filing an application with the chief appraiser requesting that the inventory be appraised as of September 1st.

The Texas Property Tax Code, under Sec. 25.18, requires each appraisal office to implement a plan to update appraised values for real property at least once every three years. The district's current policy is to conduct a general reappraisal of real and business personal property every year, meaning that a property's appraised value is established and reviewed for equality and uniformity on an annual basis.

The appraised value of real and business property is calculated using specific information and data about each property. Using computer-assisted mass appraisal programs, and generally

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recognized appraisal methods and techniques, registered and trained appraisers compare the subject property information with the data for similar properties, and with recent cost and market data. The district adheres to the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures and subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP) to the extent they are applicable. Chapter 23 of the Texas Property Tax Code contains statutes dealing with appraisal methods and procedures. Section 23.01 of this Chapter was amended in 1997 to specify that appraisal districts be required to comply with the mass appraisal standards of USPAP (Standard 6- now Standards 5 and 6) when the appraised value of a property is established using mass appraisal techniques. In cases where the appraisal district contracts for professional valuation services, the contract that is entered into by each appraisal firm requires adherence to similar professional standards.

Reappraisal Plan Assumptions and Limiting Conditions

The 2025-2026 Reappraisal Plan will be and has been adopted by the Victoria Central Appraisal District Board of Directors no later than September 15, 2024. The assessment dates for the 2025 and 2026 Reappraisal Plan are January 1, 2025, and January 1, 2026, respectively.

VCAD's goal is to appraise all properties at fair market value as of January 1 of every year by reflecting the market place. The Reappraisal Plan itself regarding 2025 and 2026 building permits and reappraisal account projections are based on historical data and best guess estimates as to what number of properties will be targeted for reappraisal in these years. At the time of approval for 2025-2026 Reappraisal Plan, a complete listing of actual properties to be targets for reappraisal cannot be specifically identified, as VCAD undertakes a geographical and as needed reappraisal effort. VCAD's position has always been to reflect the market place as of January 1 of every year. Therefore, VCAD includes as needed reappraisal properties in order to better achieve the goal of appraising all property at fair market value as of January 1 annually.

With this said, VCAD's Reappraisal Plan will always target properties that meet the following building permit and reappraisal criteria during the course of the appraisal cycle (August 1- April 1):

- 1) Any Residential or Commercial account coded for reinspection of partial completion, as of January 1 of the prior appraisal year.
- 2) Any Residential or Commercial account that has a significant building permit issued from the City of Victoria, or an OSSF permit by Victoria County from January 1- December 31 and construction began prior to January 1.

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- 3) Any Residential or Commercial account where data or inquiry has been provided to VCAD that indicates the property has had a conditional change that is not currently reflected on the record as of January 1.
- 4) Any Residential, Commercial or Business Personal Property account that falls within the identified geographical region for the specified year.
- 5) All mineral accounts.
- 6) Any real property account in 2025 and 2026 that has a last inspection date of 2022 and 2023 respectively.

The Residential and Commercial reappraisal analysis will be conducted typically during the time period of January to March annually.

Parcel counts and other statistical data are based on the district's current operation as of the date of this report. Personnel numbers are based on VCAD's 2023/2024 Approved Budget. Those key VCAD personnel involved in the annual Reappraisal Plan are identified in Appendix A.

Appraisal Department manuals document all VCAD's appraisal processes and the CAMA (Computer Assisted Mass Appraisal System) system functionality. VCAD also has copies of the Pritchard and Abbott, Inc utility, mineral and industrial appraisal reappraisal plan associated with the utility, mineral and industrial valuations.

A listing of all Residential Neighborhoods are located in the Appendix B. Area maps for Residential, Commercial, and Business Personal Property (BPP) are also located in Appendix C. These maps are tied back to specific routes targeted for reappraisal. More detailed maps can be made available when requested.

Appraisal Notification

The Victoria Central Appraisal District (VCAD) provides appraisal notices for all taxable property on the VCAD website annually.

VCAD's notification criteria is to mail an appraisal notice annually to all new owners, any property that has a market value change in excess of \$1,000 from the prior tax year, all new accounts, all rendered accounts, and all mineral accounts.

Reappraisal Plan Appendix & Overview of District's Operation

Personnel Resources

The office of the Chief Appraiser is primarily responsible for overall planning, organizing, staffing, coordinating, and controlling of district operations. The Administration department's

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function is to plan, organize, direct and control the business support functions related to human resources, budget, finance, records management, purchasing, fixed assets, facilities and postal services. The Support department oversees Customer Service, Exemptions and Appeals. The Support department is responsible for any total or partial exemptions filed with the appraisal district as well as other documents such as tax deferrals, historic exemptions, abatements, tax increment finance districts, and agricultural applications. The Appraisal department is responsible for the valuation of all real and personal property accounts. The property types appraised include commercial, residential, business personal, mineral, utilities and industrial. The Mapping department is responsible for processing deed and title documents filed at the county clerk's office and all GIS functions.

The appraisal district staff consists of 22 employees with the following classifications:

- 1 -Official/Administrator (executive level administration)
- 3 -Professional (supervisory and management)
- 4- Residential Appraisers
- 1-Commercial Appraiser
- 2-Personal Property Appraisers
- 1-Land appraiser
- 10 -Administrative Support (professional, customer service, clerical and other)

Staff Education and Training

All appraisal district personnel that perform appraisal work are subject to the provisions of the Property Taxation Professional Certification Act and must be registered with the Texas Department of Licensing and Regulation (TDLR). TDLR is responsible for ensuring appraisers are professional, knowledgeable, competent and ethical. This is accomplished through a statewide program of registration, licensing, education, experience, testing and certification for all property tax professionals.

Upon registration, appraisers registered with the TDLR have up to five years to take a series of appraisal courses and exams in order to achieve certification as a Registered Professional Appraiser (RPA). During each subsequent twenty-four month period after certification, appraisers must complete an additional 30 hours of continuing education. Continuing education is in the form of IAAO, Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD), in-house program offerings, and other approved Property Tax Assistance Division (PTAD) courses and seminars. Failure to meet the minimum standards will result in a registrant losing their TDLR licenses and will also result in the removal of the employee from an appraiser position.

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Additionally, all appraisal personnel receive extensive training in data gathering processes and valuation processes. Standardized manuals are provided to ensure uniform and accurate data collection. Lead and senior appraisal personnel provide on-the-job data collection training in the office and in the field. Managers meet regularly with staff to introduce new procedures and regularly monitor appraisal activity to ensure that all personnel are following standardized appraisal methods and techniques.

Data

The district is responsible for establishing and maintaining approximately 62,000 real and personal property accounts covering 894 square miles within Victoria County. There are three over-lapping jurisdictions that are partially in Victoria County which are the following school districts. Meyersville ISD (Dewitt County) Industrial ISD (Jackson County) and Refugio ISD (Refugio County). The data for all properties includes property characteristics, ownership, and exemption information. Property characteristic data on new construction is updated through an annual effort; existing property data is maintained through an office review. Sales are routinely validated during a separate field effort; however, some sales are validated as part of the new construction and field inspections. General trends in employment, interest rates, new construction trends, cost and market data are acquired through various sources, including internally generated questionnaires to buyers and sellers, university research centers, and market data centers and vendors. The district has developed a geographic information system (GIS) that maintains cadastral maps and various layers of data and aerial photography. The district has acquired Pictometry, aerial oblique photography that shows properties from four different directions. This tool allows the measurement of length and heights of improvements. This tool is used by the appraisal staff to assist in their reappraisal efforts. The City of Victoria has a website that includes mapping information for portions of the County that is not in the City of Victoria. This information is provided by the Appraisal District. The district's website makes a broad range of information available for public access, including information on the appraisal process, property characteristics data, certified values, protests and appeal procedures. Downloadable files of related tax information and district forms, including exemption applications and business personal property renditions are also available.

Information Systems

The Systems Administrator and the Mapping Supervisor manage and maintain the district's data processing facility, software applications, and geographical information system. The district operates from a Microsoft SQL server database. The Mainframe hardware/system software is Dell Power Edge T-640. The user base is networked through the mainframe using Windows 2019 Server Standard. Harris Govern provides software services for appraisal applications. BIS provides services of the Internet website, and it is maintained in house by the Business Manager.

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SHARED APPRAISAL DISTRICT BOUNDARIES

The district established procedures whereby ownership and property data information are routinely processed within overlapping jurisdictional boundaries. Appraisers collect data and review valuation issues to accurately reflect the property characteristics, legal descriptions, and other administrative data. These overlapping jurisdictions are appraised and treated as if the entire jurisdiction is located within the County. After certification of the taxable values, information is provided to the appropriate taxing unit's collectors for generation of the Tax roll.

INDEPENDENT PERFORMANCE TEST

According to Chapter 5 of the *Texas Property Tax Code* and Section 403.302 of the *Texas Government Code*, the State Comptroller's Property Tax Assistance Division (PTAD) conducts a bi-annual 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 recognized auditing and sampling techniques; test the validity of school district taxable values in each appraisal district and presume the appraisal roll values are correct when values are valid; and, determine the level and uniformity of property tax appraisal in each appraisal district. The methodology used in the property value study includes stratified samples to improve sample representativeness and techniques or procedures of measuring uniformity. This study utilizes statistical analyses of sold properties (sale ratio studies) and appraisals of unsold properties (appraisal ratio studies) as a basis for assessment ratio reporting. For appraisal districts, the reported measures include median level of appraisal, coefficient of dispersion (COD), the percentage of properties within 10% of the median, the percentage of properties within 25% of the median, and price-related differential (PRD) for properties overall and by state category. This study is performed in even numbered years for Victoria County. There are 6 Independent School Districts in Victoria CAD for which appraisal rolls are annually developed. This outside (third party) ratio study provides additional assistance to the CAD in determining areas of market activity or changing market conditions. The preliminary results of this study are released in January in the following appraisal year. The final results of this study are certified to the Education Commissioner of the Texas Education Agency (TEA) the following July of each year.

The Comptroller's Property Tax Assistance Division is also required to review each CAD's governance, taxpayer assistance, operating standards, appraisal standards, appraisal procedures and appraisal methodology at least every two years. This review referred to as the Methods and Assistance Program (MAP) will be conducted during the year in which the Property Value Study is not undertaken. The Comptroller is required to deliver a written report to the chief appraiser, CAD board of directors and each superintendent and board of trustees in school districts in the CAD concerning MAP findings. This study is performed in odd numbered years for Victoria County.

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Appraisal Activities

Appraisal Responsibilities

The field appraisal staff is responsible for collecting and maintaining property characteristic data for classification, valuation, and other purposes. Accurate valuation of real and personal property by any method requires a comprehensive physical description of personal property, and land and building characteristics. This appraisal activity is needed for administering, planning, and coordinating all activities involving data collection and maintenance of all commercial, residential, and personal property types located within the boundaries of Victoria County. The data collection effort involves the field inspection of real and personal property accounts, as well as data entry of all data collected into the existing information system. The goal is to periodically field inspect residential, commercial, and personal properties in the district. The county and city of Victoria are divided into four regions by Victoria Central Appraisal District for reappraisal projects. The appraisal opinion of value for all property located in the district is reviewed and evaluated each year for all types of property.

Appraisal Resources

- **Personnel** -The appraisal activities are conducted by 9 appraisers.
 - 5-Residential Appraisers
 - 1-Commercial Appraiser
 - 2-Personal Property Appraisers
 - 1-Land Appraiser
- **Data** -The data used by field appraisers includes the existing property characteristic information contained in CAMA (Computer Assisted Mass Appraisal System) from the district's computer system. The data is collected and inputted using iPads or documented on personal property data sheets. Other data used includes maps, sales data, fire and damage reports, mechanic liens, electric service reports, mobile home reports, 911 address reports, building permits, photos, septic permits, recorded building related transactions recorded in the county clerk's office, and actual cost and market information. Sources of information are gathered using relationships with other participants in the real estate marketplace. The district cultivates sources and gathers information from both buyers and sellers participating in the real estate market.

Appraisal Frequency and Method Summary

- Residential Property-Some residential property is appraised utilizing pictometry aerial photography and other reappraisal methods to review the improvements. The improvements located on each property are compared with the appraisal record. If any discrepancies are discovered, the appraiser will record any changes that might have occurred to the property since the last review. This occurs more often in subdivisions where change of condition is frequent. Exterior pictures are taken of

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homes and primary structures as needed. The City of Victoria is divided into 120 Appraisal Routes. The area outside the City of Victoria is divided into 85 Appraisal Routes. The appraisal staff will inspect all new construction building permits, sewer permits, mechanics liens, fire and damage reports, new rural electric service reports, mobile home reports, 911 address reports, recorded building related transfers recorded in the county clerk's office, recheck codes from prior years, buildings less than 100% complete and inquiries from the public. In total this generally results in between 10,000 to 14,000 properties that will be inspected and the measurements of each building verified for 2025 & 2026.

- Every subdivision is statistically analyzed annually to ensure that sales that have occurred in the subdivision during the past 12 months are within a +-3% range of appraised value. If the sales do not indicate that range, adjustments are made to the subdivision using a process outlined in detail in the Residential Appraisal section of this report.
- Commercial Property -Commercial real estate is inspected by the commercial appraiser at least every three years to verify class and condition and dimensions.
- Business Personal Property-Business personal property is observed by the personal property appraiser to develop quality and density observations and confirm active operation. A rendition is mailed for businesses to complete. Businesses are categorized using SIC codes. Rendition laws provide additional information on which to base values of all BPP accounts.
- Industrial, Minerals, Utilities and Pipelines -are appraised by Pritchard & Abbott, Inc. Their reappraisal plan is included in Appendix D.

PRELIMINARY ANALYSIS

Data Collection/Validation

Data collection of real property involves maintaining data characteristics of the property on CAMA (Computer Assisted Mass Appraisal). The information contained in CAMA includes site characteristics, such as land size and topography, and improvement data, such as square feet of living area, year built, effective year built, quality of construction, and condition. Field appraisers are required to use a property classification system that establishes uniform procedures for the correct listing of real property. All properties are coded according to a classification system. The approaches to value are structured and calibrated based on this coding system using property description and characteristics. The field appraisers use property classification references during their initial training and as a guide in the field inspection of properties. Data collection for personal property involves maintaining information on software designed to record and appraise

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business personal property. The type of information contained in the BPP file includes personal property such as business inventory, furniture and fixtures, machinery and equipment, vehicles, with details such as cost and location. The field appraisers conducting on-site inspections use a personal property classification system during their initial training and as a guide to correctly list all personal property that is taxable. The listing procedure utilized by the field appraisers is available in the district office. Appraisers periodically update the classification system as needed.

Sources of Data

The sources of data collection are through property inspection, new construction field effort, data review/relist field effort, data mailer questionnaires, hearings, sales validation field effort, commercial sales verification and field effort, newspapers and publications, and property owner correspondence by mail, telephone, front counter, or via the Internet. A principal source of data comes from building permits received from taxing jurisdictions that require property owners to take out a building permit. Paper permits are received and matched manually with the property's tax account number for data entry. Area and regional real estate brokers and managers are also sources of market and property information. Data surveys of property owners requesting market information and property description information is also valuable data. The district has contracted with Carasoft to provide verified real property sales. We also contract with Co-Star for commercial sales and lease information. Soil surveys and agricultural surveys of farming and ranching property owners and industry professionals are helpful for productivity value calibration. The Texas Railroad Commission is the source for mineral production data and leasing information. Capital market information is available from the Wall Street Journal, Value Line Investment Survey, and the Oil and Gas Journal. Crude and gas pricing is taken from Plains Marketing, a regional commodity gatherer and purchaser. Improvement cost information is gathered from local building contractors and Marshall and Swift Valuation Service. Various income and rental surveys are performed by interviewing property managers and operators to determine operating income and expenses for investment and income producing real property. The district last acquired Pictometry images from winter 2023. New photography is to be flown in winter of 2026 with the new imagery ready in summer 2026. These images provide information concerning the location and condition of properties as of the date of the flyover. Data review of entire neighborhoods is generally a good source for data collection. In areas with abnormally high protest rates, Appraisers drive entire neighborhoods to review the accuracy of data and identify properties that have to be re-appraised. The sales validation effort in real property pertains to the collection of market data for properties that have sold. In residential, the sales validation effort involves on-site inspection by field appraisers to verify the accuracy of the property characteristics and confirmation of the sales price. In commercial, the commercial appraiser is responsible to verify pertinent data. Property owners are one of the best sources for identifying incorrect data that generates a field check. Frequently, the property owner provides reliable data to allow correction of records without having to send an appraiser on-site. As the

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district has increased the amount of information available on the Internet, property owners have the opportunity to review information on their property and forward corrections via e-mail. For the property owner without access to the Internet, letters are sometimes submitted notifying the district of inaccurate data. Properties identified in this manner are added to a work file and inspected at the earliest opportunity. Accuracy and validity in property descriptions and characteristics data is the highest goal and is stressed throughout the appraisal process from year to year. Appraisal opinion quality and validity relies on data accuracy as its foundation.

The sources of data for agricultural use valuation are provided by property owners who are mailed a Cash Share Lease information sheet annually, as well as input from the Agricultural Advisory Board, the Farm Service Agency (FSA), County Extension agent, Texas Parks & Wildlife, Natural Resources Conservation Service (NRCS), and other county, state and federal agencies.

Data Collection Procedures

The appraisers are assigned specific areas throughout the district to conduct appraisals inspections. These geographic areas of assignment are maintained for several years to enable the appraiser assigned to that area to become knowledgeable of all the factors that drive values for that specific area. Appraisers of real estate and business personal property conduct field inspections and record information pertaining to the property into mobile PACS or documented on property cards, which allows for the entry of corrections and additions that the appraiser may find in his or her field inspection. The quality of the data used is extremely important in estimating market values of taxable property. While work performance standards are established and upheld for the various field activities, quality of data is emphasized as the goal and responsibility of each appraiser. New appraisers are trained in the specifics of data collection and the classification system set forth and recognized as “rules” to follow. Experienced appraisers are routinely re-trained in listing procedures prior to major field projects such as new construction, sales validation or data review. A quality assurance process exists through supervisory review of the work being performed by the field appraisers. The Senior Appraiser is charged with the responsibility of ensuring quality assurance in that appraisers follow listing procedures, identify training issues and provide uniform training throughout the field appraisal staff.

Data Maintenance

The field appraiser is responsible for the data entry of his/her field work into the computer file. This responsibility includes not only the accuracy of data entry, but also quality as well. The majority of the data collected in the field is input into the iPad/computer by the field appraiser. Data updates and file modification for property descriptions and input accuracy is conducted as the responsibility of the field appraiser and appraisal supervisors.

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INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The date of the last inspection and the CAD appraiser responsible are listed on the CAMA record or property card. If a property owner or jurisdiction, disputes the district's records concerning this data during a hearing, via a telephone call, or other correspondence received, the record may be corrected based on the evidence provided or an on-site inspection may be conducted.

Typically, a field inspection is requested to verify this information for the current year's valuation or for the next year's valuation. Most years, a field review of real property located in certain areas or neighborhoods in the jurisdiction is done during the data review/re-list field effort. A field review is performed each year on selected personal property accounts, with available situs, when staffing and time allow.

Office Review

Office reviews are completed on properties where update information has been received from the owner of the property and is considered accurate and correct. When the property data is verified in this manner, and considered accurate and correct, field inspections may not be required. The use of Pictometry has greatly enhanced these capabilities. The personal property department mails property rendition forms in January of each year to assist in the annual review of the property.

PERFORMANCE TEST

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

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Residential Property Valuation Process

INTRODUCTION

Scope of Responsibility

The residential appraisers are responsible for estimating equal and uniform market values for residential improved and vacant properties. There are approximately 35,315 residential improved single and multiple family parcels and 2,899 vacant residential *lots* in Victoria County.

Appraisal Resources

- **Personnel** -The residential appraisal staff consists of 5 appraisers. These are responsible for estimating the market value of residential property.
- **Data** -An individualized set of data characteristics for each residential dwelling and multiple family units in this district are collected in the field and data entered into the iPad. The property characteristic data drives the application of computer-assisted mass appraisal (CAMA) under a modified cost Approach to property valuation.

VALUATION APPROACH

Land Analysis

Residential land valuation analysis is conducted prior to neighborhood sales analysis. The value of the land component to the property is estimated based on available market sales for comparable and competing land under similar usage. A comparison and analysis of comparable land sales is conducted based on a comparison of land characteristics found to influence the market price of land located in the neighborhood. A computerized land table file stores the land information required to consistently value individual parcels within neighborhoods given known land characteristics. Specific land influences are considered, where necessary, and depending on neighborhood and individual lot or tract characteristics, to adjust parcels outside the neighborhood norm for such factors as access, view, shape, size, and topography. The appraisers use abstraction and allocation methods to insure that estimated land values best reflect the contributory market value of the land to the overall property value.

Area 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 are collected from private vendors and public sources and provide the field appraiser a current economic outlook on the real estate market. Information is gleaned from real estate publications and sources such as continuing education in the form of classes provided by IAAO and classes required by TDLR.

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Neighborhood and Market Analysis

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

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

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All the residential analysis work done in association with the residential valuation process is neighborhood specific. Neighborhoods are field inspected and delineated based on observable aspects of homogeneity. Neighborhood delineation is periodically reviewed to determine if further neighborhood delineation is warranted. Whereas neighborhoods involve similar properties in the same location, a neighborhood group is simply defined as similar neighborhoods in similar locations. Each residential neighborhood is assigned to a neighborhood group based on observable aspects of homogeneity between neighborhoods. Neighborhood grouping is highly beneficial in cost-derived areas of limited or no sales, or use in direct sales comparison analysis. Neighborhood groups, or clustered neighborhoods, increase the available market data by linking comparable properties outside a given neighborhood. Sales ratio analysis, discussed below, is performed on a neighborhood basis, and in soft sale areas on a neighborhood group basis.

Highest and Best Use Analysis

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

VALUATION AND STATISTICAL ANALYSIS (Model Calibration)

Cost Schedules

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

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be indexed for neighborhood factors and influences that affect the total replacement cost of the improvements in a smaller market area based on evidence taken from a sample of market sales. The cost schedules are reviewed regularly as a result of legislation requiring that the appraisal district cost schedules be within a range of plus or minus 10% from nationally recognized cost schedules. The residential cost schedules are reviewed annually to determine if the current unit price per square foot needs to be adjusted or if the current schedule is supported by current market prices. As part of this review and evaluation process of the estimated replacement cost, newly constructed sold properties representing various levels of quality of construction in the district are considered. The property data characteristics of these properties are verified and photographs are taken of the samples. CAD replacement costs are compared against the market derived cost information and the indicated replacement cost is abstracted from these market sales of comparably improved structures.

- The market derived cost information is attained by taking the sale price of each property and subtracting from this value the land value and any other improvements /structures that are not directly related to the price of the residential main area, ie. swimming pools, storage buildings, detached steel buildings, etc).
- The result is the value of the residence which is then divided by the depreciation rate to arrive at an adjusted residential value.
- It is further adjusted by removing any lump sum features (fireplaces, elevators, and above normal plumbing fixtures).
- Secondly, the square footage is converted to a single adjusted square foot using the same percentage used for each attribute of the residence (main area, second story, garage, open porches, patios, etc.). Then this adjusted square footage is divided into the adjusted residence value for the market based cost per square foot. Finally the market based cost price is further adjusted by dividing the exterior wall adjustment percentage for a final market based cost per square foot.
- Finally the market based cost price is further adjusted by dividing the exterior wall adjustment percentage for a final market based cost per square foot.
- This process is repeated for all sales within the same residential class.
- The final market based cost price per square foot for each class is reviewed by date, square foot size, exterior wall covering, and subdivision in order to determine if any trends exist that would require an adjustment.
- The final figure is compared to each existing cost figure within the class in order to determine the amount of adjustment needed.

The results of this comparison are analyzed using statistical measures, including stratification by

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quality and reviewing of estimated building costs plus land to sales prices. As a result of this analysis, a new regional multiplier or economic index factor and indications of neighborhood economic factors are developed for use in the district's cost process. This new economic index is estimated and used to adjust the district's cost schedule to be in compliance with local building costs as reflected by the local market.

Sales Information

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

Monthly time adjustments are estimated based on comparative analysis using paired comparison of sold property. Sales of the same property were considered and analyzed for any indication of price change attributed to a time change or influence. Property characteristics, financing, condition of property, and conditions of sale are compared for each property sold in the pairing of property to isolate only the time factor as an influence on price.

Statistical Analysis

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

The appraiser, through the sales ratio analysis process, reviews every neighborhood annually.

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

Market Adjustments or Trending Factors

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

The following equation denotes the hybrid model used:

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

Whereas, in accordance with the cost approach, the estimated market value (MV) of the property equals the land value (LV) plus the replacement cost new of property improvements (RCN) less accrued depreciation (AD). As the cost approach separately estimates both land and building contributory values and uses depreciated replacement costs, which reflect only the supply side of the market, it is expected that adjustments to the cost values may be needed to bring the level of appraisal to an acceptable standard as indicated by market sales. Thus, demand side economic factors and influences may be observed and considered. These market, or location adjustments, may be abstracted and applied uniformly within neighborhoods to account for locational variances between market areas or across a jurisdiction. Whereas, in accordance with the Market Approach, the estimated market value (MV) of the property equals the basic unit of property, under comparison, times the market price range per unit for sales of comparable property. For residential property, the unit of comparison is typically the price per square foot of living area or the price indicated for the improvement contribution. This analysis for the hybrid model is based on both the cost and market approaches as a correlation of indications of property valuation. A significant unknown for these two indications of value is determined to be the rate of change for the improvement contribution to total property value. The measure of change for this property component can best be reflected and based on the annualized accrued depreciation rate. This cost related factor is most appropriately measured by sales of similar property. The market approach, when improvements are abstracted from the sale price, indicates the depreciated value of the improvement component, in effect, measuring changes in accrued depreciation, a cost factor. The

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level of improvement contribution to the property is measured by abstraction of comparable market sales, which is the property sale price less land value. The primary unknown for the cost approach is to accurately measure accrued depreciation affecting the amount of loss attributed to the improvements as age increases and condition changes. This evaluation of cost results in the depreciated value of the improvement component based on age and condition. The evaluation of this market and cost information is the basis of reconciliation and indication of property valuation under this hybrid model. When the appraiser reviews a neighborhood, the appraiser reviews and evaluates a ratio study that compares recent sales prices of properties, appropriately adjusted for the effects of time, within a delineated neighborhood, with the value of the properties' based on the estimated depreciated replacement cost of improvements plus land value. The calculated ratio derived from the sum of the sold properties' estimated value divided by the sum of the time adjusted sales prices indicates the neighborhood level of appraisal based on sold properties. This ratio is compared to the acceptable appraisal ratio, 97% to 102%, to determine the level of appraisal for each neighborhood. If the level of appraisal for the neighborhood is outside the acceptable range of ratios, adjustments to the neighborhood are made. If reappraisal of the neighborhood is indicated, the appraiser analyzes available market sales, appropriately adjusted for the apparent effects of time, by market abstraction of property components. This abstraction of property components allows the appraiser to focus on the rate of change for the improvement contribution to the property by providing a basis for calculating accrued depreciation attributed to the improvement component. This impact on value is usually the most significant factor affecting property value and the most important unknown to determine by market analysis. Abstraction of the improvement component from the adjusted sale price for a property indicates the effect of overall market suggested influences and factors on the price of improvements that were a part of this property recently sold. Comparing this indicated price or value allocation for the improvement with the estimated replacement cost new of the improvement indicates any loss in value due to accrued forms of physical, functional, or economic obsolescence. This is a market driven measure of accrued depreciation and results in a true and relevant measure of improvement marketability, particularly when based on multiple sales that indicate the trending of this rate of change over certain classes of improvements within certain neighborhoods. Based on this market analysis, the appraiser estimates the annual rate of depreciation for given improvement descriptions considering age and observed condition. Once estimated, the appraiser recalculates the improvement value of all property within the sale sample to consider and review the effects on the neighborhood sale ratio. After an acceptable level of appraisal is achieved within the sale sample, the entire neighborhood of property is recalculated utilizing the indicated depreciation rates taken from market sales. This depreciation factor is the basis for trending all improvement values and when combined with any other site improvements and land value, brings the estimated property value through the cost approach closer to actual market prices as evidenced by recent sale prices available within a given neighborhood. Therefore, based on analysis of recent sales located within a given neighborhood,

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estimated property values will reflect the market influences and conditions only for the specified neighborhood, thus producing more representative and supportable values. The estimated property values calculated for each updated neighborhood are based on market indicated factors applied uniformly to all properties within a neighborhood. Finally, with all the market-trend factors applied, a final ratio study is generated that compares recent sale prices with the proposed appraised values for these sold properties. From this set of ratio studies, the appraiser judges the appraisal level and uniformity in both update and non-update neighborhoods and verifies appraised values against overall trends as exhibited by the local market, and finally, for each school district as a whole.

TREATMENT OF RESIDENCE HOMESTEADS

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

- the market value; or
- the preceding year's appraised value;

PLUS 10 percent;

PLUS the market value of all new improvements added since the preceding year.

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

CIRCUIT BREAKER

Beginning in 2024, the State of Texas implemented a 20% cap on all real property, under five million dollars in market value, not receiving a homestead or receiving a special valuation. Under that new law, beginning in the second year a property is under the same ownership and meets the value guidelines issued by the Texas State Comptroller, Property Tax Assistance Division, increases in the assessed value of that property are "capped." The value for tax purposes (assessed value) of a qualified residence homestead will be the LESSER of:

- the market value; or

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- the preceding year's appraised value;

PLUS 20 percent;

PLUS the market value of all new improvements added since the preceding year.

Assessed values of capped properties must be recomputed annually. If a capped property sells, the cap automatically expires as of January 1st of the following year. However, in the year following changes in ownership will remove the property from the circuit breaker, and the property will need to requalify under the new value limit issued by PTAD.

INDIVIDUAL VALUE REVIEW PROCEDURES

Building Permit Review

Building permits are received monthly from the City of Victoria, as well as on site sewer facility permits from Victoria County. They are then uploaded to the applicable account so a physical inspection and/or office review can take place for the current appraisal year. All significant value related building permits issued from January 1, 2024, through December 31, 2024, associated with an account will be inspected and reappraised for the 2025 Appraisal Year. Also, those accounts that were partially complete as of January 1, 2024 and January 1, 2025 will be reinspected for 2025 and 2026 respectively. Any property that has new construction activity as of January 1 and was not 100% complete will be targeted for reappraisal the next appraisal year. This also includes those properties whereby a building permit was issued prior to January 1 but no new construction activity had taken place as of January 1 of the current appraisal year. Property data attribute information is verified and corrected based on on-site inspections as well as office review using digital photographs and aerial photography.

Field Review

The appraiser identifies individual properties in critical need of field review through sales ratio analysis. Sold properties are field reviewed on a periodic basis to check for accuracy of data characteristics. As the district's parcel count has increased through new home construction, and the homes constructed in the boom years of the late 70's and early 80's experience remodeling, the appraisers are required to perform the field activity associated with transitioning and high demand neighborhoods. Increased sales activity has also resulted in a more substantial field effort on the part of the appraisers to review and resolve sales outliers. Additionally, the appraiser frequently field reviews subjective data items such as quality of construction, condition, and physical, functional and economic obsolescence, factors contributing significantly to the market value of the property. After preliminary estimates of value have been determined in targeted areas, the appraiser takes valuation documents to the field to test the computer-assisted values against his/her own appraisal judgment. During this review, the appraiser is able to physically inspect both sold properties and unsold properties for comparability and consistency of values.

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Office Review

Once field review is completed, the appraiser conducts a routine valuation review of all properties as outlined in the discussion of ratio studies and market analysis. Valuation reports comparing previous values against proposed and final values are generated for all residential improved and vacant properties. The percentage of value difference are noted for each property within a delineated neighborhood allowing the appraiser to identify, research and resolve value anomalies before final appraised values are released. Previous values resulting from a hearing protest are individually reviewed to determine if the value remains appropriate for the current year. Once the appraiser is satisfied with the level and uniformity of value for each neighborhood within his area of responsibility, the estimates of value generate an appraisal notice.

Equal and Uniform Analysis

An equal and uniform analysis can be undertaken on any given property. For Residential property, a sample size of approximately three to six properties is typically used whereby each appraisal comparable is appropriately adjusted when compared to the subject property based on land valuation differences, additional improvement differences and/or physical attribute differences.

PERFORMANCE TESTS

Sales Ratio Studies

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

Management Review Process

Once the proposed value estimates are finalized, the appraiser reviews the sales ratios by neighborhood and presents pertinent valuation data, such as weighted sales ratio and pricing trends, to the appraisal supervisors and the Chief Appraiser for final review and approval. This review includes comparison of level of value between related neighborhoods within and across jurisdiction lines. The primary objective of this review is to ensure that the proposed values have met preset appraisal guidelines appropriate for the tax year in question.

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Residential Division Reappraisal Plan Overview

The following pages describe the Residential Department's Reappraisal Plan. The Residential Division's 2025 and 2026 Reappraisal Plan consists of two primary tasks – Fixed Tasks and Variable Tasks. Fixed tasks are those tasks required to be done on an annual basis and are associated with working building permits received on a monthly basis from the City of Victoria, as well as OSSF permits from the County. Variable tasks are those tasks associated with our annual reappraisal effort.

Goals for 2025 Residential Department

Action for 2025

City of Victoria	Due Date February 1, <u>2025</u>
Work all first and second quarter <u>2024</u> building permits, mechanic liens, verify all new applications for exemptions, deed transfers, rechecks from <u>2024</u> inquiries, fire loss reports, and any other information that would warrant an inspection during the first and second quarter of <u>2024</u> .	

City of Victoria	Due Date March 1, <u>2025</u>
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Work all third quarter <u>2024</u> building permits, mechanic liens, verify all new applications for exemptions, deed transfers, fire loss reports, and any other information that would warrant an inspection during the third and fourth quarter of <u>2024</u> . Verify all percent complete structures. Inspect all routes that begin with 6,7,9A and 9B.	
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Outside the City of Victoria	Due Date March 15, <u>2025</u>
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Work all first and second quarter <u>2024</u> sewer permits, mechanic liens, deed transfers, verify all new applications for exemptions, rechecks from <u>2024</u> inquiries, fire loss reports, and any other information that would warrant an inspection during the first and second quarter of <u>2024</u> . Also verify all percent complete structures and inspect all manufactured housing parks. Inspect all routes that begin with N.	
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City of Victoria	Due Date April 1, <u>2025</u>
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Work all fourth quarter <u>2024</u> building permits, mechanic liens, deed transfers, verify all new applications for exemptions, fire loss reports, and any other information that would warrant an inspection during the fourth quarter of 2024 and inspect all manufactured housing parks.	
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Outside the City of Victoria

Due Date April 1, 2025

Work all third and fourth quarter sewer permits, mechanic liens, deed transfers verify all new applications for exemptions, rechecks from 2024 inquiries, fire loss reports, and any other information that would warrant an inspection during the third and fourth quarter of 2024.

County Wide

Due April 15, 2025

Review and adjust residential schedules as necessary

County Wide

Due June 1, 2025

Inspect all Ag Applications filed timely.

This schedule of inspections should generate a review of between 14,000 and 16,000 properties per year.

Goals For 2025 Mapping department

At no time will the mapping department be greater than 175 days between the time the deed is filed and the maps are updated.

Goals for 2026 Residential Department

City of Victoria

Due Date February 15, 2026

Work all first and second quarter 2025 building permits, mechanic liens, verify all new applications for exemptions, deed transfers, rechecks from 2025 inquiries, fire loss reports, and any other information that would warrant an inspection during the during the first and second quarter of 2025.

Outside the City of Victoria

Due Date March 15, 2026

Work all first and second quarter 2025 sewer permits, mechanic liens, deed transfers, verify all new applications for exemptions, rechecks from 2025 inquiries, fire loss reports, and any other information that would warrant an inspection during the first and second quarter of 2025. Also verify all percent complete structures and inspect all manufactured housing parks.

City of Victoria

Due Date March 15, 2026

Work all third and fourth quarter 2025 building permits, mechanic liens, verify all new applications for exemptions, deed transfers, fire loss reports, and any other information that

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would warrant an inspection during the third and fourth quarter of 2025. Verify all percent complete structures and inspect all manufactured housing parks. Inspect all routes that begin with 2,8 and 9C.

Outside the City of Victoria

Due Date April 1, 2026

Work all third and fourth quarter sewer permits, mechanic liens, deed transfers verify all new applications for exemptions, rechecks from 2025 inquiries, fire loss reports, and any other information that would warrant an inspection during the third and fourth quarter of 2025. Inspect all routes that begin with E and F.

County Wide

Due Date April 15, 2026

Review and adjust residential schedules as necessary.

County Wide

Due Date June 1, 2026

Inspect all Ag Applications filed timely.

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Commercial Property Valuation Process

INTRODUCTION

Scope of Responsibility

The Commercial Appraiser is responsible for establishing fair market value of all commercial accounts as of January 1 of every year. There are approximately 3,982 commercial properties and vacant commercial lots within Victoria County.

Appraisal Resources

Personnel -The Commercial appraiser is primarily responsible for the appraisal of Commercial property with assistance as necessary.

Data -A common set of data characteristics for each commercial property in Victoria County is collected and updated by the commercial appraiser and maintained in the CAMA (Computer Assisted Mass Appraisal System). The property characteristic data drives the CAMA approach to valuation. Property data attribute information is verified and corrected based on on-site inspections and during office review. During office review tools such as digital photographs, aerial photography and third party data sources are used. The following data attribute information is captured on each appraisal record where applicable: Land Value, Property Classification Code, Building Class, Construction Type/Quality/Condition Codes, Gross Building Area, Net Leasable Area, Actual Year Built, Effective Age, Remodel Year, Number of Stories, Story Height, Number of Buildings, Foundation Type, Basement, Overhead Doors, Finish-out Quality, Percent Finish-out, Framework, Exterior Walls, Roof Type, Roof Structure, Roofing, Heating, A/C, Interior Walls, Floors, and Restrooms.

In addition to the physical characteristics noted above, data captured for income producing properties includes Net Leasable Area, Gross Rent, Rent Adjustments, Adjusted Rent, Plus Electric Charges, Parking Income, Percent Vacancy, Other Income, Expenses, Cap Rates, Loaded Cap Rates, Lease-up Expenses, Deferred Maintenance Cost and Excess Land Value Contribution.

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

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Market Area and Highest and Best Use Analysis

Regional Analysis

Data on regional economic forces such as demographic patterns, regional locations factors, employment and income patterns, general trends in real property prices and rents, interest rate trends, availability of vacant land, and construction trends and cost are all 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 other third-party publications and resources including seminars attended by staff members.

Neighborhood Analysis (Land Market Area & Improved Market Area)

Neighborhood analysis involves the examination of how physical, economic, governmental and social forces and other influences affect property values. The effects of these factors are also used to identify, classify, and organize comparable properties into smaller, manageable subsets of the universe of properties known as Land Market Areas and Improved Market Areas. In the mass appraisal of commercial properties these subsets of a universe of properties are generally referred to as land market areas (LMA's) and improved market areas (IMA's).

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

Highest and Best Use Analysis

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

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Data

Data Collection Procedures

The primary manual pertinent to data collection and documentation is the Commercial Appraisal Manual.

This manual is continually updated, providing a uniform system of itemizing the multitude of components and/or characteristics associated within a given property. All commercial property located in Victoria County is coded according to this manual with the data being maintained in the various CAMA modules (Ownership, Land Physical, etc.).

Sales data is captured in VCAD's sales database after the sale has been researched, verified and quality controlled by the analyst and commercial appraiser. The sales database is utilized by the Victoria CAD appraisers during the appraisal and appraisal review board processes and is maintained in the CAMA sales module.

Income and expense data is also collected from data received during the review process and from outside sources and is used primarily for Income Model Development for the various property types. Income and expense data is maintained in the CAMA Income module.

Sources of Data

In terms of commercial sales data, Victoria CAD receives a copy of the deeds recorded in Victoria County that convey commercially classed properties. Other sources of sales data include the hearings process and local regional and national real estate and financial publications, LoopNet sales Database, and CoStar sales database.

For those properties involved in a transfer of commercial ownership, a sale file is produced which begins the research and verification process. If VCAD does not have a high confidence that the sales information being provided is accurate then a sale file will not be created until confirmation is established from the parties involved in the transaction. The initial step in sales verification involves a computer-generated questionnaire, which is mailed to both parties in the transaction (Grantor and Grantee). If a questionnaire is answered and returned, the documented responses are recorded into the sales portion of the CAMA system. If no information is provided, verification may be attempted via phone calls to both parties. If the sales information is still not obtained, other sources may be contacted, such as the brokers involved in the sale, property managers or commercial vendors. In other instances, sales verification is obtained from local appraisers or others that may have the desired information. Finally, closing statements are often provided during the hearing process. The actual closing statement is the most reliable and preferred method of sales verification. Sales data will be given to a property owner if the sale was used in the valuation of the property owner's property, but the source of the sale always remains confidential.

Actual property income and expense data remains confidential however, the model proforma income and expense components used in income models for a given property type and comparability code is not considered confidential.

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Valuation and Model Development

Model development and calibration involves the process of periodically adjusting the mass appraisal formulas, tables, and schedules to reflect current local market conditions. Once the models have undergone the specification process, adjustments can be made to reflect new construction procedures, materials and/or costs, which can vary from year to year. The basic structure of a mass appraisal model can be valid over an extended period of time, with trending factors utilized for updating the data to the current market conditions. However, if at some point, the adjustment process becomes too involved, the model calibration technique can mandate new model specifications or a revised model structure. Due to the dynamic and unique commercial marketplace in Victoria County, Income and Cost models are typically updated annually.

Cost Schedules

The cost approach to value is applied to all improved real property utilizing the comparative unit method. The methodology involves the utilization of national cost data reporting services as well as actual cost information on comparable properties whenever possible. Cost models are typically developed based on the Marshall and Swift Valuation Services and review of local area trends. Cost models include the derivation of replacement cost new (RCN) of all improvements. These include comparative base rates, per unit adjustments and lump sum adjustments. This approach also employs the sales comparison approach in the valuation of the underlying land value. Time and location modifiers are necessary to adjust cost data to reflect conditions in a specific market and changes in cost over a period of time. Because a national cost service is used as a starting point for the cost models, location modifiers are necessary to adjust these base costs specifically for Victoria County. The Commercial Cost tables are reviewed annually and updated as needed.

Depreciation schedules are developed based on what is typical for each property type at that specific age. Depreciation schedules have been implemented for what is typical of each major class of commercial property by economic life categories. Schedules have been developed for improvements with 15, 20, 30, 40, 50 and 60 year expected life. The actual and effective ages of improvements are noted in CAMA. Effective age estimated are based on utility of the improvements relative to where the improvement lies on the scale of its total economic life and its competitive position in the market place.

Market Adjustments or Trending Factors

Market adjustment factors, such as external and/or functional obsolescence, can be applied if warranted. A depreciation calculation override can be used if the condition or effective age of the property varies from the norm by appropriately noting the physical condition and functional utility ratings on the property data characteristics. These adjustments are typically applied to a specific property type or location and can be developed via ratio studies or other market analyses. In certain instances, commercial properties being valued using the Income Approach, may not have an appropriate functional and /or economic obsolescence factor calculated in the Cost Approach as the Income Approach value itself will reflect these cost depreciation factors.

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Land Analysis

Commercial land analysis is conducted by the commercial and land appraiser. The appraisers develop the base lot value and can price the land of flat price, square foot, acreage, or front foot basis. Land market adjustments may be established for factors as view, shape, size, topography, utility easements, greenbelts, major thoroughfares, among others. In lieu of land sales information, appraisers may use abstraction and allocation methods to ensure that the land values created best reflect the contributory market value of the land to the overall property value. Undisclosed land sales are also targeted for analysis and reappraisal.

Income Models

The income approach to value is applied to those real properties which are typically viewed by market participants as “income producing”, and for which the income methodology is considered a leading value indicator. The first step in the income approach pertains to the estimation of market rent on a per unit basis. This is derived primarily from actual rent data furnished by property owners and from local market study participants. 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, as well as publications from CoStar, ALN and NAA. This allowance accounts for periodic fluctuations in occupancy, both above and below an estimate stabilized level. The market derived stabilized market vacancy and collection loss allowance is subtracted from the potential gross rent estimate to yield an effective gross rent.

Next a secondary income or ancillary 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 derived from actual data collected and available market information. The secondary income estimate is then added to the effective gross rent to arrive at an effective gross income.

Allowable expenses and expense ratio estimates are based on a study of the local market, with the assumption of prudent management. An allowance for non-recoverable expenses such as leasing costs and tenant improvements are included in the expenses. A non-recoverable expense represents costs that the owner pays to lease the rental space. Different expense ratios are developed for different types of commercial property based on use. For instance, retail properties are most frequently leased on a triple-net basis, whereby the tenant is responsible for his pro-rata share of taxes, insurance and common area maintenance. In comparison, a general office building is most often leased on a base year expense stop.

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This lease type stipulates that the owner is responsible for all expenses incurred during the first year of the lease. However, in subsequent years, any amount in excess of the total unit per expenditure that occurred in the first year is the responsibility of the tenant. Under this scenario, if the total operating expense in year one (1) equates to \$8.00 per square foot, any increase in expense over \$8.00 per square foot throughout the remainder of the lease term would be the responsibility to the tenant. As a result, expense ratios are implemented based on the type of commercial property.

Another form of allowable expenses is the replacement of short-lived items (such as roof or floor coverings, air condition 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 (inclusive of non-recoverable expenses and replacement reserves) from the effective gross income yields an estimate of net operating income.

Rates and multipliers are used to convert income into an estimate of market value. These include incomes multipliers, overall capitalization rates, and discount rates. Each of these is used in specific applications. Rates and multipliers also vary between property types, as well as by location, quality, condition, design, age and other factors. Therefore, the application of the various rates and multipliers must be based on a thorough analysis of the market.

Capitalization analysis is 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, both overall (on-going) cap rates for the direct capitalization method and terminal cap rates for discounted cash flow analyses, can 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. In addition, overall capitalization rates can be derived from the built-up method (band-of-investment). This method relates to satisfying the market return requirements of both the debt and equity positions of a real estate investment. This information is obtained from real estate and financial publications.

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

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Sales Comparison (Market) Approach

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

Statistical and Capitalization Analysis

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

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

Potential gross rent estimates, occupancy levels, secondary income, allowable expenses (inclusive of non-recoverables and replacement reserves), net operating income and capitalization rate and multipliers are continuously reviewed utilizing statistical procedures or measures. Income model conclusions are compared with actual income information obtained on individual commercial properties during the hearing process as well as information from published sources and area vendors such as CoStar Properties.

INDIVIDUAL REVIEW PROCEDURES

Building Permit Review

Building permits are received monthly from the City of Victoria and are then updated in the applicable account so a physical inspection and/or office review can take place for the current appraisal year.

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All significant value related building permits issued from January 1, 2024, through December 31, 2024, associated with an account will be inspected and reappraised for the 2025 Appraisal Year. All significant value related building permits issued from January 1, 2025, through December 31, 2025, associated with an account will be inspected and reappraised for the 2026 Appraisal Year. Also, those accounts that were partially complete as of January 1, 2024, and January 1, 2025, will be reinspected for 2025 and 2026 respectively. Any property that has new construction activity as of January 1 and was not 100% complete will be targeted for reappraisal the next appraisal year. This also includes those properties whereby a building permit was issued prior to January 1 but no new construction activity had taken place as of January 1 of the current appraisal year. Property data attribute information is verified and corrected based on on-site inspections as well as office review using digital photographs and aerial photography.

Field Review

The Commercial appraiser will typically reappraise 33% of all improved commercial accounts. In addition, 33% of all land accounts, whether vacant or improved will be reappraised. Vacant land sales and improved property sales data will be reviewed and updated. In addition to the one-third reappraisal area, individual properties will be reviewed for equality. Markets showing significant activity will also be reviewed as time allows. Property types whereby their income and expense components and capitalization rates change will typically be reviewed and reappraised annually.

Improved Market Areas (IMA) and Land Market Areas (LMA) are targeted annually for reappraisal based on the market activity and changes between appraisal year within each of these markets. Accounts within these market areas are reviewed and are valued based on current market standards for the given appraisal year. Field inspections will typically occur on most properties identified in the IMA and LMA annual reappraisal effort. However, an office review in lieu of a field inspection may occur. When the commercial appraiser conducts an office review, aerial photography, digital photography and access to third party market data for particular properties will be utilized. Accounts may also be reviewed based on property owner inquires, third party inquires, the sales qualification process, and reinspection initiated during the Appraisal Review Board process. The date of the last property review, extent of review, and the Victoria CAD appraiser responsible are listed in the CAMA system.

Office Review

Office reviews are typically limited by the data presented in final value reports. These reports summarize the pertinent data of each property as well as comparing the previous values to the proposed value conclusions of the various approaches to value. These reports show proposed percentage value changes, income model attributes or overrides, economic factor (cost overrides) and special factors affecting the property valuation such as new construction status, prior year litigation and sales history.

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Each appraiser's review is typically limited to properties in their area of responsibility by property type (improved) or geographic area (commercial vacant land). With preliminary estimates of value in these targeted areas, the appraisers test computer assisted values against their own appraisal judgment. Once the appraiser is satisfied with the level and uniformity of value for each commercial property within their area of responsibility, the estimates of value go to the notice process. Each parcel is subjected to the value parameters appropriate for its use type. Therefore, although the value estimates are determined in a computerized mass appraisal environment, value edits enable an individual parcel review of value anomalies before the estimate of value is released for appraisal notification.

Three Approaches to Value

The CAMA System utilized by the Commercial Appraiser of VCAD gives the ability to appraise property by all three approaches to value: Cost Approach, Sales Approach and Income Approach.

Cost Approach

The Cost Approach involves calculating the replacement cost new for each improvement and then deducting the appropriate amount of depreciation using age/life tables. The cost tables utilized by VCAD are initially derived from a recognized national cost publication service that develops its data from actual case studies of sales and market value appraisals. VCAD further augments this data with its own cost information received during the appeals process through property cost of construction documentation and other cost sources. Based on the physical characteristics of a subject property, the VCAD cost tables generate a price per square foot that is applied to the subject improvement. The land value is then added to the depreciated value of the improvements to establish the estimated market value of the property via the Cost Approach. The VCAD building class cost tables are reviewed on an annual basis. The Cost Approach may be the preferred method used during the informal meetings with property owners or authorized agents and at the formal Appraisal Review Board hearing if the Commercial property is a special use property, a new property recently constructed, lacks comparable sale information, and/or the property doesn't lend itself to the Income Approach to value.

Sales Approach

The Sales Approach involves determining the market value of a subject property by analyzing sales of comparable properties. VCAD collects sales from several sources including sales surveys, market research companies, third-party appraisals and local media. The bulk of sales information is received through the Appraisal Review Board process in the form of closing statements. The sales are processed and entered into the sales portion of the CAMA database. The Commercial CAMA system then allows the appraiser to select the most comparable sale properties based on the subject's physical characteristics and market area. The sale prices can further be adjusted based on sale conditions, land size, improvement size, age, condition and location. Finally, the appraiser may weight the sales to arrive at an overall adjusted value per square foot or unit via the Sales Approach.

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Income Approach

The Income Approach involves the capitalization of income into an estimation of market value. VCAD emphasizes the Direct Capitalization Approach where a single year's net operating income is capitalized. Capitalization is the process of dividing the subject property's estimated net operating income by a market capitalization rate to arrive at an indicated estimate of market value via the Income Approach. Market income data is compared to the subject's property income data to ensure subject's income data is reflective of market standards. If not, then market standards will be used for income calculations. VCAD collects income/expense statements and rent rolls from property owners throughout the year, but primarily during the appeals process. Rents, occupancies, expenses, secondary income and net operating income for these properties are entered into the Commercial income database. Capitalization rates are then estimated based on sale prices of properties and their respective net operating incomes. Outside sources such as market research companies and real estate publications are also referenced for data pertaining to income, expense, occupancy, and capitalization rates. VCAD analyzes this data to determine market income models for properties based on their physical characteristics and improved market areas. Actual income components for a property are then compared to market indicators and an estimated market value is established via the Income Approach. The Income Approach is typically the preferred method when analyzing typical income producing Commercial properties (Retail, Office, Apartments, Light Industrial) not only during the reappraisal effort but during the informal meetings with property owners or authorized agents and at the formal Appraisal Review Board hearing.

Equal and Uniform Analysis

An Equal and Uniform Module (Equity Module) has been developed to augment the three approaches to value. In this module, comparable properties are determined for a subject property. These comparables are then appropriately adjusted to the subject based on physical attributes. The median adjusted value per square foot, or per unit, of the comparables is selected and applied to the subject net leasable area, or number of units, to arrive at an equal and uniform value based on the selected comparables.

Performance Tests

The primary tool used to measure mass appraisal performance is the ratio study. A ratio study compares appraised values to market values. In a ratio study, market values are typically represented by sales prices (i.e. a sales ratio study). Independent, expert appraisals may also be used to represent market values in a ratio study (i.e. an appraisal ratio study). If there are not enough sales to provide necessary representativeness, independent appraisals can be used as indicators for market value. In addition, appraisal ratio studies can be used for properties statutorily

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not appraised at market value, but reflect the use-value requirement. Examples of these are multi-family housing projects subject to subsidized rent provisions or other governmental guarantees as provided by legislative statutes (affordable housing) and agricultural lands to be appraised on the basis of productivity value. The commercial appraiser also undertakes performance testing annually to ensure accuracy and uniformity.

Sales Ratio Studies

Sales ratio studies are an integral part of establishing equitable and accurate market value estimates, and ultimately assessments for these taxing jurisdictions. The primary uses of sales ratio studies include the determination of a need for general reappraisal; prioritizing selected groups of properties types for reappraisal; identification of potential problems with appraisal procedures; assist in market analyses; and to calibrate models used to derive appraised values during valuation or reappraisal cycles. When undertaking sale ratio analysis for a given sale, the appraiser must consider the fee simple interest of the property as opposed to the lease fee interest of the property. When such a difference occurs during sales analysis, an adjusted sale amount will be made to the actual sale amount.

Overall sales ratios are generated by use type annually (or more often in specific areas) to allow appraisers to review general market trends in their area of responsibility. The appraisers utilize reports developed in the CAMA appraisal system, to evaluate subsets of data by economic area or a specific and unique data item. In CAMA, this may be customized and performed by building class, by age, or by several other economic or physical attributes. In many cases, field checks may be conducted to ensure the ratios produced are accurate and the appraised values utilized are based on accurate property data characteristics. These ratio studies aid the appraisers by providing an indication of market activity by land market area and improved market area and provide insight into changing market conditions (appreciation or depreciation).

Comparative Appraisal Analysis

The commercial appraiser performs an average unit value comparison in addition to a traditional ratio study. These studies are performed on commercially classed properties by property use type (such as apartment, office, retail and warehouse usage or special use). The objective to this evaluation is to determine appraisal performance of sold and unsold properties. Appraisers use their judgment and experience to analyze average unit prices of sales and average unit appraised values of the same parcels and the comparison of average value changes of sold and unsold properties. These studies are conducted on substrata such as building class and on properties located within various improved market areas. In this way, overall appraisal performance is evaluated geographically, by specific property type to discern whether sold parcels have been selectively appraised. When sold parcels and unsold parcels are appraised equally, the average unit values should be within a reasonable range assuming they are similar in terms of physical characteristics and performance.

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values should be within a reasonable range assuming they are similar in terms of physical characteristics and performance.

Commercial Division Reappraisal Plan Overview

The following pages describe the Commercial Department's Reappraisal Plan. The Commercial Division's 2025 and 2026 Reappraisal Plan consists of two primary tasks – Fixed Tasks and Variable Tasks. Fixed tasks are those tasks required to be done on an annual basis and are associated with working building permits received on a monthly basis from the City of Victoria, as well as OSSF permits from the County. Variable tasks are those tasks associated with our annual reappraisal effort.

Goals for 2025 & 2026 Commercial Department

Action for 2025

City of Victoria Due Date January 1, 2025
Send income surveys, review current information for Income Producing Properties, contact Property Managers for current data, and calibrate existing income models. Work all first and second quarter 2024 commercial building permits, mechanic liens, deed transfers, rechecks from 2024 inquiries, fire loss reports, and any other information that would warrant an inspection during the first and second quarter of 2024.

City of Victoria Due Date March 1, 2025

Work all third quarter 2024 commercial building permits, mechanic liens, deed transfers, fire loss reports, and any other information that would warrant an inspection during the third quarter of 2024. Verify all incomplete commercial structures for percent complete.

Outside the City of Victoria Due Date April 1, 2025

Work all first and second quarter 2024 commercial sewer permits, mechanic liens, deed transfers, rechecks from 2024 inquiries, fire loss reports, and any other information that would warrant an inspection during the first and second quarter of 2024. Also, verify all incomplete commercial structures for percent complete.

City of Victoria Due Date April 1, 2025

Work all fourth quarter 2024 commercial building permits, mechanic liens, deed transfers, fire loss reports, and any other information that would warrant an inspection during the fourth quarter of 2024. Inspect all commercial property in the city. Appraise as many commercial properties as possible according to Marshall & Swift Cost Valuation Guide. Develop income models for apartments/multi-family, offices, strip centers, warehouses, mobile home parks, RV parks, retail, and mini-storage facilities, depending on the availability of data.

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Outside the City of Victoria

Due Date April 1, 2025

Work all third and fourth quarter commercial sewer permits, mechanic liens, deed transfers, rechecks from 2024 inquiries, fire loss reports, and any other information that would warrant an inspection during the third and fourth quarter of 2024. Inspect all commercial property in the county.

County Wide

Due April 15, 2025

Review and adjust commercial schedules as necessary.

Action For 2026

City of Victoria

Due Date January 1, 2026

Send income surveys, review current information for Income Producing Properties, contact Property Managers for current data, and calibrate existing income models. Work all first and second quarter 2025 building permits, mechanic liens, verify all new applications for exemptions, deed transfers, rechecks from 2025 inquiries, fire loss reports, and any other information that would warrant an inspection during the first and second quarter of 2025.

City of Victoria

Due Date March 1, 2026

Work all third quarter 2025 commercial building permits, mechanic liens, verify all new applications for exemptions, deed transfers, fire loss reports, and any other information that would warrant an inspection during the third quarter of 2025. Verify all incomplete commercial structures for percent complete.

Outside the City of Victoria

Due Date March 15, 2026

Work all second quarter 2025 commercial sewer permits, mechanic liens, deed transfers, verify all new applications for exemptions, rechecks from 2025 inquiries, fire loss reports, and any other information that would warrant an inspection during the second quarter of 2025. Also verify all incomplete commercial structures for percent complete.

City of Victoria

Due Date April 1, 2026

Work all fourth quarter 2025 commercial building permits, mechanic liens, deed transfers, verify all new applications for exemptions, fire loss reports, and any other information that would warrant an inspection during the fourth quarter of 2025. Inspect all commercial property in the city. Develop income models for Convenience Stores, depending on the availability of data. Review and update all income models.

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Outside the City

Due Date April 1, 2026

Work all third and fourth quarter commercial sewer permits, mechanic liens, deed transfers, verify all new applications for exemptions, rechecks from 2025 inquiries, fire loss reports, and any other information that would warrant an inspection during the third and fourth quarter of 2025. Inspect all commercial property located in the county.

County Wide

Due May 1, 2026

Review and adjust commercial schedules as necessary.

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Business Personal Property Valuation Process

Scope of Responsibility

The Business Personal Property Department (BPP) is responsible for establishing value of all business personal property accounts as of January 1 of every year. There are approximately 5,383 business personal property accounts within Victoria CAD boundaries. There are four different personal property types appraised by the district's personal property section: Business Personal Property accounts, Leased Assets, and Multi-Location Assets such as Vehicles/Aircrafts.

Appraisal Resources

Personnel- The personal property staff consists of two appraisers and one appraisal support staff. **Data-** A common set of data characteristics for each business personal property (BPP) account in Victoria County is collected and updated by BPP appraisers and maintained in the CAMA system modules. The property characteristic data drives the computer-assisted mass appraisal (CAMA) approach to valuation. Property data information is verified and corrected based on on-site inspections, during office and rendition review. Data typically collected is the type of business and various business personal property assets used in the course of business such as furniture and fixtures, machinery and equipment, computer equipment, vehicles, inventory and other tangible business personal property assets.

Business Personal Property Routes and Reappraisal Accounts

The BPP file consists of approximately 5,383 accounts that fall into two general categories. The first category is for all accounts that have a single physical location, and the second category is for multiple location accounts and specialty properties.

The multiple location accounts include leased equipment, telecommunications, utilities, pipelines and billboards. The specialty accounts in this group include tenant accounts and special inventory accounts for auto, boat, heavy equipment, and manufactured housing dealers. In Victoria County telecommunications, utilities, industrial BPP accounts and pipelines are valued by Pritchard & Abbott, Inc.

The BPP Department reviews all BPP accounts each year. However, accounts that were not rendered in the previous year, or that were rendered, but the rendition was not used to arrive at the appraised value are flagged for reappraisal. The flagged accounts are reappraised using Business Type Code models.

When valuing Business Personal Property all three approaches to value are considered, however, the cost approach is typically considered to be the most appropriate. The BPP Department has developed cost models based on information gleaned from taxpayer renditions and financial records. The models are built for the Business Type Codes, also referred to as SIC codes. The typical model uses a price per square foot that is comprised of original cost and an averaged depreciation.

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The list of comparables provides a value range that includes overall depreciation for the subset of assets unique to that business ID type. The model is applied to the subject property by multiplying the square footage of the subject against the selected comparable price per foot to arrive at an estimate. There are separate price per foot comparables for inventory. The model equation is Comparable Price per Foot (CPPF) x Estimated Subject Square Footage (SF).

The third area of reappraisal is based on the information provided on the taxpayer's rendition form. The rendered data often includes cost and year-acquired information for fixed assets and inventory. This information is used in conjunction with the field appraisal or field confirmation process to reappraise the property. Renditions are filed by taxpayers on approximately 3,608 BPP accounts or 67 % of the total BPP file.

VALUATION APPROACH (Model Specification)

Business Type Code Analysis

The Victoria Central Appraisal District uses the Standard Industrial Classification (SIC) codes to develop the BPP Business type Codes. These codes are used by Victoria CAD as a way to classify similar types of business personal property. These codes are in the process of being expanded to more accurately group comparable businesses located within the district.

Business Type Code identification and delineation is the cornerstone of the personal property valuation system at Victoria CAD. All of the personal property analysis work done in association with the personal property valuation process is Business Type Code specific. There are 314 Victoria CAD personal property Business Type Codes. These codes are delineated based on observable aspects of homogeneity. Business Type Code delineation is periodically reviewed to determine if further Business Type Code delineation is warranted.

Highest and Best Use Analysis

The highest and best use of property is the reasonable and probable use that supports the highest present value as of the date of the appraisal. The highest and best use of any given property must be physically possible, legally permissible, financially feasible, and maximally productive. The highest and best use of personal property is normally its current use.

DATA COLLECTION/VALIDATION

Data Collection Procedures

Personal property data collection procedures have been developed and distributed to all appraisers involved in the appraisal and valuation of personal property. The appraisal procedures are reviewed and revised to meet the changing requirements of field data collection. The personal property data collection procedures are reviewed annually and updated as needed.

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Sources of Data

Business Personal Property

The district's property characteristic data was collected through a field data collection effort coordinated by the district over the past forty years and from property owner renditions. Since the initial data collections, the District's appraisers have maintained the appraisal roll through annual field inspections. This process results in the discovery of new businesses, changes in ownership, relocation of businesses, and closures of businesses not revealed through other sources. Various sources, such as Tax assessors, city and local newspapers, and the public often provide the district information regarding new personal property and other useful facts related to property valuation.

Vehicles

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

Leased and Multi-Location Assets

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

Valuation and Model Development

Cost Schedules

Cost schedules are developed by district personal property appraisers and are located in the personal property manual which is developed based on the SIC code by the Property Tax Division of the Comptroller's Office. The cost schedules are developed and updated by analyzing cost data from property owner renditions, hearings, state schedules, and published cost guides. The cost schedules are reviewed as necessary to conform to changing market conditions. The schedules are typically in a price per square foot format, but some exception SIC's are in an alternate price per unit format, such as per room for hotels. These schedules are used where applicable. If schedules do not fit, then the value of a similar business is used when there is no rendition for applicable types of property.

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Depreciation Schedule and Trending Factors:

Business Personal Property

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

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

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

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

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

Vehicles

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

Leased and Multi-Location Assets

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

INDIVIDUAL VALUE REVIEW PROCEDURES

Field Review

The Business Personal Property file has defined routes and/or areas of assignments. Each of the routes are driven annually by BPP appraisal staff members to discover and list any new businesses, delete any businesses no longer operating as of January 1 and to make any necessary changes to existing businesses.

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Due to the dynamic nature of Business Personal Property all businesses are reviewed each year for either reappraisal or field confirmation. VCAD's jurisdiction is broken down into geographic routes that are worked by individual appraisers. Sub-routes that cover geographic areas with security concerns are worked by two appraiser teams. Within the routes and sub-routes, accounts are slated for reappraisal or field confirmation based on the following criteria:

New business accounts are set up during the August through February field inspection portion of the appraisal year. The appraisers drive or walk all streets that are within their assigned geographic routes during this time period. Various sources such as Assumed Name Certificate, articles in local papers, as well as online research, supplement the physical inspection process used to identify and set up the new Business Personal Property accounts.

Business Type Code / Rendition Filing Review: Specific groups of businesses may be slated for reappraisal based on timing or analysis that indicates a market value adjustment is needed. Businesses that have not filed a rendition, or that filed a rendition that was not used to arrive at the appraised value for the BPP account in the previous year are flagged for reappraisal.

The remaining accounts are worked under the field confirmation task, which verifies that these businesses are still in operation. If the appraiser determines that there has been some type of change, an inspection and reappraisal of the property may be performed at that time.

Office Review

Business Personal Property

Business Personal Property may be reviewed based on a variety of conditions. Property owner renditions, accounts with field or other data changes, accounts with prior hearings, new accounts, and SIC cost table changes are all considered. The accounts are processed by the personal property appraisers.

Vehicles

A list of commercial vehicles registered in Victoria County is received in an electronic format from an outside vendor. These vehicles are matched to existing BPP accounts and the accounts are updated. New accounts may be created as needed. Vehicles that are not valued by the vendor are valued by an appraiser using PVF schedules or published guides.

Leased and Multi-Location Assets

Leased and multi-location accounts that have a high volume of vehicles or other assets are loaded in the CAMA system if reported electronically. Electronic renditions, usually in an excel spreadsheet, often require reformatting before they can be loaded to the account. Accounts that render in a hard copy format are manually entered in a database by BPP staff.

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

After matching and data entry, reports are generated and reviewed by an appraiser. Corrections are made and the account is updated for review.

Rendition Review

The most significant office review task is the rendition processing period. The BPP division expects to receive in excess of 3,600 renditions each year. Between March and when notices are mailed in late May, Business Personal Property will receive and enter the data provided on the renditions. The Appraisal Staff will review the rendered data and incorporate the inventory and depreciated cost information into the appraisals. These business types are typically reappraised each year, and processing the accounts is part of the variable task process.

Rendition Process

BPP Renditions contain information provided by the property owner and are legally required to be filed annually by the property owner per the Texas Property Tax Code not later than April 15, or upon written request by the property owner, the chief appraiser shall extend the deadline for filing a rendition statement to May 15. Not filing a business personal property rendition by the annual April 15th deadline date will result in a 10% penalty being applied to the business personal property tax bill. VCAD encourages all business owners to file a Business Personal Property rendition.

The BPP Rendition requests basic information about a business including cost and year acquired of assets, inventory values, consigned goods, leased equipment, and the property owner's opinion of value.

VCAD mails BPP Rendition forms to all existing BPP accounts in Victoria County in January each year. A properly filed BPP rendition form allows the BPP appraiser to:

- Verify the Legal Owner, DBA, and Physical Location of the property January 1 of the appraisal year.
- Use contact information on the rendition form if the appraiser has questions about the business being appraised.
- Compare cost or opinion of value information against the estimate of value made by the appraiser in the field.

With the appraiser's information gathered in the field and a properly filed BPP rendition form from the property owner or authorized agent, the BPP appraiser has sufficient information to make an accurate and equitable business personal property market value estimate used to determine the business' property taxes.

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

Business Verification Project

Each year, BPP will undertake a phone verification project whereby businesses with returned mail are called to insure they were still in operation as of January 1 of the appraisal year, and that the ownership and address information on file is correct. Tenant lists are also used to verify businesses in operation that may have relocated during the previous year. BPP accounts are then updated as needed.

Three Approaches to Value

The CAMA System utilized by the Business Personal Property Department of the Victoria Central Appraisal District gives the ability to appraise property by all three approaches to value: Cost Approach, Sales Approach and Income Approach.

Cost Approach

The Cost Approach is typically the approach used to value business personal property, although all approaches (Income Approach and Sales Approach) are considered, the Cost Approach offers the most equitable and consistent method for mass appraisal of business personal property. The BPP appraiser will estimate the market value by comparing the subject business being appraised against similar types of businesses. The appraiser takes into account the size of the business, the quality and condition of the assets, and estimates the overall age of the assets. In addition to the business assets, the appraiser will also estimate the market value of the inventory based on the quantity, and make any known condition adjustments.

Sales Approach

The Sales Approach may be used for certain types of business personal property that have substantial secondary markets such as cars and trucks. However, the Sales Approach is often less useful with many types of business assets that don't have an active used market.

Income Approach

The Income Approach is rarely used, since it is often impossible to differentiate the income from the business personal property being valued and the income associated with the components of a business.

Equal and Uniform Analysis

BPP's preferred method when dealing with equal and uniform analysis, is to request the business to provide an asset listing with the cost and year of acquisition per asset so VCAD can uniformly apply the applicable depreciation schedule to determine a fair and equitable value.

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

Performance Tests

Ratio Studies

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

BUSINESS PERSONAL PROPERTY REAPPRAISAL PLAN OVERVIEW

The Business Personal Property Division 2025 and 2026 Reappraisal Plan is made up of both fixed and variable tasks. The fixed tasks include setting up new business accounts, and the annual field reappraisal of Business Personal Property as well as deleting inactive accounts. Variable tasks are associated with aircraft, special inventory accounts, leased equipment processing and rendition processing.

Victoria Central Appraisal District 2025-2026 Reappraisal Plan

Goals for 2025 Personal Property Department

Action for 2025

County Wide Due Date January 1, 2025

Process all first and second quarter 2024 Assumed Name Certificates. Inspect all non-leased new accounts made for 2024.

County Wide Due Date March 1, 2025

Work all third quarter 2024 Assumed Names and, airport and hospital leased space. Inspect all existing businesses in all routes.

County Wide Due Date April 1, 2025

Work all fourth quarter 2024 Assumed Names.

County Wide Due Date June 15, 2025

Work all timely filed renditions

County Wide Due Date June 30, 2025

Work all extensions of renditions. Mail notices to all accounts, including those with a penalty notification to all personal property accounts that have rendered late or have not rendered.

Goals for 2026 Personal Property Department

Action for 2026

County Wide Due Date January 1, 2026

Work all first and second quarter 2025 Assumed Names. Inspect all non-leased new accounts made for 2025

County Wide Due Date March 1, 2026

Work all third quarter 2025 Assumed Names and Sales Tax Listings, airport, port and hospital leased space. Inspect all existing businesses in all routes.

County Wide Due Date April 1, 2026

Work all fourth quarter 2025 Assumed Names.

County Wide Due Date June 15, 2026

Work all timely filed renditions

**Victoria Central Appraisal District
2025-2026 Reappraisal Plan**

County Wide

Due Date June 30, 2026

Work all extensions of renditions. Mail notices to all accounts, including those with a penalty notification to all personal property accounts that have rendered late or have not rendered.

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

Minerals (Oil and Gas Reserves) Valuation

Minerals-in-place (oil and gas reserves) are real property. Victoria Central Appraisal District lacks the personnel with the technical expertise and experience to appraise these properties. The District contracts with Pritchard & Abbott, Inc., a valuation consulting firm, to conduct appraisals of producing minerals. A detailed reappraisal plan was developed by Pritchard & Abbott, Inc., and is included in this document in Appendix D.

Industrial and Utility Property Valuation Process

Industrial and utility properties are the tangible assets of various businesses including chemical and product manufacturing, electric production, transmission, and distribution companies, railroads, petroleum product gathering and delivery pipelines, telephone and communication providers, and others. The valuation of these properties is considered to be complex due to the involvement of both tangible and intangible property elements that comprise these businesses and due to the size of some of the utilities that are regional and national companies. The appraisal of these companies becomes complex when considering the valuation of the property as a unit in place, evaluating the property by the approaches to value at the site and company level. The appraisal district does not have personnel qualified to perform this type of appraisal. Pritchard & Abbott, Inc., an appraisal firm, is employed to provide the expertise to perform these type of appraisals. A detailed reappraisal plan was developed by Pritchard & Abbott, Inc, and is included in this document in Appendix D.

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

LIMITING CONDITIONS

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

1. The appraisals are prepared exclusively for ad valorem tax purposes with a January 1 assessment date.
2. The property characteristic data upon which the appraisals are based is assumed to be correct. Exterior inspections of the property appraised are performed as staff resources and time allowed. Some interior inspections of property appraised are performed at the request of the property owner and required by the district for clarification purposes and to correct property descriptions.
3. Sales data provided by third party sources that have historically provided extremely reliable and accurate sales information is considered verified and confirmed by VCAD assuming deed transfer dates correlate with sale dates. If discrepancies arise then VCAD will attempt to re-verify and confirm the sales data information from the appropriate parties.
4. Appraisals prepared by third-party appraisal firms will discuss Assumptions and Limiting Conditions in their appraisal manuals provided to VCAD. Currently, mineral interest, industrial, industrial BPP, utility, gas, and oil appraisals are prepared by Pritchard & Abbott, Inc.
5. Appendix A has a list of staff providing significant assistance to the person signing this certification.

Certification Statement:

"I, Keri Wickliffe, Chief Appraiser/Executive Director for Victoria Central Appraisal District, solemnly swear that I have made or caused to be made a reappraisal plan for Victoria Central Appraisal District for the 2025 and 2026 tax years as required by law."

Keri Wickliffe

Chief Appraiser/Executive Director

Victoria Central Appraisal District

2025-2026 Reappraisal Plan

Appendix A

Staff Providing Significant Mass Appraisal Assistance

<u>Department</u>	<u>Employee</u>	<u>Position</u>
Administration	Keri Wickliffe	Executive Director/ Chief Appraiser
	Angela Waldrep	Deputy Chief Appraiser
Residential	Michael Guerrero	Lead
	Jo Lynn Ulcak	Appraiser
	Julie Brod	Appraiser
	Laura Taylor	Appraiser
Land	Tina Knudsen	Appraiser
Commercial	Felipe Fonseca	Appraiser
Business Personal Property	Linda Elliott	Appraiser
	Bonnie Roberts	Appraiser

Victoria Central Appraisal District 2025-2026 Reappraisal Plan

Appendix B

Neighborhood Codes

8000	17500	41000	54006P10	BARN	GRASS	NGATE	SLEEPYH
8300	17650	41300	54100	BECK	GREEN	NONHIST 67	SPR RIDGE
8830	18250	41600	54350	BENCH	H-N-K	NONHIST345	SPRING CRK
8848	18271	41850P2	55500	BLMT	HABIT	NONHIST345	SPRINGLAND
9000	18500	42200	55835	BRAM VISTA	HI HILL 23	NORTH	STEPHENSON
9300	19067	43900	56300	BREEZE	HI HILLS	NVISD	SUNV
9500	2	44400	56450	BRID RIDGE	HI HILLS 2	OAK HILLS	SUPER
9600	3	44500MF	57100	BRIDLE I	HI HILLS 3	OAKS	SWAN
9900	3 GNWY PRK	44800	57200	BRIDLEII	HID MDWS	PARADISE R	SWMOODY
1	3 HANKS	44800COMM	57305	BROAD	HILLSIDE	PARK SUMIT	TER VIS
10100	3 HILLARD	44990	57425	C CLUB	HIST 345	PAV	TERRAN
10400	3 MISS OAK	45050	57427	CAP ALL	HIST 67	PERF MH	TERVIS2020
10500	3 SCHUMAN	45200	57600	CAPSTN	HOLLY BRK	PERF MH DW	TNGLWD
10600	3 STN MDW	45300	6	CARRIAGE	HONEY	PLACEDO	TRDEWD
11134	3 TRD WNDS	45770	67FOURPLUS	CASA/MESA	HOPE M	POSTOAK	TREASOAK
12230	3 VALLE	45800	60AKCRK	CCZL	INEZSOUTH	POSTOAKSUP	TROP
12230P2	3 WW ERNST	45811	6PQUINN	CEDAR	INWDHMSNEW	PRESERVE	TUSC
12230P3	33500	45945	6VG45	CHEROK PRK	KENDAL	PRIM	TUSC VIL
12230R2	3350E	46300	7	CNTRY VIEW	KINGWD	PURA	VALLE VIST
12231	33635	46400	8	COLCF 234	LAGO	QC1999-	VIC ANN
12350	33710	46500	8C CLUB PL	COLLEGE	LAKEFOREST	QC2000+	VIC EST
12545	35100	47200	8KENDAL	COLLETOLAK	LF PARK	QUAILC NEW	VICPLAZA
12700	35200	48400	8KREEKV	CONDOS	LF2017+	RCOMM 2008	VILLAGE T
13500	35205	48700	8PRIM	CRESTVIEW	LFPATIO	RIDGE	VISTADS
13800	35392	48701	8TER V 6	CTY 1 S	LIVE OAK	RIVER	WALNUTB
14050	35455	48702	9A	DEER M	MCFAD	SADDLE	WDWAYL2600
14100	35500	49190	9B	DTYR2000+	MCREEK3	SALEM CROSS	WDWAYS2600
14200	36200	49330	9BA-N	EAGLE CRK	MEADOWS	SALEMEST	WEST FARM
14800	37200	49500	9BA-S	EBLOOM	MED BRK	SANDHOP	WEST P
14900	37300	5	9BC-D-F-G	EM HILL	MESQ	SERENITY	WESTON
15100	37500	50060	9BE-9BC	ENCINO H	MESQ-KING	SH60001	WH/C/FE
15200	37900	50600	9C	ESCA	MESQUITEG	SH60003	WILLOWC
15300	39520	50849	A2	EVISD	MF23	SH60004	WOD LAWN
15601	39550	52707	AKR/KRAU	FMWHITE	MF46	SHADY O	WOKS
15650	4	52750	AT/2	FOREST H	MISS VALL	SHAMROCK	WOOD ALL
16350	40000	52761	AT/TH	GARDEN A	MUSTANG		
16400	40021	52770	AT/TH/2	GARVIL	N SIDE		
16500	40200	52900	B-C-J	GEMINI	N-PARK		
16600	40600	53600MF	B101	GLEN	NAVARRO CR		
16800	40900	53700P	B102	GLO	NFIND		

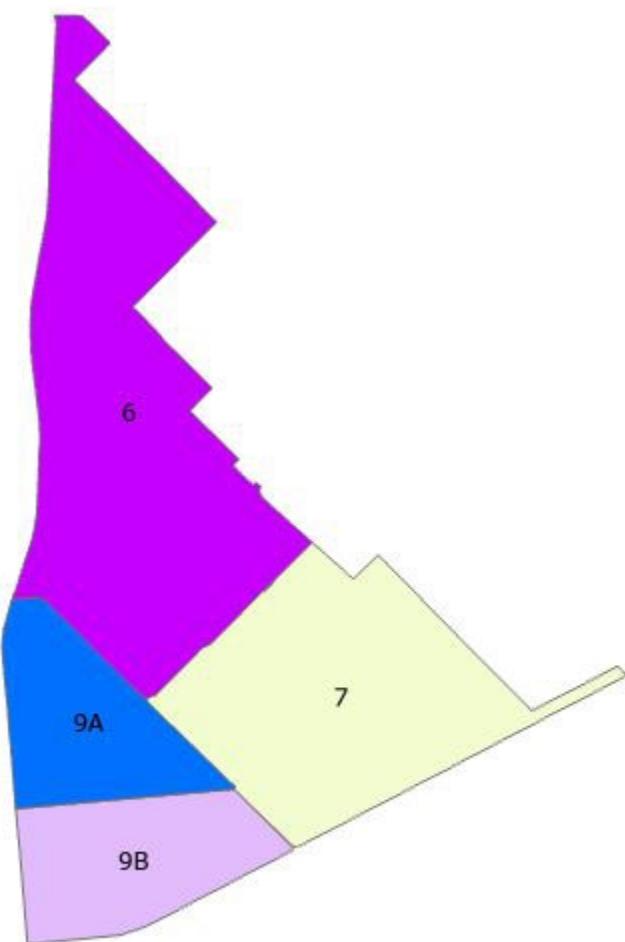
Victoria Central Appraisal District

2025-2026 Reappraisal Plan

Appendix C

Reappraisal Area Maps

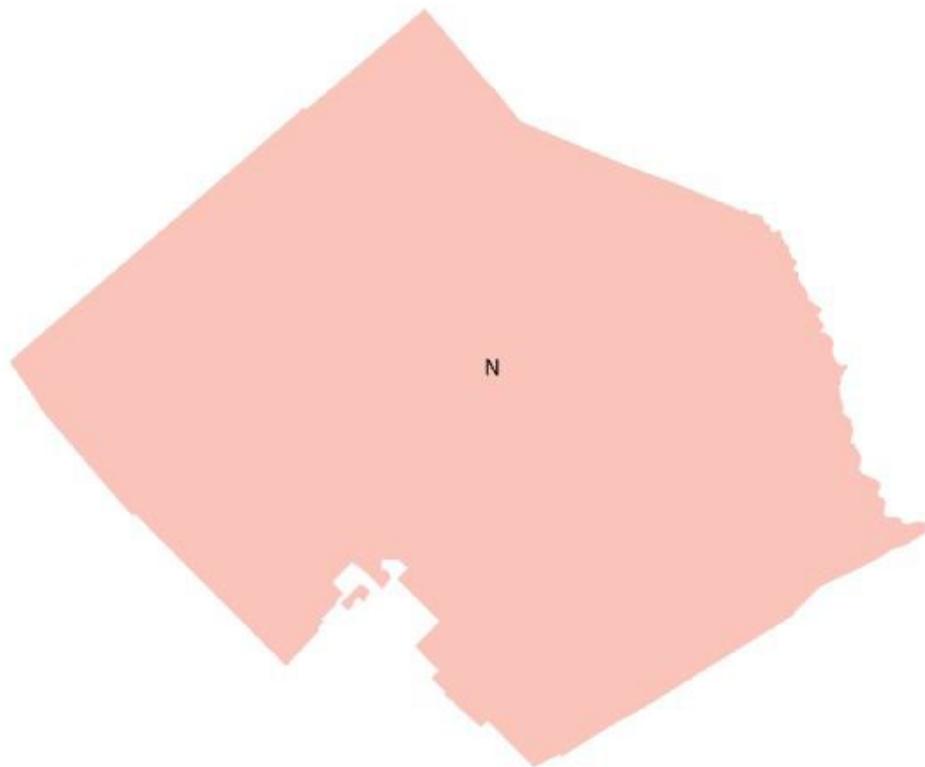
2025 City Routes



**Victoria Central Appraisal District
2025-2026 Reappraisal Plan**

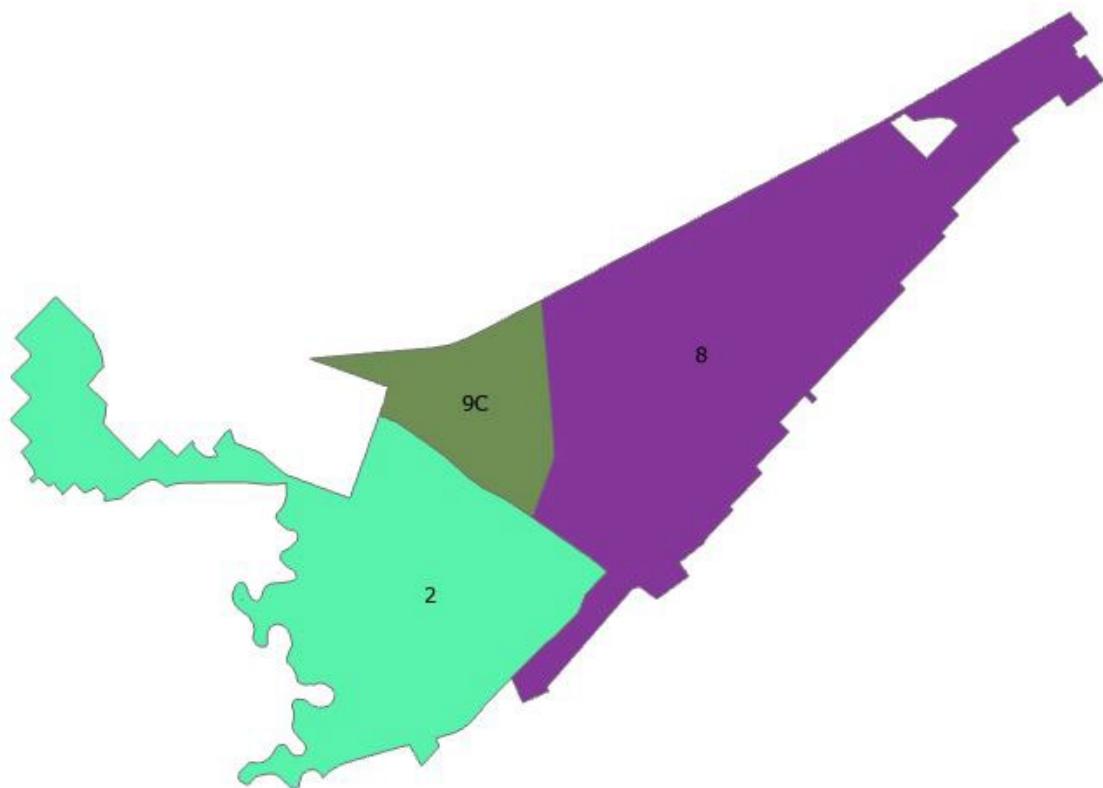
2025 County Route

AREA N



**Victoria Central Appraisal District
2025-2026 Reappraisal Plan**

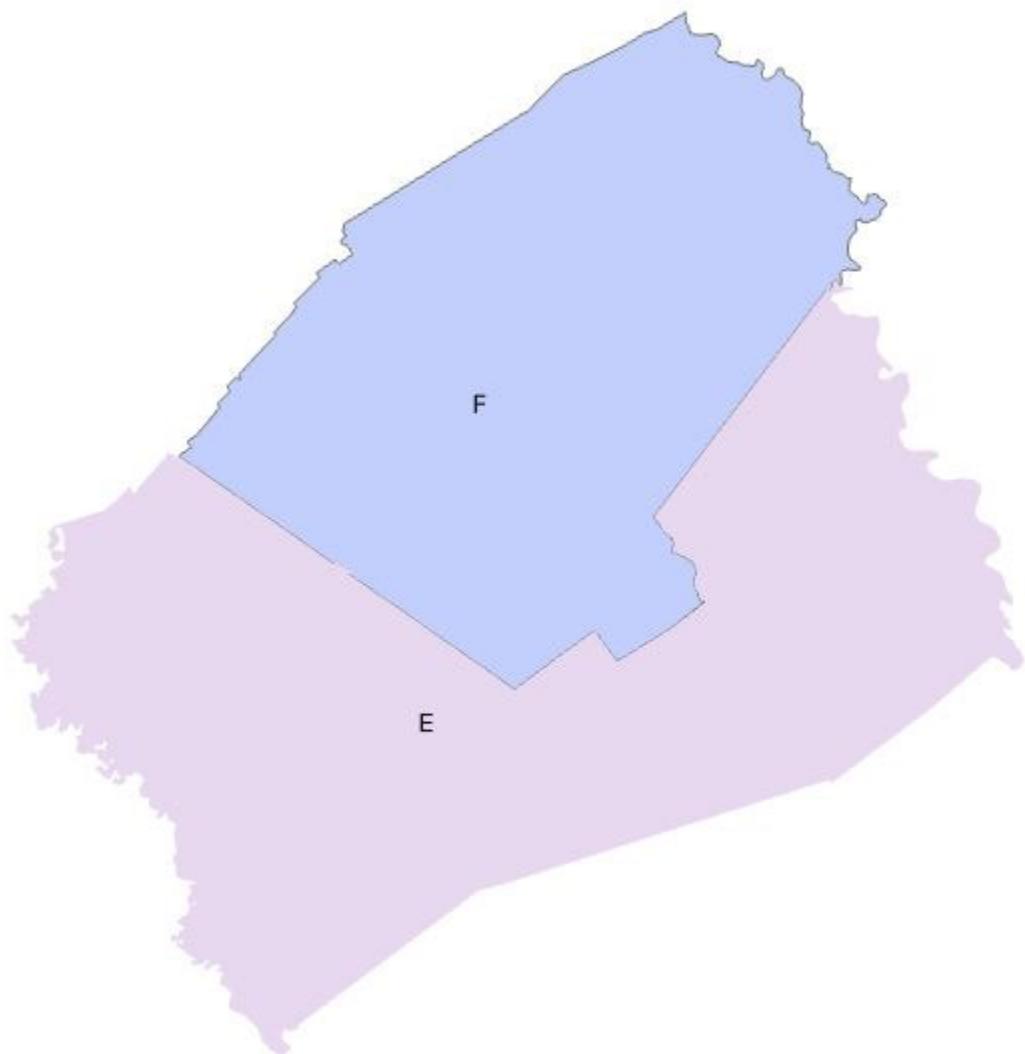
2026 City Routes



**Victoria Central Appraisal District
2025-2026 Reappraisal Plan**

2026 County Routes

AREA E & AREA F



Appendix D

Pritchard & Abbott, Inc. Reappraisal Plan

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S.B. 1652* BIENNIAL REAPPRAISAL PLAN

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

For Tax Years:

2025 and 2026**

Originally Printed: July 2024

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

P&A believes that, with its vast experience and expertise in these areas of appraisal, all concluded values and reports thereof are credible, competent, understandable, uniform and consistent; and most importantly for ad

valorem tax purposes, accomplished in a cost-efficient and timely manner.

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

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

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

PREAMBLE

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

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

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

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

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

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

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

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

ETHICS RULE

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

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

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

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

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

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

NONDISCRIMINATION

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

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

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

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

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

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

CONDUCT

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

An appraiser:

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

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

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

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

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

MANAGEMENT

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

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

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

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

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

CONFIDENTIALITY

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

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

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

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

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

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

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

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

RECORD KEEPING RULE

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

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

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

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

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

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

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

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

SCOPE OF WORK RULE

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

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

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

Scope of work includes, but is not limited to:

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

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

PROBLEM IDENTIFICATION

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

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

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

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

SCOPE OF WORK ACCEPTABILITY

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

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

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

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

DISCLOSURE OBLIGATIONS

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

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

JURISDICTIONAL EXCEPTION RULE

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

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

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

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

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

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

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

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

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

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

A mass appraisal includes:

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

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

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

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

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

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

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

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

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

**NOTE: IN TEXAS, P&A BELIEVES THE PROPERTY BEING APPRAISED AND PLACED ON THE TAX ROLL IS THE
INTEREST AND NOT THE OIL OR GAS MINERAL ITSELF, PER PROPERTY TAX CODE SECTION 1.04(2)(F).**

**WHILE OIL AND GAS RESERVES CERTAINLY HAVE VALUE, THE FACT IS THAT IT IS THE INTERESTS IN THESE
MINERALS THAT ARE BOUGHT AND SOLD, NOT THE MINERALS THEMSELVES. THE SALE OF MINERALS AS THEY
ARE EXTRACTED FROM THE SUBSURFACE OF THE LAND WHERE THEY RESIDE AS MINERALS IN PLACE
“MONETIZES” THE INTEREST AND THUS GIVES THE INTEREST ITS VALUE. WHENEVER P&A REFERS TO
“MINERAL PROPERTIES” IN THIS REPORT OR IN ANY OTHER SETTING, IT IS THE MINERAL INTEREST, AND NOT
THE MINERAL ITSELF, THAT IS THE SUBJECT OF THE REFERENCE.**

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

Appraisal Resources

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

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

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

VALUATION APPROACH (MODEL SPECIFICATION)

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

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

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

Approaches to Value for Petroleum Property

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

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

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

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

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

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

DATA COLLECTION/VALIDATION

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

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

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

VALUATION ANALYSIS (MODEL CALIBRATION)

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

INDIVIDUAL VALUE REVIEW PROCEDURES

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

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

PERFORMANCE TESTS

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

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

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

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

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

Administrative Requirements: P&A follows generally accepted and/or recognized appraisal practices and when applicable, the standards of the International Association of Assessing Officers (IAAO) regarding its appraisal practices and procedures. P&A, when applicable, also subscribes to the standards promulgated by the Appraisal Foundation known as the Uniform Standards of Professional Appraisal Practice (USPAP). In all cases where IAAO and/or USPAP requirements cannot be satisfied for reasons of practicality or irrelevancy, P&A subscribes to “generally accepted appraisal methods and techniques” so that its value conclusions are credible and defendable. 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.